Liberbank

Financial Report

2018 Third Quarter

October 30th, 2018

Index:

1. Macroeconomic Environment

1.1 International Economic Situation

The global economic growth maintains the dynamism observed in the previous biennium, however the expansion is less balanced and may already have reached its peak in some large economies.

Within this context, the IMF revised downwards two tenths its 2018 and 2019 world GDP growth estimate, down to 3.7%, highlighting an increase in the risks of this forecast, coming from the worsening geopolitical uncertainty, the growing trade barriers and a slowdown in the activity within Europe.

Additionally, the IMF warns of the medium term slowdown in the growth of developed economies, as a result of the stagnating working-age population and weak productivity growth.

By geographical distribution, the **U.S.** economy maintained a solid growth throughout the first semester of 2018, favored amongst other factors by the Trump's Administration tax impulse. Specifically, the U.S. economy grew during the second quarter of 2018 up to 4.1% annualized, the best record in almost four years, coming from the reactivation of household consumption, the net exports performance, public expenditure and non-residential investment. In this scenario, the labor market seems to have surpassed the full employment level, with an unemployment rate at its lowest level since 1969.

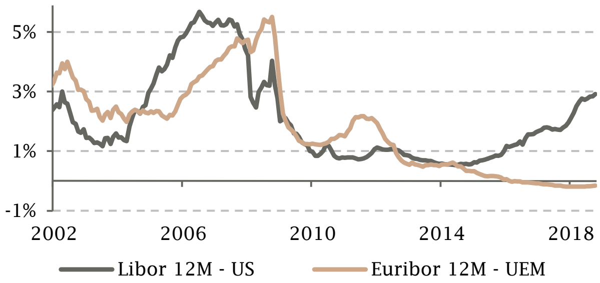
The partial short-term indicators advance a continuity in the expansive cycle and near-target inflation rates, justifying the FED to make a new interest rate hike in December, the fourth in 2018 and one more than expected at the beginning of the year. This way, the interest rates will reach around 2.25%-2.50%. In 2019 three additional rises are expected, closing the current upwards cycle in 2020 with a last rise.

In Europe, the GDP growth decelerated more than expected in the first semester of the year, after the strong expansion registered in 2017, due to the lower contribution of external demand. However, the ECB expects this slowdown to be of a transitory nature, and that the euro zone GDP growth remains stable during the next quarters, resulting from several factors which will continue to sustain the growth of domestic demand. Such factors include the accommodative orientation of the monetary policy, the growth of credit to the private sector and the reduced deleveraging needs of households and businesses. In particular, the ECB expects the economy in the Eurozone to advance 2.0% in 2018 and gradually decline down to 1.8% in 2019 and 1.7% in 2020. Likewise, the inflation is expected to stay around 1.7% in each year of the forecast horizon.

In this scenario, the ECB claims the interest rates to continue at current levels, until at least, summer of 2019, and in any case, as long as necessary to achieve the monetary policy target. Regarding the quantitative easing program, the asset purchase goes down to 15 billion euros since October and by the end of the year the program is expected to cease if conditions are right.

It is noticeable that, as a result of divergences between U.S. and European monetary policies, the spread in interbank interest rates on both sides of the Atlantic sea exceeds three percentage points, unprecedented figure since 1999. The latter, in addition to increase of political tensions in Europe, specifically in Italy, which risk premium doubled during the last semester, meant a drop in the euro exchange rate to around 1.15 dollars, 5% below its level at the beginning of the year.

Interbank Offered Rate



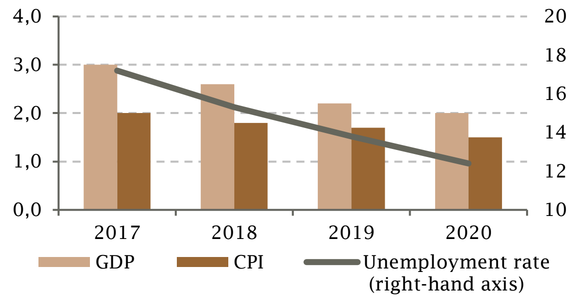
Source: Thomson Reuters

1.2. Spanish Economy

In Spain, the current Bank of Spain (BdE) outlook points to a continuation of the growth phase that began at the end of 2013. However, this growth is expected to moderate through the projection horizon. Several factors explain this slowdown: on one hand, no more additional monetary stimuli coming from the ECB is expected, while the drive from the expansive fiscal policy approved in the first semester will lose traction during the following biennium. On the other hand, households are expected to recover their savings rate from the current low levels, near historical minimums, which will lead to a moderation of consumption expenditure. Finally, the GDP growth during the third quarter could have been, like the second quarter, 0.6%. The slight growth moderation projected through the next quarters will lead to an expansion rate of the GDP of 2.6% in 2018, down to 2.2% and 2.0% in the next two years. The above implies a downward revision of one tenth, two tenths and one tenth for the 2018, 2019 and 2020 growth respectively.

These figures are consistent with the labor market improvement, where unemployment rate is expected to decrease below 12% at the end of 2020.

Spain: macroeconomic projections
Annual rate, %



Source: BdE

1.3 Spanish Financial System

The Spanish economy is already chaining nine years of deleveraging, although currently this deleverage pace is gentler than that of previous years, and is even growing in some items.

Data known until August shows a corporate credit stock shrink of 4.5% compared to the same period of the previous year. On the contrary, the household credit stock shows positive annual growth rates for the first time since 2010 driven by the consumption credit advance.

New operations continue the positive trend experienced in 2017, both in credit supply to companies and to households. Cumulated household operations from January to August, grew by 17.5% compared to the same period of last year. New operations to non-financial companies increased by 8.1%.

This improvement is consistent with the NPL ratio reduction, also favored by lower funding costs and the diminishment of the unemployment rate. The volume of non-performing loans to private sector over the total credit volume declined in July 2018 down to 6.4%, the minimum level since March 2011, and 2.1 percentage points below the level reached the previous year.

Regarding savings, data known as of August 2018 shows a slight increase of the total volume of deposits compared to the same period of 2017, with positive contributions from both, households (+2.1%) and particularly companies (+5.1%). It is worth mentioning the continuity of the trend of increasing weight of demand deposits over term deposits, as a consequence of the low profitability of saving instruments in the current low interest rates scenario. Concretely, the weight of sight deposits over total deposits stands near 80% amongst households and 90% amongst companies, meaning around 4 and 6 percentage points over their levels as of August 2017.

2. Highlights

01 Pre-tax Profit **138€m**
The pre-tax profit grows by +10.9% YoY and the cost of risk drops to 24 bps

02 Quarterly increase of customer funds **+5.1%**
Customer funds are evolving positively

03 Performing lending year-on-year growth **+11%**
Performing lending grows steadily, through operations with high quality risk (Average mortgage LTV of 71%)

Corporates	Mortgages	Consumption
+13%	+4%	+6%

04 NPL ratio **6.15%**
NPL ratio stands near 6%

05 NPAs reduction in the last 24 months **-46%**
Fulfillment of the ambitious NPA reduction plan scheduled, amounting 618€m of property sales through the year.

06 % NPAs coverage **50%**
NPAs coverage level remains stable

NPLs	Foreclosed Assets
52%	49%

07 CET 1 Fully loaded **12.1%**
Solid solvency position

08 LTD **95.8%**
Comfortable liquidity position

09 EQUOS Quality Index **7.43**
Service quality improvement continues

3. Key indicators

In € Million	30/09/2018	30/06/2018	30/09/2017	% QoQ change	% Annual change
BALANCE SHEET					
Total Assets	39,131	40,361	37,828	-3.0%	3.4%
Gross Performing Loans	21,906	21,867	19,812	0.2%	10.6%
Retail Funds	29,307	29,517	27,892	-0.7%	5.1%
Total Equity	2,836	2,771	2,237	2.3%	26.8%
Loan to Deposits	95.8%	94.7%	91.7%	1.1%	4.1%
PROFIT AND LOSS ACCOUNT				3Q18 Contribution	
Net Interest Income	335	221	303	115	10.9%
Gross Margin	523	363	500	160	4.7%
Pre-impairment Income	227	160	182	66	24.3%
Profit for the period	138	103	-463	36	
Profit attributable to the Group	108	84	-270	24	
SOLVENCY					
Risk-weighted Assets	17,214	17,254	17,501	-0.2%	-1.6%
Common equity Tier 1	13.9%	13.4%	10.3%	0.5%	3.6%
Tier 1	13.9%	13.9%	10.6%	0.0%	3.3%
Solvency Ratio	15.4%	15.4%	12.0%	0.0%	3.4%
RISK MANAGEMENT					
Non-performing Loans (NPL)	1,436	1,584	2,330	-9.3%	-38.4%
Gross Foreclosed Assets	2,136	2,252	3,137	-5.2%	-31.9%
Non-performing Loans Ratio	6.2%	6.8%	10.5%	-0.6%	-4.4%
Credit coverage Ratio	52%	52%	46%	-0.8%	5.8%
Foreclosed Assets coverage Ratio	49%	49%	53%	-0.3%	-4.4%
BANKING BUSINESS AND RESOURCES (Units)					
Group employees	3,933	4,031	4,305	-2.4%	-8.6%
FTEs (Liberbank + BCLM) (1)	2,777	2,862	3,217	-3.0%	-13.7%
Branches	684	743	779	-7.9%	-12.2%
ATMs	1,281	1,337	1,322	-4.2%	-3.1%

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	30/09/2018	30/06/2018	30/09/2017	% QoQ change	% Annual change
Cash, cash at central banks and other demand deposits	734	1,230	1,025	-40.4%	-28.4%
Financial assets (FA) held for trading	15	19	25	-19.3%	-39.8%
Non-trading FA mandatorily at fair value through P&L	189	194	0		
FA at fair value (FV) through o/ comprehensive income	1,997	1,968	6,381	1.5%	-68.7%
Financial Assets at amortized cost	31,043	31,741	25,047	-2.2%	23.9%
Debt securities	8,023	8,086	3,390	-0.8%	
Loans and advances	23,020	23,656	21,657	-2.7%	6.3%
of which: to customers	22,906	22,998	21,563	-0.4%	6.2%
Derivatives – Hedge accounting	299	300	367	-0.3%	-18.6%
FV changes of hedged items in portfolio hedge of IR risk	6	12	0		
Investments in subsidaries, joint ventures and associates	401	424	397	-5.4%	1.2%
Tangible assets	1,135	1,111	933	2.2%	21.7%
Intangible Assets	134	132	134	1.7%	-0.5%
Tax assets and other Assets	2,057	2,060	2,045	-0.2%	0.6%
Non current Assets held for sale	1,122	1,170	1,474	-4.2%	-23.9%
TOTAL ASSETS	**39,131**	**40,361**	**37,828**	**-3.0%**	**3.4%**
Financial liabilities (FL) held for trading	16	20	25	-22.3%	-38.9%
FL measured at amortized cost	35,844	37,073	35,048	-3.3%	2.3%
Deposits	35,283	36,358	34,314	-3.0%	2.8%
Debt securities issued	409	546	574	-25.1%	-28.8%
Other financial liabilities	152	169	160	-10.2%	-5.1%
Derivatives – Hedge accounting	85	110	37	-22.3%	
Liabilities under insurance and reinsurance contracts	8	8	7	0.9%	10.2%
Provisions	154	170	244	-9.5%	-36.8%
Tax liabilities and other liabilities	189	209	229	-9.8%	-17.7%
TOTAL LIABILITIES	**36,295**	**37,590**	**35,591**	**-3.4%**	**2.0%**
Minority Interest	0	0	0	-0.4%	
Shareholder's Equity	2,778	2,669	2,132	4.1%	30.3%
Accumulated Other Comprehensive Income	58	101	104	-43.3%	-44.7%
TOTAL EQUITY	**2,836**	**2,771**	**2,237**	**2.3%**	**26.8%**
TOTAL EQUITY AND LIABILITIES	**39,131**	**40,361**	**37,828**	**-3.0%**	**3.4%**

Source: Balance sheet consolidated account.

The balance sheet of the Group decreases by -3.0% during the third quarter, being the wholesale business responsible for this decline. The largest variations come from the "*Cash, cash at central banks and other demand deposits*" and *"FL measured at amortized cost"* headings. The first one registers treasury balance and repos, which decline by 434 million euros during the quarter. The second one registers the main funding sources of the Group, wholesale and retail, being the first ones, specifically the repos, those experiencing the higher quarter decline, decreasing by 777 million euros.

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

The *Loans and Advances to customers* decrease by -0.4% during the third quarter, adding the devolution of the double pension advance to a significant decrease of NPL (-9.3%).

92% of the securities portfolio is composed by fixed income, where 98% are sovereign debt bonds, mainly Spanish debt. The average yield is 1.3%, with an average duration of 1.51 years.

Retail funds registered under the *Deposits* heading of *Liabilities,* show a seasonal decrease during the third quarter of -1.1%. The trend observed in previous quarters of channeling term savings to off-balance products, particularly mutual funds, continued.

The Group’s Total equity rises by 2.3% during the quarter, due to the profit generation and the final conversion of customers CoCos into shares, carried out last July.

Resources

In € Million	30/09/2018	30/06/2018	30/09/2017	% QoQ change	% Annual change
CUSTOMER FUNDS	29,307	29,517	27,892	-0.7%	5.1%
Customer Funds On Balance Sheet	23,658	23,930	22,874	-1.1%	3.4%
Public Administrations	1,954	1,800	1,194	8.6%	63.6%
Creditors and promissory notes	21,704	22,130	21,680	-1.9%	0.1%
Demand Deposits	15,880	16,112	15,250	-1.4%	4.1%
Term Deposits	5,820	5,977	6,366	-2.6%	-8.6%
Others (promissory notes)	3	40	64	-91.7%	-94.8%
Off-Balance Sheet Customer Funds	5,649	5,587	5,017	1.1%	12.6%
Mutual Funds	3,136	3,074	2,467	2.0%	27.1%
Pension Funds	1,492	1,493	1,500	0.0%	-0.6%
Saving Insurances	1,021	1,021	1,050	0.0%	-2.7%
REPURCHASE AGREEMENTS	2,188	2,554	2,699	-14.3%	-19.0%
WHOLESALE FUNDING (capital markets)	2,895	2,914	3,579	-0.7%	-19.1%
Covered Bonds (non-retained)	2,800	2,800	3,475	0.0%	-19.4%
Bonds and EMTNs	95	95	95	0.0%	0.0%
Wholesale Promissory Notes	0	19	9	-100.0%	-100.0%
TOTAL FUNDS	34,390	34,985	34,170	-1.7%	0.6%

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

Total funds amount to 29,307 million euros, growing 5.1% YoY (last four years maximum). This growth is concentrated in sight deposits (+4.1%) and mutual funds (+27.1%). On the other side, term deposits show outflows (-8.6%), although at a slower pace (-13.1% YoY during the second quarter).

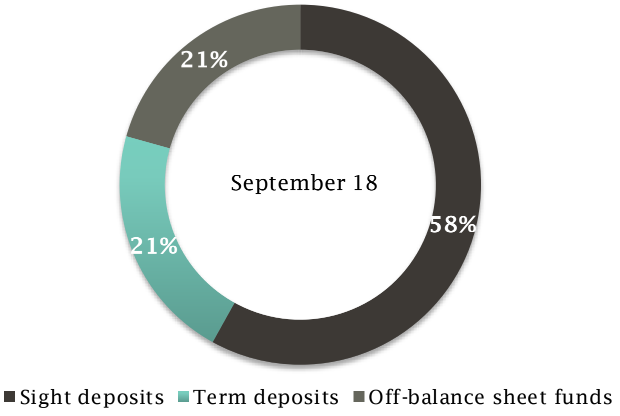
The mutual funds evolution has been affected by the markets, penalized by the tension between Italy and the EU. Despite this, 388 million euros of net subscriptions have been registered during the year, 42.6% over last year figure.

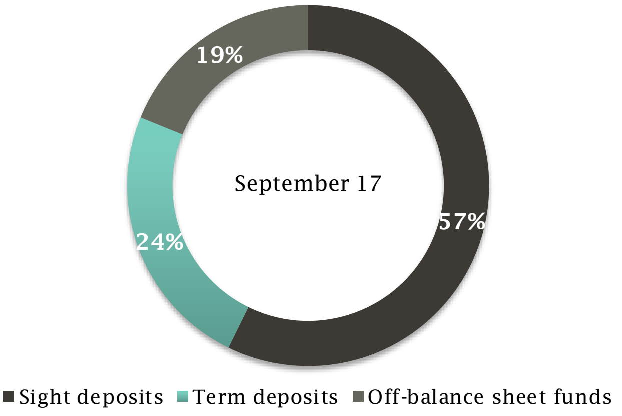
In the third quarter, customer funds decline by -0.7% due to seasonality. Mutual funds continue to collect term savings (+2% QoQ). Net subscriptions during the quarter amount 61 million euros, of which near 46% correspond to a new product designed together with J.P. Morgan. This new mutual fund (Liberbank Protection Fund) is the Group's response to its commitment to continue offering new alternatives for long-term investment. This fund gives our customers access to a global and flexible portfolio, while 90% of invested capital remains secured.

The average price of the new term deposits of households went down to 5 bps.

The deposits market share shows the solid positioning of the Bank in its origin territories. As of March, it stands at 23.35% in the aggregate, growing +26bps throughout the year.

Retail resources





Gross performing loans

In € Million	30/09/2018	30/06/2018	30/09/2017	% QoQ change	% Annual change
Credit To Public Administrations	1,776	1,712	929	3.7%	91.1%
Credit To Private Sectors	20,131	20,155	18,883	-0.1%	6.6%
Productive activities financing	5,723	5,607	5,049	2.1%	13.3%
Real Estate	229	217	177	5.9%	29.3%
Other companies	5,494	5,390	4,872	1.9%	12.8%
Household financing	14,087	13,957	13,548	0.9%	4.0%
Consumer and other loans	776	770	735	0.8%	5.7%
Housing	13,311	13,187	12,813	0.9%	3.9%
Advances and unclassified risks	321	591	286	-45.7%	12.1%
PERFORMING LOANS	21,906	21,867	19,812	0.2%	10.6%

Performing loans amount 21,906 million euros, growing by +0.2% in the third quarter and 10.6% YoY.

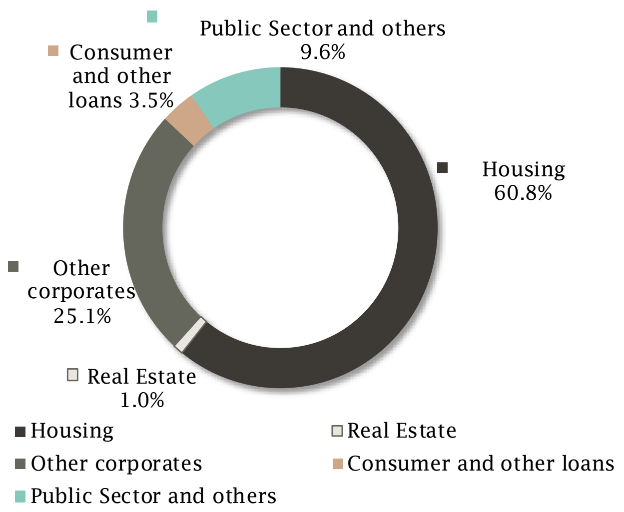
Productive Activity Financing grows by 2.1% quarterly and +13.3% YoY, and household financing grows by +0.9% QoQ and +4.0% YoY.

New credit amounts to 4,491 million euros, 1,424 million euros above last year's figure.

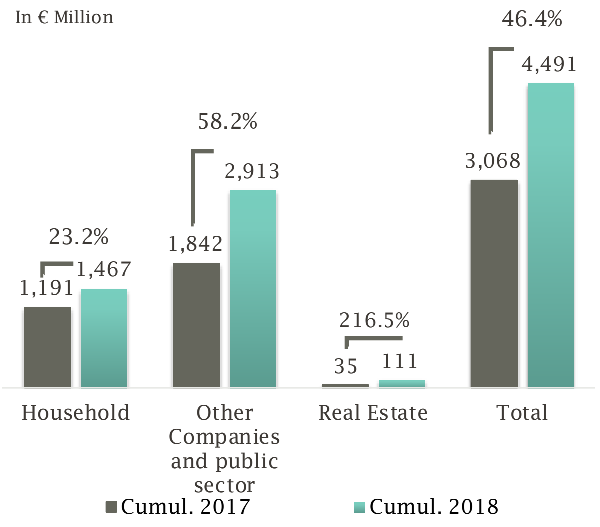
Household new loans are granted at rates near 2.0%, with a higher preference for fixed rate mortgages (66% of the total amount of new production mortgages). The average LTV of new production mortgages stands at 71%.

The comfortable liquidity position allows the Group to support business growth. For this purpose, the "Plan Sí" was designed, including the opening of seven new specialist branches, the development of new technological platforms supporting key products: factoring, confirming, insurance, foreign trade and renting, and the design of an attractive product offering.

Gross performing loans sector breakdown



Cumulative Lending Operations



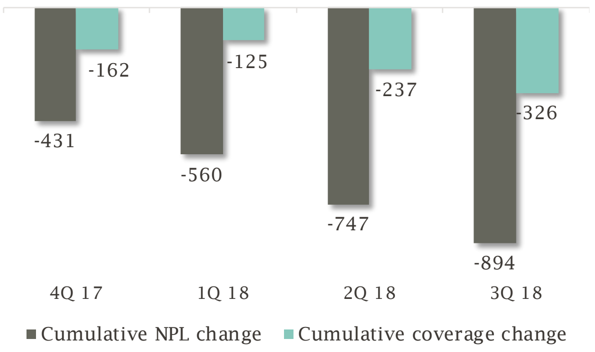
Gross NPL Evolution

In € Million	NPL 30/09/2018	NPL QoQ ch.	NPL YoY ch.	NPL Ratio 30/09/2018	NPL Ratio QoQ ch.	NPL Ratio YoY ch.
Productive Activity Financing	**819**	**-106**	**-672**	**12.5%**	**-1.6%**	**-10.3%**
Real Estate	313	-72	-447	57.7%	-6.3%	-23.9%
Other companies	506	-33	-225	8.4%	-0.7%	-4.6%
Household Financing	**594**	**-47**	**-230**	**4.0%**	**-0.3%**	**-1.7%**
Consumer and other loans	43	2	-11	5.3%	0.2%	-1.7%
Housing	551	-49	-219	4.0%	-0.4%	-1.7%
Demand Debtors, Public Admin and Other	**23**	**5**	**8**	**1.1%**	**0.3%**	**-0.1%**
TOTAL GROSS NPL	**1,436**	**-147**	**-894**	**6.2%**	**-0.6%**	**-4.4%**

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

Non-performing loans dropped by 147 million euros during the third quarter, accumulating 894 million euros reduction in the last twelve months, while coverage declined by 326 million euros during the same period.

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



The NPL ratio fell 60 bps in the third quarter, and -4.37 pp in the last twelve months, standing at 6.15%.

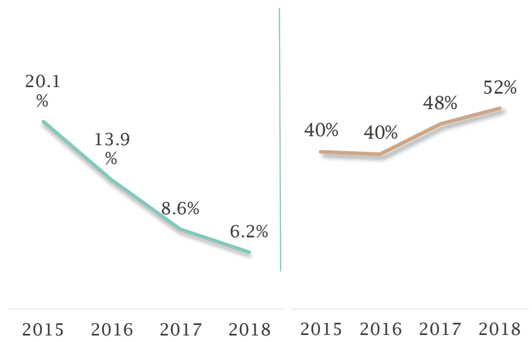
The coverage ratio remains at the same level as in June, 52%, showing an increase of 5.80 pp in the last twelve months.

38% of NPL are household mortgages, requiring a lower coverage level since they are already secured by the housing units themselves.

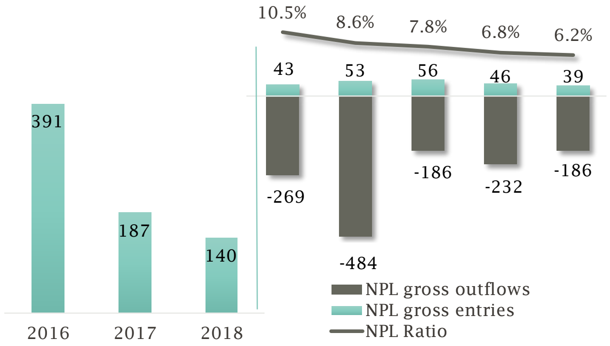
The NPL entries volume during the year declined down to 140 million euros (25% below the figure for the same period of 2017).

Refinanced loans amount to 766 million euros, decreasing by 129 million euros, and represents 3.3% of the Gross loans. 76% is classified as non-performing loan.

NPL ratio and Coverage
In € Million



Annual entries / NPL entries and outflows
In € Million



NPL Coverages

	NPL	Impairment losses	NPL minus Impairment losses	Coverage ratio	Guarantees*
Productive Activity Financing	**819**	**537**	**282**	**65.6%**	**421**
Real Estate	313	158	155	50.6%	215
Other companies	506	379	127	74.8%	206
Household Financing	**594**	**194**	**400**	**32.6%**	**482**
Consumer and other loans	43	41	3	93.2%	1
Housing	551	153	397	27.8%	481
Demand Debtors, Public Admin and Other Risks	**23**	**9**	**14**		**1**
TOTAL GROSS NPL	**1,436**	**740**	**696**	**52%**	**904**

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

Comparative information has been restated following the Internal Rating Based (IRB) segmentation, so its distribution by exposure category differs from that published in previous reports.

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

Gross Foreclosed Assets Evolution

(excluding property investments)

Gross Value, In € Million	30/09/2018	30/06/2018	30/09/2017	% QoQ ch.	% YoY ch.
Finished houses	633	664	1,150	-4.5%	-44.9%
Houses under construction	343	356	478	-3.5%	-28.2%
Offices, premises, warehouses and other buildings	240	245	401	-2.2%	-40.2%
Land	920	988	1,109	-6.9%	-17.0%
TOTAL GROSS FORECLOSED ASSETS	**2,136**	**2,252**	**3,137**	**-5.2%**	**-31.9%**

The foreclosed assets portfolio declines by -5.2% in the second quarter and -31.9% in the last twelve months. Real estate asset sales during the third quarter of 2018 amounted to 147 million euros (gross debt including investment property), totaling 618 million euros throughout the year.

The NPA's pool decreases by 1,895 million euros in the last twelve months, -46% in the last two years.

The NPA's coverage level remains stable at 50%.

Impaired Assets Evolution (and their coverages)

	30/09/2018	30/06/2018	30/09/2017	QoQ ch.	YtD ch.
NPL	1,436	1,584	2,330	-147	-894
Foreclosed Assets	2,136	2,252	3,137	-116	-1,001
NON-PRODUCTIVE ASSETS	**3,572**	**3,836**	**5,467**	**-263**	**-1,895**
NPA ratio	**14.0%**	**14.9%**	**21.6%**	**-0.9%**	**-7.6%**
NPL impairment losses	740	828	1,065	-88	-326
NPL coverage ratio	**52%**	**52%**	**46%**	**-0.8%**	**5.8%**
Foreclosed assets impairment losses	1,045	1,109	1,673	-64	-629
Foreclosed assets coverage ratio	**49%**	**49%**	**53%**	**-0.3%**	**-4.4%**
Non-productive assets coverage ratio (NPL + foreclosed	**50%**	**51%**	**50%**	**-0.5%**	**-0.1%**

Profit and loss account

In € Million	30/09/2018	30/09/2017	% Annual change
Financial income	403	378	6.5%
Financial expenses	67	76	-11.2%
NET INTEREST INCOME	335	303	10.9%
Dividends	5	2	0.0%
Results from equity method stakes	27	29	-8.9%
Net fees	134	130	3.6%
Gains (losses) on Financial Assets and Liabilities	36	60	-40.0%
Other operating results	-14	-23	-39.3%
GROSS MARGIN	523	500	4.7%
Administrative costs	269	292	-7.9%
Staff costs	176	186	-5.4%
Other general administrative costs	93	106	-12.2%
Amortizations	27	25	8.4%
PRE-IMPAIRMENT INCOME	227	182	24.3%
Provisions	22	-20	
Impairment losses on financial assets (net)	44	232	-80.9%
Impairment losses on other assets (net)	8	-1	
Other profits or losses	-13	-434	-96.9%
PRE-TAX INCOME	138	-463	
Income tax	28	-149	
Profit from discontinued operations (net)	-2	0	
CONSOLIDATED NET PROFIT	108	-314	
Attributable Net Profit	108	-270	

Income Statement Quarterly Evolution

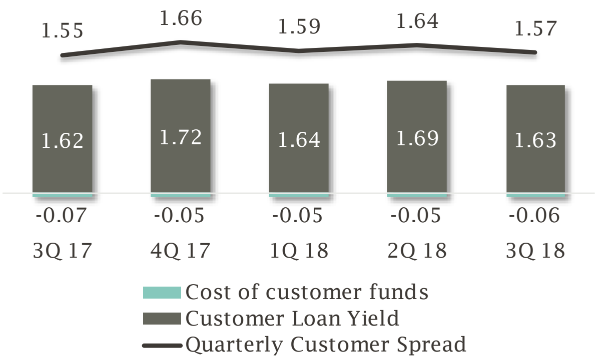
In € Million	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018
Financial income	124	127	127	140	135
Financial expenses	23	24	23	24	21
NET INTEREST INCOME	100	103	105	116	115
Dividends	0	1	0	4	0
Results from equity method stakes	4	15	2	22	2
Net fees	40	52	44	48	42
Gains (losses) on Financial Assets and Liabilities	5	30	26	3	6
Other operating results	-3	-54	-7	-3	-5
GROSS MARGIN	146	146	171	191	160
Administrative costs	98	95	91	93	85
Staff costs	64	63	58	61	57
Administrative costs	34	32	33	32	28
Amortizations	3	11	9	9	9
PRE-IMPAIRMENT INCOME	45	41	71	89	66
Provisions	6	26	5	9	8
Impairment losses on financial assets (net)	184	37	17	14	13
Impairment losses on other assets (net)	0	1	8	0	1
Other gains or losses	-393	32	-1	-4	-8
PRE-TAX INCOME	-537	8	41	62	36
Income tax	-163	-3	11	7	10
Profit from discontinued operations (net)	0	0	0	0	-2
CONSOLIDATED NET PROFIT	-374	11	29	55	24
Attributable Net Profit	-337	11	29	55	24

Source: Profit and loss consolidated account.

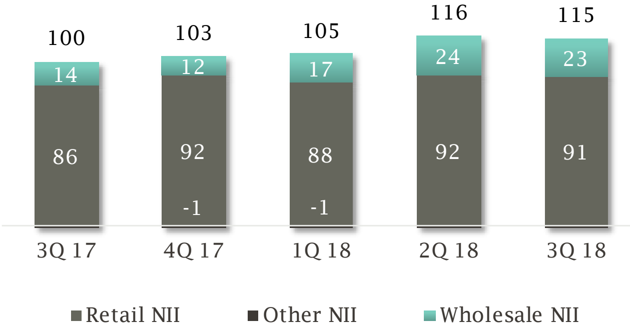
Quarterly contribution to the net interest income

In € Million	3Q 17	4Q 17	1Q 18	2Q 18	3Q 18
Financial income	124	127	127	140	135
Financial expenses	23	24	23	24	21
NET INTEREST INCOME	100	103	105	116	115

Customer Spread Evolution



Net interest income evolution by business lines



The Net interest income amounts to 115 million euros, below the last quarter. This decline comes from both wholesale business and retail business. The retail business profitability decrease has a circumstantial character while the wholesale business profitability decrease has a structural character. The first one (retail) is mainly due to lower income: from NPLs, advances and opening fees. The second one (wholesale) comes from fixed income portfolio sales, carried out in the second quarter, thus the offsetting costs decline derived from the amortization of covered bonds.

Customer spread stands at 1.57%. Retail financing costs stay almost stable (6 bps) and loan yield goes down by -6 bps. The 9M18 customer spread (excl. seasonality) rises to 1.59

New credit contributes positively to the customer spread, with an average yield of 2.24% (on credit to private sector), above the performing portfolio average profitability, 1.70%.

Quarterly Net Interest Income Evolution

	3Q 2017			4Q 2017			1Q 2018			2Q 2018			3Q 2018		
	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE
Retail FI	22,331	1.6	90	22,203	1.7	95	22,200	1.6	91	22,577	1.7	96	23,334	1.6	95
of which: performing	19,836	1.7	86	20,009	1.7	87	20,338	1.7	87	20,792	1.8	93	21,817	1.7	93
Retail FE	23,080	0.1	4	22,938	0.1	3	22,757	0.1	3	22,882	0.1	3	23,674	0.1	3
Sight	15,112	0.0	1	15,293	0.0	1	15,509	0.0	1	15,558	0.0	1	15,923	0.0	1
Terms	6,736	0.2	3	6,227	0.1	2	5,946	0.1	1	5,944	0.1	2	5,935	0.1	2
Others	1,231	0.0	0	1,418	0.0	0	1,302	0.0	0	1,380	0.0	0	1,816	0.0	0
Wholesale FI	10,542	1.0	26	9,953	1.0	25	10,064	1.2	29	10,570	1.3	35	10,690	1.2	32
of which: fixed income	9,834	1.1	26	8,964	1.1	25	9,069	1.3	29	9,410	1.5	35	9,614	1.3	32
Wholesale FE	11,622	0.4	12	10,963	0.5	13	11,081	0.4	12	11,921	0.4	11	12,118	0.3	9
Financial Institutions	7,381	-0.4	-7	6,876	-0.4	-6	6,993	-0.4	-6	7,888	-0.4	-8	8,831	-0.3	-7
Repos PS and PA	47	0.0	0	38	0.0	0	51	0.0	0	55	0.0	0	67	0.0	0
Covered bonds	3,575	1.5	14	3,492	1.5	13	3,475	1.5	13	3,419	1.5	13	2,800	1.5	11
Bonds and others	618	3.5	5	557	3.8	5	561	3.8	5	558	3.9	5	420	5.0	5
Other FI & FE			0			-1			-1			0			0

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

Fees

In € Million	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018	% Cum. Annual Change
FEES RECEIVED	42	54	46	50	44	3.8%
Contingent liabilities	1	1	1	1	1	-1.7%
Contingent commitments	0	0	0	0	0	-24.6%
Collections and payments	19	19	18	24	19	7.7%
Securities services	1	1	1	1	1	-8.2%
Non banking financial products	12	16	16	14	14	3.0%
Others	8	17	9	9	8	0.1%
FEES PAID	2	2	2	2	2	9.2%
NET FEES	40	52	44	48	42	3.6%
RECURRENT NET FEES	40	43	44	43	42	4.4%

Source: Profit and loss account and own preparation

Net fees amount to 134 million euros, resulting in a cumulated +3.6% YoY growth, +4.4% considering recurrent fee income. This growth is explained by the commercialization of insurance products (+8.7% YoY, excluding non-recurrent income), and mutual funds (+34.8% YoY).

Gains (losses) on financial assets and liabilities total 36 million euros for the year, mainly coming from fixed income sales and valuation adjustments of financial instruments carried at fair value.

Other operating results (net) amount to -14 million euros throughout the year. In this heading we account the contribution to the Single Resolution Fund (10 million euros), the tax on deposits (6 million euros) and the equity provision for monetizable deferred tax assets (8 million euros), as well as subsidiaries costs, including those related to real-estate. These costs are offset by other recurrent and non-recurrent income from, amongst others, rentals and revenues from the subsidiaries.

General administration costs decreased by -7.9%, with a significant drop both in staff costs (-5.4%) and general administrative expenses (-12.2%).

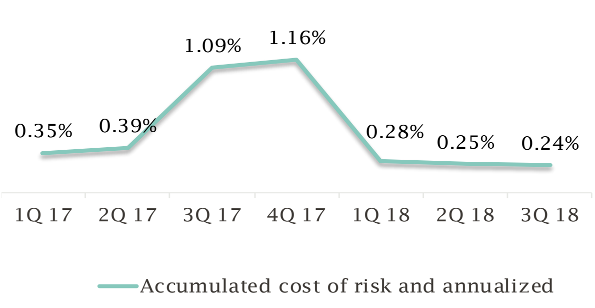
The *Provisions* heading registers 22 million euros mainly coming from provisions for extraordinary litigation and the reorganization of the commercial network carried out in the third quarter.

The *Impairment losses on financial assets (net)* heading registers the credit impairments (44 million euros). The annualized cost of risk stands at 24 bps, below the expected levels for the year (0.25%).

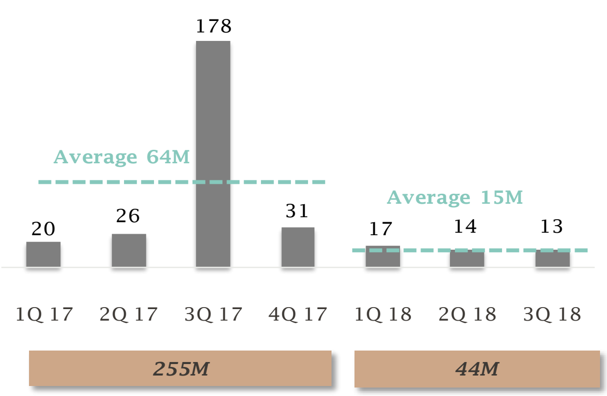
The *Impairment losses on other assets (net)* includes 8 million euros of property investments impairments derived from the regulatory changes due to the entry into force on January the first of 2018 of the BdE Circular 4/2017.

The pre-tax income amounts to 138 million euros.

Evolution of Cost of Risk



Loan Impairments



Solvency (Basel III phased-in)

In € Million	30/09/2018	30/06/2018	30/09/2017	Quarterly Change	Annual Change
CET 1 COMMON EQUITY TIER 1	2,385	2,304	1,797	80	588
Common equity Tier 1 (%)	13.9%	13.4%	10.3%	0.5%	3.6%
CAPITAL LEVEL 1/ TIER 1	2,385	2,391	1,855	-6	530
Total TIER 1 (%)	13.9%	13.9%	10.6%	0.0%	3.3%
TOTAL CAPITAL	2,654	2,661	2,109	-6	545
Solvency ratio (%)	15.4%	15.4%	12.0%	0.0%	3.4%
RISK WEIGHTED ASSETS	17,214	17,254	17,501	-40	-287
LEVERAGE RATIO	6.2%	6.0%	5.0%	0.2%	1.2%

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

As of September 30, 2018, Liberbank's CET 1 Common Equity Tier 1 stands at 13.9% (50 bps above the June figure), Capital Tier 1 at 13.9% and Total Capital at 15.4%, comfortably exceeding the requirements for June: Common equity Tier 1 ratio of 8.875% and Total Capital ratio of 12.375%.

In July 18th the CoCos were compulsory converted into ordinary shares meaning 86 million euros of CET 1 capital increase.

The organic generation of results increases the numerator of capital ratios, offsetting the decrease of capital gains on the securities portfolio.

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

The Share

Last July 17, 2018, the compulsory conversion of all the series A, B and C CoCos into equity took place. Specifically 15,325,466 bonds: 6,182,342 A series bonds, 1,296,002 B series bonds and 7,847,122 C series bonds. Regarding the average weighted prices of the shares, and the minimum and maximum limits provided, 130,528,083 new shares were issued, representing 4.446% of the outstanding shares. The new shares were put into circulation on August 24th 2018.

The Fundación Bancaria Caja de Ahorros de Asturias, together with the Fundación Bancaria Caja de Extremadura and the Fundación Bancaria Caja Cantabria own 23.2%, Oceanwood Opportunities Master Fund owns 16.7% (divided into a 7.7% directly in shares and the remaining 9.0% through financial instruments), Aivilo Spain SL owns 7.4%, Corporación Masaveu owns 5.7% and Norges owns 3.2%. The remaining 43.68% is held by wholesale and retail investors.

Market Information	3Q2018
Number of shares outstanding	3,066,546
Daily average trading (shares number)	3,866,227
Daily average trading (euros)	1,850,132
Maximum Share price (euros)	0.52
Minimum Share price (euros)	0.44
Price at year end (euros)	0.48
Market capitalization at year end (euros)	1,478,075

Significant subsequent events

On October, 8th following the required administrative authorizations, and the submission to the Registry of companies on October 1st, the deed of merger by absorption of Banco Castilla-La Mancha, S.A.U. has been registered under the terms of the common draft inserted in the corporate websites of the merging company (Liberbank, S.A.) and the acquired company.(Banco Castilla-La Mancha, S.A.U.), completing the whole process and acquiring full effectiveness of the merger.

The Rating

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

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

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

Liquidity

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

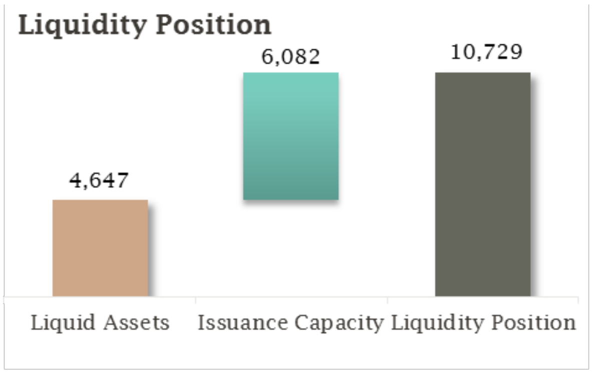
The LTD ratio, which represents the percentage of credits funded by Retail deposits stands at 95.8%, (the sector average as of June 2018 was 99%).

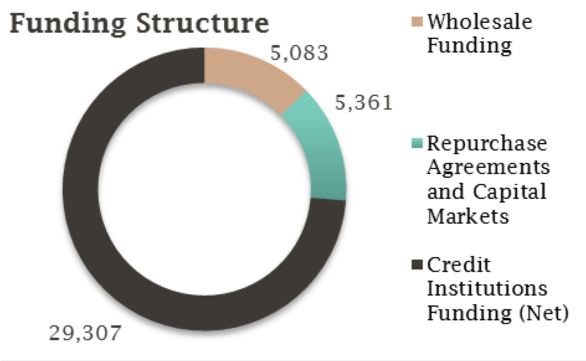
The LCR ratio, that indicates the short term liquidity level, stands at 219%, well above the regulatory requirements (100%), and far above the sector average as of June 2018 (176%).

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 124%.

The Group's liquid assets amount to 4,647 million euros, all of them immediately available. In addition, Liberbank has an issuance capacity of 6,082 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.