Liberbank

Financial Report

2016 Fourth Quarter

Feb 3rd, 2017

Index:

1. Macroeconomic Environment

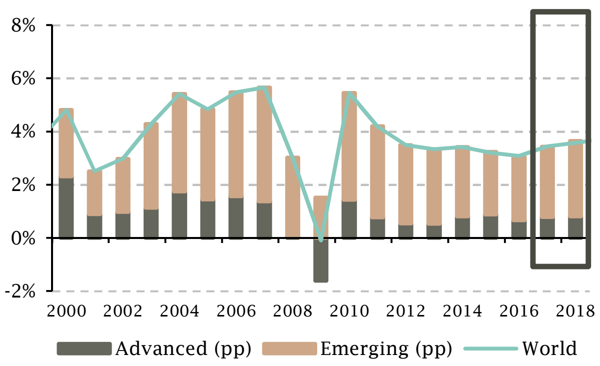
1.1 International Economic Situation

The Global economy kept a moderate growth through 2016. According to the IMF, it reached 3.1%, one tenth below the rate recorded in 2015, due to a lower dynamism within the developed economies, particularly in the U.S.

Next year's prospects are better. The IMF expects the world economic growth to move up to +3.4%, driven by the recovery of emergent economies like Russia and Brazil, and a boost from developed economies, encouraged by more expansionary tax policies.

Gross Domestic Product

Annual change and contributions



Source: IMF (WEO Jan-17)

There's been an acceleration of activity in the U.S., after a downturn in the first half of 2016. The third quarter GDP was revised upwards, reaching 3.5% QoQ annualized. Household confidence recorded in December its highest level since 2001. Car sales also peaked during the cycle. The labor market continued the job creation pace and the growth rate in wages (+2.9% YoY in December) is the highest since 2009. The improvement of the global economic situation had a positive impact on the industrial sector boosting the ISM manufacturing index up to 54.7 in December. The surge in the confidence indicators has been favored by the expansionary tax policies of the new administration, which could help rise the short-term economic growth, although they could contribute to a higher public deficit, and inflation.

In view of the good evolution of the U.S. economy, the Federal Reserve increased the interest rates by +25 bps in December, with the intention to make three additional increases in 2017, instead of just two increases foreseen in their earlier projections.

The U.S.A. election results brought instability to the emergent economies, especially to those more dependent on the U.S., such us Latin America, due to the uncertainty with trade, immigration, remittances and monetary policies.

Within the Eurozone, the economic recovery is well under way. The third quarter GDP grew +0.3% QoQ, while unemployment, investment and credit, consolidated a positive trend, in spite of the uncertainties related to the U.K. leaving the E.U. and the "No" victory in the constitutional referendum in Italy.

With regard to prices, 2016 inflation reached 1.1%, which is the highest since September 2013. Energy was the most inflationary item, returning to a positive YoY rate. However, excluding the impact of energy prices, the upward pressure of other components of inflation remained limited (the core inflation ended the year at 0.9%).

In response to the inflation increase, the ECB Governing Council took the first step toward monetary normalization, announcing a reduction of the Quantitative Easing program of 60 billion euros, while extending the program until December 2017.

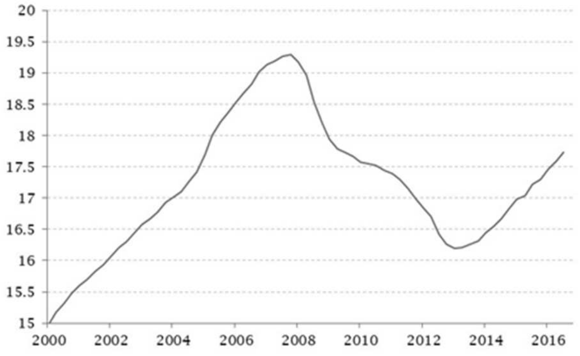
In the fourth quarter, the inter-bank rates of the Eurozone have continued to decline, with the twelve-month Euribor standing at -0.08% and the three-month Euribor standing at -0.32%.

1.2. Spanish Economy

In Spain, the economy keeps growing at a good pace, up to 0.7% in the third and fourth quarters, according to Bank of Spain (BoS) estimates. This growth is due to the good behavior of the private consumption, within an employment growth background, and favorable financing conditions.

Data on employment remain positive. The Social Security increased the number of affiliates by 540,655 in 2016 (+3.12% YoY), best record since 2006. The number of people employed reached 17.8 million at the end of 2016, the highest figure since October 2009. The number of unemployed people registered at the public employment services, amounted to 3.7 million people at the end of 2016, after decreasing in 390.534 people through the year (-9.54% YoY), the greatest decline of all the historical series (started in 1996).

Social Security affiliates
Millions



Source: Thomson Reuters

Household demand improvement is shown in car sales. Despite the end of the PIVE Program (providing subsidies on the purchase of new cars) in July, the number of car registrations closed 2016 amounting 1,147,000 vehicles, the highest figure since 2008 (+11% YoY).

At the same time, the inflation rate rose up to 1.5% YoY in December, driven by the energy prices. Rising oil prices lead the BoS to review its inflation rate forecast for 2017 upwards, up to 2%.

Finally, the fulfillment of the public deficit reduction compliance is still one of the main challenges of the Spanish Government. Even though the European Commission expects the compliance to the 2016 objective (the reduction of the public deficit down to 4.6% of the GDP), is still far from the limit imposed within the Stability Pact (3%). Additionally, in 2017 is expected a two tenths deviation over that agreed with Brussels (reaching 3.5% of the GDP), so a further tax tightening may be required.

1.3 Spanish Financial System

Despite the credit stock continues to shrink, new operations show a positive trend. The largest increases correspond to household operations, with an +8% YoY growth until November[1]

On the other hand, new credit to corporates (credit operations over 1 million euro) declined as a consequence of using alternative funding sources, like the issuance of corporate bonds or financial savings.

The total volume of retail deposits continues to show a slight growing trend, cumulating a +2.8% growth for the last twelve months (data up to November). There is also an increase in the weight of sight deposits during the last year, due to the low profitability of other saving instruments in the current low interest rates scenario.

In spite of the deleveraging, the NPL ratio decreased down to 8.5% in November 2016, -115 bps less than a year ago.

Banking Sector profitability continues recovering at a slow pace. The net profit of the whole sector, cumulated during the first three quarters of 2016 amounted 8,288 million euros (16% YoY).

The Italian Banks were the main concern in the fourth quarter of 2016, due to the problems derived from the high weight of their non-performing loans. The main protagonist was Monte dei Paschi di Siena, which failed private recapitalization has forced the Italian Government to intervene the Bank. According to the Italian Central Bank, the total cost of the recapitalization will amount up to 8,800 million euro. The State of Italy will assume 6,600 million euros of the bailout, while the remaining 2,200 million euros will be assumed by the institutional investors of the Entity. Minority shareholders will stay safe, as the Italian Government intends to offset their losses offering them the Bank’s highest rating debt.

[1] Source: Bank of Spain’s Statistic Bulletin. Every data from the Spanish Financial sector come from the same source, unless otherwise indicated

2. Key indicators

In € Million	31/12/2016	30/09/2016	31/12/2015	% QoQ change	% Annual change
BALANCE SHEET					
Total Assets	38,324	41,823	42,136	-8.4%	-9.0%
Gross Loans	23,006	23,587	24,421	-2.5%	-5.8%
Gross Performing Loans	19,800	19,758	19,502	0.2%	1.5%
Retail Funds	29,558	29,428	29,075	0.4%	1.7%
Shareholder's Equity	2,411	2,382	2,284	1.2%	5.6%
Total Equity	2,552	2,660	2,632	-4.1%	-3.0%
Loan to Deposits [1]	85.9%	87.4%	88.8%	-1.5%	-2.9%
PROFIT AND LOSS ACCOUNT					
Net Interest Income	454	339	494		-8.1%
Gross Margin	939	744	914		2.8%
Pre-impairment Income	511	418	479		6.7%
Profit for the period	103	90	112		-8.3%
Profit attributable to the Group	129	100	129		0.2%
RISK MANAGEMENT					
Non-performing Loans (NPL)	3,205	3,829	4,919	-16.3%	-34.8%
Gross Foreclosed Assets	3,033	2,780	3,035	9.1%	-0.1%
Non-performing Loans Ratio	13.9%	16.2%	20.1%	-2.3%	-6.2%
Credit coverage Ratio [2]	46%	47%	50%	-2%	-5%
Foreclosed Assets coverage Ratio [2]	40%	45%	47%	-5%	-6%
BANKING BUSINESS AND RESOURCES (Units)					
Group employees	4,854	5,096	5,143	-4.7%	-5.6%
FTEs (Liberbank + BCLM) [3]	3,395	3,562	3,907	-4.7%	-13.1%
Branches	896	992	1,036	-9.7%	-13.5%
ATMs	1,308	1,343	1,357	-2.6%	-3.6%

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

(1) *Loan to Deposit: It is defined as the quotient between customer credit excluding temporary asset acquisitions and retail deposits (customer deposits excluding mortgage bonds and repos and adding promissory notes and retail CoCos).*
(2) *Full-Time Equivalent: it is obtained 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) *Includes floor clauses provisions. The credit coverage ratio excluding floor clauses provisions stands at 40% as of December 2016, 45% as of September 2016 and 48% as of December 2015. Includes APS available in September 2016 and December 2015.*

3. Financial Evolution

Consolidated balance sheet

In € Million	31/12/2016	30/09/2016	31/12/2015	% QoQ change	% Annual change
Cash on hand, Central Banks and Other demand deposits	916	564	539	62.4%	70.0%
Financial assets held for trading	30	128	33	-76.4%	-8.8%
Fin. assets designated at fair value through profit or loss	0	0	0		
Available-for-sale financial assets	7,592	10,549	8,617	-28.0%	-11.9%
Loans and receivables	24,225	24,974	25,198	-3.0%	-3.9%
Debt securities	2,230	2,238	2,326	-0.4%	-4.1%
Loans and advances	21,995	22,736	22,872	-3.3%	-3.8%
Held-to-maturity investments	0	0	2,142		
Derivatives – Hedge accounting	449	514	394	-12.5%	14.1%
Investments in subsidaries, joint ventures and associates	349	366	387	-4.8%	-9.8%
Assets under insurance and reinsurance contracts	0	0	0		
Tangible assets	906	847	693	6.9%	30.7%
Intangible Assets	123	115	91	7.2%	36.2%
Tax assets and other Assets	1,922	2,159	2,214	-11.0%	-13.2%
Non current Assets held for sale	1,812	1,606	1,828	12.9%	-0.9%
TOTAL ASSETS	38,324	41,823	42,136	-8.4%	-9.0%
Financial liabilities held for trading	32	36	42	-11.4%	-24.1%
Financial liabilities measured at amortised cost	35,022	38,147	38,655	-8.2%	-9.4%
Deposits	34,378	37,443	37,885	-8.2%	-9.3%
Debt securities issued	424	514	557	-17.5%	-23.9%
Other financial liabilities	219	189	213	16.1%	2.8%
Derivatives – Hedge accounting	59	217	39	-72.8%	51.5%
Liabilities under insurance and reinsurance contracts	8	10	10	-17.7%	-20.3%
Provisions	416	351	379	18.5%	9.9%
Tax liabilities and other liabilities	236	402	379	-41.3%	-37.8%
TOTAL LIABILITIES	35,772	39,163	39,504	-8.7%	-9.4%
Minority Interest	44	73	76	-39.0%	-41.6%
Shareholder's Equity	2,411	2,382	2,284	1.2%	5.6%
Accumulated Other Comprehensive Income	97	206	272	-52.7%	-64.3%
TOTAL EQUITY	2,552	2,660	2,632	-4.1%	-3.0%
TOTAL EQUITY AND LIABILITIES	38,324	41,823	42,136	-8.4%	-9.0%

Source: Balance sheet consolidated account.

The balance sheet size stands at 38,324 million euros, showing an annual decline of -9.0%, mostly related to wholesale business.

Retail business is mainly reflected under the Loan and advances to customers and Deposits to customers headings (although the latter includes covered bonds, clearing house repos and other wholesale funding instruments).

Wholesale business is mainly reflected under the Available-for sale financial assets, Debt securities issued, and Other liabilities measured at amortized cost apart from Deposits to customers.

In addition, the Non current Assets held for sale heading includes mainly real-estate assets.

The retail business evolution has been characterized by a strong reduction of the non-performing assets and a balanced growth of the healthy business.

Non-performing loans declined by -34.8% through the year, while performing loans increased by +1.5% during the same period, a similar growth to that of customers deposits, 1.2% (1.7% including off-balance funds).

The wholesale business has reduced significntly. The fixed income available for sale portfolio has fallen by -11.9% in 2016, following a strategy to reduce its sensitivity to changes in risk premium and interest rates, in order to protect equity.

The overall fixed income portfolio, is mainly composed of Public institutions sovereign debt (96%). Its average yield is 1.1% for an average duration of 1.25 years. The accumulated volume of capital gains from the fixed income portfolio amounts to 113 million euros, after materializing 72 million euro of gains on financial assets in the fourth quarter.

Regarding the real state assets, they went down by -0.9% during the year. Though the sales pace has accelerated, quadrupling those of the previous year, the new foreclosed assets also have been increased, as a result of a strategy to speed up the recovery process.

The liquidity indicators remain at optimum levels. The liquid assets amount to 7,315 million euros, all of them fully available. The loan-to-deposit (LTD) ratio, which measures the retail business funding balance, reaches 85.9%. The LCR[2] ratio, which measures the short term liquidity level, stands above 405% (the level of requirement is 60%).

[2] Calculated according to the Delegated Regulation of the Commission (UE) 2015/61, of 10th October 2014, which completes the European Parliament and Council (UE) 575/2013, regarding the liquidity coverage requirement applicable to credit institutions.

Resources

In € Million	31/12/2016	30/09/2016	31/12/2015	% QoQ change	% Annual change
CUSTOMER FUNDS	**29,558**	**29,428**	**29,075**	**0.4%**	**1.7%**
CUSTOMER FUNDS ON BALANCE SHEET	**24,754**	**24,735**	**24,462**	**0.1%**	**1.2%**
Public Administrations	1,319	1,242	1,304	6.2%	1.1%
Retail customer funds (residents)	23,151	23,202	22,836	-0.2%	1.4%
Demand Deposits	14,674	13,986	13,204	4.9%	11.1%
Term Deposits	8,267	8,789	9,391	-5.9%	-12.0%
Others (promissory notes and repurchase agreements)	209	427	242	-51.0%	-13.5%
Retail customer funds (nonresidents)	284	291	321	-2.3%	-11.6%
OFF-BALANCE SHEET CUSTOMER FUNDS	**4,804**	**4,693**	**4,613**	**2.4%**	**4.1%**
Mutual Funds	2,172	2,062	1,962	5.4%	10.7%
Pension Funds	1,511	1,500	1,555	0.7%	-2.9%
Saving Insurances	1,121	1,132	1,096	-0.9%	2.3%
WHOLESALE FUNDING (capital markets)	**4,629**	**5,079**	**5,633**	**-8.9%**	**-17.8%**
Covered Bonds (non-retained)	4,450	4,817	5,322	-7.6%	-16.4%
Bonds and EMTNs	95	95	95	0.0%	0.0%
Wholesale Promissory Notes	84	167	216	-49.7%	-61.2%
TOTAL FUNDS	**34,186**	**34,506**	**34,709**	**-0.9%**	**-1.5%**

Customer funds total 29,558 million euro, and grew +1.7% in the last twelve months.

In the present low interest rates scenario, customers' savings growth is concentrated on demand deposits and mutual funds. They show a YoY growth of +11.1% and +10.7%, respectively.

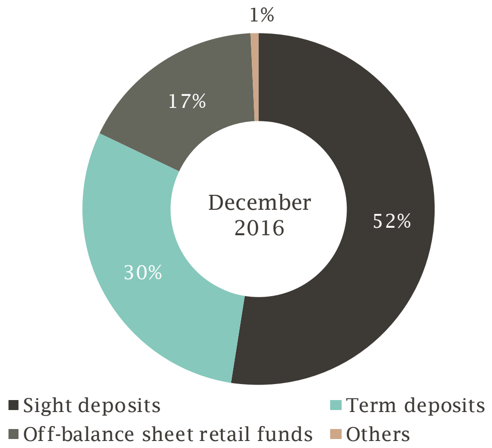
The mutual funds offering has focused in mixed and guaranteed products during the second half of the year.

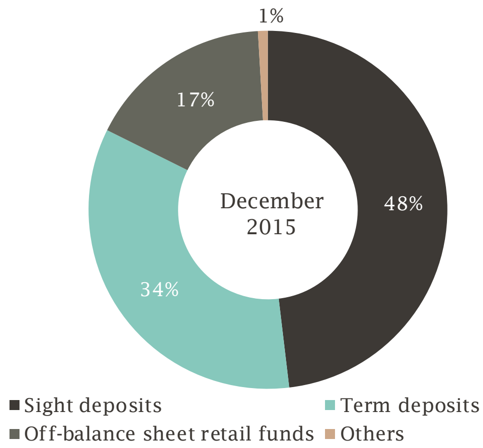
Term deposits decline by 12.0% YoY, as a consequence of the low remunerations.

Liberbank Group is the deposit market leader within its natural regions, with market shares reaching 35% in some regions.

Regarding wholesale funding, the highlight is the maturity of 872 million euro covered bonds this year with an average cost of 4.1%.

Retail resources (Private residents)





Retail resources: Sight deposits, Term deposits, promissory notes and repurchase agreements (private residents).

Gross performing loans

In € Million	31/12/2016	30/09/2016	31/12/2015	% QoQ change	% Annual change
CREDIT TO PUBLIC ADMINISTRATIONS	1,321	1,227	1,157	7.6%	14.2%
CREDIT TO PRIVATE SECTORS	18,479	18,531	18,345	-0.3%	0.7%
Productive activity financing	4,822	4,806	4,304	0.3%	12.0%
Developers	184	198	180	-6.9%	2.2%
Civil works	113	142	133	-20.5%	-15.5%
Other corporates	4,525	4,466	3,990	1.3%	13.4%
Household financing	13,353	13,421	13,734	-0.5%	-2.8%
Housing purchases and rehabilitation	12,713	12,798	13,147	-0.7%	-3.3%
Consumer Financing and others	640	623	587	2.8%	9.1%
Demand debtors and others	304	305	308	-0.2%	-1.3%
PERFORMING LOANS	19,800	19,758	19,502	0.2%	1.5%

Performing credit increases by +1.5% in the last twelve months.

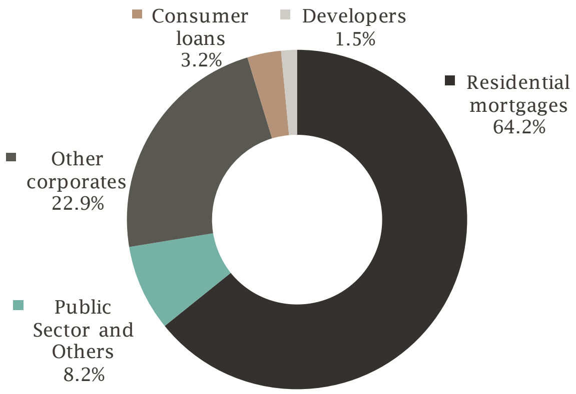
The portfolios that have experienced the higher growth in the last year are corporate loans (+12.0% YoY growth) and consumer financing (+9.1% YoY growth).

Residential mortgage lending is still decreasing, albeit at a more moderate pace (-3.3% in December, -3.8% in September).

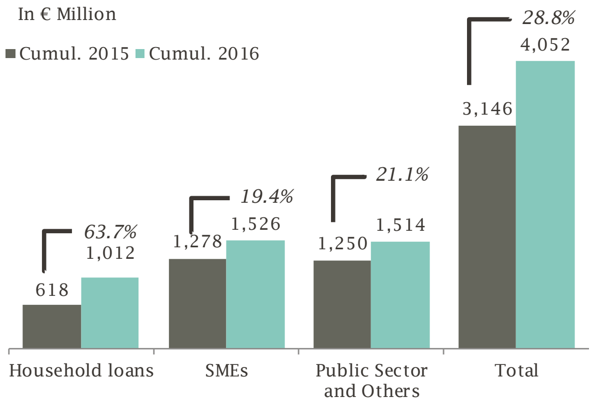
New credit amounted to 4,052 million euros, increasing by +28.8% those of 2015. Particularly significant has been the growth of household loans (+63.7% YoY).

Mortgages new production keeps a growing pace throughout the year, reaching a +69.4% YoY growth, allowing to increase the national market share, close to 4% (source: General Council of Notaries, November figures). There is an increasing preference for fixed rate mortgages representing 56% of those granted in December. Consumer credit is also increasing significantly (+47.2% YoY). In this case, the offering involves products with competitive rates, that require customer engagement, and which guarantee a low risk profile.

Gross loans sector breakdown



Cumulative Lending Operations



Gross NPL Evolution

In € Million	NPL 31/12/2016	NPL QoQ ch.	NPL YTD ch.	NPL Ratio 31/12/2016	NPL Ratio % QoQ ch.	NPL Ratio % YTD ch.
PRODUCTIVE ACTIVITY FINANCING	2,278	-615	-1,613	32.1%	-5.5%	-15.4%
Real Estate development	1,301	-405	-1,012	87.6%	-2.0%	-5.2%
Civil works	11	0	-159	8.7%	1.5%	-47.4%
Other corporates	966	-209	-442	17.6%	-3.2%	-8.5%
HOUSEHOLD FINANCING	905	10	-75	6.3%	0.1%	-0.3%
Housing purchase and rehabilitation	874	16	-14	6.4%	0.2%	0.1%
Consumer Financing and others	31	-6	-61	4.6%	-1.0%	-9.0%
DEMAND DEBTORS AND OTHER RISKS	22	-19	-25	1.3%	-1.3%	-1.8%
TOTAL GROSS CREDIT	3,205	-624	-1,713	13.9%	-2.3%	-6.2%

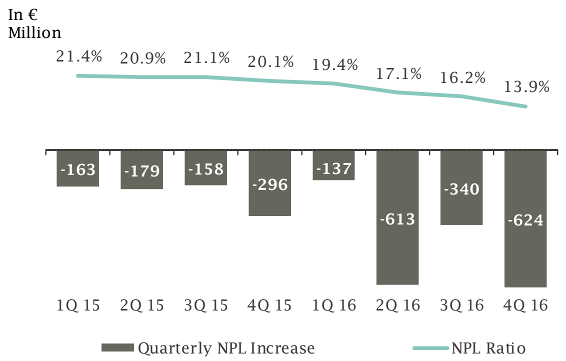
Strong drop of NPL loans. The non-performing loans decline by 1,713 million euro through the year (-34.8% YoY), speeding up the outflows pace.

The fulfillment of the new Circular 4/2016 criteria had no significant impact on the risk ratings.

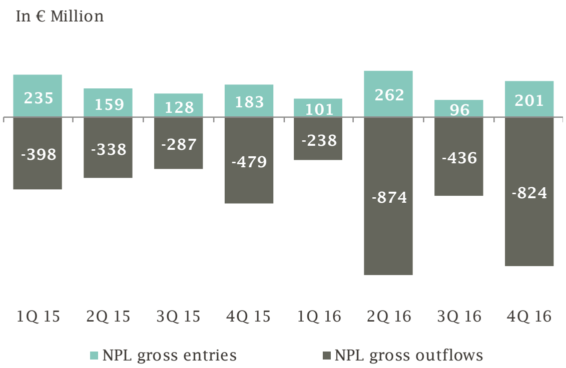
The NPL ratio declines -621 bps during the year and stands at 13.9%. Excluding the RED sector, the ratio would stand at 8.8%.

As of 31 December 2016, after the review of refinancing criteria, consistent with the Circular 4/2016, the number of refinanced operations totals 1,862 million euro, of which 81% are classified as non-performing assets.

NPL ratios and Quarterly NPL increase



NPL entries and outflows



Foreclosed Assets

(excluding Real Estate investments)

Gross Value, In € Million	31/12/2016	30/09/2016	31/12/2015	% QoQ ch.	% YTD ch.
Finished houses	1,134	909	1,158	24.7%	-2.1%
Houses under construction	283	439	337	-35.5%	-15.9%
Offices, premises, warehouses and other buildings	490	443	575	10.7%	-14.7%
Land	1,125	988	966	13.9%	16.5%
TOTAL GROSS FORECLOSED ASSETS	3,033	2,780	3,035	9.1%	-0.1%

Impaired Assets Evolution (and their coverages)

	31/12/2016	30/09/2016	31/12/2015	% QoQ ch.	% YoY ch.
NPL	3,205	3,829	4,919	-624	-1,713
Impairment losses	1,275	1,374	1,991	-99	-715
Available APS allocated to credit	0	346	390	-346	-390
Floor clauses provisions	183	92	83	92	100
NPL Coverage Ratio*	**46%**	**47%**	**50%**	**-2%**	**-5%**
Foreclosed Assets	3,033	2,780	3,035	253	-3
Impairment losses	1,221	1,175	1,207	46	14
Available APS allocated to foreclosed assets	0	74	208	-74	-208
Foreclosed assets coverage ratio	**40%**	**45%**	**47%**	**-5%**	**-6%**

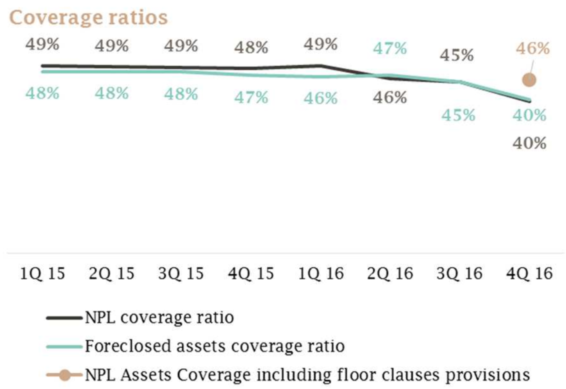
(*) The NPL coverage ratio excluding floor clauses provisions would stand at 40% as of December 2016, 45% as of September 2016 and 48% as of December 2015.

Gross NPL show a strong reduction during the year of -1,713 million euros (-34.8%). Gross foreclosed assets on the other hand remain stable (-3 million euro). Foreclosed assets sales quadriply those of the previous year, nevertheless the entries pace has been accelerated to speed up the recovery proccess.

The NPL coverage ratio stands at 46% (including floor clauses provisions) and the foreclosed assets coverage ratio stands at 40%. The decline of coverages is entirely justified by writing offs.

The NPL portfolio has a high collateralization level. The latest appraisal value of the guarantees (limited to the debt value of each transaction) reaches 111% of the NPL net book value.

The Bank of Castilla-La Mancha Asset Protection Scheme (APS) ended 31 December 2016 with a deficit of 87 million euro related to loans and another 89 million euros related to real estate assets. The required allowances to cover the deficit, were already anticipated during previous quarters.



Coverages

	NPL	Impairment losses	Net book value	Coverage ratio	Guarantees*
PRODUCTIVE ACTIVITY FINANCING	**2,278**	**995**	**1,283**	**43.7%**	**1,386**
Real Estate development	1,301	606	696	46.6%	820
Civil works	11	4	7	34.1%	8
Other corporates	966	386	580	39.9%	557
Large Companies	341	157	185	45.9%	173
SMEs and selfemployed	625	229	396	36.6%	384
HOUSEHOLD FINANCING	**905**	**264**	**642**	**29.1%**	**743**
Housing purchase and rehabilitation	874	237	637	27.1%	743
Consumer Financing and others	31	26	4	86.7%	1
DEMAND DEBTORS AND OTHER RISKS	**22**	**17**	**5**	**75.9%**	**5**
TOTAL NPL CREDIT	**3,205**	**1,275**	**1,930**	**39.8%**	**2,134**

** The minimum value between the latest appraisal value and the outstanding debt.*

Profit and loss account

In € Million	31/12/2016	31/12/2015	% Annual change
Financial income	605	758	-20.2%
Financial expenses	150	263	-42.9%
NET INTEREST INCOME	454	494	-8.1%
Dividends	3	6	-51.7%
Results from equity method stakes	23	90	-74.2%
Net fees	182	183	-0.3%
Gains (losses) on Financial Assets and Liabilities	346	193	78.8%
Other operating results	-69	-52	33.0%
GROSS MARGIN	939	914	2.8%
Administrative costs	391	397	-1.4%
Staff costs	248	258	-4.0%
Other general administrative costs	144	139	3.6%
Amortizations	37	38	-4.2%
PRE-IMPAIRMENT INCOME	511	479	6.7%
Provisions	133	182	-27.1%
Impairment losses on financial assets (net)	143	220	-35.1%
Impairment losses on other assets (net)	23	1	
Other profits or losses	-62	-35	76.7%
PRE-TAX INCOME	151	41	267.9%
Income tax	48	-71	-168.2%
CONSOLIDATED NET PROFIT	103	112	-8.3%
ATTRIBUTABLE NET PROFIT	129	129	0.2%

Income Statement Quarterly Evolution

In € Million	4Q 2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016
Financial income	177	164	151	146	144
Financial expenses	54	48	40	35	28
NET INTEREST INCOME	123	116	111	111	116
Dividends	5	0	1	2	0
Results from equity method stakes	4	-1	21	0	3
Net fees	48	49	45	43	45
Gains (losses) on Financial Assets and Liabilities	-3	184	48	36	78
Other operating results	-45	-17	-3	-2	-47
GROSS MARGIN	133	331	223	190	195
Administrative costs	97	98	103	98	93
Staff costs	68	61	62	62	62
Administrative costs	29	37	40	36	30
Amortizations	9	9	9	10	9
PRE-IMPAIRMENT INCOME	27	224	111	83	93
Provisions	54	102	-91	13	108
Impairment losses on financial assets (net)	99	70	105	28	-61
Impairment losses on other assets (net)	0	0	4	2	17
Other gains or losses	-9	-4	-61	1	2
PRE-TAX INCOME	-135	48	32	41	30
Income tax	-86	14	3	13	18
CONSOLIDATED NET PROFIT	-49	33	30	27	12
ATTRIBUTABLE NET PROFIT	-38	38	35	27	29

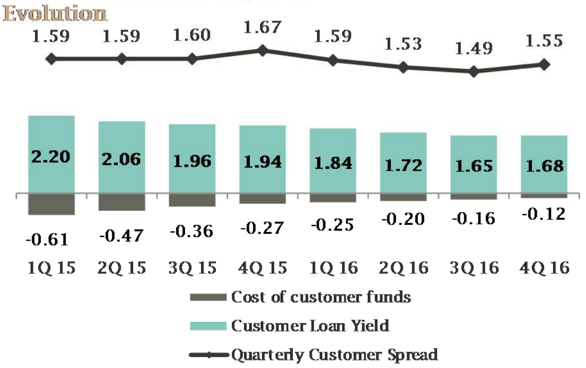
Source: Profit and loss consolidated account.

Quarterly contribution to the net interest income

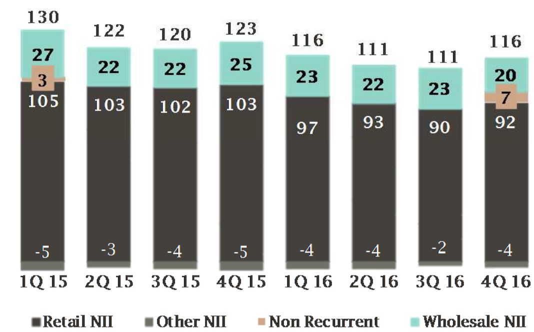
In € Million	1Q 15	2Q 15	3Q 15	4Q 15	1Q 16	2Q 16	3Q 16	4Q 16
Financial income	212	189	180	177	164	151	146	144
Financial expenses	82	67	60	54	48	40	35	28
NET INTEREST INCOME	130 *	122	120	123	116	111	111	116 *

** Includes €3 million of non recurrent interest income in 1Q 15 and €7 million in 4Q 16*

Customer Recurrent Spread Evolution



Net interest income evolution by business lines



The net interest income increases slightly up to 116 million euros, due to the clearing of the APS devolution cost accrual, which turned out to be unnecessary after the complete consumption of the APS available.

The customer spread stands at 1.55%, growing +6 bps through the quarter. Both components of the spread evolve favorably: the reduction of the retail financial costs continues (-4 bps QoQ) and the loans portfolio profitability grows (+3 bps QoQ).

The average price of new term deposits goes down to 0.08% in December.

Furthermore, the credit profitability rises driven by the new credits, with an average financial income of 2.21% (excluding loan arrangement fees), above the performing portfolio average profitability (1.82%).

	4Q 2015			1Q 2016			2Q 2016			3Q 2016			4Q 2016		
	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	24,674	1.9	120	24,492	1.8	113	24,386	1.7	105	23,967	1.7	99	23,569	1.7	99
of which: performing	19,647	2.3	112	19,634	2.2	107	19,974	2.0	98	19,885	1.8	92	19,843	1.8	90
Retail FE	24,113	0.3	16	23,903	0.3	15	24,039	0.2	12	24,423	0.2	10	24,397	0.1	7
Sight	13,027	0.1	2	13,217	0.1	2	13,459	0.0	1	13,962	0.0	1	14,220	0.0	2
Terms	9,543	0.6	14	9,552	0.5	12	9,444	0.4	11	9,166	0.4	8	8,842	0.3	6
Others	1,544	0.2	1	1,134	0.3	1	1,136	-0.1	0	1,295	0.1	0	1,335	0.1	0
Wholesale FI	13,157	1.7	55	12,687	1.6	49	12,341	1.4	44	12,676	1.3	42	12,238	1.3	38
of which: fixed income	12,832	1.7	55	12,280	1.6	49	11,890	1.5	43	12,137	1.4	42	11,169	1.4	38
Wholesale FE	13,255	0.9	31	12,964	0.8	27	12,675	0.7	22	12,384	0.6	18	11,972	0.6	17
Financial Institutions	6,682	0.0	0	6,972	0.0	-1	6,996	-0.1	-2	6,665	-0.3	-5	6,426	-0.3	-5
Repos PS and PA	213	0.2	0	215	0.2	0	247	0.1	0	268	0.0	0	196	0.0	0
Covered bonds	5,708	1.9	28	5,255	1.9	24	4,966	1.7	21	4,925	1.7	21	4,861	1.6	20
Bonds and others	652	2.0	3	522	2.4	3	466	2.5	3	527	2.1	3	488	2.0	2
Other FI & FE			-5			-4			-4			-2			4

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

Fees

In € Million	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016	% Annual change
FEES RECEIVED	50	44	45	50	51	46	46	48	0.5%
Contingent liabilities	2	2	2	2	2	1	1	1	-12.1%
Contingent commitments	1	0	0	0	0	0	0	0	-41.9%
Collections and payments	19	19	20	21	19	20	20	19	0.2%
Securities services	2	1	1	1	1	1	1	1	-22.5%
Non banking financial products	11	9	9	14	13	11	11	14	14.9%
Others	16	14	12	13	15	12	12	12	-5.3%
FEES PAID	1	2	1	2	2	2	2	2	25.3%
NET FEES	48	43	43	48	49	45	43	45	-0.3%

Source: Profit and loss account and own preparation

The contribution of fee income to the third quarter, 45 million euros, are slightly above those of the last quarter, and show a minor decrease of -0.3% YoY, due to a reduction of the fees coming from the SAREB's asset management. The aggregated recurrent fees experience a 2.1% YoY growth, based on insurance and mutual funds business (+5.2% YoY and +46.3% YoY respectively).

"Gains (losses) on financial assets and liabilities" reach 346 million euros in 2016, mainly coming from fixed income sales (332 million euros) and equities sales (14 million euros).

"Other operating results (net)" show a negative balance of -69 million euros as of December. This item includes, amongst others, -33 million euros as the contribution to the Deposit Guarantee Fund, -11 million euros as a contribution to the Single Resolution Fund (SRF), -13 million euros as a levy, related to the monetizable deferred tax assets (accrued in 2016 for the first time), and -9 million euros due to the deposits tax. The remaining costs and income are originated in non-financial services provided by other companies belonging to the Group, as well as rental incomes and foreclosed assets management costs. YoY variation of this heading (-17 million euros) is affected by the levy related to monetizable deferred tax assets, which has been initially accounted for in 2016.

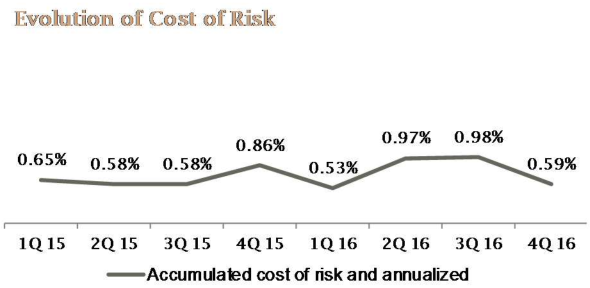
"General administration costs" and "Depreciation" show a decrease of -1.6% compared to the same period of 2015, mainly as a consequence of the staff costs reduction (-4.0%), derived from the voluntary redundancies scheme. "Administrative cost" includes strategic project costs, which positive results in terms of efficiency and productivity improvement, will be reflected in the coming years.

"Provisions" amount to 133 million euros, and have been mainly allocated to cover legal contingencies related to floor clauses. Through the year, 136 million euros have been provisioned for that purpose, in addition to 83 million euros already provisioned in 2015. It is not expected an additional impact derived from these legal contingencies to that already registered in the consolidated income statement.

Credit allowances amount to 143 million euro in the year, after releasing 61 million euros in the fourth quarter, among other reasons, as a result of the Circular 4/2016 fulfillment. The cost of risk stands at 0.59% of the loan book.

"Other gains or losses" has not registered significant variations in the third quarter, since the real state assets allowances were anticipated in the second quarter.

The attributable net profit amounts to 129 million euro, meaning a quarterly contribution of 29 million euro.



Solvency (Basel III phased-in)

In € Million	31/12/2016	30/09/2016	31/12/2015	Quarterly Change	Annual Change
CET 1 COMMON EQUITY TIER 1	2,253	2,197	2,189	55	64
Common equity Tier 1 (%)	12.1%	13.9%	13.7%	-1.7%	-1.5%
CAPITAL LEVEL 1/ TIER 1	2,279	2,227	2,236	52	43
Total TIER 1 (%)	12.3%	14.1%	14.0%	-1.8%	-1.7%
TOTAL CAPITAL	2,279	2,227	2,236	52	43
Solvency ratio (%)	12.3%	14.1%	14.0%	-1.8%	-1.7%
RISK WEIGHTED ASSETS	18,548	15,826	16,014	2,722	2,534
LEVERAGE RATIO	6.0%	5.5%	5.4%	0.5%	0.6%

Data as of September pro-forma, including interim financial results.

As of 31 December 2016, Liberbank's CET 1 Common Equity Tier 1 stands at 12.1%, Capital Tier 1 at 12.3% and Total Capital at 12.3%. In addition, the leverage rate reaches 6.0%.

Equity generation during the quarter has been positive, allowing a CET 1 increase of 55 million euros. As scheduled, the Risk Weighted Assets also grow by 2,722 million euros, due to the end of the APS.

The ECB decisions 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%.

The Share

The seventh period for voluntary conversion of CoCos into equity ended on October 14th, 2016. Holders of 15,356 CoCos with a nominal value of 10€ per bond, requested to convert them into shares. This resulted in 0.15 million euros of shareholder's equity.

Regarding the average weighted prices of the shares, and the minimum and maximum limits provided, 110,981 new shares were issued, representing 0.012% of the outstanding shares. The trading of the shares started on 17 December 2016.

Market Information	4Q2016
Number of shares outstanding	909,286,824
Daily average trading (shares number)	2,215,492
Daily average trading (euros)	2,056,181
Maximum Share price (euros)	1.11
Minimum Share price (euros)	0.76
Price at year end (euros)	0.99
Market capitalization at year end (euros)	895,647,522

The Rating

Fitch. On May 5th, 2016, 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 20th, 2016, the agency placed the long term rating of Liberbank as BBB (low), and a short term rating of R2 middle, both with stable perspective. On May 16th, 2016, DBRS revised the covered bonds rating, keeping it at A high.

Moody's. On 6th October, 2016, 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.

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 30 June 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.

Activity Indicators:

	31/12/2016
Loans and receivables (Public Balance sheet)	**24,225**
Repurchase agreements	0
Valuation adjustments	1,272
Other financial assets (not credit institutions)	-261
Debt securities	-2,230
NPL	-3,205
Performing Loans	**19,800**

	31/12/2016
Financial liabilities measured at amortised cost	**34,378**
Repurchase agreements (-)	-61
Covered bonds (-)	-4,550
Central Banks and Credit Institutions deposits (-)	-4,443
Wholesale customers repos (+)	0
Retail Promissory Notes (+)	118
Valuation adjustments (-)	-658
Debt securities issued (-)	-30
Customers funds on balance sheet	**24,754**