Liberbank

Financial Report

2017 Second Quarter

July 27th, 2017

Index:

1. Macroeconomic Environment

1.1 International Economic Situation

The short term partial indicators anticipate that the global economic growth remains solid. The confidence indicators remain at high levels, although the positive signs are moving from the U.S and China to Europe and the emergent economies, particularly of Latin America.

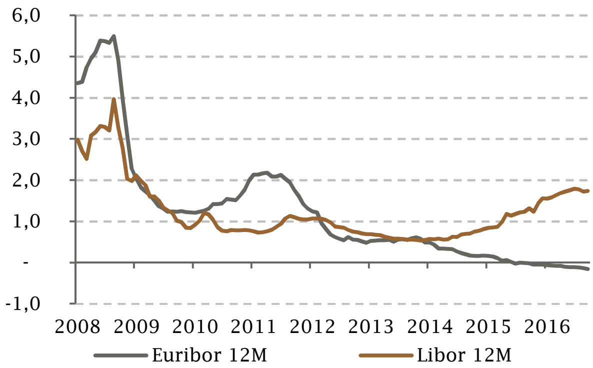
In the **U.S.**, the economic activity lost dynamism during the first quarter of 2017 (0.7% YTD, the lowest rate in three years). However, this slowdown could have a transitional nature, as long as the corporate investments remain high, and the known data of the second quarter show an enhancement of consumption and industry. This vision is shared by the Fed, which had improved its GDP forecasts up to 2.2% for the whole 2017, and has revised downwards the unemployment to rates below 4.5% for the projected horizon of 2017-2019. In this scenario, the Fed has increased the reference interest rates again (25 basis points), up to the 1.00%-1.25% range. An additional increase is expected in 2017, with three more in 2018, and another three in 2019.

In the Eurozone, activity data in the first quarter of 2017 shows a 0.5% QoQ growth (1.7% YTD), allowing to keep the expansion pace observed during the second half of 2016, but with certain geographic diversity. GDP quarterly increases vary from 0.8% to 0.2% (0.8% in Spain, 0.6% in Germany, 0.3% in France and 0.2% in Italy). During the second quarter, the households confidence grew again, aligned with the consumption partial indicators, known in the last months. This growth is sustained by the labor market improvement and an increase in the disposable income, derived from the oil prices correction.

Despite the instability generated by the different geopolitical events occurred in the last year, including "Brexit" and the electoral processes in the U.S., Netherlands, France and United Kingdom, the financial markets have normalized, thus allowing a widespread drop among the risk primes across Europe.

In this context, the ECB has revised one tenth upwards its growth forecasts for all the projected horizon (up to 1.9%, 1.8% and 1.7% for 2017, 2018 and 2019 respectively), while expecting a gradual upturn of the core inflation as the wages keep growing. Nevertheless, the ECB keeps the interest rates at 0%, and the deposit facility at -0.4%, thus increasing the monetary policies divergence between the Eurozone and the U.S. Thereby, at the end of June, the 12 month Euribor reached -0.156%, in contrast with the 12 month Libor, which stands at 1.738%, earmarking the highest difference amongst the interbank rates of both economies since 2008.

Interbank Interest Rates
USD Libor and 12 month Euribor.



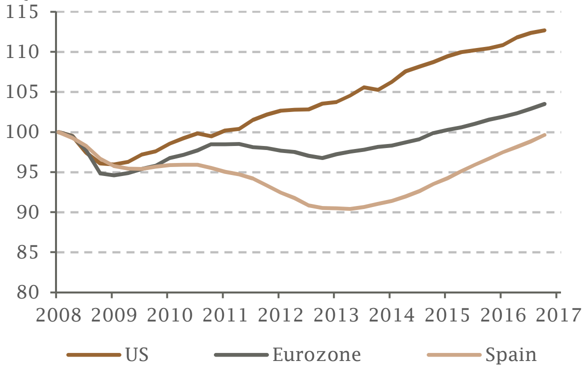
Source: Thomson Reuters

1.2. Spanish Economy

In Spain, the economy continues surprising in a positive way. The Bank of Spain's predictions of June 2017 foresee a 3.1% growth for the whole year, which means an upwards revision of three tenths compared to the last forecast published in March. Such revision is justified by the activity improvement during the first half of the year. Between January and March, GDP grew by 0.8% QoQ, one tenth more than during the last quarter of 2016. In the second quarter of 2017, seasonally adjusted, the employment data shows a quarterly growth in Social Security affiliates slightly above 1%. Thus, the AIREF (Fiscal Responsibility Independent Authority) forecasts suggest a new activity acceleration near 1% QoQ. With such growth, the Spanish GDP would recover an actual production level similar to that reached before the crisis.

Domestic demand will keep leading the economic growth, favored by lax loan conditions, a progressive household and companies deleverage and the release of resources derived from the oil prices drop. In this way, the BdE (Bank of Spain) estimates that consumption and investment will contribute with 2.5 percentage points to the GDP growth in 2017, explaining 80% of the economic growth. Nevertheless, the consumption growth pace will be somewhat below that of 2016, due to higher inflationist pressures, and the end of the expansive fiscal policy, observed during the 2015-2016 biennium. For its part, external demand will contribute with 6 tenths to the total growth, which unlike other expansive cycles, will favor the equilibrium in terms of the current account balance.

GDP Recovery
2Q 2008=100



Source: Thomson Reuters

This equilibrium is also shown in the public accounts. In 2016, for the first time since the beginning of the crisis, Spain fulfilled the public deficit reduction compliance. The change in the fiscal policy tone and the cyclical improvement of income will predictably allow a public deficit below the 3%, objective set by the Stability and Growth Pact for 2018.

1.3 Spanish Financial System

The Spanish economy continues the deleveraging process started in 2009, but at more moderated rates than in previous years. Data Known in May shows a corporate credit stock shrink of -2.2% compared to the same period of the previous year. At the same time, the household credit stock keeps declining, driven by the housing credit, which decreases by 2.7% compared to May 2016. On the other hand, consumption credit increases by 2.9%, growing for sixteen consecutive months. Despite the shrinking credit stock, new operations show a positive trend in 2017. The credit supply to companies has contributed to this growth, increasing by 2.6% from January to May, but not household credit, which has declined by 0.7% compared to the same period of the previous year.

The NPL ratio has been cut back by the improvement of loan conditions and the unemployment rate reduction. The volume of non-performing loans over the total credit volume declined in April down to 8.9%, 106 basis point less than in the same month of 2016, and 4.8 percentage points below the historical high reached in December 2013.

Regarding savings, the volume of deposits shows a slight increase compared to the same period of 2016, with positive contributions from both, households (+0.9%) and companies (11.3%). There has been a significant growth of sight deposits, as a result of the low profitability offered by other saving products within the current low interest rates scenario. As a result the weight of sight deposits over total deposits amounts to 70% for households and 82% for companies, reaching the highest ratios in the available historical series since 2003.

2. Key indicators

In € Million	30/06/2017	31/03/2017	30/06/2016	% QoQ change	% Annual change
BALANCE SHEET					
Total Assets	39,165	39,163	42,149	0.0%	-7.1%
Gross Loans	22,660	22,728	24,313	-0.3%	-6.8%
Gross Performing Loans	20,104	19,777	20,144	1.7%	-0.2%
Retail Funds	28,703	29,162	29,195	-1.6%	-1.7%
Shareholder's Equity	2,500	2,443	2,355	2.3%	6.1%
Total Equity	2,571	2,547	2,592	0.9%	-0.8%
Loan to Deposits	90.4%	87.4%	88.6%	3.0%	1.9%
PROFIT AND LOSS ACCOUNT					
Net Interest Income	202	102	228		-11.2%
Gross Margin	353	178	554		-36.3%
Pre-impairment Income	137	69	335		-59.2%
Profit for the period	61	27	63		-3.7%
Profit attributable to the Group	67	32	73		-7.8%
SOLVENCY					
Risk-weighted Assets	18,184	18,450	15,794	-1.4%	15.1%
Common equity Tier 1	12.4%	12.0%	13.6%	0.3%	-1.2%
Tier 1	12.7%	12.5%	13.8%	0.2%	-1.1%
Solvency Ratio	14.2%	14.0%	13.8%	0.2%	0.4%
RISK MANAGEMENT					
Non-performing Loans (NPL)	2,556	2,951	4,169	-13.4%	-38.7%
Gross Foreclosed Assets	3,115	3,100	2,810	0.5%	10.8%
Non-performing Loans Ratio	11.3%	13.0%	17.1%	-1.7%	-5.9%
Credit coverage Ratio	40%	40%	46%	1%	-6%
Foreclosed Assets coverage Ratio	40%	40%	47%	0%	-7%
BANKING BUSINESS AND RESOURCES (Units)					
Group employees	4,567	4,702	5,256	-2.9%	-13.1%
FTEs (Liberbank + BCLM) [1]	3,166	3,255	3,805	-2.8%	-16.8%
Branches	810	868	1,008	-6.7%	-19.6%
ATMs	1,327	1,341	1,362	-1.0%	-2.6%

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.

3. Financial Evolution

Consolidated balance sheet

In € Million	30/06/2017	31/03/2017	30/06/2016	% QoQ change	% Annual change
Cash on hand, Central Banks and Other demand deposits	797	1,780	654	-55.2%	22.0%
Financial assets held for trading	26	29	96	-10.9%	-73.3%
Available-for-sale financial assets	7,208	7,714	10,500	-6.6%	-31.3%
Loans and receivables	25,487	24,021	25,334	6.1%	0.6%
Debt securities	3,372	2,120	2,238	59.1%	50.7%
Loans and advances	22,115	21,901	23,096	1.0%	-4.2%
Derivatives – Hedge accounting	385	424	481	-9.1%	-19.8%
Investments in subsidaries, joint ventures and associates	355	372	337	-4.7%	5.2%
Tangible assets	1,022	933	843	9.5%	21.3%
Intangible Assets	127	125	107	1.4%	18.0%
Tax assets and other Assets	1,880	1,872	2,152	0.5%	-12.6%
Non current Assets held for sale	1,878	1,893	1,647	-0.8%	14.0%
TOTAL ASSETS	**39,165**	**39,163**	**42,149**	**0.0%**	**-7.1%**
Financial liabilities held for trading	26	30	36	-11.5%	-27.7%
Financial liabilities measured at amortised cost	36,004	35,989	38,599	0.0%	-6.7%
Deposits	35,085	35,163	37,835	-0.2%	-7.3%
Debt securities issued	712	644	536	10.5%	33.0%
Other financial liabilities	206	181	229	13.7%	-10.1%
Derivatives – Hedge accounting	37	12	155		-76.3%
Liabilities under insurance and reinsurance contracts	7	8	10	-8.0%	-24.1%
Provisions	296	372	360	-20.4%	-17.8%
Tax liabilities and other liabilities	225	206	397	9.1%	-43.4%
TOTAL LIABILITIES	**36,594**	**36,616**	**39,557**	**-0.1%**	**-7.5%**
Minority Interest	36	38	73	-5.5%	-50.9%
Shareholder's Equity	2,500	2,443	2,355	2.3%	6.1%
Accumulated Other Comprehensive Income	35	66	164	-46.4%	-78.4%
TOTAL EQUITY	**2,571**	**2,547**	**2,592**	**0.9%**	**-0.8%**
TOTAL EQUITY AND LIABILITIES	**39,165**	**39,163**	**42,149**	**0.0%**	**-7.1%**

Source: Balance sheet consolidated account.

The balance sheet size stands at 39,165 million euros, remaining stable during the second quarter of the year.

Regarding assets, there is a quarterly increase of 6.1% (1,466 million euros) in *Loans and receivables*, originated by new investments in debt securities registered in the Credit Investment Portfolio (1,252 million euros). The growth in *Loans and advances* amounts to 214 million euros. This growth is located in performing loans, offsetting a strong reduction of non-performing loans (-395 million euros), with a higher decline compared to the previous quarters.

The fixed income investments registered in *Debts securities* issued and *Financial liabilities held for trading*, amount to 10,213 million euros. 96% is composed of Public Institutions sovereign debt bonds. The average yield of this portfolio is 1.0% for an average duration of 2.95 years.

The main funding resources are shown in the *Financial liabilities measured at amortised cost,* which also remain stable during the second quarter, despite the maturity of 274 million euros of covered bonds, which have been substituted by repos.

The Group's Total equity increases by 0.9% QoQ, due to results generation (35 million euros during the quarter), and the eighth conversion of Cocos into equity, which ended in April and meant a raise of the shareholder's equity of 24 million euros.

Resources

In € Million	30/06/2017	31/03/2017	30/06/2016	% QoQ change	% Annual change
CUSTOMER FUNDS	28,703	29,162	29,195	-1.6%	-1.7%
Customer Funds On Balance Sheet	23,678	24,167	24,606	-2.0%	-3.8%
Public Administrations	1,322	1,261	1,290	4.9%	2.5%
Retail customer funds (residents)	22,089	22,624	23,012	-2.4%	-4.0%
Demand Deposits	15,239	14,984	13,923	1.7%	9.5%
Term Deposits	6,717	7,602	8,961	-11.7%	-25.0%
Others (promissory notes)	133	37	129	261.1%	3.4%
Retail customer funds (nonresidents)	267	283	304	-5.6%	-12.0%
Off-Balance Sheet Customer Funds	5,025	4,994	4,588	0.6%	9.5%
Mutual Funds	2,454	2,383	1,986	3.0%	23.6%
Pension Funds	1,503	1,516	1,507	-0.9%	-0.3%
Saving Insurances	1,068	1,095	1,095	-2.5%	-2.5%
REPURCHASE AGREEMENTS	2,367	1,459	2,247	62.2%	5.4%
WHOLESALE FUNDING (capital markets)	3,654	3,929	5,098	-7.0%	-28.3%
Covered Bonds (non-retained)	3,475	3,750	4,817	-7.3%	-27.8%
Bonds and EMTNs	95	95	95	0.0%	0.0%
Wholesale Promissory Notes	84	84	187	0.0%	-55.0%
TOTAL FUNDS	34,725	34,549	36,540	0.5%	-5.0%

Customer funds total 34,725 million euros, growing +0.5% in the second quarter.

In the present low interest rates scenario, customer savings growth is concentrated in demand deposits and mutual funds. They show a YoY growth of +9.5% and +23.6% respectively.

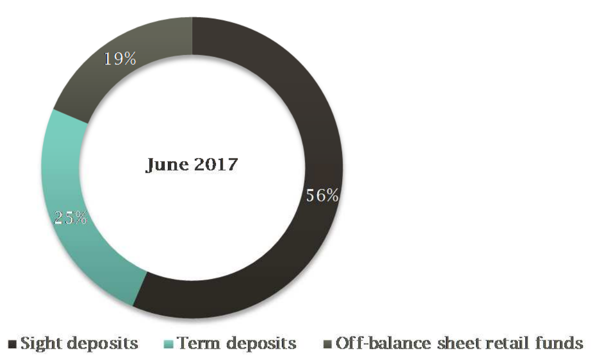
The Term deposits decline by -25.0% YoY, while prices continue at historical lows (0.05% in June for individuals).

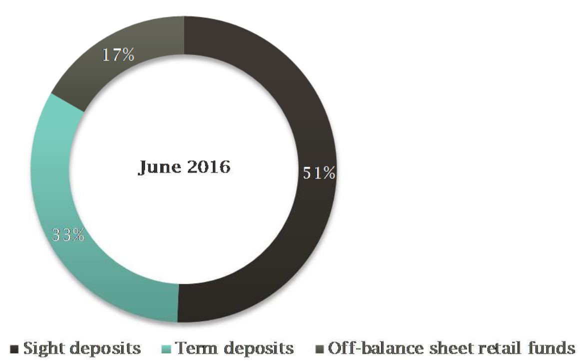
Recently, the Liberbank Group and J.P. Morgan Management (JPMAM) have signed up a strategic collaboration agreement within the asset management and long term savings fields, including the conferral of the management of certain mutual funds, as well as direct marketing of JPMAM mutual funds across Liberbank's branch network. This partnership is new within the Spanish financial market, and is intended to improve the quality of the service provided to customers, as well as fill out the investment products offer.

The Liberbank Group is the deposit market leader within its natural regions, with market shares reaching 34% in some regions.

Regarding wholesale funding, the highlight is on the maturity of 1,341 million euros in covered bonds during the last twelve months, with an average cost of 1.8%.

Retail resources (Private residents)





Gross performing loans

In € Million	30/06/2017	31/03/2017	30/06/2016	% QoQ change	% Annual change
Credit To Public Administrations	1,131	1,262	1,322	-10.4%	-14.5%
Credit To Private Sectors	18,973	18,515	18,822	2.5%	0.8%
Productive activities financing	4,923	4,868	4,697	1.1%	4.8%
Developers	152	158	160	-3.9%	-5.2%
Civil works	127	125	129	1.3%	-1.7%
Other corporates	4,645	4,585	4,408	1.3%	5.4%
Household financing	13,467	13,346	13,532	0.9%	-0.5%
Housing purchases and rehabilitation	12,789	12,693	12,914	0.8%	-1.0%
Consumer Financing and others	678	653	618	3.8%	9.7%
Demand debtors and others	583	302	593	93.2%	-1.7%
PERFORMING LOANS	20,104	19,777	20,144	1.7%	-0.2%

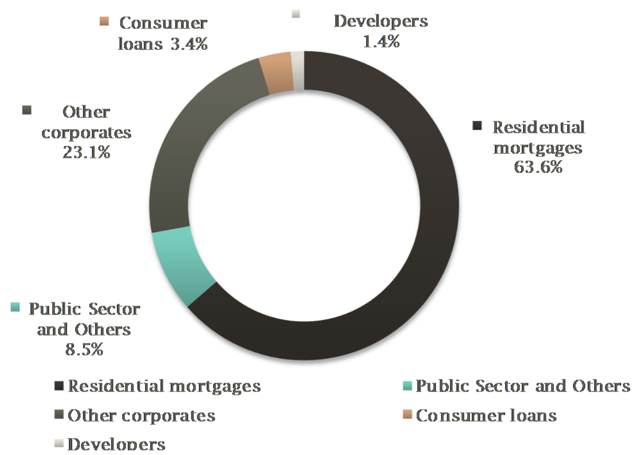
Performing credit amounts to 20,104 million euros, growing by +1.7% during the second quarter. Both credit to companies and credit to households show positive variations (+1.1% and +0.9% respectively).

The consumer financing and corporate loans portfolios both experienced the highest expansion in the last quarter, showing QoQ changes of +3.8% and +1.3%, and YoY changes of +9.7% and +5.4% respectively. Residential mortgage lending is also growing during the second quarter by +0.8%.

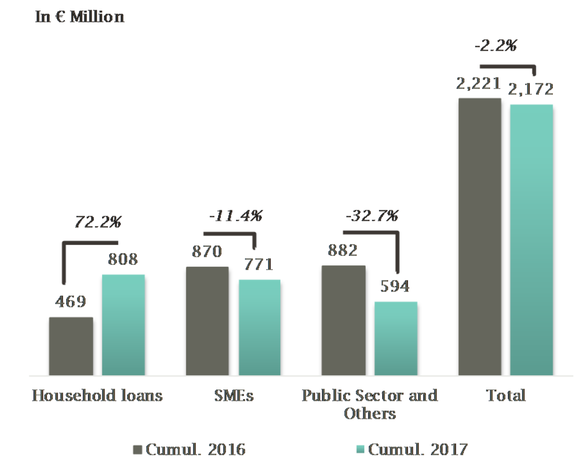
New credit amounts to 2,172 million euros.

There was a very significant growth in household new loans growth (+72.2% YoY), particularly in the mortgage portfolio (+94.9%). The domestic market share of mortgages stands at 4.8% (source: General Council of Notaries, May figures). The consumer preference for fixed rate mortgages continues, representing 64% of those granted during the year. Consumer credit is also increasing significantly (+9.3% YoY). In this case, the offering involves products with competitive rates, that require customer engagement, and which guarantee a low risk profile.

Gross performing loans sector breakdown



Cumulative Lending Operations



Gross NPL Evolution

In € Million	NPL 30/06/2017	NPL QoQ ch.	NPL YoY ch.	NPL Ratio 30/06/2017	NPL Ratio QoQ ch.	NPL Ratio YoY ch.
Credit To Public Administrations	4	0	-25	0.3%	0.0%	-1.8%
Credit To Private Sectors	2,552	-395	-1,588	11.9%	-1.9%	-6.2%
Productive Activity Financing	1,707	-317	-1,482	25.7%	-3.6%	-14.7%
Real Estate development	903	-208	-893	85.6%	-2.0%	-6.2%
Civil works	9	-1	-2	6.8%	-0.7%	-1.1%
Other corporates	796	-108	-588	14.6%	-1.8%	-9.3%
Household Financing	840	-71	-98	5.9%	-0.5%	-0.6%
Housing purchase and rehabilitation	802	-75	-58	5.9%	-0.6%	-0.3%
Consumer Financing and others	38	4	-40	5.3%	0.4%	-5.9%
Demand Debtors And Other Risks	5	-8	-7	0.8%	-3.2%	-1.2%
TOTAL GROSS NPL	2,556	-395	-1,613	11.3%	-1.7%	-5.9%

Liberbank registered a significant drop of NPL loans: -395 million euros during the second quarter and -1,613 million euros in the last twelve months.

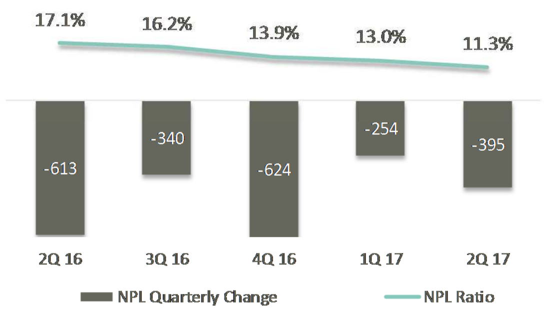
The NPL ratio fell -171 basis points in the second quarter and -587 basis points in the last twelve months, standing at 11.3%.

Excluding the RED sector, the NPL ratio would stand at 7.6%.

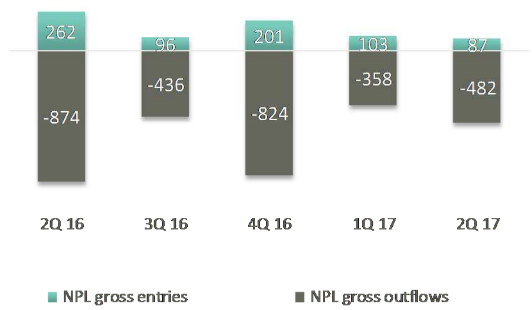
Refinancing declined by -206 million euros in the second quarter, -1,101 million euros in the last year, and amount to 1,622 million euros, of which 81% are classified as non-performing assets.

The Group objectives aim to a NPL ratio reduction of 7% in 2018 (contrasting with 20.1% in December 2015). The Group's goal for the end of 2017 is to reduce the NPL loans by -24%. In the first half of the year, 85% of the objective is already accomplished, with the NPL loans reduced by -20.3%.

NPL ratios and Quarterly NPL increase
In € Million



NPL entries and outflows
In € Million



Coverages

	NPL	Impairment losses	NPL minus Impairment losses	Coverage ratio	Guarantees*
Credit To Public Administrations	4	2	2	37.9%	
Credit To Private Sectors	2,552	1,026	1,526	40.2%	1,668
Productive Activity Financing	1,707	774	934	45.3%	985
Real Estate development	903	418	485	46.3%	558
Civil works	9	4	6	40.2%	7
Other corporates	796	352	443	44.3%	420
Household Financing	840	247	593	29.4%	682
Housing purchase and rehabilitation	802	216	586	26.9%	681
Consumer Financing and others	38	31	6	83.1%	1
Demand Debtors And Other Risks	5	5	0		1
TOTAL GROSS NPL CREDIT	2,556	1,027	1,528	40.2%	1,668

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

The coverage ratio stands at 40%. The NPL portfolio has a high collateralization level. The latest appraisal value of the guarantees (limited to the debt value of each transaction) reaches 109% of the NPL assets minus impairment losses.

Gross Foreclosed Assets Evolution

(excluding property investments)

Gross Value, In € Million	30/06/2017	31/03/2017	30/06/2016	% QoQ ch.	% YoY ch.
Finished houses	1,071	1,107	937	-3.3%	14.2%
Houses under construction	480	348	438	38.0%	9.7%
Offices, premises, warehouses and other buildings	402	497	442	-19.1%	-9.0%
Land	1,162	1,147	993	1.3%	16.9%
TOTAL GROSS FORECLOSED ASSETS	3,115	3,100	2,810	0.5%	10.8%
Impairment losses	1,233	1,231	1,180	0.2%	4.5%
TOTAL NET FORECLOSED ASSETS	1,881	1,869	1,630	0.7%	15.4%

The sales of foreclosed assets continue setting historic highs (226 million euros of gross debt during the year). The reactivation of Land sales is remarcable, accounting for 35% of the total year's sales, and 41% of the second quarter sales.

The foreclosed assets coverage ratio stands at 40%. Liberbank Group does not include neither releases nor write-offs emerging from the foreclosing procedures, amongst coverages. Including these amounts would increase the coverage ratio in 7.6 basis points.

Impaired Assets Evolution (and their coverages)

	30/06/2017	31/03/2017	31/12/2016	QoQ ch.	YTD ch.
NPL	2,556	2,951	3,205	-395	-650
Impairment losses	1,027	1,167	1,275	-140	-248
NPL coverage ratio	40%	40%	40%	1%	0%
Foreclosed Assets	3,115	3,100	3,033	15	82
Impairment losses	1,233	1,231	1,221	2	12
Foreclosed assets coverage ratio	40%	40%	40%	0%	-1%

An appraisal of the assets and risks covered by the Asset Protection Scheme (APS), until December 2016, was carried out by three independent experts proposed by the Deposit Guarantee Fund (DGF), as provided in the framework of the APS of Banco de Castilla-La Mancha.

The corresponding reports show a net book value of the mentioned assets (2,555 million euros), which is in accordance to the figures of the 2016 accounts.

Profit and loss account

In € Million	30/06/2017	30/06/2016	% Annual change
Financial income	254	316	-19.5%
Financial expenses	52	88	-40.9%
NET INTEREST INCOME	202	228	-11.2%
Dividends	2	1	31.2%
Results from equity method stakes	25	20	
Net fees	89	93	-4.3%
Gains (losses) on Financial Assets and Liabilities	55	232	-76.3%
Other operating results	-20	-20	0.9%
GROSS MARGIN	353	554	-36.3%
Administrative costs	194	201	-3.3%
Staff costs	122	123	-1.1%
Other general administrative costs	72	78	-6.8%
Amortizations	22	17	24.4%
PRE-IMPAIRMENT INCOME	137	335	-59.2%
Provisions	-25	12	-315.8%
Impairment losses on financial assets (net)	48	175	-72.7%
Impairment losses on other assets (net)	-1	4	
Other profits or losses	-41	-65	-36.1%
PRE-TAX INCOME	74	80	-7.7%
Income tax	13	17	-22.2%
CONSOLIDATED NET PROFIT	61	63	-3.7%
ATTRIBUTABLE NET PROFIT	67	73	-7.8%

Source: Profit and loss account.

Income Statement Quarterly Evolution

In € Million	1Q 2016	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017
Financial income	164	151	146	144	130	124
Financial expenses	48	40	35	28	28	24
NET INTEREST INCOME	116	111	111	116	102	100
Dividends	0	1	2	0	0	1
Results from equity method stakes	-1	21	0	3	2	23
Net fees	49	45	43	45	43	46
Gains (losses) on Financial Assets and Liabilities	184	48	36	78	50	5
Other operating results	-17	-3	-2	-47	-20	0
GROSS MARGIN	331	223	190	195	178	175
Administrative costs	98	103	98	93	98	96
Staff costs	61	62	62	62	61	61
Administrative costs	37	40	36	30	37	36
Amortizations	9	9	10	9	11	11
PRE-IMPAIRMENT INCOME	224	111	83	93	69	68
Provisions	102	-91	13	108	1	-27
Impairment losses on financial assets (net)	70	105	28	-61	22	26
Impairment losses on other assets (net)	0	4	2	17	0	-1
Other gains or losses	-4	-61	1	2	-9	-33
PRE-TAX INCOME	48	32	41	30	37	36
Income tax	14	3	13	18	10	3
CONSOLIDATED NET PROFIT	33	30	27	12	27	33
ATTRIBUTABLE NET PROFIT	38	35	27	29	32	35

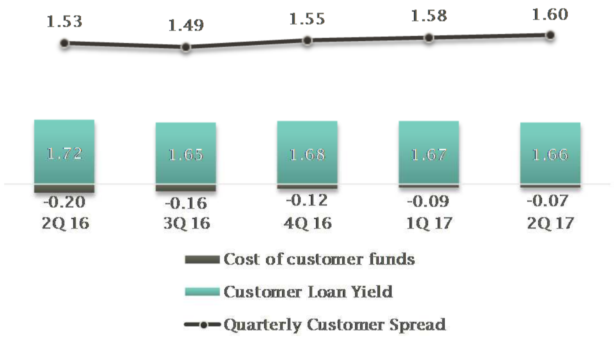
Source: Profit and loss consolidated account.

Quarterly contribution to the net interest income

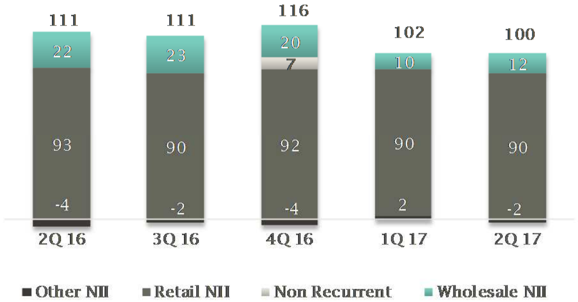
In € Million	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17
Financial income	151	146	144	130	124
Financial expenses	40	35	28	28	24
NET INTEREST INCOME	111	111	116*	102	100

** Includes €7 million of non recurrent interest income in 4Q 16*

Customer Recurrent Spread Evolution



Net interest income evolution by business lines



The quarterly Net interest income stabilizes at 90 million euros quarterly.

The customer spread stands at 1.60%, growing +2 basis points during the quarter following the reduction of the retail financial costs (-2 basis points).

The average price of new term deposits continues at historic lows. New operations to individuals in June had an average rate of 0.05%.

New credits contribute positively to the customer spread, with an average financial income of 2.07%, above the performing portfolio average profitability (1.78%). The price of new credit grows by 14 basis points, in relation to the last quarter, in almost every portfolio.

Quarterly Net Interest Income Evolution

	2Q 2016			3Q 2016			4Q 2016			1Q 2017			2Q 2017		
	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE
Retail FI	24,386	1.7	105	23,967	1.7	99	23,569	1.7	99	22,827	1.7	95	22,573	1.7	94
of which: performing	19,974	2.0	98	19,885	1.8	92	19,843	1.8	90	19,662	1.8	90	19,780	1.8	88
Retail FE	24,039	0.2	12	24,423	0.2	10	24,397	0.1	7	24,281	0.1	5	23,913	0.1	4
Sight	13,459	0.0	1	13,962	0.0	1	14,220	0.0	2	14,788	0.0	2	15,096	0.0	1
Terms	9,444	0.4	11	9,166	0.4	8	8,842	0.3	6	8,234	0.2	4	7,582	0.1	3
Others	1,136	-0.1	0	1,295	0.1	0	1,335	0.1	0	1,258	0.0	0	1,235	0.1	0
Wholesale FI	12,341	1.4	44	12,676	1.3	42	12,238	1.3	38	11,004	0.9	25	10,831	0.9	23
of which: fixed income	11,890	1.5	43	12,137	1.4	42	11,169	1.4	38	9,760	1.1	26	10,036	0.9	23
Wholesale FE	12,675	0.7	22	12,384	0.6	18	11,972	0.6	17	10,690	0.6	15	11,050	0.4	11
Financial Institutions	6,996	-0.1	-2	6,665	-0.3	-5	6,426	-0.3	-5	5,629	-0.3	-5	6,424	-0.4	-7
Repos PS and PA	247	0.1	0	268	0.0	0	196	0.0	0	201	0.0	0	147	0.0	0
Covered bonds	4,966	1.7	21	4,925	1.7	21	4,861	1.6	20	4,429	1.5	17	3,771	1.5	14
Bonds and others	466	2.5	3	527	2.1	3	488	2.0	2	430	3.3	4	708	2.0	4
Other FI & FE			-4			-2			4			2			-2

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

Fees

In € Million	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017	% Cum. Annual Change
FEES RECEIVED	46	46	48	45	48	-4.0%
Contingent liabilities	1	1	1	1	1	-8.2%
Contingent commitments	0	0	0	1	0	-16.9%
Collections and payments	20	20	19	19	19	-1.6%
Securities services	1	1	1	1	1	11.0%
Non banking financial products	11	11	14	14	17	26.3%
Others	12	12	12	9	9	-34.4%
FEES PAID	2	2	2	2	2	3.0%
NET FEES	45	43	45	43	46	-4.3%
RECURRENT NET FEES	41	40	42	43	41	1.7%

Source: Profit and loss account and own preparation

The recurrent fee income of the second quarter amounts to 41 million euros, resulting in a 1.7% YoY cumulated growth.

Gains (losses) on financial assets and liabilities reaches 55 million euros in 2017, mainly from fixed income sales (49 million euros).

Other operating results (net) are null in the second quarter, as the foreclosed assets management costs and other expenses in this heading are offset with results derived from the operation of property investments, and other income from subsidiaries. Over the year the balance is negative (-20 million euros), as in the first quarter the contribution to the Single Resolution Fund (11 million euros) and the property tax (11 million euros), were accounted for.

General administration costs show a decrease of -3.3%, originated in both general expenses and staff costs.

Regarding the latter, on June 21, a labor agreement was signed with the employees' representatives, in order to initiate a redundancies plan, involving a maximum of 525 employees, with costs reflected in the *Provisions* heading.

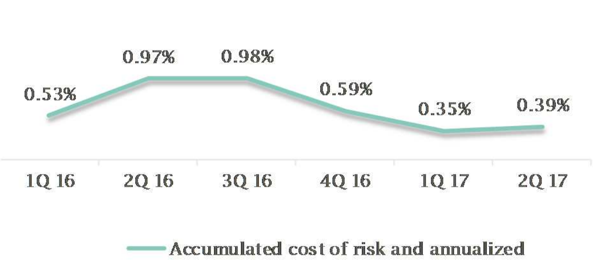
This same heading includes the revision of provisions related to floor clauses, taking into account the experience in the first half of the year with the resolution of claims under the Royal Decree-Law 1/2017. As of June 30, and after the resolution of a large part of the customers' claims, floor clauses provision amounts to 48 million euros, which according to the Bank estimates, based on the opinion of its legal advisors, will cover the current claims and those that will be incurred in the future.

The positive evolution of the non-performing assets is shown under *Credit allowances*, and amounts to 48 million euros, experiencing a YoY drop of -127 million euros (-72.7%). Hence, the cost of risk goes down to 0.39% of the loan book, significantly below the 2016 register (0.97%).

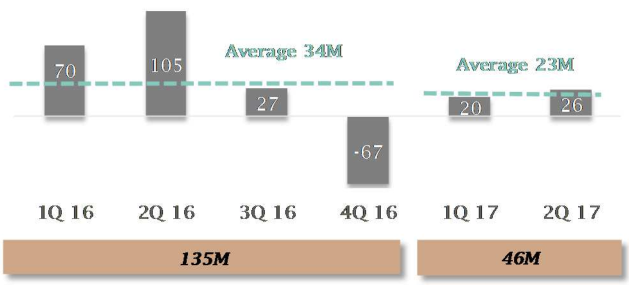
Other gains or losses amounts to -41 million euros, mainly due to the allowances of non-current assets held for sale (-40 million euros).

The attributable net profit amounts to 67 million euros.

Evolution of Cost of Risk



Loan Impairments



Solvency (Basel III phased-in)

In € Million	30/06/2017	31/03/2017	30/06/2016	Quarterly Change	Annual Change
CET 1 COMMON EQUITY TIER 1	2,249	2,219	2,151	31	99
Common equity Tier 1 (%)	12.4%	12.0%	13.6%	0.3%	-1.2%
CAPITAL LEVEL 1/ TIER 1	2,314	2,308	2,182	7	132
Total TIER 1 (%)	12.7%	12.5%	13.8%	0.2%	-1.1%
TOTAL CAPITAL	2,584	2,578	2,182	6	402
Solvency ratio (%)	14.2%	14.0%	13.8%	0.2%	0.4%
RISK WEIGHTED ASSETS	18,184	18,450	15,794	-266	2,390
LEVERAGE RATIO	6.0%	5.9%	5.3%	0.1%	0.6%

In the last years, Liberbank's Group has noticeably reinforced its solvency level, through the results generation, risk management, conversion of CoCos into equity and share capital increases. Additionally, the issuance of subordinated notes in March, with a 10 year maturity, increased the level 2 Capital.

As of 30 June 2017, Liberbank's CET 1 Common Equity Tier 1 stands at 12.4%, Capital Tier 1 at 12.7% and Total Capital at 14.2%. The second quarter evolution was positive, with growths in the CET1 ratio of +34 bps, in the Capital Level 1 ratio of +22 bps and in the Total Capital ratio of +24 bps. In addition, the leverage rate reaches 6.0%.

The Risk Weighted Assets decreased by 266 million euros during the second quarter of 2017, mainly as a result of the substantial NPL loans reduction. In inter-annual terms, the RWAs grew 2,390 million euros, as a consequence of the maturing of the Asset Protection Scheme (APS) of Banco de Castilla-La Mancha. The assets covered by the APS were given a 0% weighting for the purpose of calculating the own funds requirements.

The ECB decisions and the national supervisor require Liberbank a 2017 Common Equity Tier 1 ratio of 8.25% and a Total Capital ratio of 11.75%.

Taking into account the preliminary results, the Group estimates that the entry into force of the IFRS 9 will lead to a reduction in its high-quality shareholder equity (CET 1) below the reported by the EBA (European Banking Authority) in its second results report on the first implementation of the above mentioned rule (between 33 and 77 basis points).

The Share

On April 20 2017, the eighth period for voluntary conversion of CoCos into equity took place. Holders of 2,355,054 CoCos with a nominal value of 10€ per bond, requested to convert them into shares. This resulted in 23.6 million euros of shareholder's equity.

Regarding the average weighted prices of the shares, and the minimum and maximum limits provided, 19,106,629 new shares were issued, representing 2.10% of the outstanding shares. The new shares were released on 22 May 2017.

After this conversion, the number of shares amounts to 928,393,453.

Market Information	2Q2017
Number of shares outstanding	928,393,453
Daily average trading (shares number)	4,499,422
Daily average trading (euros)	4,261,706
Maximum Share price (euros)	1.27
Minimum Share price (euros)	0.68
Price at year end (euros)	0.90
Market capitalization at year end (euros)	834,625,714

On June 12 2017, the CNMV (Spanish National Stock Market Commission) enforced the ban, during a month, of short sales and similar operations related to Liberbank shares. This was due to a high share volatility in spite of any current or pending negative information to be published by the Group. On July 12 2017, the ban was extended for two months.

Regarding the shareholding structure, the Fundación Bancaria Caja de Ahorros de Asturias, together with the Fundación Bancaria Caja de Extremadura and the Fundación Bancaria Caja Cantabria own 43.9%, Mr. Ernesto Luis Tinajero Flores via Aivilo Spain SL and Inmosan SA owns 7.4%, Corporación Masaveu (including Flicka Forestal and Fundación María Cristina Masaveu) owns 5.5% and Oceanwood Capital Management and Oceanwood Opportunities Master Fund communicated a joint position of 12.1%.

Finally, On April 19 2017, Liberbank held its Annual Shareholding's Meeting.

The Rating

Fitch. On April 7th, 2017, the agency confirmed a financial strength long term rating of BB, with stable perspective, a short term rating of B and a Viability Rating (VR) of bb.

DBRS. On June 16th, 2017, the agency placed the long term rating of Liberbank as BBB (low) with negative perspective, and a short term rating of R2 middle. On May 11th, 2017, DBRS revised the covered bonds rating, keeping it at A high.

Moody's. On 6th October, 2016, it assigned Liberbank a Baseline Credit Assessment (BCA) rating of b1. The long term rating of deposits and unsecured senior debt stayed at B1. Covered bonds rating remains at A2 since June 2015.

Liquidity

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

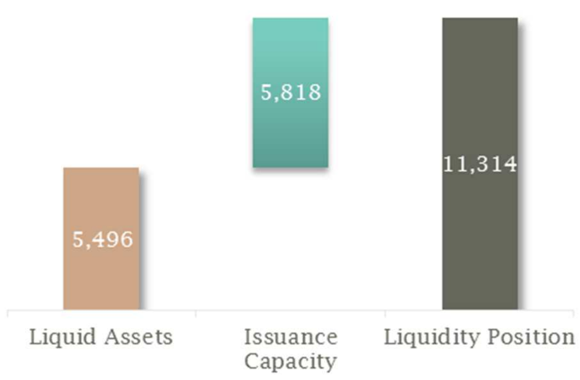
The LTD ratio, which represents the percentage of credits funded by Retail deposits stands at 90%, a noticeable better record than the sector average as of December 2016 (then exceeding 100%).

The LCR[1] ratio, that indicates the short term liquidity level, stands at 297%, well above the regulation requirements (80%), and far beyond the sector average as of December 2016 (under 175%).

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 above 100%.

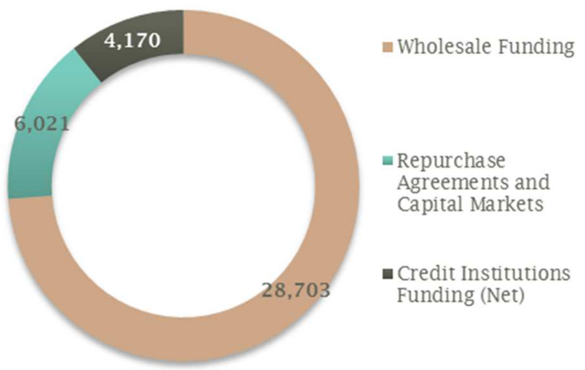
The Group's liquid assets amount to 5,496 million euros, all of them immediately available. In addition, Liberbank has an issuance capacity of 5,818 million euros.

Liquidity Position



Liberbank's funding structure is grounded on a wide base of stable funds, is highly diversified and does not have a significant maturity concentration.

Funding Structure



The Group's strategy for 2017, in a context of low interest rates and abundant liquidity is to channel part of the Customer savings to off-balance products. The resulting negative retail funding gap, alongside the capital markets maturities, are to be covered with fixed income amortizations, and to a lesser extent, with an increase of interbank funding via repurchase agreements.

[1] *Calculated meeting the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, completing Regulation (EU) n° 575/2013 of the European Parliament and the Council, regarding the liquidity coverage requirement applying to credit institutions.*

4. Glossary

In addition to the financial information presented in this document, prepared in accordance with IFRS, certain Alternative Performance Measures (APM) are included, as defined by the guidelines on Alternative Performance Measures published by the European Securities and Markets Authority (ESMA) on 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 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.