Liberbank

Financial Report

2016 Second Quarter

Jul 27th, 2016

Index:

Legal Notice

1. Macroeconomic Environment

1.1 International Economic Situation

The **Global economy** will keep growing during the second quarter, driven by the emergent economies, which are being benefited by the expansionary monetary policy of China, the dollar depreciation and the increase of raw material prices. The developed countries keep a moderate growth pace, especially in the Eurozone and Japan. However, the unexpected result of the Referendum in favor of the withdrawal of the United Kingdom from the European Union (*Brexit*), induced volatility amongst the markets, opening a new macroeconomic scenario, which evolution is still too early to assess.

The United Kingdom will be certainly the most affected by the Referendum result. The IMF[1] has cut its April's growth expectations by 20 and 90 bps respectively for 2016 and 2017, awaiting for the terms of the withdrawal agreement to be specified. The IMF expects for the Eurozone a slight deceleration of two tenths in the GDP during 2017 (resulting an annual growth of 1.4%, 1.6% in 2016), but warns against the risk that may be posed by the problems of the banking system in Italy and Portugal. In the USA, the weaker than expected growth during the first quarter, has lead the IMF to reduce its forecast for 2016 by 20 bps (down to 2.2%) and no changes for 2017 (2.5%). For the global economy, it is predicted a growth reduction of 10 bps in 2016 and 2017 (down to 3.1% and 3.4% respectively).

In this context, the Bank of England, the European Central Bank (ECB) and the FED have announced that the necessary measures shall be taken to maintain liquidity among the markets and offset the negative effects arising from a high volatility. Thus, the likelihood of interest rates increases during the next months is significantly reduced.

Regardless the Brexit consequences, the short-term activity indicators point to a moderate progress of the eurozone's economy in the second quarter of this year, slightly under that of the first quarter after growing 0.6% QoQ during the first quarter. This has been favored by the ECB, developing various action lines such as:

1. Interest rates reduction (the marginal lending facility stays at -0.40%).

2. The adaptation of the instruments of liquidity provision. As at mid-2014, the long term funding operations linked to the credit growth were launched. The first liquidity auction of the second plan, known as TLTROS-II (which will last until 2021), took place in June, permitting the allocation of 400 billion euros.

3. Enhancement of the quantitative easing program, implying the large-scale purchase of private and public assets, reaching during the two first years of its application an amount equivalent to 17% of the European Union GDP. Last June 8th started a new Corporate Sector Purchase Program (CSPP).

Despite these actions, inflation remains in negative ground (-0.1% in June) and the expectations are far below the 2% target.

1.2. Spanish Economy

In **Spain**, the domestic demand strength, especially in private consumption, continue boosting the GDP. The gross disposable income of households grew by 2.3% YoY during the first quarter of 2016. Households made compatible the increase of consumption with their savings capacity. In particular, the savings rate reached 9.3% of the gross disposable income during the first quarter, only one tenth below that of the previous quarter. Investment showed a less expansive trend than that of 2015, partly as a result of the uncertainty increase and political instability.

Facing the second quarter of the year, the short-term activity indicators suggest a slight activity deceleration. Thus, the indicator of economic sentiments (IES) reached 106.1, below last quarter (107.3); nevertheless, the index remains above its historical average (IES 100).

The Inflation points to a potential recovery, showing a -0.8% variation in June, related with the increase of fuel and electricity prices.

The Public deficit (excluding Local Authorities) reached 1.2% of the GDP, and despite the improvement of the Autonomous Communities cash balances, the Social Security evolution remains a matter of concern.

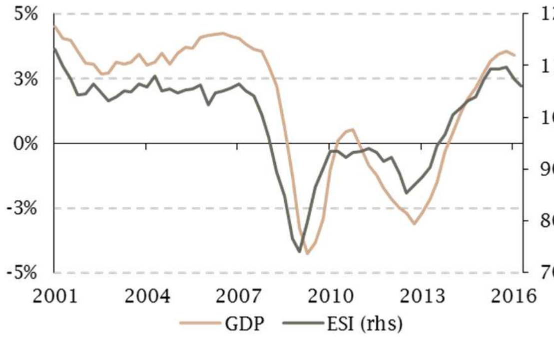
Regarding the labor market area, data from Social Security show that affiliation continued growing. The number of contributors increased by 436 thousand people QoQ, up to an average of 17.6 million people. As for the registered unemployment, it got below 4 million people for the first time since August 2010; specifically, 3.88 million people were registered as unemployed, 243 thousand less than the previous quarter.

[1] 19 July 2016 Report

Summing up all this information, the ECB predicts a growth of 0.7% for the second quarter, one tenth less than the previous quarter, expecting a 2.7% growth throughout the year as a whole.

Spain: Gross Domestic Product and ESI

Annual change and level



Source: INE and European Commission

The **regions** where Liberbank mainly develops its activity are the Autonomous Communities of Principado de Asturias, Cantabria, Extremadura, Castilla la Mancha and Madrid.

According to Hispalink last forecasts (July 2016), it's expected a growth rate moderation of the Asturias' and Cantabria's expansion pace, growing near 2.3% and 1.9% in 2016 and 2017 respectively. Castilla-La Mancha would grow 2.6% and 2.1% during the same period. The economy of Extremadura would reach 2.7% in 2016 and 1.9% the next year. Finally, the GDP growth in the Autonomous Community of Madrid would decrease down to 2.9% and 2.3% in the next two years.

1.3 Spanish Financial System

The Spanish Financial Sector[2] keeps reducing its installed capacity, reducing the number of employees and branches (373 less branches in the second quarter and 614 less employees over 2016 as a whole, Source: CECA). The low interest rates and the higher regulatory costs are pushing results down. Thus, the net interest income declined by 10% YoY during the first half of 2016, and profits before and after taxes decreased by 15% and 11% respectively.

Loans to private sector residents continues its progressive recovery pace. Its YoY variation is still negative (-4.0% with data up to April), below than that of previous months, as new business sectors start to show net credit growth. Consumer credit (14.7% YoY in April) and agricultural sector (5.3% YoY in March) show net growth since 2015, and during the 2016 first quarter, and so does the industrial sector during the first quarter of 2016 (0.7% YoY in March, excluding construction sector.

Private sector deposits are recovering slowly, with a 2.1% YoY growth in May, concentrated in sight deposits, because the low interest rates discourage customers from contracting term deposits.

The NPL ratio stands below 10% (9.09% in April), thanks to a significant drop of non-performing loans (above 20% during last year).

However, beyond all this, it can be seen that the sector is undergoing a stage of in-depth transformation. All the productive sectors are subject to constant changes of regulation, competition, social habits, etc., but occasionally, the depth and speed of these changes unchains a transformation that goes beyond the natural adaptation to the environment and ends up in a radical transformation of the sector. It is clear that the financial sector is immersed in this stage for some years now.

Several factors are contributing to this situation. On the one hand, the slow economic recovery and the deleveraging of the private sector, limiting the credit and deposits growth. On the other, the low interest rates and costs related to the crisis (as credit provisions). In addition, the higher equity and liquidity requirements arising from Basel III (CET 1, the highest quality equity ratio, raised from 9% in 2009 to 14% in 2015 for the Eurozone as a whole)[3]. Finally, the increasing digitalization, which opens new possibilities for relations with customers, but also increases competition due to the emergence of new agents.

In this context, the sector challenge is clear: the adaptation of the business to a low interest rates environment, which seems long-lasting and to an increasing digitalization. To do so, two indispensable elements are necessary: a strict costs management and innovation capacity, to transform the business model of traditional banking, aiming to offer a better value proposal adapted to match the new customer needs.

[2] Source: Bank of Spain's Statistic Bulletin and aggregate information from individual finance statements. These are the same sources for every data from the Spanish Financial sector, unless otherwise indicated.

[3] Source: Bank of Spain. Governor's speech of July 6th 2016

2. Key indicators

Key Indicators

In € Million	30/06/2016	31/03/2016	30/06/2015	% QoQ change	% Annual change
BALANCE SHEET					
Total Assets	42,149	41,685	42,845	1.1%	-1.6%
Gross Loans	24,313	24,586	25,659	-1.1%	-5.2%
Retail Funds	29,452	28,725	29,596	2.5%	-0.5%
Shareholder's Equity	2,365	2,328	2,249	1.6%	5.1%
Total Equity	2,592	2,510	2,549	3.3%	1.7%
Loan to Deposits (2)	88.6%	90.0%	90.5%	-1.4%	-1.9%
PROFIT AND LOSS ACCOUNT					
Net Interest Income	228	116	251		-9.5%
Gross Margin	554	331	584		-5.2%
Pre-impairment Income	335	224	364		-7.8%
Profit for the period	63	33	121		-48.2%
Profit attributable to the Group	73	38	125		-41.6%
RISK MANAGEMENT					
Non-performing Loans (NPL)	1,931	2,072	2,308	-6.8%	-16.3%
Non-performing Loans (NPL) (incl. APS protected assets)	4,169	4,782	5,373	-12.8%	-22.4%
Gross Foreclosed Assets	732	784	662	-6.7%	10.6%
Gross Foreclosed Assets (including APS)	2,810	3,048	2,858	-7.8%	-1.7%
Non-performing Loans Ratio	8.8%	9.6%	10.3%	-0.8%	-1.5%
Non-performing Loans Ratio (incl. APS protected assets)	17.1%	19.4%	20.9%	-2.3%	-3.8%
Credit coverage Ratio (incl. APS protected assets)	45.8%	49.2%	48.8%	-3.4%	-3.0%
Foreclosed Assets coverage Ratio	46.6%	46.4%	47.7%	0.3%	-1.1%
BANKING BUSINESS AND RESOURCES (Units)					
Group employees (1)	5,256	5,246	5,223	0.2%	0.6%
FTEs (Liberbank + BCLM) (3)	3,805	3,888	4,014	-2.1%	-5.2%
Branches	1,008	1,036	1,049	-2.7%	-3.9%
ATMs	1,362	1,357	1,373	0.4%	-0.8%

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

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

(1) *The increase in the number of employees is due to the creation in the first quarter of 2016 of the Group Services Factory FK² (221 employees).*
(2) *Loan to Deposit: It is defined as the quotient between customer credit excluding temporary asset acquisitions and retail deposits (customer deposits excluding mortgage bonds and repos and adding promissory notes and retail CoCos).*
(3) *Full-Time Equivalent: it is obtained by dividing the hours actually worked through the year (considering the reduction in working hours arising from the current Temporary Collective Dismissal) by the hours scheduled in a full year.*

3. Financial Evolution

Consolidated balance sheet

In € Million	30/06/2016	31/03/2016	30/06/2015	% QoQ change	% Annual change
Cash and Financial Institutions	772	723	667	6.8%	15.8%
Loans	22,978	22,907	23,698	0.3%	-3.0%
Fixed Income portfolio	12,406	12,036	12,751	3.1%	-2.7%
Trading book	62	0	0		
Available for sale	10,106	7,232	7,907	39.7%	27.8%
Credit investments	2,238	2,261	2,787	-1.0%	-19.7%
Held to maturity	0	2,543	2,057	-100.0%	-100.0%
Equity Securities	393	400	451	-1.6%	-12.8%
Financial Derivatives	514	522	384	-1.5%	33.8%
Non current Assets held for sale	1,647	1,854	1,603	-11.2%	2.8%
of which: Foreclosed Assets	1,621	1,854	1,602	-12.6%	1.2%
Investments	337	362	420	-6.9%	-19.8%
Tangible fixed Assets	843	636	690	32.6%	22.1%
of which: Property Investments	300	87	86		
Intangible fixed Assets	107	92	83	16.9%	29.4%
Other Assets	2,152	2,153	2,098	0.0%	2.6%
TOTAL ASSETS	**42,149**	**41,685**	**42,845**	**1.1%**	**-1.6%**
Deposits by Central Banks	2,938	2,347	4,046	25.2%	-27.4%
Deposits by Credit Institutions	2,039	2,700	668	-24.5%	
Customer Deposits	32,858	32,476	34,068	1.2%	-3.6%
Bonds and Promissory Notes	412	352	286	16.9%	43.7%
Subordinated Debt Securities	124	137	170	-9.4%	-27.4%
Other Financial Liabilities	229	199	277	15.1%	-17.2%
Financial Derivatives	191	133	51	44.4%	
Other Liabilities	767	831	729	-7.7%	5.2%
TOTAL LIABILITIES	**39,557**	**39,175**	**40,296**	**1.0%**	**-1.8%**
Capital and Reserves	2,291	2,330	2,124	-1.6%	7.9%
Interim dividend	0	-40	0		
Attributable Net Profit	73	38	125	91.3%	-41.6%
Valuation Adjustments	155	117	217	31.7%	-28.6%
Minority Interest	73	65	83	11.8%	-12.7%
TOTAL EQUITY	**2,592**	**2,510**	**2,549**	**3.3%**	**1.7%**
TOTAL EQUITY AND LIABILITIES	**42,149**	**41,685**	**42,845**	**1.1%**	**-1.6%**

Source: Balance sheet consolidated account. March 2015 accounts were restated in application of IFRIC 21 for comparative purposes.

The size of the balance sheet increases by 1.1% in the second quarter.

The net credit to customers remains flattish compared to the previous quarter. The portfolio not covered by the APS shows positive variation rates since the beginning of the year (1.1% in the first quarter and 1.4% in the second in gross terms).

The fixed income portfolio has been restructured during the second quarter, reducing positions in private and public fixed income, partially coming from the held-to-maturity portfolio, setting off its reclassification as available for sale. The portfolio's risk profile gets even more conservative, with 96% of the portfolio composed of Public institutions sovereign debt, returning an average yield of 1.5% for an average duration of 1.6 years. The accumulated volume of capital gains from the fixed income portfolio amounts to 283 million euros, after materializing 46 million euro of gains on financial transactions during the second quarter.

In this second quarter, the Group has implemented a specific strategy to maximize the value of certain foreclosed assets, by renting them. Accordingly, assets booked as “Non-current assets held for sale” heading, have been reclassified as “Tangible assets – Property Investments”, with a net book value of 213 million euro.

Regarding the financing sources, in June, the funding coming from the first liquidity auctions subject to credit growth, known as TLTROS (2,345 million euro) were early repaid, and substituted by funding coming from the auctions known a s TLTROS-II (2,938 million euro), reducing the wholesale funding costs.

The retail customer funds showed a favorable performance, growing more during this quarter than during the same quarter of the previous year. This improvement is based on the growth of demand deposits and mutual funds net subscriptions.

The liquidity indicators remain at optimum levels. The liquid assets amount to 7,766 million euro, all of them fully available. The loan-to-deposit (LTD) ratio, which measures the retail business funding balance, reaches 88.6%. The LCR[4] ratio, which measures the short term liquidity level, stands above 368% (the minimum expected requirement is 60%).

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

Resources

In € Million	30/06/2016	31/03/2016	30/06/2015	% QoQ change	% Annual change
CUSTOMER FUNDS	29,452	28,725	29,596	2.5%	-0.5%
CUSTOMER FUNDS ON BALANCE SHEET	24,864	24,168	25,128	2.9%	-1.1%
Public Administrations	1,291	1,151	1,702	12.1%	-24.2%
Retail customer funds (residents)	23,269	22,703	23,082	2.5%	0.8%
Demand Deposits	13,923	13,280	12,837	4.8%	8.5%
Term Deposits	8,961	9,209	10,087	-2.7%	-11.2%
Others (promissory notes and repurchase agreements)	385	215	158	79.6%	143.4%
Retail customer funds (nonresidents)	304	313	344	-2.9%	-11.6%
OFF-BALANCE SHEET CUSTOMER FUNDS	4,588	4,558	4,468	0.7%	2.7%
Mutual Funds	1,986	1,941	1,788	2.4%	11.1%
Pension Funds	1,507	1,518	1,595	-0.7%	-5.5%
Saving Insurances	1,095	1,099	1,085	-0.4%	0.9%
WHOLESALE FUNDING (capital markets)	5,098	5,128	5,689	-0.6%	-10.4%
Covered Bonds (unretained)	4,817	4,866	5,421	-1.0%	-11.1%
Bonds and EMTNs	95	95	95	0.0%	0.0%
Wholesale Promissory Notes	187	167	173	11.9%	7.7%
TOTAL FUNDS	34,550	33,854	35,285	2.1%	-2.1%

Customer funds total 29,452 million euro, which means a QoQ increase of +2.5%, mainly concentrated in retail funds, Public Administration funds and off-balance funds.

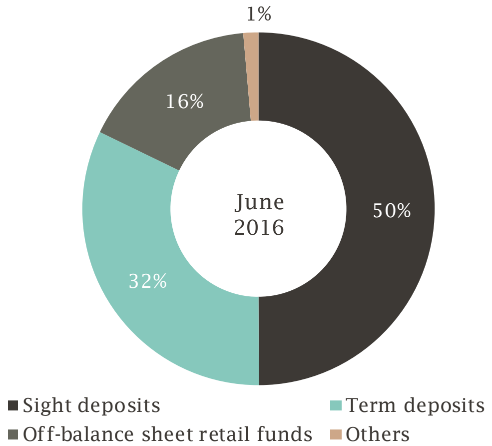
Saver's preference for demand deposits due to the current low interest ratio scenario is not reducing the stability of term deposits, which, despite diminishing during the quarter, show a lower decline than the previous quarter of 2015 (-2.7% vs. -3.9%).

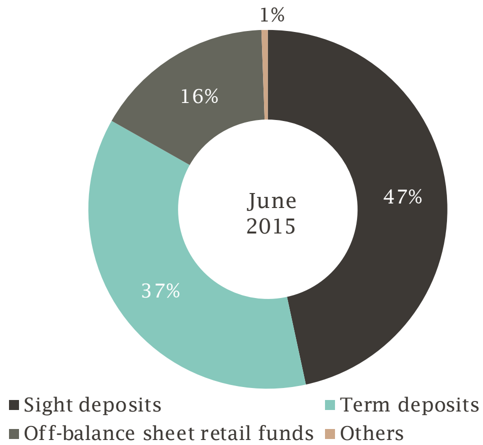
The mutual funds net subscriptions remain positive (+5.7% above that of the second quarter of 2015), concentrated in guaranteed funds, as the instability of the financial markets during the second quarter has been a handicap for the growth of this investment product.

The Liberbank Group remains as the deposits market leader within its natural regions, with regional market shares reaching 34%.

Regarding wholesale funding, the highlight is on the maturing of covered bonds amounting to 505 million euro this year, which have been replaced by other funding sources with lower costs.

Retail resources (Private residents)





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

Gross loans

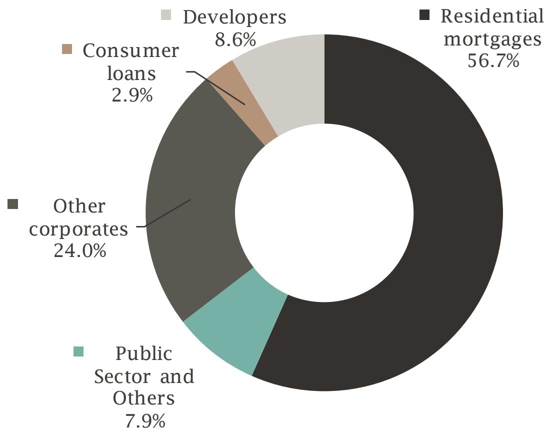
In € Million	30/06/2016	31/03/2016	30/06/2015	% QoQ change	% Annual change
CREDIT TO PUBLIC ADMINISTRATIONS	1,352	1,358	1,424	-0.4%	-5.1%
CREDIT TO PRIVATE SECTORS	22,961	23,228	24,235	-1.1%	-5.3%
Productive activity financing	7,925	8,365	8,659	-5.3%	-8.5%
Developers	1,955	2,404	2,817	-18.7%	-30.6%
Civil works	140	287	295	-51.3%	-52.5%
Other corporates	5,830	5,674	5,547	2.8%	5.1%
Household financing	14,469	14,585	15,001	-0.8%	-3.5%
Housing purchases and rehabilitation	13,773	13,900	14,334	-0.9%	-3.9%
Consumer Financing and others	696	684	667	1.7%	4.3%
Demand debtors and others	567	279	575	103.2%	-1.3%
LOANS	24,313	24,586	25,659	-1.1%	-5.2%
of which: Non Performing Loans	4,169	4,782	5,373	-12.8%	-22.4%
of which: APS Loans	2,326	2,900	3,284	-19.8%	-29.2%
NON APS LOANS	21,987	21,686	22,375	1.4%	-1.7%

The gross credit is clearly growing among the companies segment, excluding developers and civil works (+2.8% QoQ), but the new operations are still insufficient to compensate the households mortgage portfolio amortizations (-0.8% QoQ).

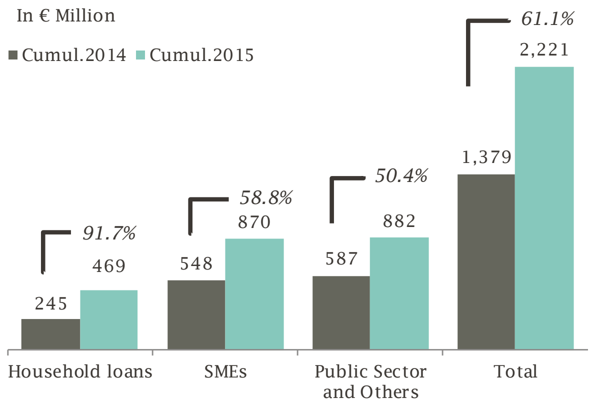
During the second quarter, a high volume of new credit and loans operations have been formalized, 1,125 million euro (+45.7% over the second quarter of 2015). So far this year they amount 2.221 million euro (61.1% more than in 2015) and the growth concentrates in households (91.7% YoY) and corporates (+54.5% YoY).

The credit portfolio has a retail profile with a high level of guarantees (76.3% of the whole portfolio). Household's lending is the main portfolio (59.5% of the whole portfolio).

Non APS gross loans sector breakdown



Cumulative Lending Operations

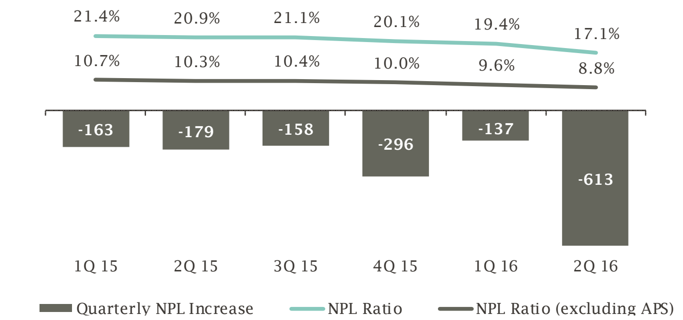


Credit Risk Analysis

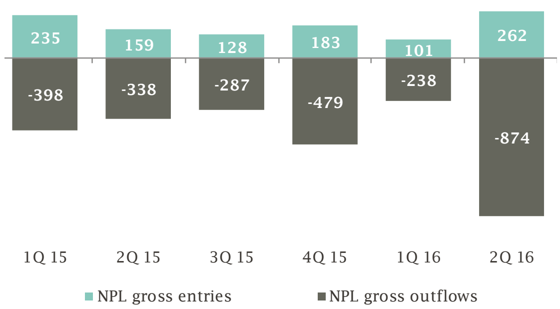
In € Million	30/06/2016	NPL QoQ ch.	YTD ch.	30/06/2016	NPL Ratio % QoQ ch.	% YTD ch.
PRODUCTIVE ACTIVITY FINANCING	3,190	-567	-702	40.3%	-4.7%	-7.0%
Real Estate development	1,795	-452	-518	91.8%	-1.7%	-1.0%
of which: APS protected assets	1,621	-443	-513	98.0%	0.3%	0.3%
Civil works	11	-140	-159	8.0%	-44.6%	-48.1%
Other corporates	1,383	24	-25	23.7%	-0.2%	-2.2%
HOUSEHOLD FINANCING	938	-45	-43	6.5%	-0.3%	-0.2%
Housing purchase and rehabilitation	860	-30	-29	6.2%	-0.2%	-0.1%
Consumer Financing and others	78	-14	-14	11.2%	-2.3%	-2.3%
DEMAND DEBTORS AND OTHER RISKS	41	0	-5	2.2%	-0.4%	-1.0%
TOTAL CREDIT TO OTHER SECTORS	4,169	-613	-750	17.1%	-2.3%	-3.0%
of which: APS	2,238	-471	-533	96.2%	2.8%	3.0%
TOTAL CREDIT TO OTHER SECTORS (excluding APS)	1,931	-142	-217	8.8%	-0.8%	-1.2%

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

NPL ratios and Quarterly NPL increase



NPL entries and outflows



The non-performing loans amount to 4,169 million euro, of which 2,238 million euro are included in the portfolio covered by the Asset Protection Scheme (APS).

The reduction of impaired assets is speeding up, reaching -613 million euro during the second quarter.

Therefore, the NPL ratio[5] decreased by 230 bps in the second quarter, reaching 17.1%, with similar results for the Non-APS NPL ratio, which declines 78 bps down to 8.8%.

The NPL entries during the second quarter amount 262 million euro, of which 106 million euro are covered by the APS.

The Non-APS NPL entries keep a decreasing pace (325 million euro during the first semester of 2015, 288 million euro during the second and 242 million euro during the first semester of 2016).

[5] Resulting from the quotient of impaired gross customer loans (excluding value adjustments and debts included in the reserved balance under the "Other financial liabilities" heading), and gross customer loans.

Foreclosed Assets

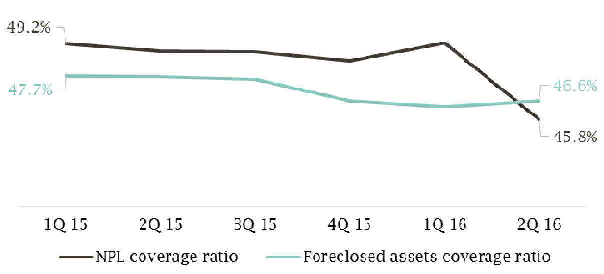
(excluding Real Estate investments)

Gross Value, In € Million	30/06/2016	31/03/2016	31/12/2015	% QoQ ch.	% YTD ch.
Finished houses	937	1,147	1,158	-18.3%	-19.0%
Houses under construction	438	348	337	25.9%	29.8%
Offices, premises, warehouses and other buildings	442	575	575	-23.1%	-23.1%
Land	993	979	966	1.5%	2.9%
TOTAL	**2,810**	**3,048**	**3,035**	**-7.8%**	**-7.4%**
of which APS	**2,079**	**2,264**	**2,279**	**-8.2%**	**-8.8%**

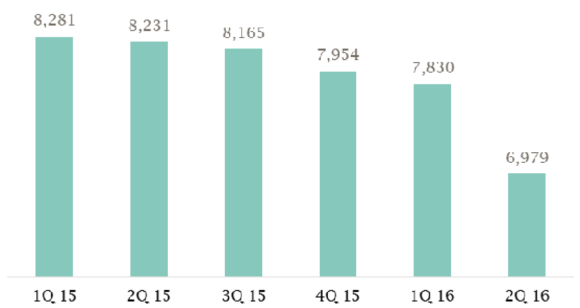
NPL and Foreclosed Assets coverage

	30/06/2016	31/03/2016	31/12/2015	% QoQ ch.	% YTD ch.
NPL	4,169	4,782	4,919	-613	-750
Impairment losses	1,593	1,976	1,991	-383	-398
Available APS allocated to credit	318	377	390	-59	-72
NPL coverage ratio	**45.8%**	**49.2%**	**48.4%**	**-3.4%**	**-2.6%**
Foreclosed Assets	2,810	3,048	3,035	-238	-225
Impairment losses	1,180	1,202	1,207	-22	-27
Available APS allocated to foreclosed assets	131	212	208	-81	-78
Foreclosed assets coverage ratio	**46.6%**	**46.4%**	**46.6%**	**0.3%**	**0.0%**
NPL and foreclosed assets	6,979	7,830	7,954	-850	-975
Impairment losses	2,773	3,178	3,198	-405	-425
Available APS	448	589	599	-141	-150
Impaired assets coverage ratio	**46.2%**	**48.1%**	**47.7%**	**-2.0%**	**-1.6%**

Coverage ratios



NPL and foreclosed assets evolution



The credit loss allowances amount to 1.593 million euro, to which 318 million euro of APS available funds are added, resulting in a NPL coverage ratio of 45.8%[6]. This ratio is conditioned by the high weight of the mortgage portfolio, which requires a lower level of coverage.

The property management strategy shift and the acceleration of the sales pace, are driving the reduction of the non-productive assets, through enhancing the value of a rental property portfolio (up to 213 million euro of net book value). The foreclosed assets coverage remains at the same level of the credit coverage (46.6%[7] in June).

[6] Defined as customer credit loss allowances plus APS available allocated to credit divided by the non-performing customer credit.

[7] Defined as foreclosed assets loss allowances plus APS available allocated to foreclosed assets divided by the foreclosed assets.

Profit and loss account

In € Million	30/06/2016	30/06/2015	% Annual change
Financial income	316	401	-21.3%
Financial expenses	88	149	-41.0%
NET INTEREST INCOME	228	251	-9.5%
Dividends	1	1	2.9%
Results from equity method stakes	20	83	-75.7%
Net fees	93	91	2.3%
Gains (losses) on Financial Assets and Liabilities	232	161	44.3%
Other operating results	-20	-3	0.0%
GROSS MARGIN	554	584	-5.2%
Administrative costs	201	201	-0.1%
Staff costs	123	126	-1.8%
Other general administrative costs	78	75	2.9%
Amortizations	17	19	-8.4%
PRE-IMPAIRMENT INCOME	335	364	-7.8%
Provisions	12	124	
Impairment losses on financial assets (net)	175	84	108.0%
Impairment losses on other assets (net)	4	1	
Other profits or losses	-65	-18	0.0%
PRE-TAX INCOME	80	136	-41.3%
Income tax	17	15	14.4%
CONSOLIDATED NET PROFIT	63	121	-48.2%
ATTRIBUTABLE NET PROFIT	73	125	-41.6%

Source: Profit and loss account. 2015 accounts were restated in application of IFRIC 21 for comparative purposes.

Income Statement Quarterly Evolution

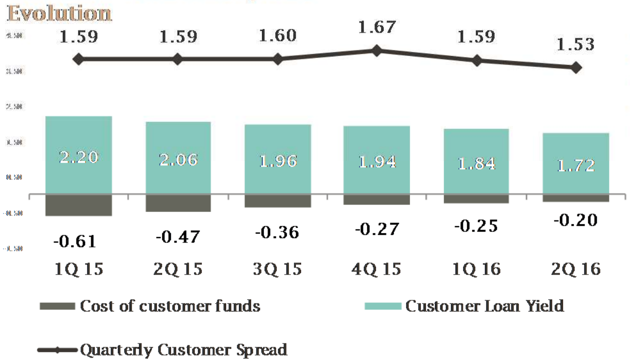
In € Million	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q 2016
Financial income	212	189	180	177	164	151
Financial expenses	82	67	60	54	48	40
NET INTEREST INCOME	130	122	120	123	116	111
Dividends	0	1	0	5	0	1
Results from equity method stakes	13	70	2	4	-1	21
Net fees	48	43	43	48	49	45
Gains (losses) on Financial Assets and Liabilities	59	102	35	-3	184	48
Other operating results	-7	3	-3	-45	-17	-3
GROSS MARGIN	243	341	197	133	331	223
Administrative costs	99	102	99	97	98	103
Staff costs	63	62	64	68	61	62
Administrative costs	36	40	35	29	37	40
Amortizations	10	9	10	9	9	9
PRE-IMPAIRMENT INCOME	135	229	88	27	224	111
Provisions	0	124	4	54	102	-91
Impairment losses on financial assets (net)	50	34	36	99	70	105
Impairment losses on other assets (net)	0	1	0	0	0	4
Other gains or losses	-6	-13	-7	-9	-4	-61
PRE-TAX INCOME	79	58	40	-135	48	32
Income tax	19	-4	0	-86	14	3
CONSOLIDATED NET PROFIT	59	62	40	-49	33	30
ATTRIBUTABLE NET PROFIT	57	68	42	-38	38	35

Quarterly contribution to the net interest income

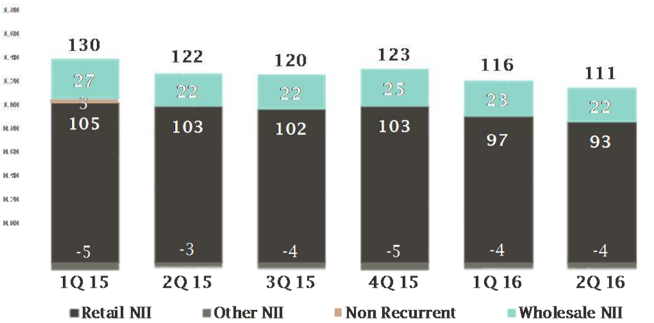
In € Million	1Q 15	2Q 15	3Q 15	4Q 15	1Q 16	2Q 16
Financial income	212	189	180	177	164	151
Financial expenses	82	67	60	54	48	40
NET INTEREST INCOME	130 *	122	120	123	116	111

** Includes 3 million € of non recurrent interest income*

Customer Recurrent Spread Evolution



Net interest income evolution by business lines



The net interest income stands at 111 million euro in the second quarter, 5 million euros less compared with the first quarter.

The customer spread stands at 1.53%, declining -6 bps during the quarter, as the reduction of the retail financial costs (-5 bps) can't offset the drop of financial income (-12 bps), affected by the lower interest rates.

The average cost of new term deposits for the last quarter goes down to historical lows (0.21% in June, 9bps below the previous quarter).

	2Q 2015			3Q 2015			4Q 2015			1Q 2016			2Q 2016		
	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE	Aver.bal	Rate	FI/FE
Retail FI	25,722	2.1	133	25,139	2.0	123	24,674	1.9	120	24,492	1.8	113	24,386	1.7	105
of which: performing	20,271	2.5	126	19,782	2.4	117	19,647	2.3	112	19,634	2.2	107	19,974	2.0	98
Retail FE	24,440	0.5	29	24,246	0.4	22	24,113	0.3	16	23,903	0.3	15	24,039	0.2	12
Sight	12,767	0.1	2	12,665	0.1	2	13,027	0.1	2	13,217	0.1	2	13,459	0.0	1
Terms	10,495	1.0	26	10,541	0.7	19	9,543	0.6	14	9,552	0.5	12	9,444	0.4	11
Others	1,177	0.3	1	1,040	0.4	1	1,544	0.2	1	1,134	0.3	1	1,136	-0.1	0
Wholesale FI	13,460	1.7	56	13,193	1.7	56	13,157	1.7	55	12,687	1.6	49	12,341	1.4	44
of which: fixed income	12,988	1.7	56	12,811	1.7	55	12,832	1.7	55	12,280	1.6	49	11,890	1.5	43
Wholesale FE	13,902	1.0	35	13,184	1.0	34	13,255	0.9	31	12,964	0.8	27	12,675	0.7	22
Financial Institutions	7,108	0.1	2	6,406	0.1	1	6,682	0.0	0	6,972	0.0	-1	6,996	-0.1	-2
Repos PS and PA	217	0.0	0	250	0.1	0	213	0.2	0	215	0.2	0	247	0.1	0
Covered bonds	6,049	1.9	29	5,982	1.9	29	5,708	1.9	28	5,255	1.9	24	4,966	1.7	21
Bonds and others	528	3.1	4	547	2.6	4	652	2.0	3	522	2.4	3	466	2.5	3
Other FI & FE			-3			-4			-5			-4			3

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

Fees

In € Million	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q 2016	% Annual change
FEES RECEIVED	50	44	45	50	51	46	2.8%
Contingent liabilities	2	2	2	2	2	1	-12.3%
Contingent commitments	1	0	0	0	0	0	-40.6%
Collections and payments	19	19	20	21	19	20	3.8%
Securities services	2	1	1	1	1	1	-27.5%
Non banking financial products	11	9	9	14	13	11	22.7%
Others	16	14	12	13	15	12	-5.6%
FEES PAID	1	2	1	2	2	2	18.2%
NET FEES	48	43	43	48	49	45	2.3%

Source: Profit and loss account and own preparation

The contribution of fee income to the second quarter amounts to 45 million euro. The YoY variation stands at +2.3%, driven by non-banking financial products.

Net gains on financial transactions reach 232 million euro in 2016, arising from fixed income sales.

Other operating results amount to -20 million euro. This heading includes, amongst others, 11 million euro as the contribution to the Single Resolution Fund (SRF), -7 million euro as levy related to the monetizable deferred tax assets (accrued in 2016 for the first time), and -5 million euro due to the deposits tax; the rest of costs and income in this heading come from non-financial services provided by other companies belonging to the consolidable Group.

General administration costs and depreciation go down by -0.8% compared to the same period of 2015, mainly as a consequence of the staff costs reduction (-1.8%).

Provisions amount to 12 million euro for the year, and have been mainly allocated to cover legal contingencies related to the “floor clauses” of some mortgages. According to the Bank estimates, based on its legal advisors opinion, it is not expected a significant impact derived from these legal contingencies.

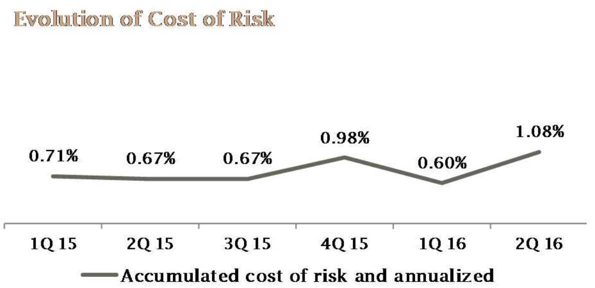
Additionally, in the second quarter, 93 million euro of provisions constituted during the first quarter for future staff reductions were released, since according to the agreed conditions in the labor agreement reached on 1 June 2016[t], they are no longer necessary.

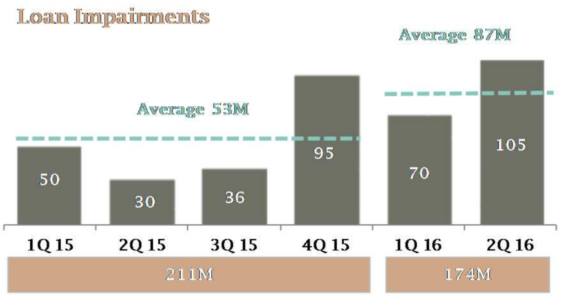
Credit allowances amount to 174 million euro, and have been reinforced during the second quarter with the provision of non-recurrent collective funds (62 million euro). Thus, the annualized cost of risk[8] stand at 1.08% of the loan investment (0.56% excluding non-recurrent provisions).

In the same way, non-recurrent collective provisions were made during the second quarter, related to the foreclosed assets portfolio, amounting 84 million euro, under the “Other gains or losses” heading.

In the opposite way, there is a positive result of 25 million euro, as a consequence of the due diligence of the financial assets transferred to the SAREB in 2013.

The attributable net profit amounts to 73 million euro, meaning a quarterly contribution of 35 million euro.





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[8] Resulting from the quotient of Credit annualized impairment losses and Gross loans.

Solvency (Basel III phased-in)

In € Million	30/06/2016	31/03/2016	30/06/2015	Quarterly Change	Annual Change
CET 1 COMMON EQUITY TIER 1	2,151	2,149	2,231	1	-80
Common equity Tier 1 (%)	13.6%	13.1%	13.4%	0.5%	0.1%
CAPITAL LEVEL 1/ TIER 1	2,182	2,191	2,318	-9	-136
Total TIER 1 (%)	13.8%	13.3%	13.9%	0.4%	-0.2%
TOTAL CAPITAL	2,182	2,191	2,318	-9	-136
Solvency ratio (%)	13.8%	13.3%	13.9%	0.4%	-0.2%
RISK WEIGHTED ASSETS	15,863	16,426	16,614	-562	-751
LEVERAGE RATIO	5.3%	5.4%	5.5%	0.0%	-0.2%

Data including year-end results

According to Basel III ratios, under phased-in criteria, Liberbank's CET 1 Common Equity Tier 1 stands at 13.6% as of 30 June 2016 (minimum regulatory level of 4.5%), Capital Tier 1 of 13.8% (minimum regulatory level of 6%), and Total Capital of 13.8% (minimum regulatory level of 8%). In addition, the leverage rate stands at 5.3%.

The Share

Last April 21th finished the fourth period for voluntary conversion of CoCos into equity. Holders of 493,970 CoCos with a nominal value of 10€ per bond, request to convert them in shares, resulting in 4.9 million euros of shareholder's equity.

Regarding the average weighted prices of the shares and the minimum and maximum limits provided, 3,967,721 new shares were issued, representing 0.438% of the outstanding shares. The new shares were issued on 26 May 2016.

Market Information	2Q2016
Number of shares outstanding	909,175,843
Daily average trading (shares number)	2,547,536
Daily average trading (euros)	2,351,665
Maximum Share price (euros)	1.15
Minimum Share price (euros)	0.56
Price at year end (euros)	0.59
Market capitalization at year end (euros)	540,050,451

The Rating

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

Moody's. On 17 June 2015, assigned Liberbank a Baseline Credit Assessment (BCA) rating of b1. The long term rating of deposits and unsecured senior debt stayed at B1, and the covered bonds rating stands at A2.

New commercial (business) plan

The new commercial plan is the response of Liberbank to an environment characterized by:

1. Customer spread reduction.
2. Digital revolution.
3. Regulatory pressure.
4. The changing requests of customers.

Liberbank's ***ambition*** is to develop a simple, low-risk and customer-focused business model, based on the belief that the opacity and complexity in the banking business are being penalized and are the cause of the loss of customer confidence in the Institutions.

The ***strategic priorities*** of the Group involve improving the "customer experience", simplify the commercial procedures and boosting the growth of the highest value added segments of the market.

The Groups' ***commitments*** are summarized in "correspond/corresponding/reciprocate" to be the best bank for our customers, developing a commercial model that enables a sustainable profitability.

To do so, a transformation project of the commercial distribution model has been launched, which has already started in Avilés, Plasencia, Cuenca, Toledo and Torrelavega.

This new model is intended to rearrange and redesign the branches, inside and outside, with formats according to the current demands, and to define new roles for the commercial positions that facilitate the specialization and promote productivity.

The new branches are equipped with significant digital innovations, intended to avoid losing the essence of a close and personal banking relationship. Thus, *Liberfácil is born*, a unique device in the market, which permits to offer personalized attention by means of a remote manager, with over 113 banking transactions available, including cash management, designed for a quick and easy use and to expand the customer service hours. This device is also complemented with last generation equipment: cash-accepting ATMs, tablets providing access to online banking, passbook updating systems and queue managers.

All of these elements aim to make a more pleasant and efficient “customer experience”.

Flagship Branch Model

Urban Branch Model

Light Branch Model

Self-Service Branch Model