liberbank

Financial Report

2014 Fourth Quarter

Legal Notice

1.

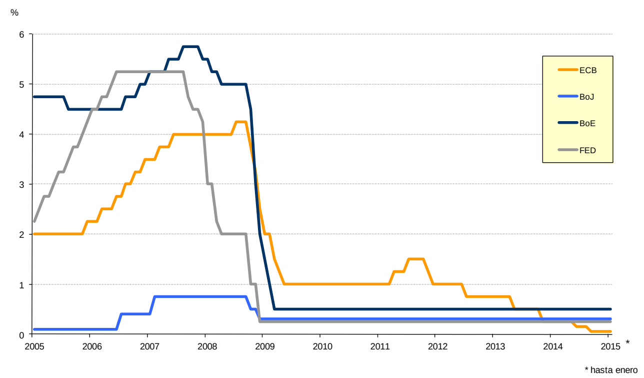
Macroeconomic Environment

The **global economy** has gradually recovered throughout the year. A year-on-year growth of 3.3%[1] is expected by the end of the year, distributed unevenly across the different regions. In the United States of America the growth has been robust (2.2% increase estimated for December 2014 YoY), while in the Eurozone it has been quite modest (+0.8% expected for the end of 2014), and in emerging economies it has been lower than in previous years (+4.4% estimated for 2014).

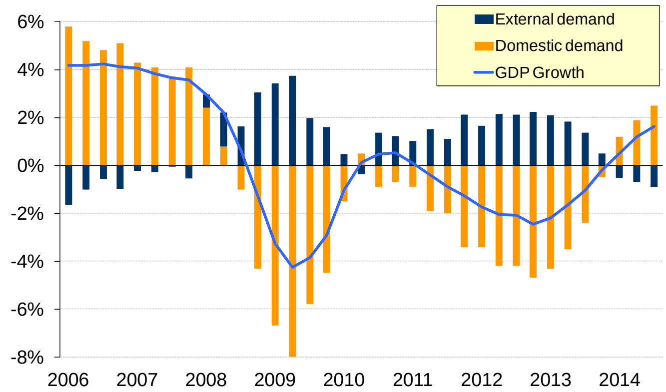
The forecast for 2015 points to a consolidation of this trend(estimated growth of 3.8% for 2015), favoured by the reduction of macroeconomic imbalances. On the other hand, this positive trend could be moderated if geopolitical tensions were to increase.

The **Eurozone** is recovering, although at slow pace, and with substantial differences among countries. In Spain and Germany, growths of 1.3% and 1.4% are expected respectively for 2014, while in France and Italy the expected variations are +0.4% and -0.2% respectively.

In 2015 a progressive growth acceleration is foreseeable, and could reach 1.3% by the end of the year, supported by the depreciation of the euro vs. dollar, the fall in oil prices and the lax monetary policy; the latter will maintain historically low interest rates, encouraging credit growth.



The **Spanish** economy is expected to grow 1.3% in 2014, following a boost in private consumption. Compared with that of the Eurozone, the recovery in Spain has come later, but more intensively.



In 2015, a stronger recovery process is expected, reinforced by the same factors that are contributing to the growth of the European economy, to which a moderate fiscal loosening could be added. This would lead to a potential GDP growth of 1.7% in 2015.

Inflation remains weak. In November, it decreased by 0.3%, down to 0.4% (Source: INE), due to the fall in energy prices. That is good news for the Spanish economy, which is a net oil importer, as it leads to a significant reduction in production costs and improves the competitive position of the country and the household's purchasing power.

The labour market continues to evolve positively, with employment accumulating five consecutive quarters of growth, seasonally adjusted. Most sectors have contributed to this, with the exception of the financial and insurance sectors (which are still adjusting), and agriculture (a sector of high volatility). Nevertheless, the unemployment rate stands at 23.7% (Source: INE, fourth quarter 2014 data).

The real estate market shows signs of stabilizing. Housing sales are increasing (14.0% YoY as of November 2014, source: INE) and prices are now stabilizing (+0.3% YoY as of October 2014). Even so, the housing market still accumulates a large stock of unsold houses.

The activity of Liberbank takes place mainly in the Autonomous Communities of **Principado de Asturias, Cantabria, Extremadura, Castilla La Mancha and Madrid**.

The economy of **Asturias** is improving slightly and by the end of the year its growth could reach 0.8%, which will allow not only a reduction in the unemployment level, but also the creation of net employment (source Hispalink). The overall growth prospect for this region is highly dependent on the recovery of the industrial activity, which contributes to 23.2% of

[1] *Source: October report of the International Monetary Fund. All forecasts of GPD growth for 2014 and 2015 are from the same source.*

the regional GVA (Gross Value Added), six percentage points above the national average (source: INE).

The economy of **Cantabria** is predicted to increase 0.9% in 2014, with positive rates in all the sectors, except for construction (source: Hispalink). The region's growth perspectives are based on the recovery of the service sector, which contributes 65.7% of the regional GVA (source: INE).

In **Castilla-La Mancha,** it is confirmed that the recovery started in the second quarter of 2013. An increase of 1% in growth is expected by the end of 2014 (source: BBVA Research). Growth perspectives in the region are sustained by the exports dynamics and by the recovery in tourism.

In **Extremadura,** a GVA growth of 1.3% is foreseen for 2014 (source: Hispalink), supported by all the productive sectors with the exception of the construction sector.

The economy of **Madrid** consolidates GVA growth and the sustained job creation trend, with a predicted growth of 1.7% in 2014 (source: BBVA Research), accelerating up to 2.5% in 2015. Madrid is still the most dynamic region in Spain and its contribution to the national GDP is even higher than that of Cataluña.

After six years of crisis, the **Spanish financial sector** shows signs of recovery. The credit squeeze continues, with a YoY decrease of 7.6%[2] as of November. But new production shows YoY growth on every portfolio, except for corporate credit over one million euros, which relates to large companies that have access to other funding sources.

As for liabilities, the total volume of deposits decreased by 1.0% YoY as of November, due to an increase in consumption, and to savings going to investment funds (28.1% YoY as of November. Source: Inverco).

The NPL ratio reached its peak in 2013 (13.1% source BDE) and has experienced a slight improvement in 2014 (12.2% in October 2014), despite the credit crunch.

The activity levels are starting to recover, financial imbalances are stabilizing, and the level of unproductive assets is decreasing. At the same time, financial margins that have been under maximum pressure are beginning to grow, following adjustments in operating costs and lower impairment losses. Thus, the efficiency level of the sector is improving, (43.3% in June, source: BDE), and the efforts in impairments are reverting to levels similar to those of the pre-crisis years (source BDE).

These trends will continue to consolidate and intensify, depending to a large extent on the evolution of the Spanish economy and its sustained recovery.

In addition, in 2014 the banking sector regulatory and supervisory framework was reinforced. The Single Resolution Mechanism (SRM) was approved in July, and instrumented in a single resolution fund, with a new instrument for direct recapitalization of systemic and viable financial entities.

Finally, attention should be drawn to the generalized improvement of the liquidity and solvency levels, credited by the comprehensive assessment exercise carried out by the European Banking Authority (EBA) and the European Central Bank (ECB). Both entities published on 26th October the results for the Asset Quality Review (AQR) and for the Stress Tests (ST) on banks. These are the most comprehensive tests ever made to measure the resistance of the European financial sector, and the results have accredited the Spanish financial system and its ability to face adverse macroeconomic scenarios in terms of solvency and strengths. This assessment marked the starting point of the Single Supervisory Mechanism (SSM), which constitutes another step towards the creation of a banking union.

[2] *Source: Statistical bulletin of Banco de España. This same source is used for all the data of the financial sector.*

2.

Key indicators

Key Indicators

In € Million	31/12/2014	31/12/2013	% Annual change
BALANCE SHEET			
Total Assets	43,137	44,573	-3.2%
Gross Loans	26,342	28,385	-7.2%
Retail Funds	29,864	29,358	1.7%
Shareholder's Equity	2,153	1,511	42.5%
Total Equity	2,615	1,585	65.0%
Loan to Deposits	90%	97%	-7.6%
PROFIT AND LOSS ACCOUNT			
Net Interest Income	471	415	13.5%
Gross Margin	939	840	11.8%
Pre-impairment Income	500	376	32.8%
Profit for the period	108	8	1215.8%
Profit attributable to the Group	117	22	438.8%
RISK MANAGEMENT			
Non-performing Loans (NPL)	2,418	2,541	-4.9%
Non-performing Loans (NPL) *(including assets protected by the APS)*	5,715	6,043	-5.4%
Credit Loss Allowances	1,076	1,082	-0.5%
Credit Loss Allowances *(including assets protected by the APS)*	2,405	2,693	-10.7%
Foreclosed Assets *(net, not including APS)*	323	214	51.3%
Non-performing Ratio	10.6%	10.4%	0.2%
Non-performing Ratio *(including assets protected by the APS)*	21.7%	21.3%	0.4%
NPL coverage Ratio	44.5%	42.6%	1.9%
NPL coverage Ratio APS portfolio *(including foreclosed assets and write-off)*	52.8%	56.0%	-3.2%
BANKING BUSINESS AND RESOURCES (Units)			
Employees	5,283	5,456	-3.2%
FTEs (Liberbank + BCLM)	4,063	4,059	0.1%
Branches	1,049	1,072	-2.1%
ATMs	1,377	1,403	-1.9%

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

The Balance Sheet and Profit and Loss Account as of 2013 have been modified for comparative purposes in application of CINIIF 21, as shown in the last section of this report "Note about accounting policy changes".

APS Asset Protection Scheme, covering a 7,244 million euros original risk portfolio from Banco de Castilla La Mancha.

3.

Financial evolution

Consolidated balance sheet

In € Million	31/12/2014	31/12/2013	% YTD change
Cash and Financial Institutions	563	692	-18.6%
Loans	24,164	26,380	-8.4%
Fixed Income portfolio	12,914	12,433	3.9%
Equity Securities	429	474	-9.4%
Financial Derivatives	486	108	350.8%
Non current Assets held for sale	1,413	1,366	3.5%
of which: Foreclosed Assets	1,402	1,337	4.8%
Investments	295	312	-5.6%
Tangible and intangible fixed Assets	772	747	3.3%
Other Assets	2,101	2,062	1.9%
TOTAL ASSETS	**43,137**	**44,573**	**-3.2%**
Deposits by Credit Institutions and Central Banks	4,015	5,408	-25.8%
Customer Deposits	34,916	34,941	-0.1%
Bonds and Promissory Notes	318	1,345	-76.3%
Subordinated Debt Securities	239	450	-46.9%
Other Financial Liabilities	270	302	-10.8%
Financial Derivatives	55	85	-35.5%
Other Liabilities	708	519	36.5%
TOTAL LIABILITIES	**40,521**	**43,050**	**-5.9%**
Capital and Reserves	2,050	1,433	43.1%
Attributable Net Profit	117	22	438.8%
Valuation Adjustments	360	-20	
Minority Interest	102	89	15.5%
TOTAL EQUITY	**2,615**	**1,523**	**71.7%**
TOTAL EQUITY AND LIABILITIES	**43,137**	**44,573**	**-3.2%**

Credit declined -8.4% YoY in 2014, despite the rise of new production, which is still insufficient to compensate the amortizations of the asset portfolio and the increase in coverage.

Customer deposits remain stable (-0.1% YTD), penalized by the maturing of covered bonds during the second quarter, and by the downward trend in the deposits remuneration, which is diverting the savings to off-balance products, particularly in the first three quarters of the year.

The evolution of credit and deposits throughout the year enables an improvement of the liquidity indicators. The loan to deposits ratio keeps improving and stands at 89.7% (7.6 pps better than that of December 2013).

The dependency on the capital markets has considerably diminished with the anticipated repayment of 3,200 million euros of ECB funding (LTROS), together with the maturing of 660 million euros of covered bonds and 903 million euros of bonds. All of this contributes to the reduction of funding costs and the improvement of interest margin.

Additionally, the Group has paid back in advance the public aid received, 124 million euros of Contingent Convertibles bonds (CoCos) subscribed by the Fund for Orderly Bank Restructuring (FROB).

Despite the early return of the aids and the LTROS, a solid liquidity position is held. The liquid assets volume amounts to 9,978 million euros, rising by 16.2% during the year.

Finally, it is worth mentioning an annual increase in the total equity of 71.7%, arising from the capital Increase realized during the months of May and June, worth 575 million euros (561 million euros excluding expenses), as well as the voluntary conversions of CoCos (which generated 62 million euros of Shareholder’s equity), and the revaluation of the available for sale fixed income portfolio (365 million euros net of taxes).

Resources

In € Million	31/12/2014	31/12/2013	% YTD change
CUSTOMER FUNDS	**29,864**	**29,358**	**1.7%**
CUSTOMER FUNDS ON BALANCE SHEET	**25,433**	**25,452**	**-0.1%**
Public Administrations	1,711	1,072	59.7%
Retail customer funds (residents)	23,367	24,031	-2.8%
Demand Deposits	12,320	11,558	6.6%
Term Deposits	10,939	12,162	-10.1%
Others (promissory notes and repurchase agreements)	109	311	-65.1%
Retail customer funds (nonresidents)	355	350	1.3%
OFF-BALANCE SHEET CUSTOMER FUNDS	**4,431**	**3,905**	**13.5%**
Mutual Funds	1,731	1,225	41.3%
Pension Funds	1,616	1,560	3.6%
Savings Insurance	1,085	1,121	-3.2%
WHOLESALE FUNDING (capital markets)	**6,443**	**7,942**	**-18.9%**
Covered Bonds (unretained)	6,166	6,706	-8.1%
Bonds and EMTNs	150	1,053	-85.8%
Wholesale Promissory Notes	127	182	-30.3%
TOTAL FUNDS	**36,306**	**37,299**	**-2.7%**

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

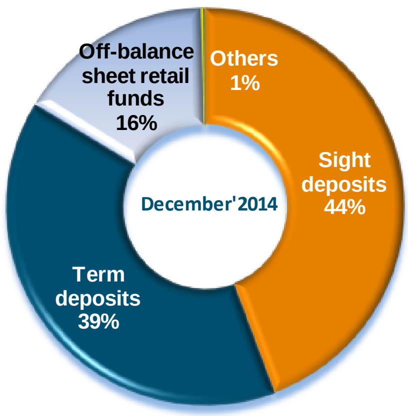
Customer funds increase 1.7% during the year, albeit the decrease in the compensation of term deposits.

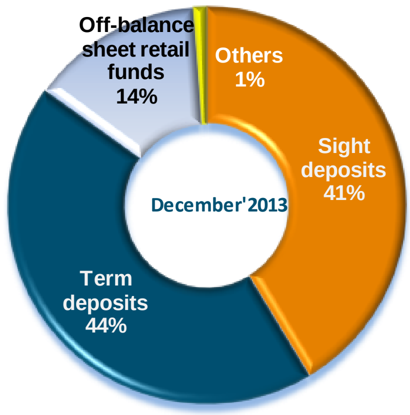
In response to the low interest rates, customer deposits divert to off-balance products (looking for higher returns), or to sight deposits, seeking higher availability.

Mutual funds showed a significant growth (41.3% YoY), as well as sight deposits (6.6% YoY), while term deposits decreased by -10.1 % YoY.

The significant volume of maturing marketable securities, both bonds and covered bonds, reduced the wholesale funding by -18.9% YoY.

Retail resources (Private residents)





Gross loans

In € Million	31/12/2014	31/12/2013	% YTD change
LOANS	**26,342**	**28,385**	**-7.2%**
of which: APS Loans	3,572	3,932	-9.2%
NON APS LOANS	**22,771**	**24,452**	**-6.9%**

Non APS Gross loans

In € Million	31/12/2014	31/12/2013	% YTD change
CREDIT TO PUBLIC ADMINISTRATIONS	**1,372**	**1,339**	**2.5%**
CREDIT TO PRIVATE SECTORS	**21,398**	**23,113**	**-7.4%**
Productive activity financing	5,720	6,525	-12.3%
Developers	376	553	-32.1%
Civil works	300	306	-1.9%
Other companies	5,045	5,666	-11.0%
Household financing	15,376	16,272	-5.5%
Housing purchases and rehabilitation	14,714	15,519	-5.2%
Consumer Financing and others	662	754	-12.1%
Demand debtors and others	302	316	-4.6%
LOANS	**22,771**	**24,452**	**-6.9%**
of which: Non Performing Loans	2,418	2,541	-4.9%

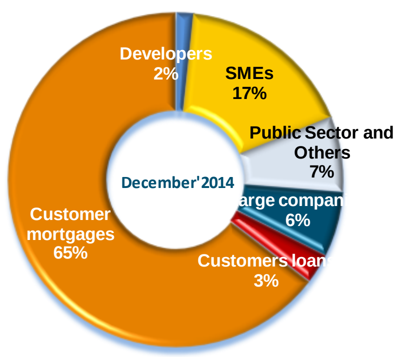
Sources: Bank of Spain's Official Statements and other Internal Information Sources.

The non-APS risk portfolio is highly atomized, as it is concentrated in household financing (circa 67.5%). The real estate developers exposure remains at a residual level (2% of the gross lending).

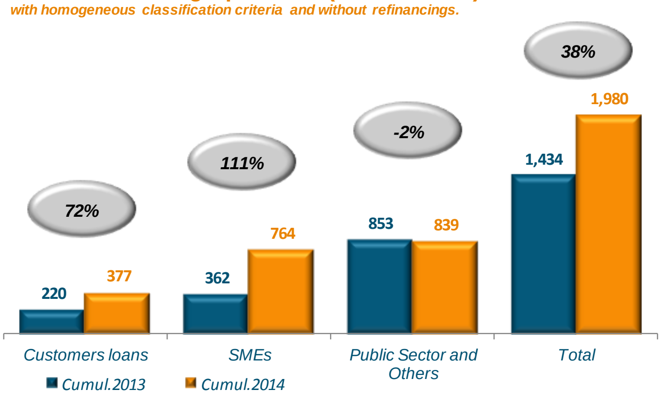
The decrease in credit to the private sector is slowing down (-7.4%), as the increase in new production intensifies.

The lending new production for the year is 2,161 million euros; this is 23.3% annual growth, which would rise to 38.1% leaving out refinancing. This growth relies on the SMEs and self-employed segments (+111.2%), although the data for private new production is equally positive, with a rise of 71.7% YoY.

Non APS gross loans private sector breakdown



Cumulative Lending Operations (*million euros*)
with homogeneous classification criteria and without refinancings.

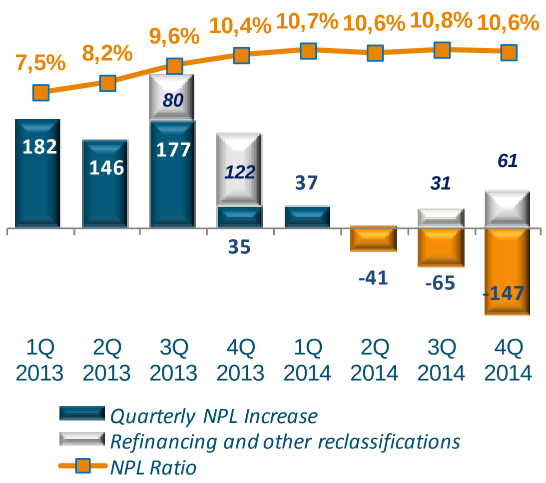


Credit Risk Analysis (excluding APS)

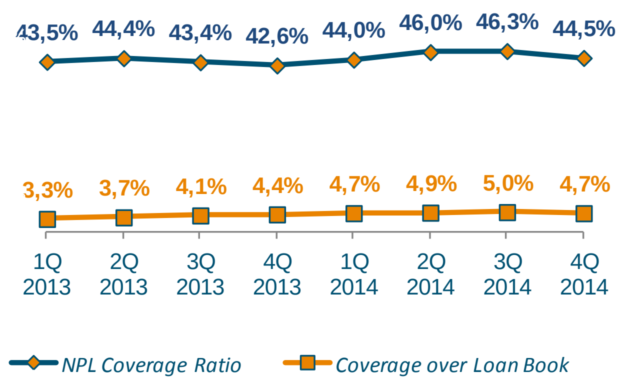
In € Million	NPL 31/12/2014	NPL Annual ch.	NPL Ratio 31/12/2014	NPL Ratio Annual ch.	Coverage Ratio 31/12/2014	Coverage Ratio Annual ch.
PRODUCTIVE ACTIVITY FINANCING	**1.492**	**-186**	**26,1%**	**0,4%**	**53,8%**	**3,6%**
Real Estate development	189	-92	50,4%	-0,4%	55,3%	-6,8%
Civil works	134	-26	44,8%	-7,5%	93,4%	17,9%
Other corporates	1.168	-69	23,2%	1,3%	49,1%	4,8%
HOUSEHOLD FINANCING	**901**	**58**	**5,9%**	**0,8%**	**29,5%**	**1,2%**
Housing purchase and rehabilitation	852	72	5,8%	0,8%	26,7%	3,1%
Consumer Financing and others	49	-13	7,4%	1,7%	78,7%	-8,4%
DEMAND DEBTORS AND OTHER RISKS	**24**	**5**	**1,5%**	**0,0%**		
TOTAL CREDIT TO OTHER SECTORS	**2.418**	**-123**	**10,6%**	**0,2%**	**44,5%**	**1,9%**

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

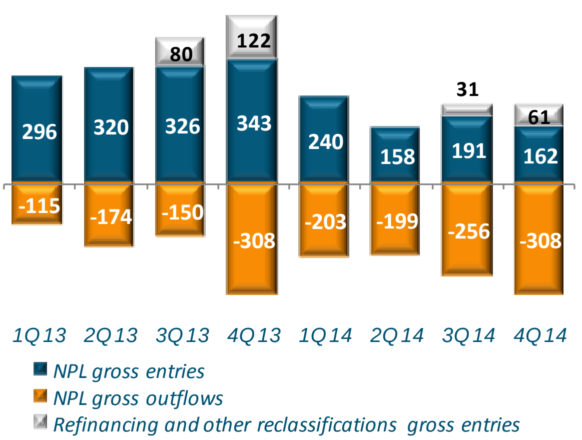
NPL ratios and Quarterly NPL increase (excluding APS).



Risk coverage ratio of NPL and gross loans (excluding APS)



NPL Entries and outflows



The comprehensive assessment conducted by the ECB and the EBA included an exhaustive revision of the asset quality, the so-called "Asset Quality Review" (AQR).

According to the AQR results, Liberbank did not have to make any significant provisions, or any significant reclassification amongst performing and non-performing portfolios. This fact shows that the Group's provisions are adequate to its risk level, and the financial information accurately reflects the equity position of the Group. There is a provision surplus of 139 million euros in the accredited portfolio reviewed by the AQR, in accordance with its methodology (28 million euros pursuant to 4/2004 Circular, of the Bank of Spain).

Non-performing loans are decreasing for the third consecutive quarter, at a more intensive pace than in previous quarters (-86 million euros in the fourth quarter), with the NPL ratio standing at 10.6%, 20 b.p. below compared to September 2014. The loan deleveraging is causing an increase of 17 b.p. in the NPL ratio on a quarterly basis, with an annual increase of 73 b.p.

The Non APS NPL ratio remains below the banking sector average (12.2% in October. Source: BDE).

The coverage of NPLs stands at 44.5%. We note the high weight of the mortgage portfolio, which requires a lower level of provisioning when considering guarantees. This portfolio has experienced a notable increase in provisions (the risk coverage ratio goes up to 26.7%, with a YTD increase of 3.1 p.p.) to adequate the values of the guarantees to market prices and thereby accelerate the asset liquidation.

The APS portfolio amounts to 3,572 million euros (including loans and credits), and it has a total coverage of NPLs of 40.3% (excluding the available APS). As of 31 December, the APS not consumed amounted to 513 million euros. Lastly, the APS has been extended until December 31, 2016.

Profit and loss account

In € Million	**31/12/2014**	**31/12/2013**	**% Annual change**
Financial income	944	1.088	-13,3%
Financial expenses	473	673	-29,7%
NET INTEREST INCOME	**471**	**415**	**13,5%**
Dividends	10	8	27,4%
Results from equity method stakes	34	38	-9,8%
Net fees	187	215	-13,2%
Gains (losses) on Financial Assets and Liabilities	300	247	21,4%
Other operating results	-63	-83	-24,0%
GROSS MARGIN	**939**	**840**	**11,8%**
Administrative costs	400	423	-5,3%
Staff costs	259	272	-4,8%
Other general administrative costs	141	150	-6,3%
Amortizations	39	41	-5,0%
PRE-IMPAIRMENT INCOME	**500**	**376**	**32,8%**
Provisions	11	-24	
Impairment losses on financial assets (net)	351	465	-24,5%
Impairment losses on other assets (net)	-7	1	
Other profits or losses	-27	16	
PRE-TAX INCOME	**118**	**-50**	
Income tax	10	-59	
CONSOLIDATED NET PROFIT	**108**	**8**	
ATTRIBUTABLE NET PROFIT	**117**	**22**	

Source: Public Profit and loss consolidated account

The Balance Sheet and Profit and Loss Account as of 2013 have been modified for comparative purposes in application of CINIIF 21, as shown in the last section of this report "Note about accounting policy changes".

Income Statement Quarterly Evolution

In € Million	1Q 2014	2Q 2014	3Q 2014	4Q 2014
Financial income	244	237	235	228
Financial expenses	141	122	114	96
NET INTEREST INCOME	**103**	**115**	**121**	**132**
Dividends	0	0	1	9
Results from equity method stakes	5	12	12	5
Net fees	50	50	46	40
Gains (losses) on Financial Assets and Liabilities	259	6	18	16
Other operating results	-17	-13	-22	-12
GROSS MARGIN	**401**	**171**	**177**	**190**
Administrative costs	98	102	101	99
Staff costs*	62	63	64	69
Administrative costs	36	38	37	30
Amortizations	10	10	10	9
PRE-IMPAIRMENT INCOME	**292**	**60**	**66**	**82**
Provisions*	6	-12	6	11
Impairment losses on financial assets (net)	114	72	74	90
Impairment losses on other assets (net)	0	-8	0	1
Other gains or losses	-7	-33	-13	27
PRE-TAX INCOME	**164**	**-27**	**-27**	**7**
Income tax	47	-14	-16	-7
CONSOLIDATED NET PROFIT	**117**	**-12**	**-11**	**14**
ATTRIBUTABLE NET PROFIT	**113**	**-9**	**-6**	**18**

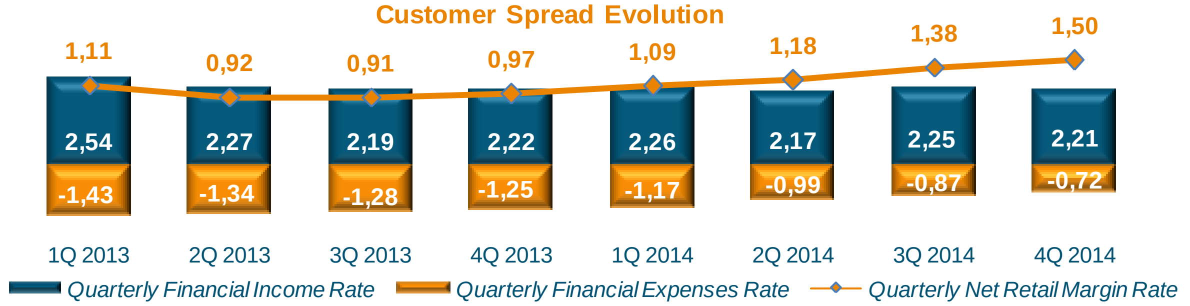
(*) Staff costs and provisions of the first quarter of 2014 shown in this chart, differ from those presented in the first quarter of 2014 report, where staff costs were adjusted to incorporate decommitments of Early Retirement funds, derived from the labor cost reduction measures, and provisions to cover voluntary redundancy offers, both accounted as "Provisions"

Quarterly contribution to the net interest income

In € Million	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014	3Q 2014	4Q 2014
Financial income	291	277	263	257	244	237	235	228
Financial expenses	184	164	168	157	141	122	114	96
NET INTEREST INCOME	**107**	**113 ***	**95**	**100**	**103**	**115**	**121 ***	**132**

(*) Includes non-recurrent results (7 million euros in 2Q 2013 and 2 million euros in 3Q 2014)

Customer Spread Evolution



Net Interest Income maintains a growing trend, with a positive evolution of the customer spread, reaching 1.5% in the fourth quarter.

A lower dependence on capital markets and the cheaper wholesale and retail funding costs, have more than offset the loan deleveraging, the lower interest rates and the reduction of the fixed income portfolio revenues.

The new term deposits have been formalized at an average price of 0.6% during the fourth quarter, showing a quarterly decline of 0.3 p.p..

The term deposits portfolio reduces its quarterly average cost down to 1.4% (0.2 p.p. below the third quarter average).

	1Q 2014			2Q 2014			3Q 2014			4Q 2014		
	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE
Retail FI	**28,119**	**2.26**	**159**	**28,176**	**2.17**	**153**	**27,750**	**2.25**	**156**	**27,216**	**2.21**	**151**
of which: performing	*22,076*	*2.72*	*150*	*22,110*	*2.66*	*147*	*21,676*	*2.79*	*151*	*21,314*	*2.70*	*144*
Retail FE	**25,065**	**1.17**	**73**	**24,984**	**0.99**	**62**	**25,409**	**0.87**	**55**	**25,476**	**0.72**	**46**
Sight	11,431	0.10	3	11,840	0.09	3	11,937	0.08	2	12,443	0.07	2
Terms	12,481	2.15	67	12,343	1.79	55	12,298	1.66	51	11,789	1.43	42
Others	1,153	1.30	4	801	2.07	4	1,174	0.57	2	1,243	0.46	1
Wholesale FI	**13,767**	**2.47**	**85**	**14,307**	**2.35**	**84**	**15,168**	**2.07**	**78**	**13,743**	**2.22**	**76**
of which: fixed income	*13,169*	*2.54*	*84*	*13,765*	*2.41*	*83*	*14,820*	*2.09*	*78*	*13,380*	*2.24*	*75*
Wholesale FE	**15,853**	**1.63**	**64**	**15,962**	**1.45**	**58**	**15,789**	**1.38**	**54**	**13,983**	**1.37**	**48**
Financial Institutions	6,497	0.34	5	6,544	0.35	6	6,630	0.24	4	5,754	0.13	2
Repos PS y PA	518	0.80	1	1,168	0.35	1	1,242	0.44	1	568	0.51	1
Covered bonds	7,384	2.25	42	7,215	2.26	41	7,034	2.25	40	6,914	2.13	37
Bonds and others	1,454	4.52	16	1,036	3.98	10	883	4.24	9	746	4.58	9
Other FI & FE			**-3**			**-3**			**-3**			**-2**

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

Recurrent fees grew by 4.4% YoY, despite the lower income derived from the application of the Royal Decree-Law 8/2014, which limits the fees in credit cards among others. The insurance and mutual funds businesses offset the lower transactional activity incomes.

The extraordinary fees obtained in 2013 (42 million euros due to an agreement of exclusive distribution of non-life insurance products with CASER) is causing a decrease in Net Fees of 13.2% (YoY).

FEES

In € Million	1Q-2014	2Q-2014	3Q-2014	4Q-2014	Cumulative 31/12/2014	31/12/2013	% Annual change
FEES RECEIVED	**53**	**53**	**48**	**58**	**211**	**250**	**-15,4%**
Contingent liabilities	2	2	2	2	7	10	-25,4%
Contingent commitments	1	1	1	1	3	3	-1,5%
Collections and payments	22	22	21	19	84	92	-9,6%
Securities services	1	1	1	1	4	19	-79,1%
Non banking financial products	12	9	9	10	40	80	-50,1%
Others	15	18	15	25	73	45	62,8%
FEES PAID	**3**	**2**	**2**	**18**	**25**	**35**	**-28,9%**
NET FEES	**50**	**50**	**46**	**40**	**187**	**215**	**-13,2%**

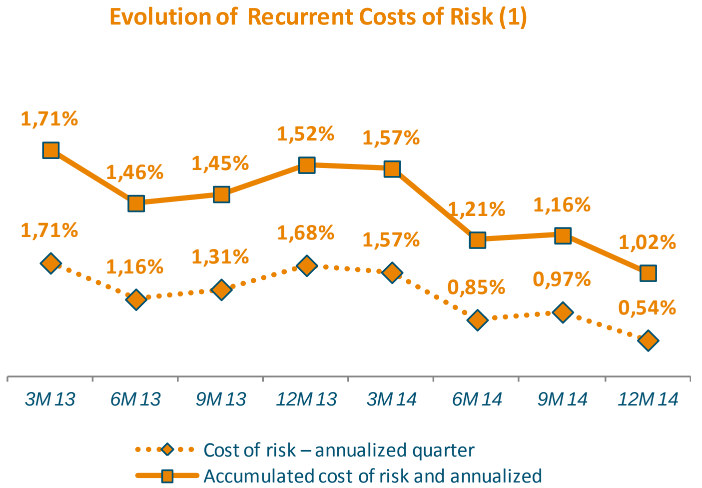
Source: Profit and loss account and own preparation

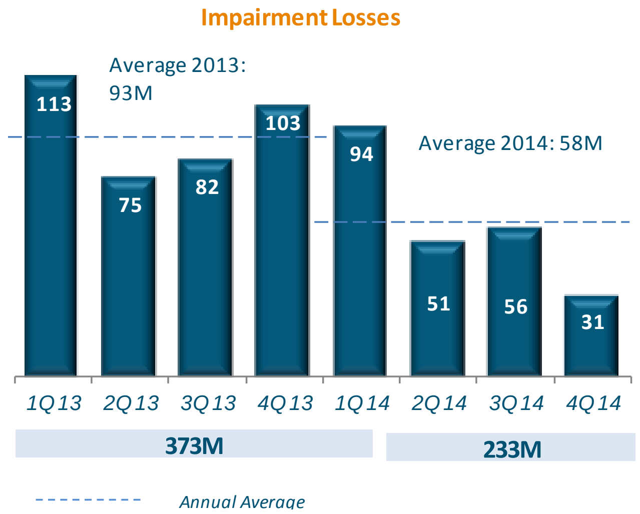
Net gains on financial operations amounted to 300 million euro, resulting from the management of the Group's financial assets.

The labour adjustment measures enforced in 2013, as well as the efficiency improvements, allowed, for another year, a reduction of 5.3% (YoY) in the operational costs, thus reaching a recurrent costs level over 20% below those of 2012, and over 40% below those of the origins of Liberbank.

The positive trend in the cost of risk continues, in spite of the denominator effect (gross credit decline), showing an annual decrease of 67 bps, reaching 1.0% at the end of the year (0.5% annualizing the recurrent allowances of the fourth quarter).

Evolution of Costs of Risk and Impairment Losses





1) Cost of risk is the quotient between the annualized recurrent loan impairments and the Non APS gross loans at the end of each quarter.

The recurrent impairment losses in 2014 (58 million euros average per quarter) is below 2013 (93 million euros). This reduction is due to a more positive macro environment, lower entries in NPLs and the increasing recoveries.

In the last quarter, 80 million euros of voluntary funds have been released, which were provisioned in the three first quarters, and allowed to partially offset the fourth quarter impairment losses, both credit and securities portfolio (the latter amount to 34 million euros in 2014).

The Attributable Net Profit amounts to 117 million euros (95 million euros more than in 2013).

Solvency (Basel III phased-in)

In € Million	31/12/2014	30/09/2014	QoQ change
CET 1 COMMON EQUITY TIER 1	**2,161**	**2,358**	**-196**
Common equity Tier 1 (%)	13.3%	14.2%	-0.9%
CAPITAL LEVEL 1/ TIER 1	**2,281**	**2,488**	**-207**
Total TIER 1 (%)	14.0%	15.0%	-1.0%
TOTAL CAPITAL	**2,281**	**2,488**	**-207**
Solvency ratio (%)	14.0%	15.0%	-1.0%
RISK WEIGHTED ASSETS	**16,299**	**16,605**	**-306**
LEVERAGE RATIO	**5.5%**	**5.6%**	**-0.1%**

Pro-forma Data, including year-end results

New regulations on minimum capital requirements for financial institutions according to Basel III came into force on January 1st, 2014.

Liberbank Group has remarkably reinforced its solvency level, thanks to the organic capital generation through earnings, deleveraging, the voluntary conversion of bonds into shares, and to the Capital Increase carried out during the second quarter of 2014.

According to the new Basel III ratios, Liberbank Group reached a CET 1 Common Equity Tier 1 at 31 December of 13.3% (minimum regulatory level of 4.5%), a Capital Tier 1 of 14.0% (minimum regulatory level of 6%), and a Total Capital of 14.0% (minimum regulatory level of 8%). In addition, the leverage rate stands at 5.5%.

During the fourth quarter, the Common Equity Tier 1 declines by 196 million euros, mainly due to the early repayment of the public aid received by the Group, 124 million euros of Contingent Convertibles Bonds (CoCos) subscribed by the Fund for Orderly Bank Restructuring (FOBR), and to the adjustment against reserves and minority interest of the extraordinary contributions to the Deposits Guarantee Fund (DGF), in application of the CIINIF 21 (62 million euros). These impacts are partially offset by the decrease of RWAs (Risk Weighted Assets), 306 million euros during the last quarter, primarily due to the credit deleveraging and to the reduction of operational risk.

Liberbank Share

Liberbank share price at the end of the year is EUR 0.676 per share. The average volume of daily trading is about 8 million shares for the fourth quarter. At the end of the year, Liberbank's market cap amounts to 1,766 million Euros.

Market Information	4Q2014
Number of shares outstanding	2,612,630,166
Daily average trading (shares number)	8,051,378
Daily average trading (euros)	5,341,554
Maximum Share price (euros)	0.760
Minimum Share price (euros)	0.608
Price at year end (euros)	0.676
Market capitalization at year end (millions of €)	1,766

Note about accounting policy changes

The European Community has adopted the CINIIF 21 referred to encumbrances for the periods beginning after 17 June 2014. Furthermore, on December 17th, 2014, the Management Commission of the Deposits Guarantee Fund (DGF) specified the final timing of payments related to the second tranche of the contribution, as laid down in Article 2 of the Royal Decree-Law 6/2013, March 22.

The Group has decided the early application of CINIIF 21, which led to register the outstanding payments pending settlement with the DGF, both those concerning to the Royal Decree-Law 6/2013, related to the extraordinary contribution, and those concerning the Royal Decree-Law 16/2011, related to the annual contribution on deposits as of 31 December 2014, to be paid in February 2015.

The registration of the ordinary contribution corresponding to deposits as of 31 December 2014, has been charged against 2014 results; the retroactive application of this accounting method, according to Rule 8th of the Bank of Spain Circular 4/2004 and to the NIC 8, has resulted in the registration of the rest of commitments, including the annual contribution corresponding to the deposits as of the end of 2013, settled in 2014, and that corresponding to the end of 2012, settled in 2013, charged to 2014 reserves.

As a consequence of the application of the criteria described above on the comparative figures of 2013, the sections “Other financial liabilities” of the consolidated balance sheet as of 31 December 2013, has been increased by 88 million euros, with a charge to the sections “Capital and Reserves” and “Minority Interests” of -30 and -5 million euros respectively, and the increase in the section “Other Assets” (Tax Assets) of 26 million euros. Furthermore, the sections “Other operating results” and “Income Taxes” of the P&L Account, have registered an expenditure of 41 million euros and a revenue of 12 million euros, respectively. Consequently, the “Attributable Net Profit” has been reduced by 26 million euros.