Liberbank

Financial Report

2018 Second Quarter

July 30th, 2018

Index:

Legal Notice

1. Macroeconomic Environment

1.1 International Economic Situation

The global economic growth took hold in 2017, reaching 3.8%, half p.p. over 2016, the highest increase since 2011. The main drivers of this growth are the investments from developed economies, the dynamism of the emerging economies in Asia and Europe and the recovery of the commodities exporting countries.

For the current biennium, the global economic growth is expected to increase up to 3.9%, backed by accommodating funding conditions and by the momentum of the expansive tax policies, particularly in the U.S. The main factors risking this evolution in the short term are the upturn of oil prices and a rise of protectionism.

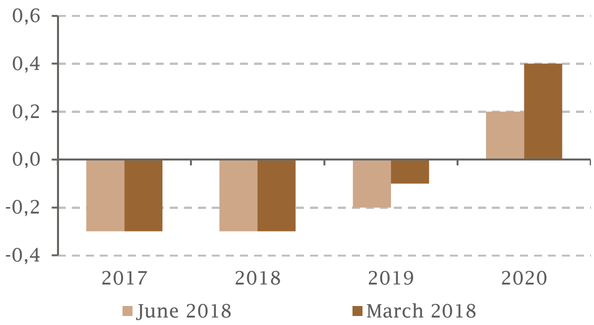
By geographical distribution, the **U.S.** economy maintained a solid growth throughout the first semester of 2018. The partial short-term indicators advance a continuity in the expansive cycle, driven by increased business confidence and employment acceleration. Job vacancies outnumber unemployed people, something that never happened before, at least since the existing registers (year 2000). The natural consequence of this imbalance is a higher pressure on salaries, and therefore, on prices. Thus, inflation continues its uptrend, reaching the last six years maximum. In particular, prices stood at 2.8% in May, due to both energy price hike and core inflation.

In this context, the FED accelerated the timing of the interest rate rise. On June 13th, for the second time this year, the FED increased the reference rates by a quarter of a point, up to the target range of 1.75%-2.0%. In addition, the FED announced its intention to carry out two more raises in the next six months, and three more next year, bringing the price of money up to around 3% by the end of 2019.

The FED raised from 2.7% to 2.8% its growth estimates for this year, keeping them stable for 2019 and 2020 at 2.4% and 2.0% respectively. On its part, inflation will remain at 2.1% by the end of 2018 and during the next two years.

In Europe, the GDP growth decelerated more than expected in the first quarter of the year, mainly in France and Germany, due to the lower contribution of external demand. During the second quarter, the available indicators point to a slight deterioration in investment and exports, resulting from the decline in confidence, global protectionist measures and uncertainties related to the national politics of some European countries. On the positive side, the private consumption dynamism is expected to remain high.

Eurozone: three-month EURIBOR projections
Percentage per annum



Source: European Central Bank

Regarding the labor market, the good tone in the pace of job creation persists, allowing the unemployment rate to reach new lows. Besides, this vigor in the labor market is finally moving to labor costs and salaries, so a convergence process of inflation forecasts towards the ECB's target could be expected.

In this scenario, the ECB has kept interest rates unchanged, expecting them to remain at current levels until at least, summer of 2019. However, the ECB announced the end of the quantitative easing program by the end of the year. Specifically, the monthly rhythm of purchases will go down to fifteen billion euros from September to the end of 2018. Net purchases will cease thereafter.

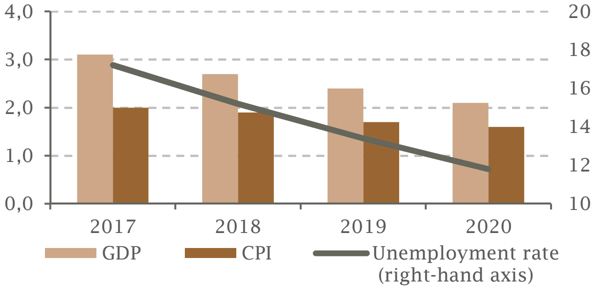
Regarding the macroeconomic forecasts, the 2018 growth forecasts have been revised downwards to 2.1%, remaining stable those for 2019 (1.9%) and 2020 (1.7%). For its part, inflation expectations suggest that the price increase will reach 1.7% in the next three years, converging to the 2.0% target.

1.2. Spanish Economy

Spain has maintained the expansive inertia of the economy, in contrast to the Eurozone as a whole. Between January and March 2018, the GDP grew at 0.7% quarterly, similar to figure registered in the two previous quarters. The current outlook points to a continuation of the present growth phase, supported by the rise in disposable income, real estate wealth and funding, which will continue to drive private consumption and residential investment. It must be added to these factors the more expansionary nature of the fiscal policy emerging from the General State Budget and Social Security for 2018.

The Bank of Spain (BdE) expects GDP to grow by 2.7% in 2018, tending to a gradual moderation down to 2.4% in 2019 and to 2.1% in 2020. Regarding growth composition, the pattern observed since 2014 will remain stable, and the domestic demand will continue to contribute with about 90% of the aggregate growth. These figures are consistent with a robust but lower employment growth than the previous three years. This, together with the expected downturn in the labor force, will lead to further declines in the unemployment rate, which will be slightly above 11% by the end of 2020.

Spain: macroeconomic projections
Annual rate, %



Source: BdE

1.3 Spanish Financial System

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

Data known until May shows a corporate credit stock shrink of 6.3% compared to the same period of the previous year. The household credit stock also declines, conditioned by the housing credit (-1.8% YoY). On the other hand, consumption credit increases by 5.8%, in line with the consumption growth within the Spanish economy.

New operations continue the positive trend experienced in 2017, both in credit supply to companies and to households. Cumulated household operations from January to May, grew by 24.3% compared to the same period last year. New operations to non-financial companies increased by 10.9%.

This improvement is consistent with the NPL ratio reduction, also favored by lower funding costs, the diminishment of unemployment and wholesale operations of several banking entities that have sold significant portfolios of non-performing loans and write-offs. The volume of non-performing loans over the total credit volume declined in April 2018 down to 6.8%, the minimum level since December 2011, and 2.1 percentage points below the level reached the previous year.

Regarding savings, data known as of May 2018 shows a slight increase of the total volume of deposits compared to the same period of 2017, with positive contributions from both, households (+1.1%) and particularly companies (+4.1%). The weight of sight deposits remains growing as a consequence of the low profitability of other saving instruments in the current low interest rates scenario. Concretely, the weight of sight deposits over total deposits stands over 77% amongst households and 87% amongst companies, meaning around 5 and 7 percentage points over their levels as of May 2017.

2. Highlights

01	Pre-tax Profit 103€m	**The pre-tax profit grows by 39%, supported by the recovery of the Net Interest Income (+9.3% YoY) and the normalization of the cost of risk (25 bps)**
02	Quarterly increase of customer funds +4.2%	**Customer funds registered a record quarterly change of 1,193 € million**
03	Performing lending year-on-year growth +9% Corporates 14% · Mortgages 3% · Consumption 7%	**Performing lending grows steadily amongst corporates and households**
04	NPL ratio 6.75%	**NPL ratio stands below 7% while real estate asset sales totaled 470 € million throughout the year**
05	NPAs reduction in the last 24 months -45%	**Impaired asset reduction continues aligned with the ambitious plan scheduled.**
06	% NPAs coverage +51% NPLs +52% · Foreclosed Assets +49%	**NPAs coverage level remains at the same level as in March**
07	CET 1 Fully loaded 12.2%	**Group's solvency is strengthened with the growth of the CET 1 fully loaded ratio**
08	LTD 94.7%	**Comfortable liquidity position**
09	EQUOS Quality Index 7.33	**Quality improvement continues**

3. Key indicators

In € Million	30/06/2018	31/03/2018	30/06/2017	% QoQ change	% Annual change
BALANCE SHEET					
Total Assets	40,361	39,263	39,165	2.8%	3.1%
Gross Performing Loans	21,867	20,807	20,104	5.1%	8.8%
Retail Funds	29,517	28,324	28,703	4.2%	2.8%
Total Equity	2,771	2,700	2,571	2.6%	7.8%
Loan to Deposits	94.7%	94.1%	90.4%	0.6%	4.2%
PROFIT AND LOSS ACCOUNT				1T18 Contribution	
Net Interest Income	221	105	202	116	9.3%
Gross Margin	363	171	353	191	2.7%
Pre-impairment Income	160	71	137	89	17.0%
Profit for the period	103	41	74	62	39.1%
Profit attributable to the Group	84	29	67	55	25.1%
SOLVENCY					
Risk-weighted Assets	17,254	16,951	18,184	1.8%	-5.1%
Common equity Tier 1	13.4%	13.2%	12.4%	0.1%	1.0%
Tier 1	13.9%	13.8%	12.7%	0.1%	1.1%
Solvency Ratio	15.4%	15.4%	14.2%	0.0%	1.2%
RISK MANAGEMENT					
Non-performing Loans (NPL)	1,584	1,770	2,556	-10.5%	-38.0%
Gross Foreclosed Assets	2,252	2,461	3,115	-8.5%	-27.7%
Non-performing Loans Ratio	6.8%	7.8%	11.3%	-1.1%	-4.5%
Credit coverage Ratio	52%	53%	40%	-0.8%	12.1%
Foreclosed Assets coverage Ratio	49%	49%	40%	0.6%	9.6%
BANKING BUSINESS AND RESOURCES (Units)					
Group employees	4,031	4,007	4,567	0.6%	-11.7%
FTEs (Liberbank + BCLM) (1)	2,862	2,888	3,166	-0.9%	-9.6%
Branches	743	752	810	-1.2%	-8.3%
ATMs	1,337	1,337	1,327	0.0%	0.8%

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	30/06/2018	31/03/2018	30/06/2017	% QoQ change	% Annual change
Cash, cash at central banks and other demand deposits	1,230	1,133	797	8.5%	54.3%
Financial assets (FA) held for trading	19	19	26	-3.6%	-26.4%
Non-trading FA mandatorily at fair value through P&L	194	285	0		
FA at fair value (FV) through o/ comprehensive income	1,968	2,503	7,208	-21.4%	-72.7%
Financial Assets at amortized cost	31,741	30,066	25,487	5.6%	24.5%
Debt securities	8,086	8,083	3,372	0.0%	
Loans and advances	23,656	21,983	22,115	7.6%	7.0%
of which: to customers	22,998	21,844	21,998	5.3%	4.5%
Derivatives – Hedge accounting	300	341	385	-12.1%	-22.2%
FV changes of hedged items in portfolio hedge of IR risk	12	3	0		
Investments in subsidaries, joint ventures and associates	424	357	355	18.9%	19.6%
Tangible assets	1,111	1,079	1,022	2.9%	8.7%
Intangible Assets	132	128	127	2.8%	3.7%
Tax assets and other Assets	2,060	2,063	1,880	-0.1%	9.6%
Non current Assets held for sale	1,170	1,284	1,878	-8.9%	-37.7%
TOTAL ASSETS	**40,361**	**39,263**	**39,165**	**2.8%**	**3.1%**
Financial liabilities (FL) held for trading	20	20	26	-0.1%	-23.6%
FL measured at amortized cost	37,073	36,005	36,004	3.0%	3.0%
Deposits	36,358	35,304	35,085	3.0%	3.6%
Debt securities issued	546	550	712	-0.7%	-23.3%
Other financial liabilities	169	151	206	11.8%	-17.8%
Derivatives – Hedge accounting	110	123	37	-10.9%	
Liabilities under insurance and reinsurance contracts	8	8	7	4.4%	8.5%
Provisions	170	186	296	-8.7%	-42.6%
Tax liabilities and other liabilities	209	221	225	-5.4%	-6.9%
TOTAL LIABILITIES	**37,590**	**36,563**	**36,594**	**2.8%**	**2.7%**
Minority Interest	0	0	36	2.9%	
Shareholder's Equity	2,669	2,616	2,500	2.0%	6.8%
Accumulated Other Comprehensive Income	101	84	35	20.5%	
TOTAL EQUITY	**2,771**	**2,700**	**2,571**	**2.6%**	**7.8%**
TOTAL EQUITY AND LIABILITIES	**40,361**	**39,263**	**39,165**	**2.8%**	**3.1%**

Source: Balance sheet consolidated account.

The balance sheet of the Group increases by 2.8% during the second quarter, driven by credit growth.

The main two asset masses 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* increase by 5.3% during the second quarter, despite NPL reduction, included in this heading (-10.5%).

The equity portfolio is composed by 92% of low-risk profile fixed income, where 98% of the portfolio are sovereign debt bonds. The average yield is 1.3%, with an average duration of 1.63 years. In the last twelve months this portfolio experienced a noticeable structure change related to the entry into force of the IFRS9 regulation, which requires financial instruments to be classified according to the entity's business plan. Such change resulted in a *Financial assets at amortized cost* increase of near 5 billion euros, and a similar decrease in the *Financial Assets at* *fair value through other comprehensive income* portfolio.

The main funding sources are shown under the *Deposits* heading of *Liabilities.*

The *Deposits* heading increased by 3.0% during the second quarter, as those coming from customers experienced a record growth, mainly in sight deposits. Term deposits are recovering after many months of decline, although their growth is still moderate as the more stable savings are being located in off-balance products, particularly mutual funds.

The *Deposits* heading also includes funding coming from wholesale markets, like covered bonds, which registered amortizations in June totaling 675 million euros.

The Group's Total equity rises by 2.6% during the quarter, due to the profit generation and the increase in capital gains on the equity portfolio.

Resources

In € Million	30/06/2018	31/03/2018	30/06/2017	% QoQ change	% Annual change
CUSTOMER FUNDS	29,517	28,324	28,703	4.2%	2.8%
Customer Funds On Balance Sheet	23,930	22,861	23,678	4.7%	1.1%
Public Administrations	1,800	1,334	1,322	35.0%	36.2%
Creditors and promissory notes	22,130	21,527	22,357	2.8%	-1.0%
Demand Deposits	16,112	15,620	15,343	3.2%	5.0%
Term Deposits	5,977	5,864	6,880	1.9%	-13.1%
Others (promissory notes)	40	43	133	-8.5%	-70.2%
Off-Balance Sheet Customer Funds	5,587	5,464	5,025	2.3%	11.2%
Mutual Funds	3,074	2,951	2,454	4.2%	25.2%
Pension Funds	1,493	1,486	1,503	0.4%	-0.7%
Saving Insurances	1,021	1,027	1,068	-0.5%	-4.4%
REPURCHASE AGREEMENTS	2,554	1,660	2,367	53.8%	7.9%
WHOLESALE FUNDING (capital markets)	2,914	3,589	3,654	-18.8%	-20.2%
Covered Bonds (non-retained)	2,800	3,475	3,475	-19.4%	-19.4%
Bonds and EMTNs	95	95	95	0.0%	0.0%
Wholesale Promissory Notes	19	19	84	0.0%	-77.4%
TOTAL FUNDS	34,985	33,574	34,725	4.2%	0.7%

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

Total funds amount to 34,985 million euros, growing 4.2% during the second quarter.

Customer funds show a record increase during the quarter of 1,193 million euros (+4.2%), the highest in the last four years, and a +2.8% YoY change.

The second quarter was difficult in the financial markets, suffering a strong market volatility. In spite of this instability, mutual funds subscriptions performed well, and at the same time, term deposits are recovering, by means of products that reward customer loyalty.

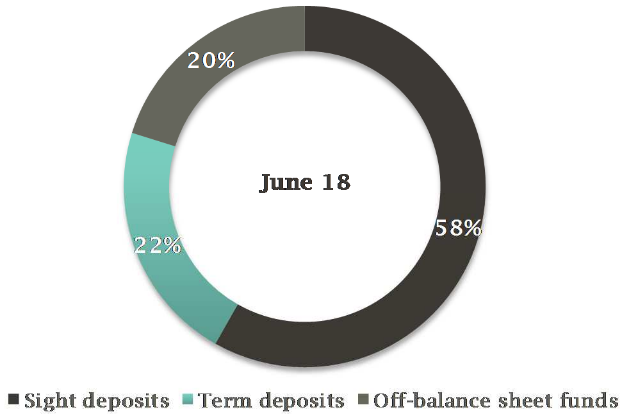
Demand deposits grow by +3.2% QoQ and +5.0% YoY and mutual funds grow by +4.2% QoQ and +25.2% YoY. Term deposits increase by 1.9% QoQ, improving the YoY change (-13.1% vs -25.6% for the first quarter). The average prices of the new term deposits of households remain moderate, at 8 bps.

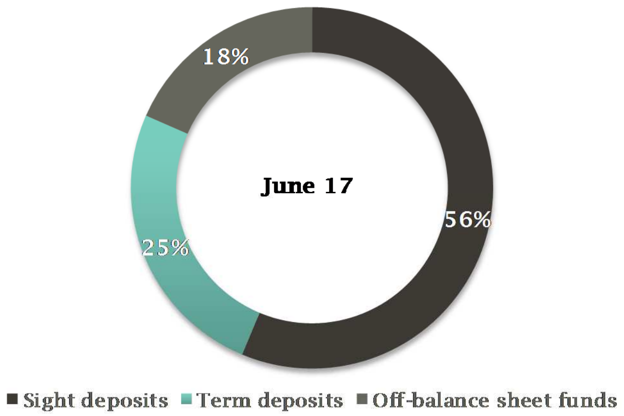
The new delegated portfolio management service, launched at the beginning of the year, which offers a professional and personalized savings management, with an extended range of products, was a key factor in the growth of funds.

The market share shows the solid positioning of the Bank in its origin territories. As of March, it stands at 23.20% in the aggregate, growing +11bps throughout the year.

Regarding wholesale funding, a mention should be made at the maturity of 675 million euros covered bond in June.

Retail resources (Private residents)





Gross performing loans

In € Million	30/06/2018	31/03/2018	30/06/2017	% QoQ change	% Annual change
Credit To Public Administrations	1,712	1,344	1,059	27.3%	61.6%
Credit To Private Sectors	20,155	19,463	19,045	3.6%	5.8%
Productive activities financing	5,607	5,386	4,937	4.1%	13.6%
Real Estate	217	184	153	18.0%	41.1%
Other companies	5,390	5,202	4,784	3.6%	12.7%
Household financing	13,957	13,767	13,504	1.4%	3.4%
Consumer and other loans	770	761	723	1.2%	6.5%
Housing	13,187	13,006	12,781	1.4%	3.2%
Advances and unclassified risks	591	310	603	90.6%	-2.0%
PERFORMING LOANS	21,867	20,807	20,104	5.1%	8.8%

Performing credit amounts to 21,867 million euros, after growing +1,059 million euros in the second quarter (+5.1%) and +1,763 million euros in the last twelve months (+8.8%).

Every segment shows a positive evolution, both quarterly and annually. Public Administrations credit grew by +367 million euros during the quarter (+61.6% YoY), while credit to private sectors grew by +692 million euros during the same period (+5.8% YoY).

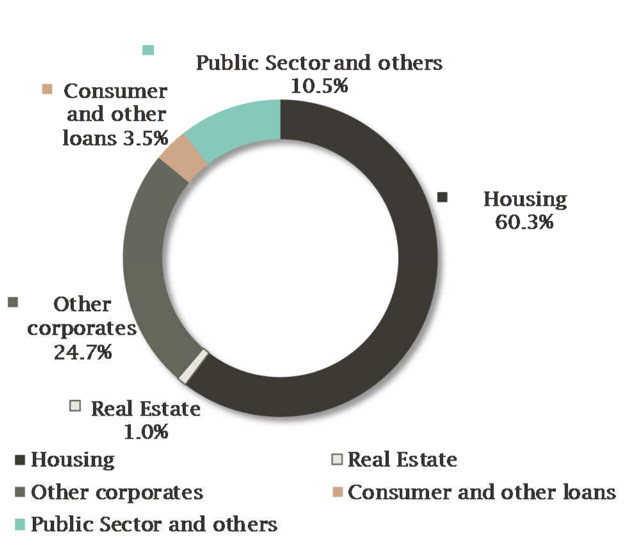
Within the latter, the evolution is also positive amongst every customer segment. Financing to productive activities increases by +4.1% QoQ, and +13.6% YoY, and households financing increases by +1.4% QoQ and +3.4% YoY.

New credit amounts to 3,292 million euros, 1,120 million euros above last year's figure.

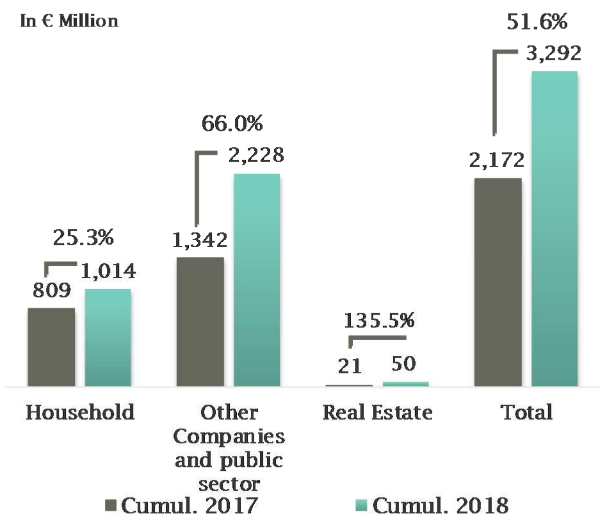
Household new loans increase by 25.3% YoY, particularly in the mortgage portfolio (+27.6%), with average rates at around 2%. There is a higher preference for fixed rate mortgages (67% of the total amount of new production mortgages), where a maximum of 80% of the value of the property is financed (in 94% of cases, LTVs stand below 80%).

Consumer credit is also growing (+6.5% YoY), and new loans at an even higher pace (+14.0% YoY). In this case, the offering involves products at competitive rates that require customer engagement, which guarantee a low risk profile.

Gross performing loans sector breakdown



Cumulative Lending Operations



Gross NPL Evolution

In € Million	NPL 30/06/2018	NPL QoQ ch.	NPL YoY ch.	NPL Ratio 30/06/2018	NPL Ratio QoQ ch.	NPL Ratio YoY ch.
Productive Activity Financing	924	-122	-769	14.2%	-2.1%	-11.4%
Real Estate	385	-92	-518	64.0%	-8.2%	-22.0%
Other companies	539	-30	-251	9.1%	-0.8%	-5.1%
Household Financing	641	-66	-198	4.4%	-0.5%	-1.5%
Consumer and other loans	41	-14	-10	5.1%	-1.7%	-1.5%
Housing	600	-52	-189	4.4%	-0.4%	-1.5%
Demand Debtors, Public Admin and Other Risks	18	2	-5	0.8%	-0.2%	-0.6%
TOTAL GROSS NPL	1,584	-187	-972	6.8%	-1.1%	-4.5%

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

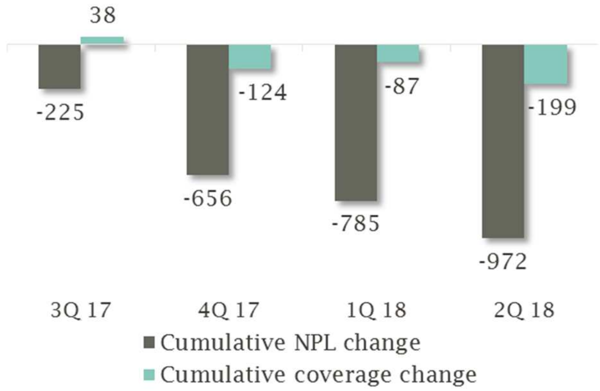
Comparative information has been restated following the Internal Rating Based (IRB) segmentation, so its distribution by exposure category differs from that published in previous reports.

Non-performing loans drop by 187 million euros during the second quarter, accumulating 972 million euros reduction in the last twelve months, while coverage decline by 199 million euros during the same period.

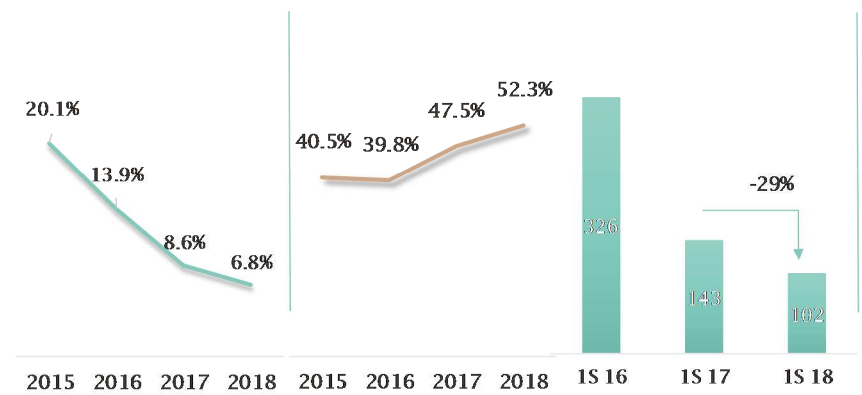
The cumulated NPL drop reduces the NPL ratio -4.53 pp in the last twelve months, standing at 6.75%. The coverage ratio, in contrast, reaches 52.3%, showing an increase of 12.10 pp during the same period (partially due to the provisioning made after the entry into force of the IFRS9 standard, which obliges to provision not only losses incurred but also expected losses, leading to an increase in coverages, particularly for risks under watch list.

The NPL entries volume during the semester declined significantly down to 102 million euros (29% below the figure for the first half year of 2017

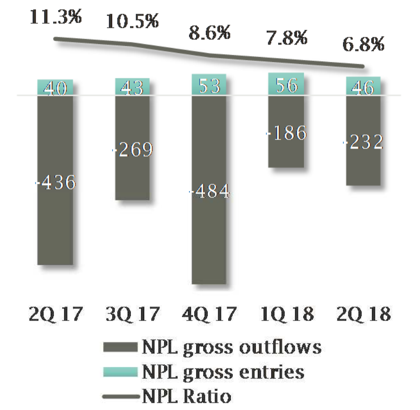
NPL and coverages change evolution
In € Million



NPL ratios and Quarterly NPL increase
In € Million



NPL incremental entries and outflows
In € Million



Refinanced loans amount to 895 million euros, 3.8% of the Gross loans where 76% is classified as non-performing loan. The percentage of refinanced credit declines during the quarter by 119 million euros.

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

The appraisal value of these guarantees (limited to the debt value of each operation), represents 129% of the NPLs net of impairment losses, showing a high degree of collateralisation of this portfolio

NPL Coverages

	NPL	Impairment losses	NPL minus Impairment losses	Coverage ratio	Guarantees*
Productive Activity Financing	**924**	**613**	**312**	**66.3%**	**451**
Real Estate	385	213	173	55.2%	235
Other companies	539	400	139	74.2%	216
Household Financing	**641**	**206**	**435**	**32.1%**	**521**
Consumer and other loans	41	38	3	92.8%	1
Housing	600	167	432	27.9%	520
Demand Debtors, Public Admin and Other Risks	**18**	**10**	**8**		**3**
TOTAL GROSS NPL	**1,584**	**828**	**755**	**52%**	**975**

** 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.

Gross Foreclosed Assets Evolution

(excluding property investments)

Gross Value, In € Million	30/06/2018	31/03/2018	30/06/2017	% QoQ ch.	% YoY ch.
Finished houses	664	837	1,071	-20.7%	-38.0%
Houses under construction	356	383	480	-7.2%	-25.9%
Offices, premises, warehouses and other buildings	245	278	402	-11.7%	-38.9%
Land	988	962	1,162	2.6%	-15.0%
TOTAL GROSS FORECLOSED ASSETS	**2,252**	**2,461**	**3,115**	**-8.5%**	**-27.7%**

The foreclosed assets portfolio declines by -8.5% in the second quarter and -27.7% in the last twelve months.

Real estate asset sales during the second quarter of 2018 amounted to 314 million euros (gross debt including investment property), totaling 470 million euros throughout the year.

The NPAs decline by 1,834 million euros in the last 12 months, 45% in the last two years.

The NPA’s coverage level remains at the March level, 51%.

Impaired Assets Evolution (and their coverages)

	30/06/2018	31/03/2018	30/06/2017	QoQ ch.	YtD ch.
NPL	1,584	1,770	2,556	-187	-972
Foreclosed Assets	2,252	2,461	3,115	-209	-863
NON-PRODUCTIVE ASSETS	**3,836**	**4,231**	**5,670**	**-396**	**-1,835**
NPA ratio	**15%**	**17%**	**22%**	**-2.0%**	**-7.1%**
NPL impairment losses	828	941	1,027	-112	-199
NPL coverage ratio	**52%**	**53%**	**40%**	**-0.8%**	**12.1%**
Foreclosed assets impairment losses	1,109	1,196	1,233	-87	-124
Foreclosed assets coverage ratio	**49%**	**49%**	**40%**	**0.7%**	**9.7%**
Non-productive assets coverage ratio (NPL + foreclosed	**51%**	**51%**	**40%**	**0.0%**	**10.7%**

Profit and loss account

In € Million	30/06/2018	30/06/2017	% Annual change
Financial income	268	254	5.3%
Financial expenses	47	52	-10.5%
NET INTEREST INCOME	221	202	9.3%
Dividends	4	2	191.9%
Results from equity method stakes	24	25	-4.7%
Net fees	93	89	3.6%
Gains (losses) on Financial Assets and Liabilities	30	55	-45.9%
Other operating results	-9	-20	-54.6%
GROSS MARGIN	363	353	2.7%
Administrative costs	184	194	-5.1%
Staff costs	120	122	-1.9%
Other general administrative costs	65	72	-10.5%
Amortizations	18	22	-17.3%
PRE-IMPAIRMENT INCOME	160	137	17.0%
Provisions	13	-25	
Impairment losses on financial assets (net)	31	48	-35.0%
Impairment losses on other assets (net)	8	-1	
Other profits or losses	-5	-41	-87.4%
PRE-TAX INCOME	103	74	39.1%
Income tax	18	13	38.2%
CONSOLIDATED NET PROFIT	84	61	39.3%
Attributable Net Profit	84	67	25.1%
Source: Profit and loss account.			

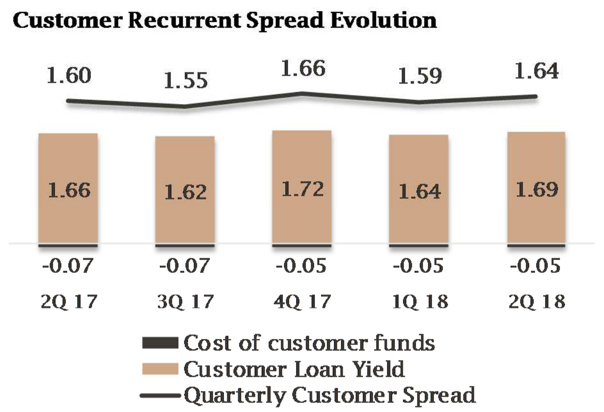
Source: Profit and loss consolidated account.

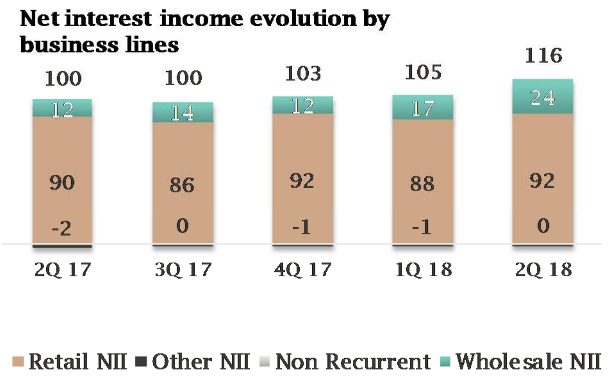
Income Statement Quarterly Evolution

In € Million	2Q 2017	3Q 2017	4Q 2017	1Q 2018	2Q 2018
Financial income	124	124	127	127	140
Financial expenses	24	23	24	23	24
NET INTEREST INCOME	100	100	103	105	116
Dividends	1	0	1	0	4
Results from equity method stakes	23	4	15	2	22
Net fees	46	40	52	44	48
Gains (losses) on Financial Assets and Liabilities	5	5	30	26	3
Other operating results	0	-3	-54	-7	-3
GROSS MARGIN	175	146	146	171	191
Administrative costs	96	98	95	91	93
Staff costs	61	64	63	58	61
Administrative costs	36	34	32	33	32
Amortizations	11	3	11	9	9
PRE-IMPAIRMENT INCOME	68	45	41	71	89
Provisions	-27	6	26	5	9
Impairment losses on financial assets (net)	26	184	37	17	14
Impairment losses on other assets (net)	-1	0	1	8	0
Other gains or losses	-33	-393	32	-1	-4
PRE-TAX INCOME	36	-537	8	41	62
Income tax	3	-163	-3	11	7
CONSOLIDATED NET PROFIT	33	-374	11	29	55
ATTRIBUTABLE NET PROFIT	35	-337	11	29	55

Quarterly contribution to the net interest income

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





The Net interest income increased up to 116 million euros, 12 million euros above the last quarter.

The quarterly increase of the Net interest income comes from both wholesale business (+7€ m) and retail business (+4€ m). The wholesale business profitability growths due to the restructuring of the fixed income portfolio carried out early this year, and to the reduction of the wholesale funding, mainly coming from the maturing of covered bonds. On the other hand, retail business profitability is driven by credit growth, both in volume and prices.

Customer spread stands at 1.64%, growing +5 bps during the quarter, due to the aforementioned credit profitability improvement and maintaining retail financing costs stable at record lows (5 bps).

New credit contributes positively to the customer spread, with an average yield of 2.22%, above the performing portfolio average profitability, 1.78%.

Quarterly Net Interest Income Evolution

	2Q 2017			3Q 2017			4Q 2017			1Q 2018			2Q 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	22,573	1.7	94	22,331	1.6	90	22,203	1.7	95	22,200	1.6	91	22,577	1.7	96
of which: performing	19,780	1.8	88	19,836	1.7	86	20,009	1.7	87	20,338	1.7	87	20,792	1.8	93
Retail FE	23,913	0.1	4	23,080	0.1	4	22,938	0.1	3	22,757	0.1	3	22,882	0.1	3
Sight	15,096	0.0	1	15,112	0.0	1	15,293	0.0	1	15,509	0.0	1	15,558	0.0	1
Terms	7,582	0.1	3	6,736	0.2	3	6,227	0.1	2	5,946	0.1	1	5,944	0.1	2
Others	1,235	0.1	0	1,231	0.0	0	1,418	0.0	0	1,302	0.0	0	1,380	0.0	0
Wholesale FI	10,831	0.9	23	10,542	1.0	26	9,953	1.0	25	10,064	1.2	29	10,570	1.3	35
of which: fixed income	10,036	0.9	23	9,834	1.1	26	8,964	1.1	25	9,069	1.3	29	9,410	1.5	35
Wholesale FE	11,050	0.4	11	11,622	0.4	12	10,963	0.5	13	11,081	0.4	12	11,921	0.4	11
Financial Institutions	6,424	-0.4	-7	7,381	-0.4	-7	6,876	-0.4	-6	6,993	-0.4	-6	7,888	-0.4	-8
Repos PS and PA	147	0.0	0	47	0.0	0	38	0.0	0	51	0.0	0	55	0.0	0
Covered bonds	3,771	1.5	14	3,575	1.5	14	3,492	1.5	13	3,475	1.5	13	3,419	1.5	13
Bonds and others	708	2.0	4	618	3.5	5	557	3.8	5	561	3.8	5	558	3.9	5
Other FI & FE			-2			0			-1			-1			0

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

Fees

In € Million	2Q 2017	3Q 2017	4Q 2017	1Q 2018	2Q 2018	% Cum. Annual Change
FEES RECEIVED	48	42	54	46	50	3.6%
Contingent liabilities	1	1	1	1	1	-1.7%
Contingent commitments	0	0	0	0	0	20.6%
Collections and payments	19	19	19	18	24	12.1%
Securities services	1	1	1	1	1	-9.0%
Non banking financial products	17	12	16	16	14	-3.6%
Others	9	8	17	9	9	-0.1%
FEES PAID	2	2	2	2	2	4.0%
NET FEES	46	40	52	44	48	3.6%
RECURRENT NET FEES	41	40	43	44	43	4.8%

Source: Profit and loss account and own preparation

Net fees amount to 93 million euros, resulting in a cumulated 3.6% YoY growth, 4.8% considering recurrent fee income. This growth is based on the commercialization of insurance products (+7.9% YoY, discounting non-recurrent income), and mutual funds (+33.2% YoY).

Gains (losses) on financial assets and liabilities total 30 million euros for the year, mainly coming from fixed income sales.

Other operating results (net) amount to -9 million euros throughout the year. In this heading we account the contribution to the Single Resolution Fund (10 million euros), the tax on deposits (4 million euros) and the equity provision for monetizable deferred tax assets (6 million euros). These costs are offset by other recurrent and non-recurrent income from rentals and revenues from the subsidiaries.

General administration costs decreased by -5.1%, with a significant drop both in staff costs (-1.9%) and general administrative expenses (-10.5%).

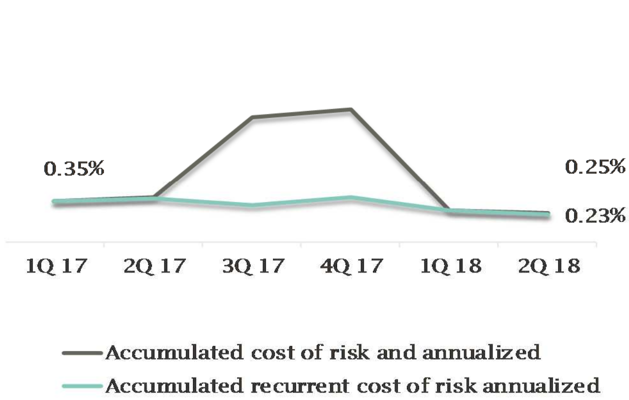
The *Provisions* heading registers 13 million euros mainly coming from provisions for extraordinary litigation.

The *Impairment losses on financial assets (net)* heading registers the credit impairments (31 million euros). The cost of risk stands at the expected levels for the year, 0.25% (0.23% excluding non-recurrent impairments).

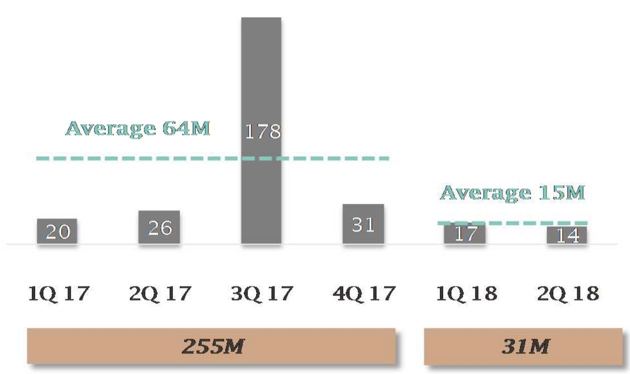
The *Impairment losses on other assets (net)* includes 8 million euros of property investments impairments derived from the regulatory changes due to the entry into force of the Circular 4/2017 of the BdE.

The pre-tax income amounts to 103 million euros, growing by 39.1% YoY.

Evolution of Cost of Risk



Loan Impairments



Solvency (Basel III phased-in)

In € Million	30/06/2018	31/03/2018	30/06/2017	Quarterly Change	Annual Change
CET 1 COMMON EQUITY TIER 1	**2,304**	**2,246**	**2,249**	**59**	**55**
Common equity Tier 1 (%)	13.4%	13.2%	12.4%	0.1%	1.0%
CAPITAL LEVEL 1/ TIER 1	**2,391**	**2,338**	**2,314**	**53**	**77**
Total TIER 1 (%)	13.9%	13.8%	12.7%	0.1%	1.1%
TOTAL CAPITAL	**2,661**	**2,609**	**2,584**	**52**	**77**
Solvency ratio (%)	15.4%	15.4%	14.2%	0.0%	1.2%
RISK WEIGHTED ASSETS	**17,254**	**16,951**	**18,184**	**303**	**-930**
LEVERAGE RATIO	**6.0%**	**6.0%**	**6.0%**	**0.0%**	**0.1%**

First half 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 June 30, 2018, Liberbank's CET 1 Common Equity Tier 1 stands at 13.4% (9 bps above the March 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 the CoCos were compulsory converted into ordinary shares (see the *"Significant subsequent events"* section), that if were included in the June data, would have resulted in a CET 1 Common Equity Tier level of 13.9% (61 bps above the March figure).

The CET 1 fully loaded, considering the CoCos conversion of July, and the result for the year stands at 12.2% (15 bps above the March figure), the Capital Tier 1 at 12.2% and the Total Capital ratio at 13.7%

The organic generation of results increases the numerator of capital ratios, offsetting the increase of Risk Weighted Assets (RWAs), due to the increased lending activity.

The Share

Last April 17, 2018, the tenth period for voluntary conversion of CoCos into equity took place. Holders of 626,658 CoCos with a nominal value of 10€ per bond, requested to convert them into shares. This resulted in 6.26 million euros of shareholder's equity.

Regarding the average weighted prices of the shares, and the minimum and maximum limits provided, 9,145,399 new shares were issued, representing 0.31% of the outstanding shares. The new shares were put into circulation on May 21st 2018.

The Fundación Bancaria Caja de Ahorros de Asturias, together with the Fundación Bancaria Caja de Extremadura and the Fundación Bancaria Caja Cantabria own 24.23%, Oceanwood Opportunities Master Fund owns 16.74%, Aivilo Spain SL owns 7.4%, Corporación Masaveu owns 5.75% and Norges owns 3.26%. The remaining 42.62% is held by wholesale and retail investors.

Market Information	2Q2018
Number of shares outstanding	2,936,017,910
Daily average trading (shares number)	4,391,401
Daily average trading (euros)	2,039,413
Maximum Share price (euros)	0.49
Minimum Share price (euros)	0.43
Price at year end (euros)	0.44
Market capitalization at year end (euros)	1,285,975,845

Significant subsequent events

On July, 17th all class A, B and C bonds were compulsorily converted into ordinary shares specifically 15,325,466 bonds: 6,182,342 Series A bonds, 1,296,002 Series B bonds and 7,847,122 Series C bonds. To this end, a total of 130,528,083 shares will be issued, representing 4.446% of the Company's current share capital.

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 September 8th, 2017, it assigned Liberbank a Baseline Credit Assessment (BCA) rating of b1. The rating of long-term deposits and unsecured senior debt stays at B1, but on October 27th the outlook was changed to positive from stable. Covered bonds rating remains at A2 since June 2015.

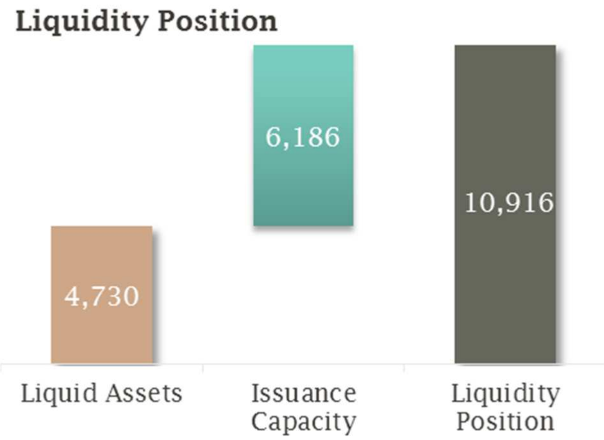
Liquidity

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

The LTD ratio, which represents the percentage of credits funded by Retail deposits stands at 94.7%, a noticeable better record than the sector average as of March 2018 (100%).

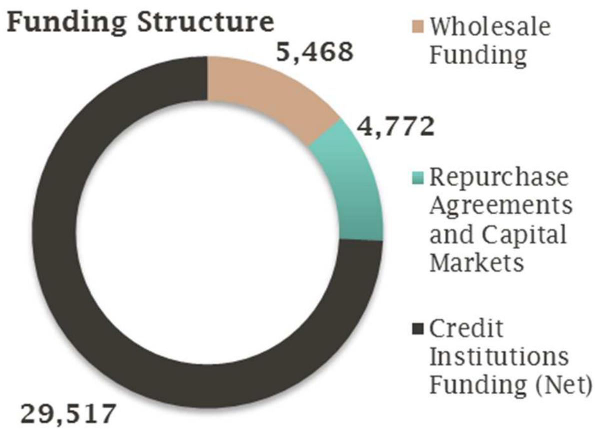
The LCR ratio, that indicates the short term liquidity level, stands at 238%, well above the regulatory requirements (100%), and far above the sector average as of March 2018 (208%).

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 123%.



The Group's liquid assets amount to 4,730 million euros, all of them immediately available. In addition, Liberbank has an issuance capacity of 6,186 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.