

## Liberbank: Covered Bonds

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November 2018

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# Agenda

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1. Overview

2. Mortgage pool

3. Wholesale Funding. Covered Bonds

4. Macro Environment

5. Appendix

# Liberbank Today

**1** EUR 39bn-asset bank with leading footprint and proximity to c.1.9m clients

**2** Retail-focused bank with EUR 23bn loans (c.59% retail mortgages) enhancing product portfolio and profitability

**3** NPL ratio 6.2% in line with sector. NPAs have reduced by €4.4bn since 2015 (>50% of stock)

**4** Strong liquidity position: LCR of 219% and LtD of 96%. Eur 29bn customer resources (c. 81% on Balance sheet) mainly deposits

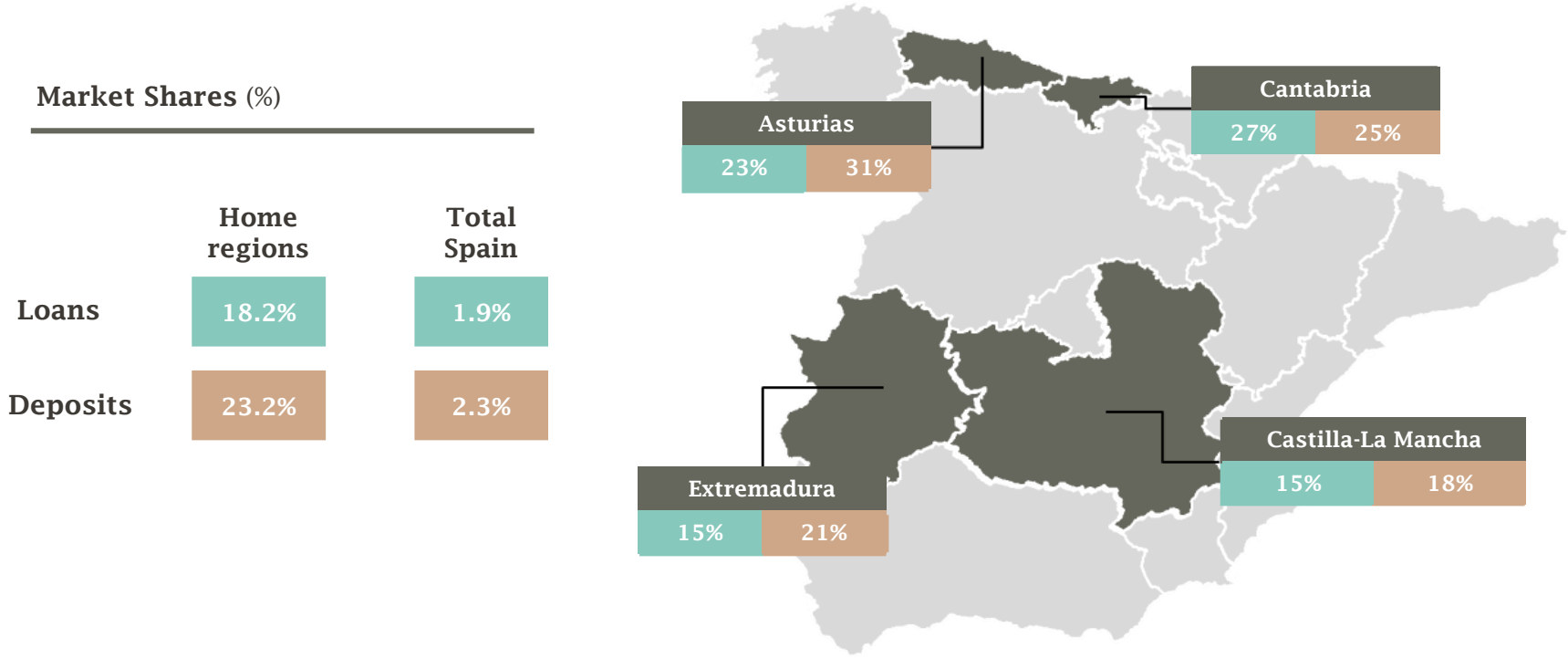
**5** Comfortable capital position: 12.1% CET1<sup>1</sup> ratio (fully-loaded) and 15.4% total capital ratio (phased-in)

**6** Diversified and stable shareholder base and corporate governance best-practice

Liberbank	September 2018
Total balance sheet (Eur bn)	39.1
Net customer loans (Eur bn)	23.1
Customer resources (Eur bn)	29.3
<hr/>	
9M18 Attributable profit (Eur m)	108
CET1 Fully loaded	12.1%
Market Cap (Eur m; 11.Nov.2018)	1,379.9
<hr/>	
LTD	96
LCR	219%
<hr/>	
Employees (#)	3,933
Branches (units)	684
Customers (#)	1,926,442

(1) CET1 FL incorporates the full impact of IFRS-9. It also includes unrealized capital gains of the "fair value through OCI" sovereign portfolio

# 1 Market leader in its four home regions

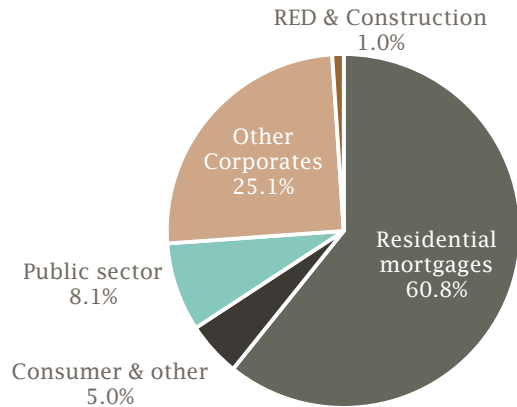


Source: Bank of Spain June 2018

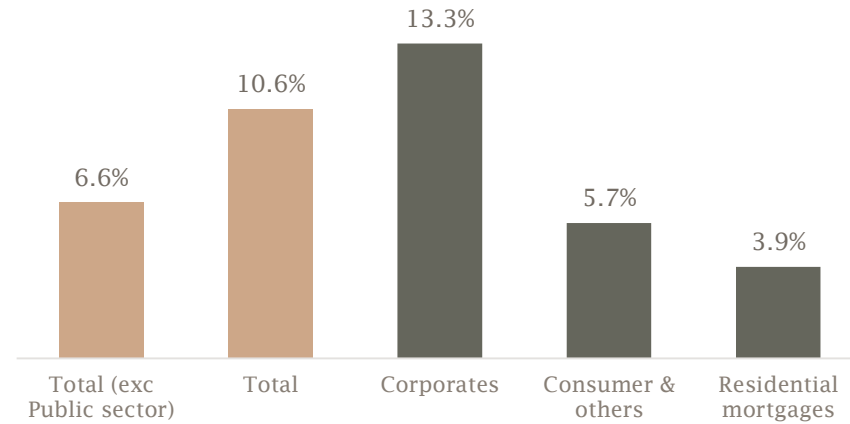
- Strong franchise and historically well-established network.
- More than 100 years of history, and with a leading position in its home markets.

# 2 Retail Banking. Good commercial dynamics

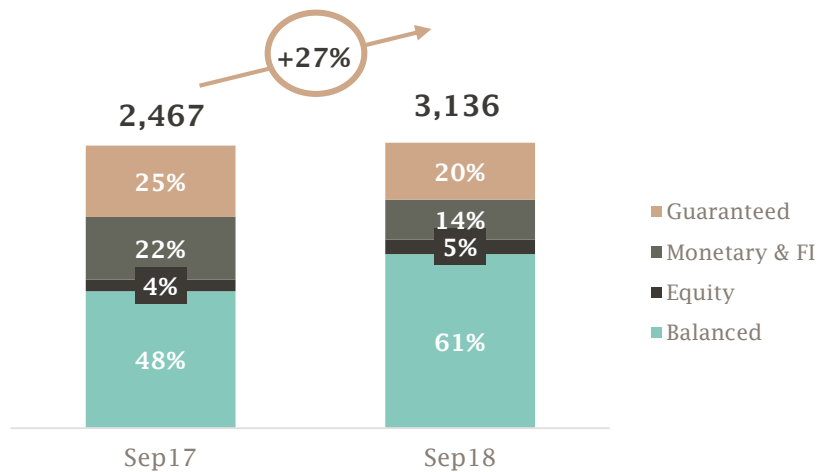
Gross Performing Loan book breakdown. Sep 18



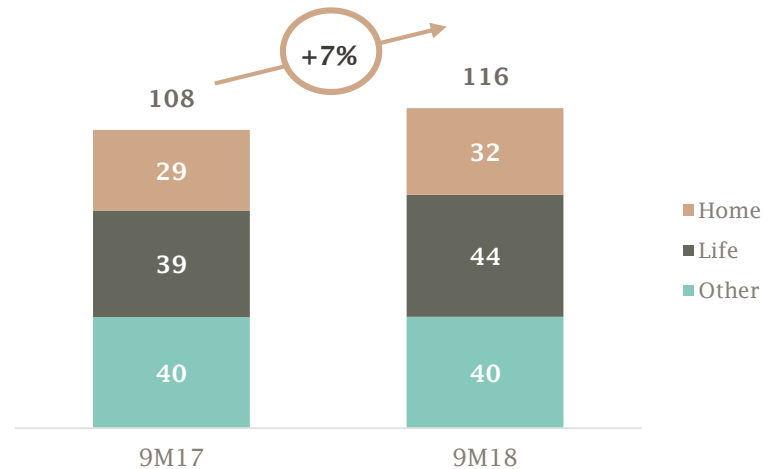
Performing loan book growth YoY Sep 18



Mutual funds mix (Eur m)

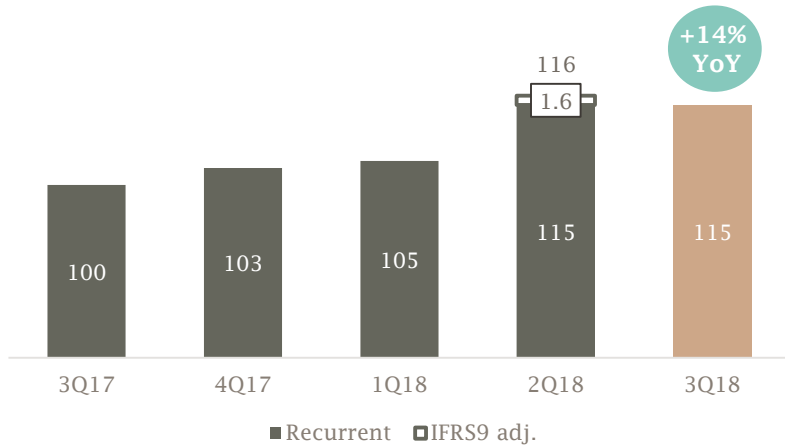


Insurance premiums (Eur m)



## 2 Retail Banking. Improving profitability

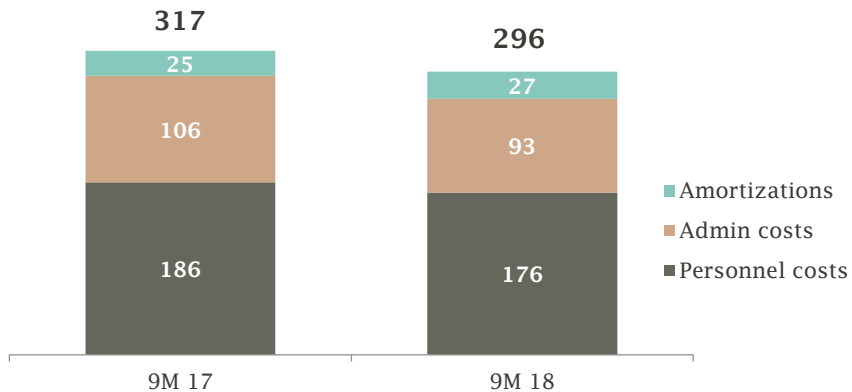
NII performance Eur m



Fee income performance Eur m

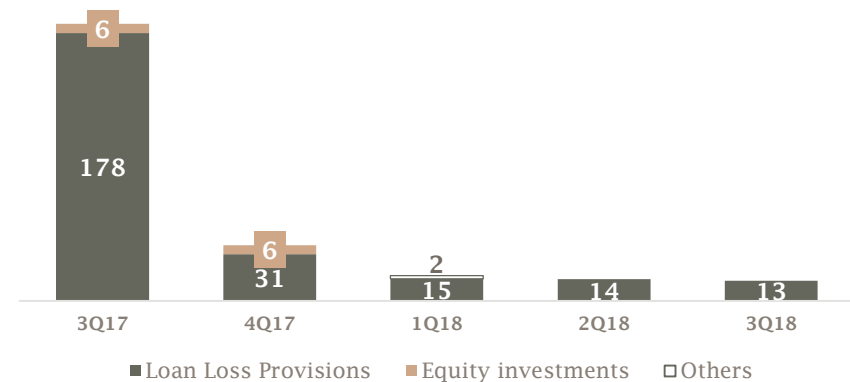
Eur m	3Q17	3Q18	9M17	9M18	YoY (%)
<b>TOTAL FEES</b>	40	42	130	134	3.6%
<b>Recurrent net fees</b>	40	42	124	130	4.4%
Banking fees	27	27	83	83	1.0%
Non-banking fees	13	14	42	46	12%
Mutual Funds	5	7	14	19	35%
Insurance	6	7	20	22	9%
Others	2	1	7	5	-28%
<b>Non recurrent fees</b>	0	0	5	5	nm

Cost performance Eur m



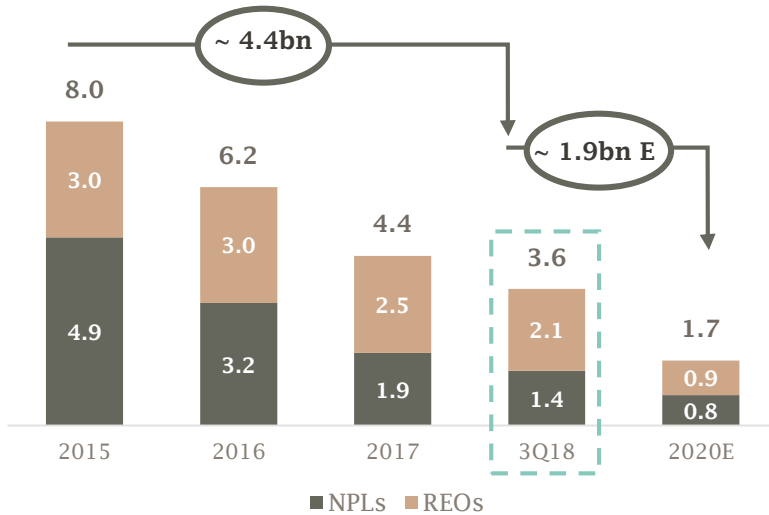
	9M 17	9M 18
Cost to Income	64%	57%
Cost to Income (exc. trading)	72%	61%

Impairments on financial assets Eur m

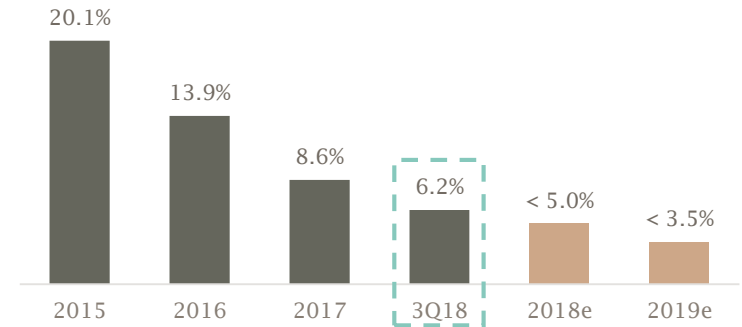


### 3 Asset quality. Strong track record

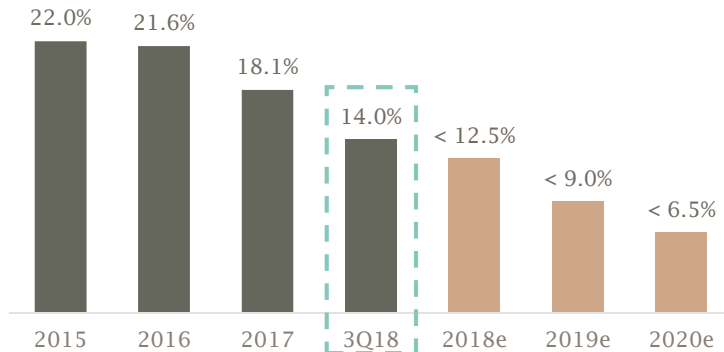
Gross NPA have reduced by 0.9bn in 9M18, 20% of stock



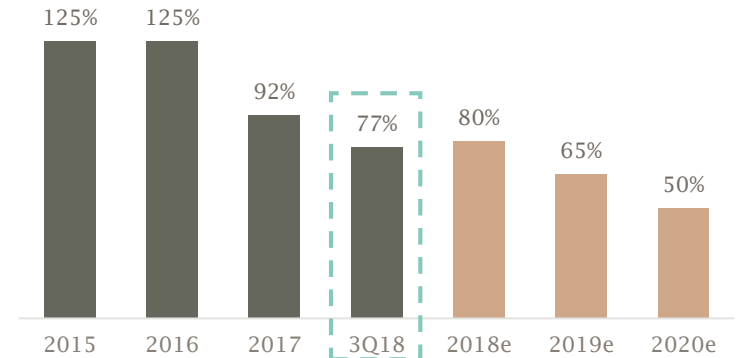
On track to achieve NPL target for 2018 YE



NPA ratio<sup>(1)</sup> has reduced by c.410bps during 9M18



Texas ratio<sup>(2)</sup> 2018 YE target already achieved

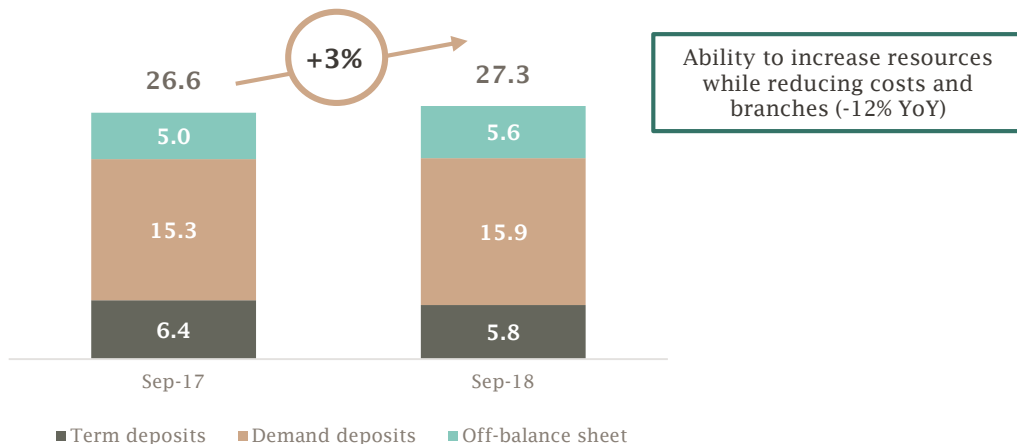


(1) NPA ratio calculated as NPLs & foreclosed assets over gross loans and foreclosed assets (not including repos)  
 (2) Texas ratio calculated as gross NPLs & foreclosed assets over equity (excl. minority interests) and provisions related to NPLs & foreclosed assets



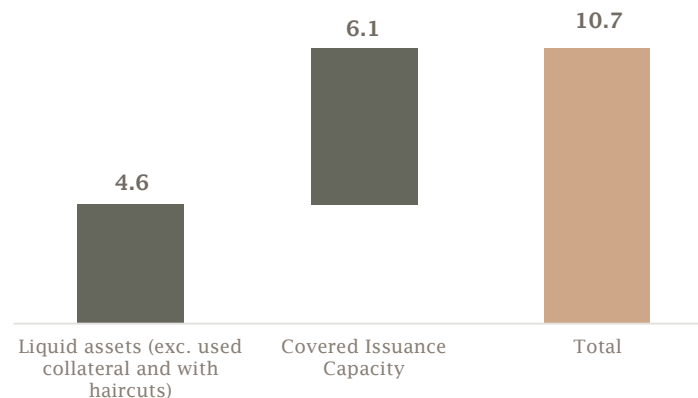
# 4 Strong funding and liquidity position

**Customer Funds** (exc Public Institutions) Eur bn <sup>(1)</sup>

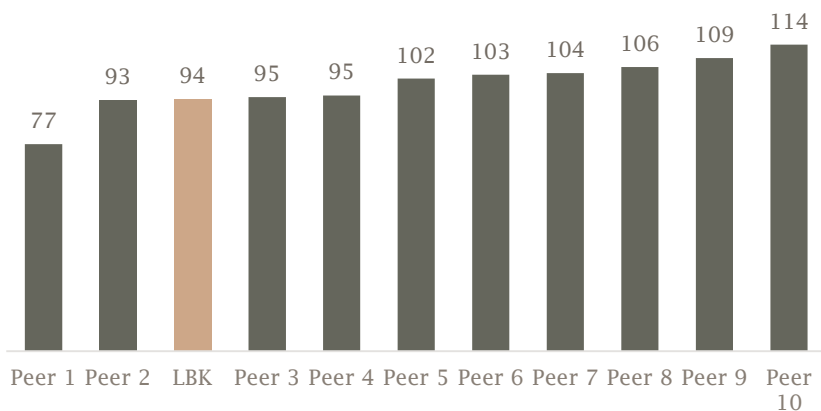


(1) Resident customers. Excluding Public Institutions, non-resident customers and other  
 Note: customer funds do not include repos

**Liquidity position.** Eur bn

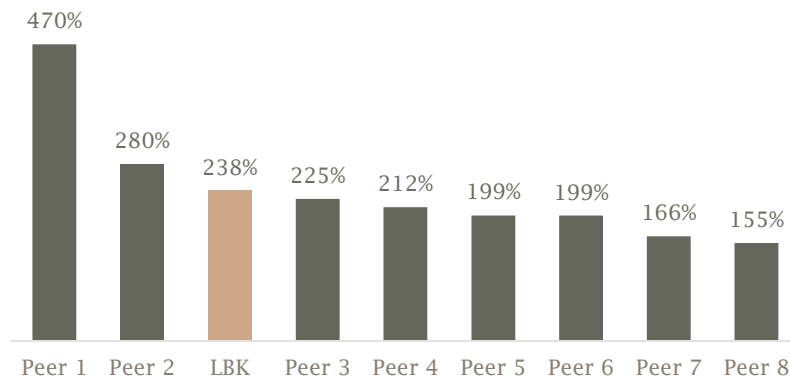


**LTD peers comparison**



Source: Banks financial reports June 2018

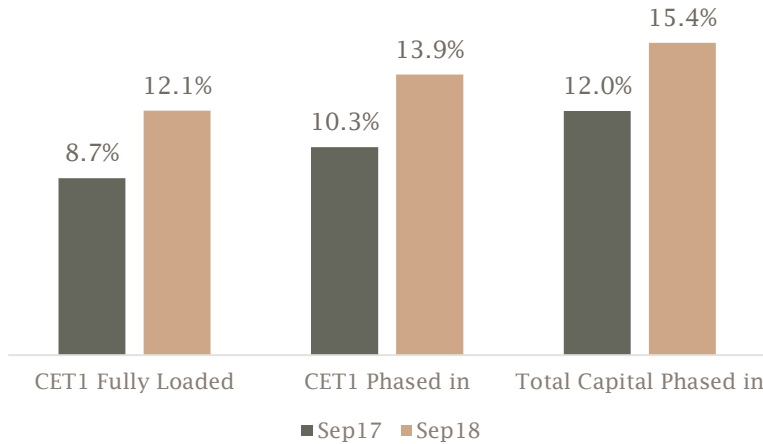
**LCR ratio peers comparison**



Source: Banks financial reports June 2018

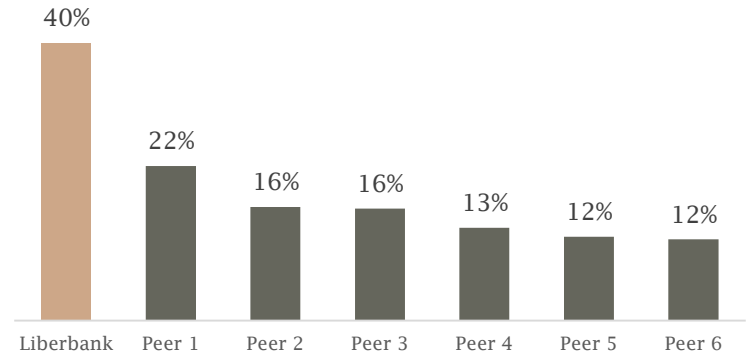
# 5 Comfortable solvency position

Capital ratios. Sep18 (1)



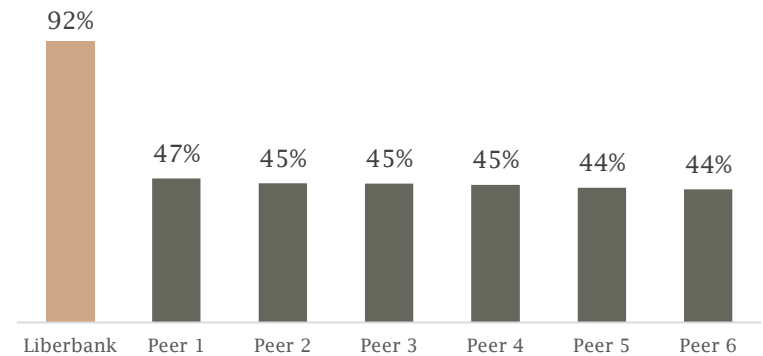
(1) Capital ratios include retained earnings. CET1 FL incorporates the full impact of IFRS-9. It also includes unrealized capital gains of the "FVOCI" sovereign portfolio.

Density of RWAs on retail mortgages (Liberbank standard model vs IRB models). Jun18



Source. 2018 EBA Transparency Exercise (retail non-SME secured on real estate property). IRB banks: Santander, BBVA, Popular, Sabadell, Criteria (Caixabank), Bankinter

Density of RWAs on corporate loans (Liberbank Standard model vs IRB models). Jun18

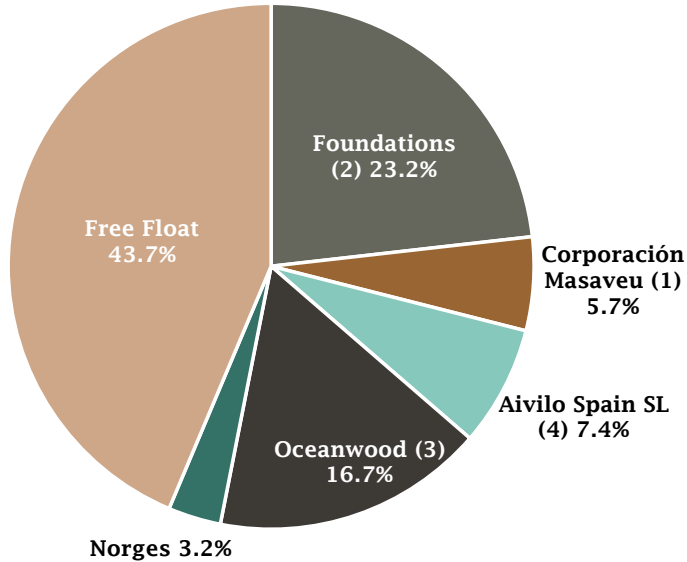


Source. 2018 EBA Transparency Exercise IRB banks: Santander, BBVA, Popular, Sabadell, Criteria (Caixabank), BFA (Bankia)

- CET1 phased-in ratio stands at 13.9% and total capital ratio at 15.4%, well above regulatory requirements.
- Migration to IRB models **keeps advancing**.

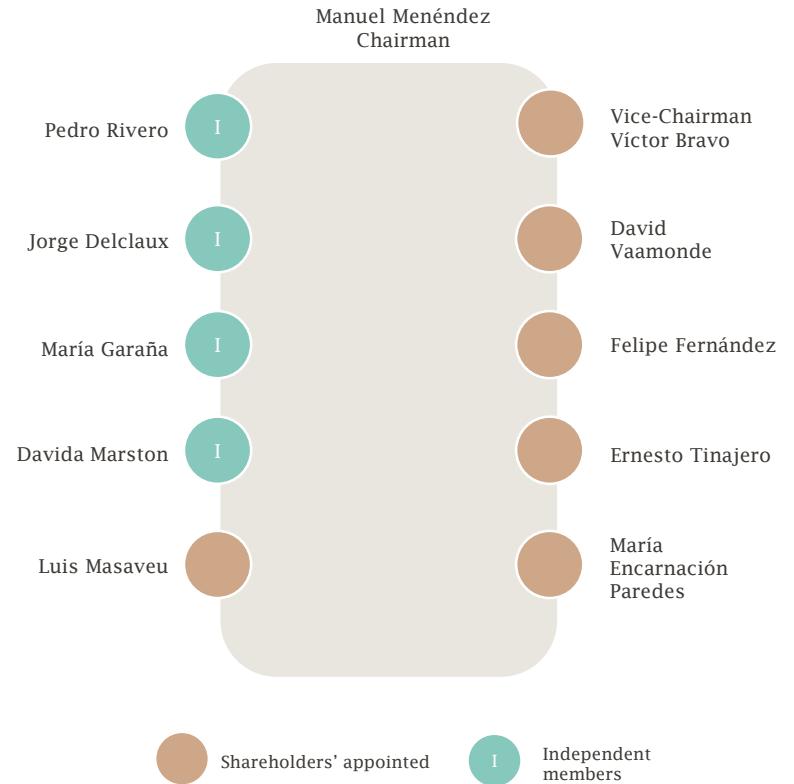
# 6 Corporate governance

## Shareholder base



(1) Includes Flicka Forestal, Corporación Masaveu and Fundación María Cristina Masaveu  
 (2) Includes Fundación Caja Asturias, Fundación Caja Extremadura and Fundación Caja Cantabria  
 (3) Includes Oceanwood Capital Management and Oceanwood Opportunities Master Fund. Includes stake through derivatives  
 (4) Includes Inmosan SA  
 Source: CNMV as of September 30th 2018

## Composition of Board of Directors



→ Board of Directors composed of 11 members, c. 1/3 of independents.

# Rating



Credit Ratings			Mortgage Covered Bonds	Tier 2
Long Term	Short Term	Outlook		
Ba3	Not Prime	Positive	A1	na
BB	B	Stable	na	BB-
BBB (L)	R2 (Middle)	Stable	A (high)	na

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4. Macro Environment

5. Appendix

# Spanish Covered Bond legal framework

- **Overcollateralization**: **Legal minimum of 25%**. The total amount issued in force should not exceed 80% of the eligible Mortgage Portfolio
- **Universe of assets**: First rank residential and commercial mortgage loans. The mortgage cannot exceed the **60% of the value of the appraisal** of the mortgaged property, except for the purposes of house construction, rehabilitation or purchase, in which it can be at most the **80% of the value of the appraisal** or the mortgaged property. In addition, Covered Bonds may be backed up to a limit of 5% of the principal issued by **substitute assets**.
- **Bankruptcy recourse**: The holders of the Notes will have the character of **creditors with special preference** against any other creditors, in relation to the total of the mortgages registered in favor of the issuer.
- **Supervision**: **Bank of Spain** supervision
- **Accounting record**: The issuer has a special accounting record of the mortgages that serve as collateral for Covered Bonds

# Mortgage Covered Bond. Cover Pool summary

	Total Mortgage Portfolio	Eligible Portfolio	Residential	Commercial Total	Other Commercial	Commercial (Developers)
<b>Outstanding Amount</b> (Eur m)	15,404	13,108	13,069	2,335	1,892	444
<b>Average Loan Size</b> (Eur 000)	71	64	64	197	179	340
<b># of Loans</b>	216,759	203,560	204,912	11,847	10,543	1,304

Cover Pool has changed from 2Q18 reports due to the integration of Liberbank and BCLM

Collateral description	Sep-18
Cover pool size (€ million)	15,404
Residential assets	85%
Commercial assets	12%
Developers assets	3%
Eligible mortgages (€ million)	13,108
Number of loans (#)	216,759
Average loan size (€ thousand)	71
Loan seasoning (month)	96
Remaining loan maturity (months)	216
Average Loan to Value	56%
<b>Breakdown by rate:</b>	
Fix rate loans	17.6%
Variable rate loans	82.4%
Weighted Avg. Interest rate fixed rate loans	2.5%
Weighted Avg. Interest rate variable rate loans	1.1%



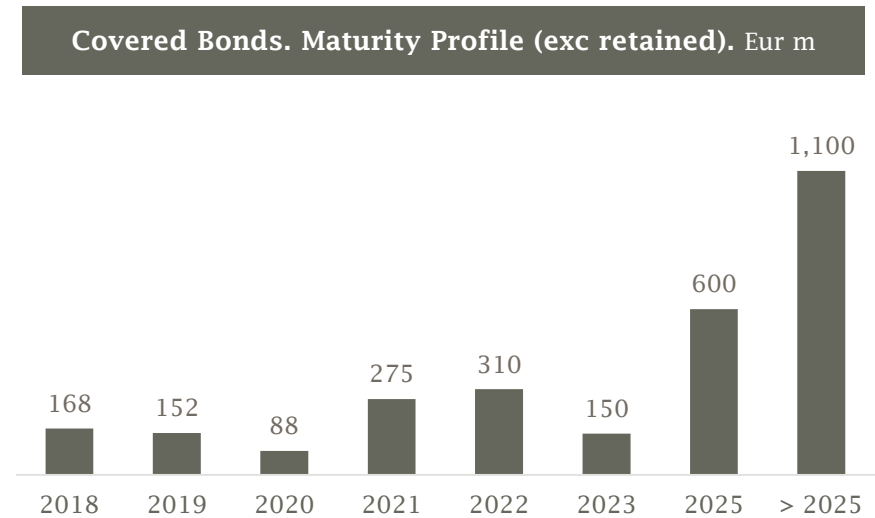
We intend to provide quarterly transparency reports going forward on our webpage

<https://corporativo.liberbank.es/en/investors-and-shareholders/financial-information/debt-investors>

**Liberbank**

# Mortgage Covered Bond. Issued Covered bonds

Mortgage Covered Bond description	Sep-18
Covered Bonds Outstanding (€ million)	4,842
of which Covered Bonds (retained) (€ million)	2,000
Over Collateralisation rate (total)	318%
Over Collateralisation rate (eligible)	271%
Avg weighted remaining maturity (months)	76





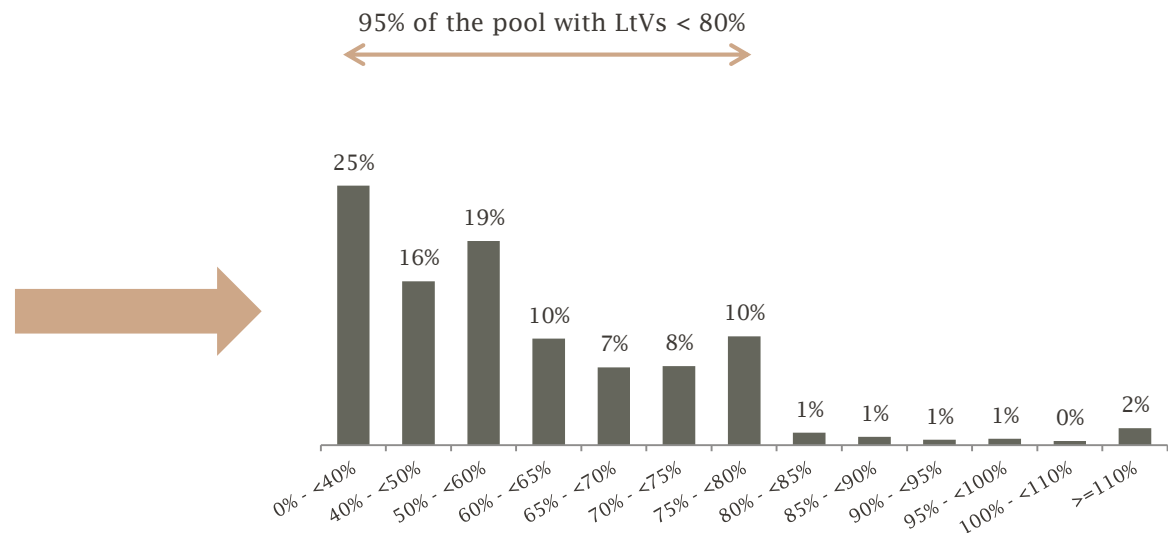
# Collateral. Residential assets

## Residential Assets - Main figures. Sep 2018

Residential Portfolio			
Total mortgages (€ million)	13,069	Remaining loan maturity (months)	240
Number of loans	204,912	Average Loan to Value	55%
Average loan size (thousand)	64	NPL ratio	3.98%
Number of borrowers	186,263	First rank	91%
Loan seasoning (month)	100	Mortgages originated outside Liberbank	3.9%

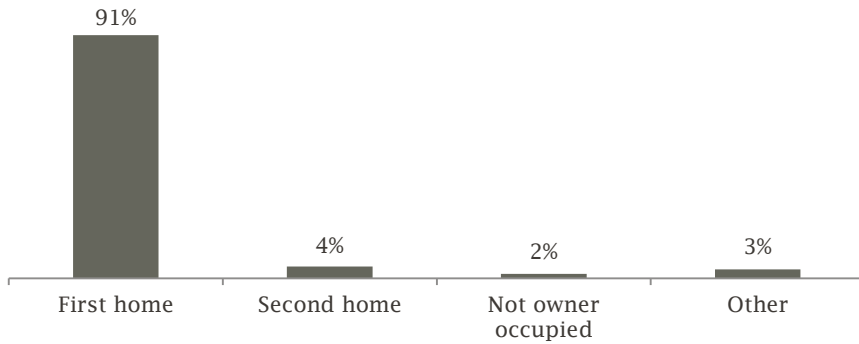
## Portfolio Breakdown

Unindexed LTV Breakdown. Sep 18	(Eur) million	%
0% - <40%	3,220	25%
40% - <50%	2,032	16%
50% - <60%	2,532	19%
60% - <65%	1,322	10%
65% - <70%	964	7%
70% - <75%	980	8%
75% - <80%	1,349	10%
80% - <85%	156	1%
85% - <90%	105	1%
90% - <95%	69	1%
95% - <100%	79	1%
100% - <110%	52	0%
>=110%	209	2%
<b>TOTAL</b>	<b>13,069</b>	

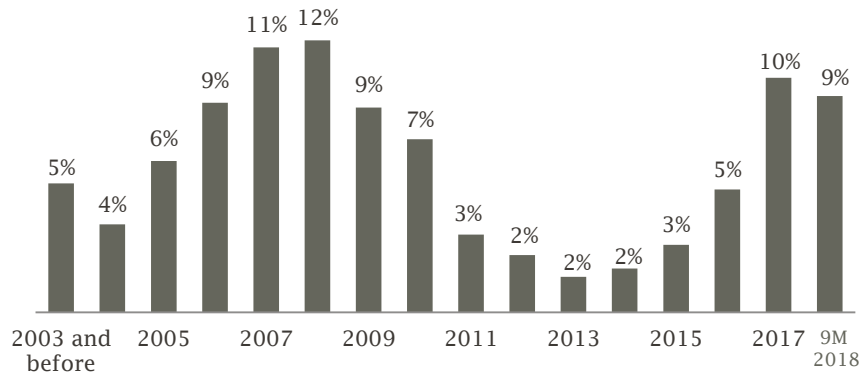


# Collateral. Residential assets

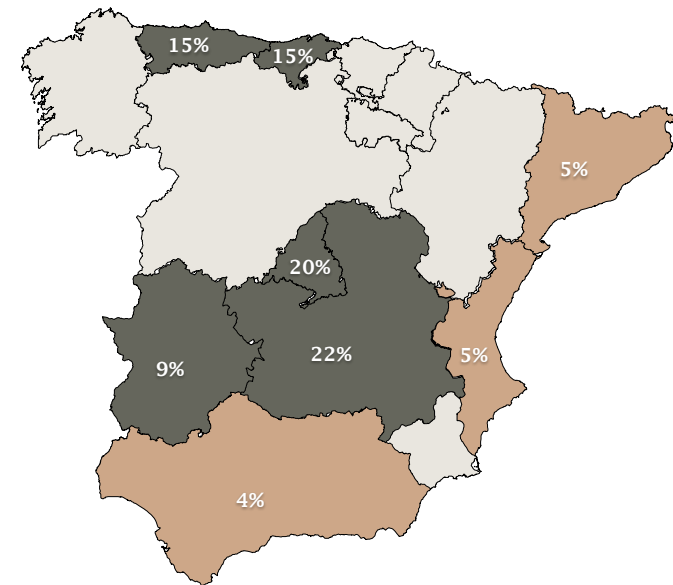
## Property type



## Vintage

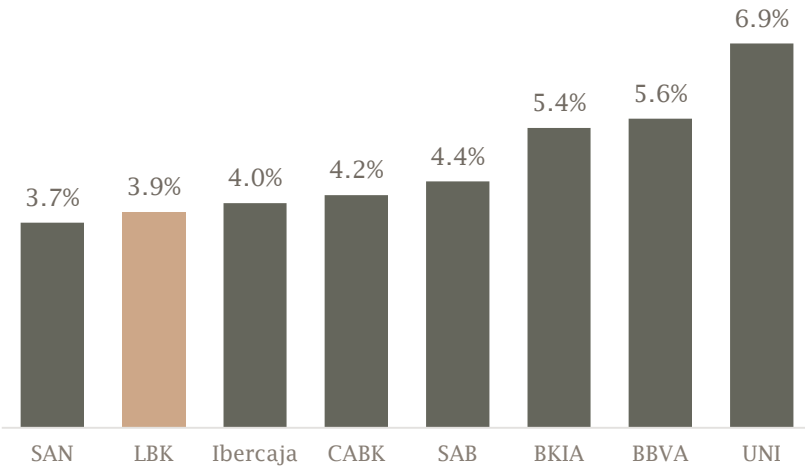


## Geographical diversification



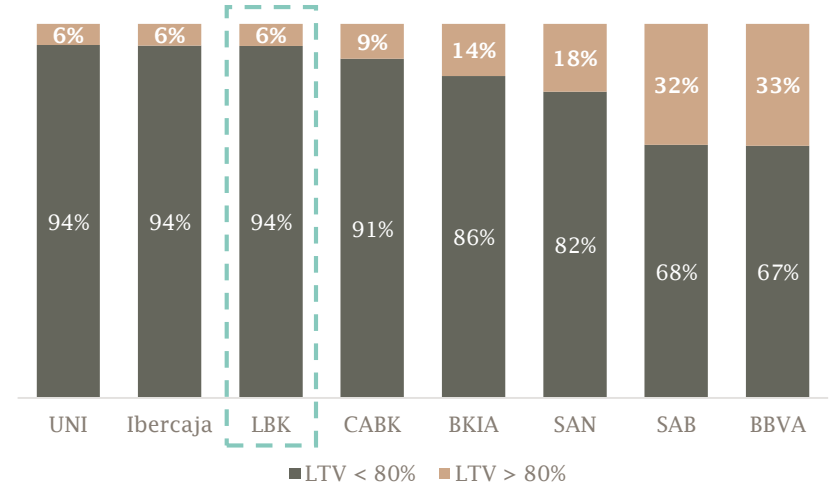
# Mortgage Portfolio. Peers comparison

**NPL Ratio:** Mortgage book (Jun 18)



Source: Banks audited financial reports June 2018

**LTVs Distribution:** Mortgage Book (Jun 18)



Source: Banks audited financial reports June 2018

**Liberbank shows best in class mortgage book quality with low NPL ratio and conservative risk model**

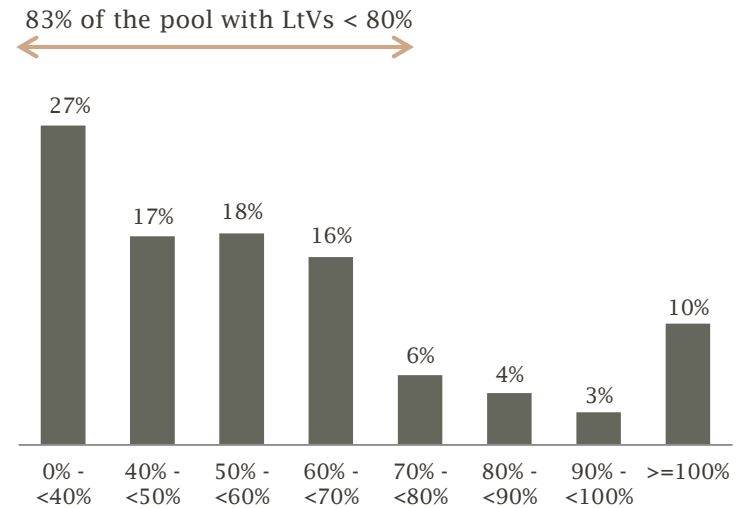
# Collateral. Commercial assets

## Commercial Assets - Main figures. Sep 2018

Commercial Portfolio			
Total mortgages (€ million)	1,892	Remaining loan maturity (months)	122
Number of loans	10,543	Average Loan to Value	59.9%
Average loan size (thousand)	179	NPL ratio	12.9%
Number of borrowers	8,531	First rank	68%

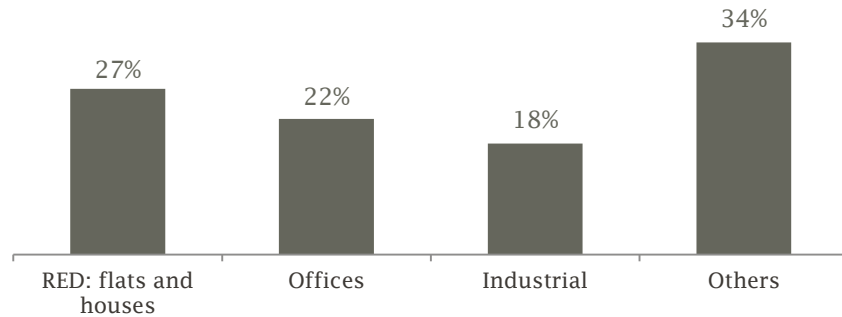
## Portfolio Breakdown

LTV Breakdown. Sep18	€ million	%
0% - <40%	502	27%
40% - <50%	328	17%
50% - <60%	333	18%
60% - <70%	296	16%
70% - <80%	110	6%
80% - <90%	82	4%
90% - <100%	51	3%
>=100%	191	10%
<b>TOTAL</b>	<b>1,892</b>	



# Collateral. Commercial assets

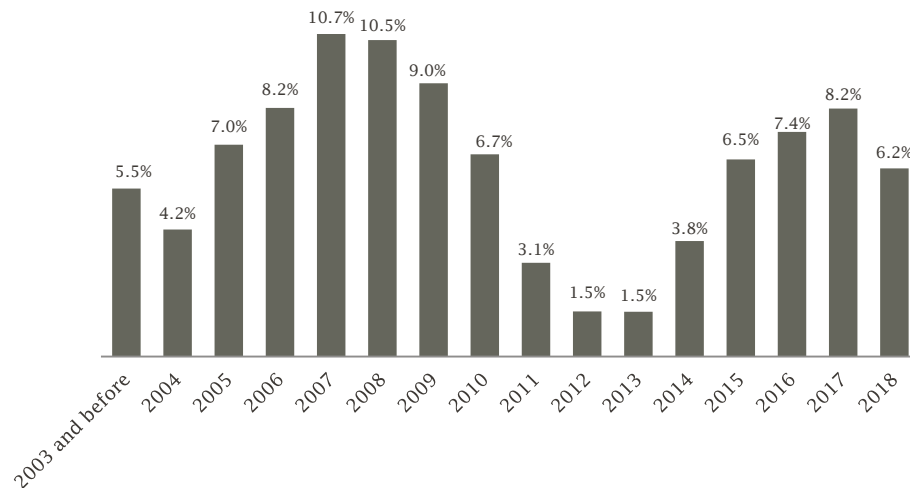
## Property type



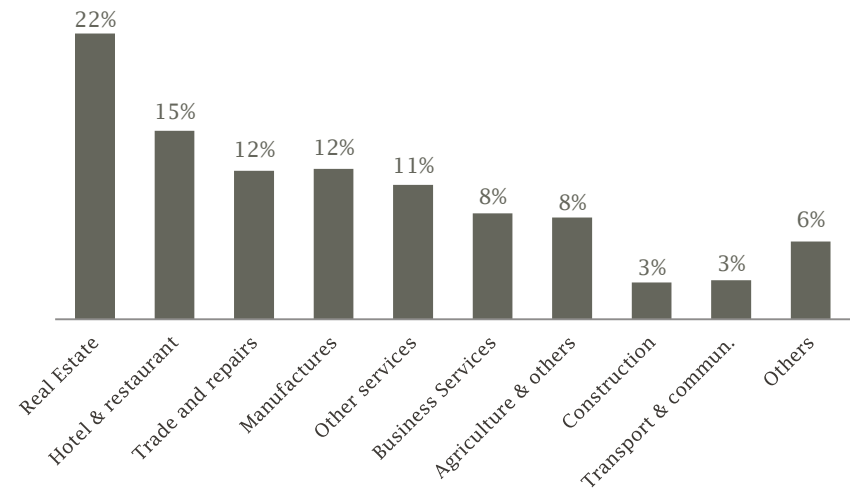
## Borrower concentration

Borrower Concentration	Sep 2018 (Eur m)	% over total
Top 1 borrower	30	1.6%
Top 5 borrower	109	5.8%
Top 10 borrower	177	9.4%
Top 20 borrower	274	14.5%
<b>TOTAL</b>	<b>1,892</b>	

## Vintage



## Sector exposure



# Collateral. Real Estate developers

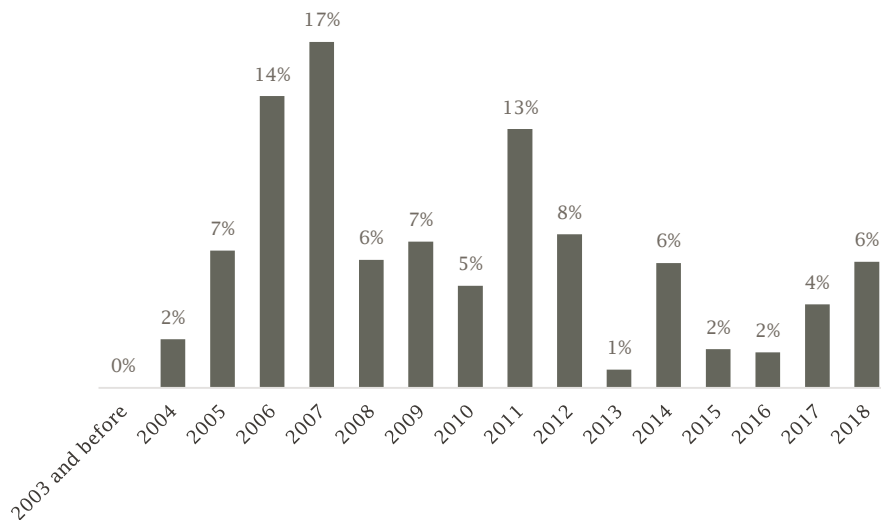
## Real Estate developers - Main figures Sep 18

Real Estate. Sep18	
Total mortgages (€ million)	444
Number of loans	1,304
Average loan size (thousand)	340
Number of borrowers	1,015
Remaining loan maturity (months)	61

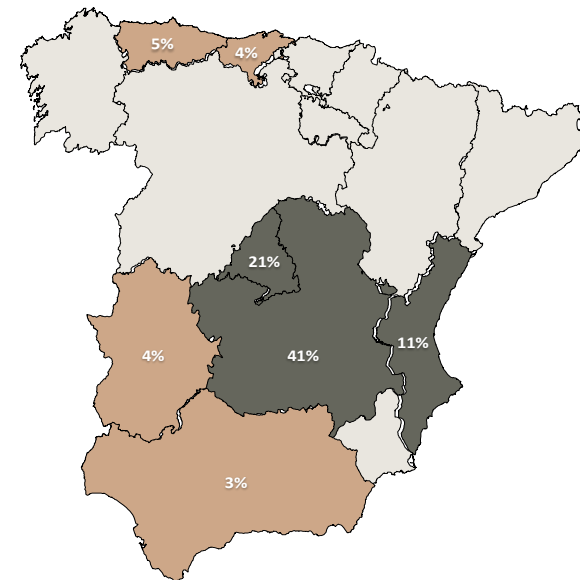
## Borrower concentration

Borrower Concentration	Sep 2018 (Eur m)	% over total
Top 1 borrower	28	6.2%
Top 5 borrower	87	19.6%
Top 10 borrower	120	27.0%
Top 20 borrower	169	38.0%
<b>TOTAL</b>	<b>403</b>	

## Vintage



## Geographical distribution



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# Agenda

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1. Overview

2. Mortgage pool

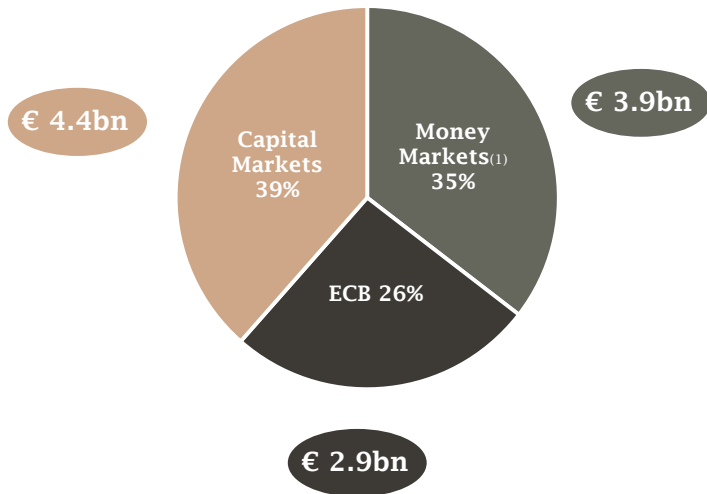
3. Wholesale Funding. Covered Bonds

4. Macro Environment

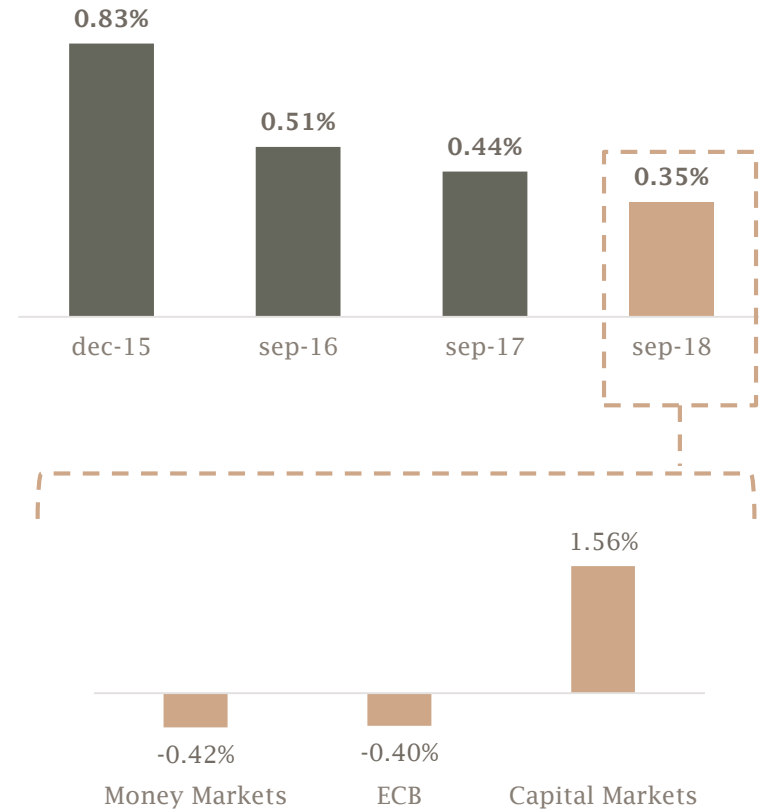
5. Appendix

# Wholesale Funding

Wholesale funding breakdown (€ bn)



Wholesale Funding Price Evolution (%)<sup>(2)</sup>



- Capital markets securities are mainly covered bonds and long term funding with manageable maturities.
- ECB funding remains flattish and it is mainly TLTRO2.

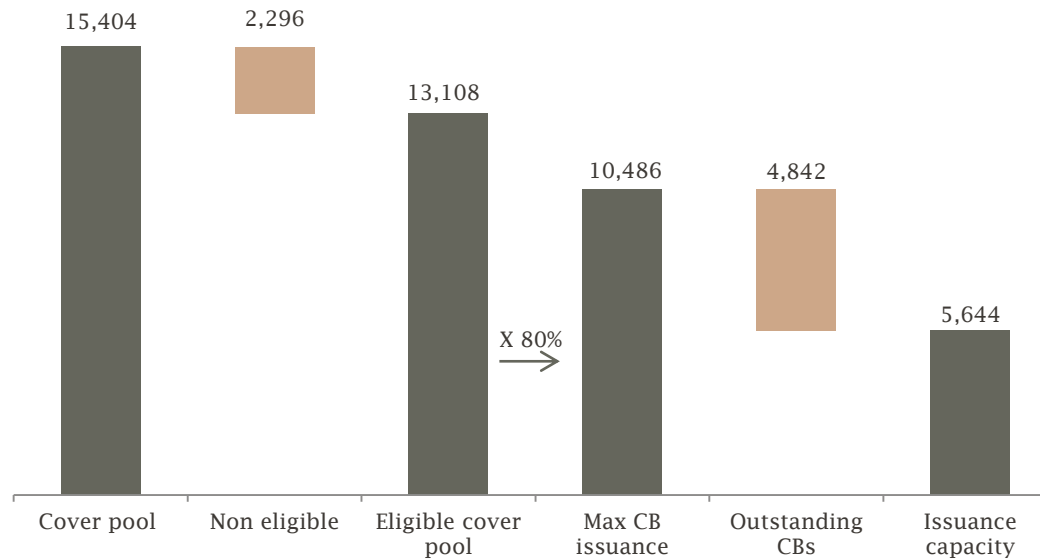
1. Net of reverse repos and excess cash position  
 2. Price at the end of the period  
 Source: Liberbank Treasury (inventarios)



# Wholesale Funding. Covered Bonds

High Collateralization levels. Sep18 Eur m

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# Wholesale Funding. Covered Bonds

	ISIN	Maturity	Rating	Amount (€ million)
Cédulas TDA 8 A3	ES0371622038	21/10/2018	Aa1/BBB+/A	100
AyT Cédulas Cajas V "B"	ES0370148019	02/12/2018	Aa1/BBB+/A	68
AYT Cédulas Cajas VIII B	ES0312362017	16/11/2019	Aa1/BBB+/A	27
Cédulas TDA 5	ES0317045005	27/11/2019	Aa2/ BBB+/A	125
AyT Cédulas Cajas 9B	ES0312358015	29/03/2020	Aa2/ BBB+/A-	88
Cédulas TDA 8 A4	ES0371622012	08/04/2021	Aa2/ BBB+/A-	275
PITCH Serie I	ES0334699008	18/07/2022	Aa1/BBB+	200
AyT Cédulas Cajas Global Serie III	ES0312298021	12/12/2022	Aa1/BBB+/A	110
AyT Cédulas Cajas Global Serie X	ES0312298096	23/10/2023	Aa1/BBB+/A	150
Ced.Hip.Liberbank julio 2017	ES0468675014	25/07/2024	<i>Retained</i>	2,000
Cédulas TDA 6 (1ª ampliacion)	ES0317046003	21/05/2025	Aa2/ BBB+/A	300
Cedulas TDA 6 (2ª ampliacion)	ES0317046003	21/05/2025	Aa2/ BBB+/A	300
Cédulas TDA 8 A5	ES0371622046	26/03/2027	Aa2/ BBB+/BBB+	350
AyT Cédulas Cajas Global Serie XIII	ES0312298120	23/05/2027	Aa1/BBB+/A	200
Cédulas TDA 8 A6	ES0371622020	08/04/2031	Aa2/ BBB+/BBB+	300
Cédulas TDA 8 A6 ( Ampliac. marz-07)	ES0371622020	08/04/2031	Aa2/ BBB+/BBB+	250
<b>TOTAL</b>				<b>4,842</b>

(1) Retained.

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# Agenda

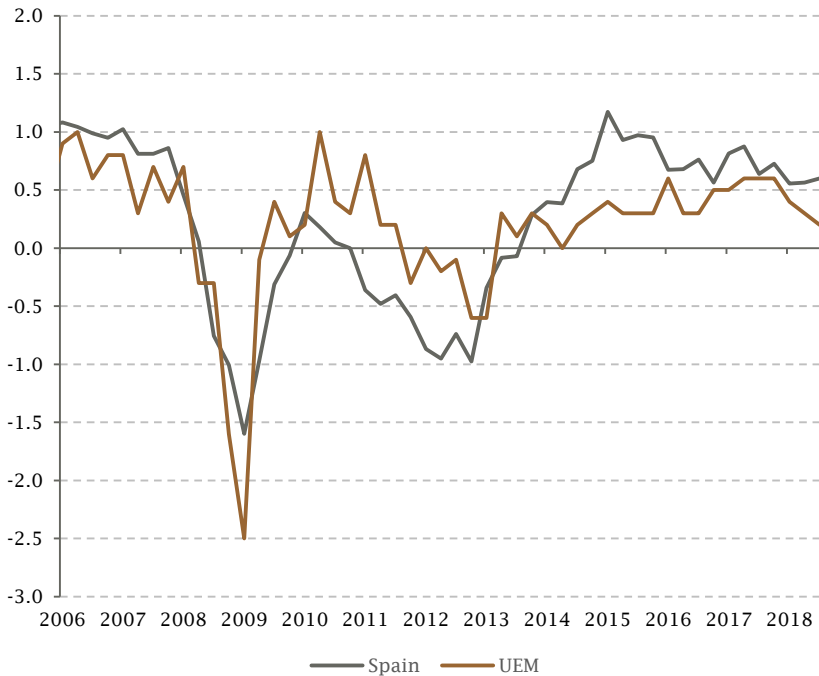
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# Macro Environment. Spanish economic activity

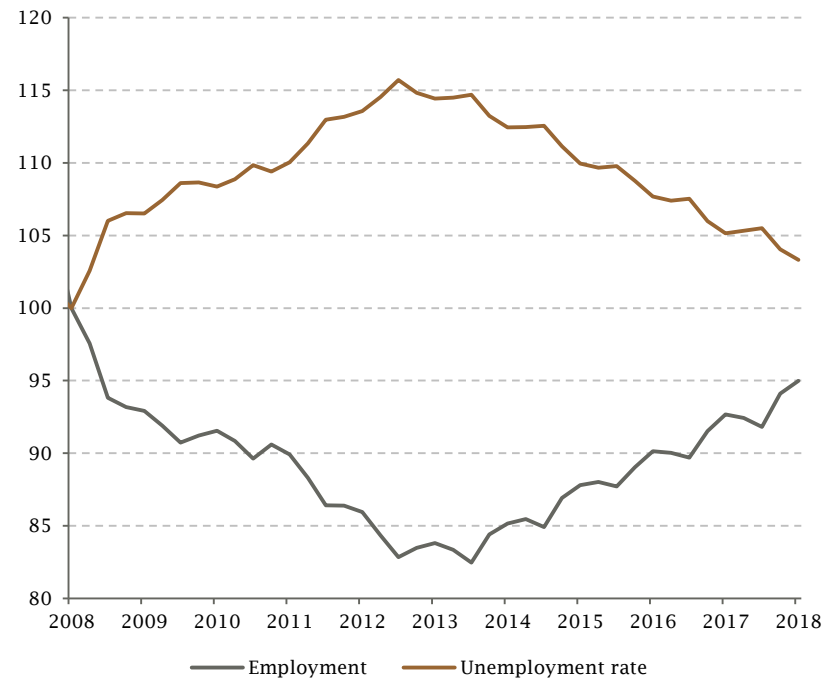
## GDP

QoQ, %



## Labour market

100 = 2008Q3



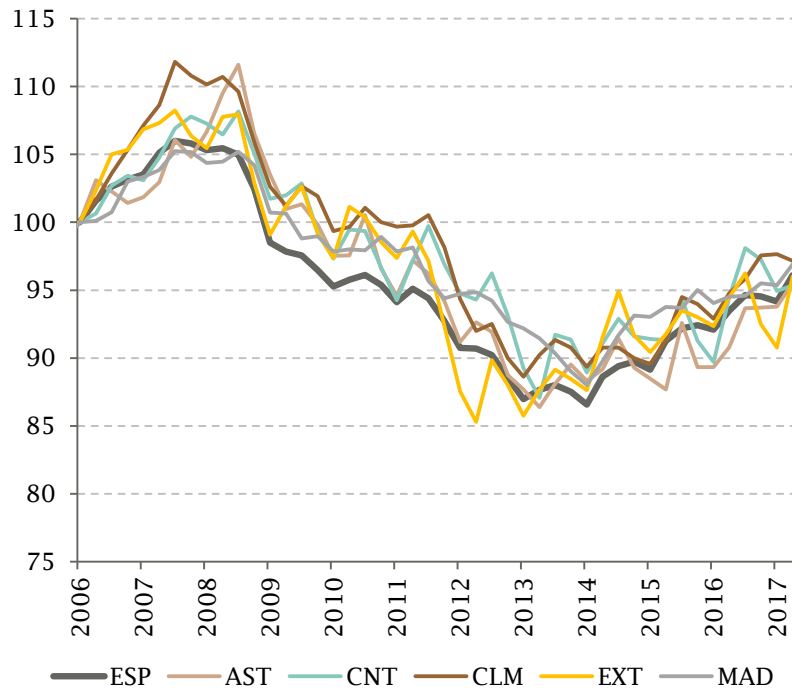
Source: Thomson Reuters

Spain's output returned to pre-crisis levels in mid-2017, and is expected to grow at a faster pace than the EU average in 2018-2019, but the level of employment is still 5% below that existing in 2008

# Macro Environment. Employment

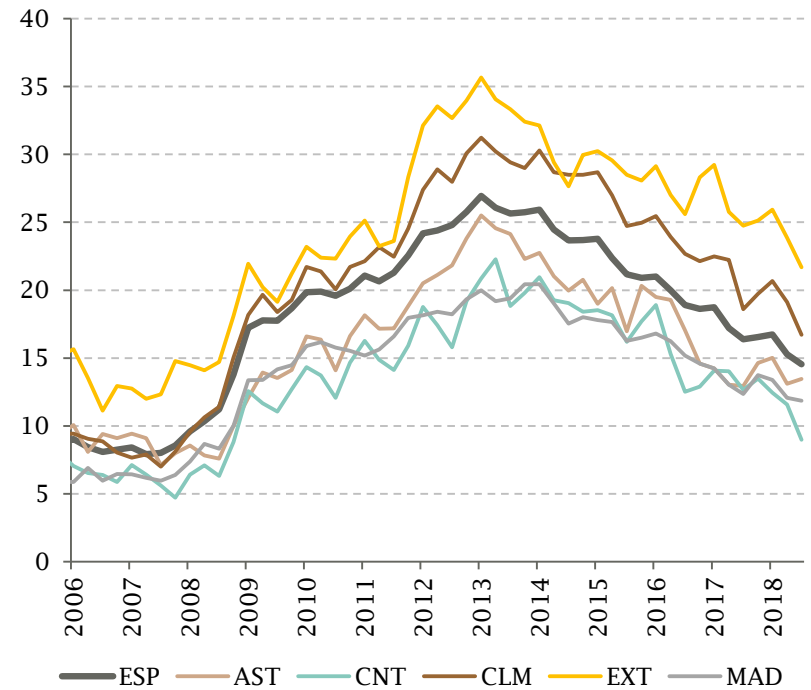
## Employment

100 = 2006Q1



## Unemployment rate

%



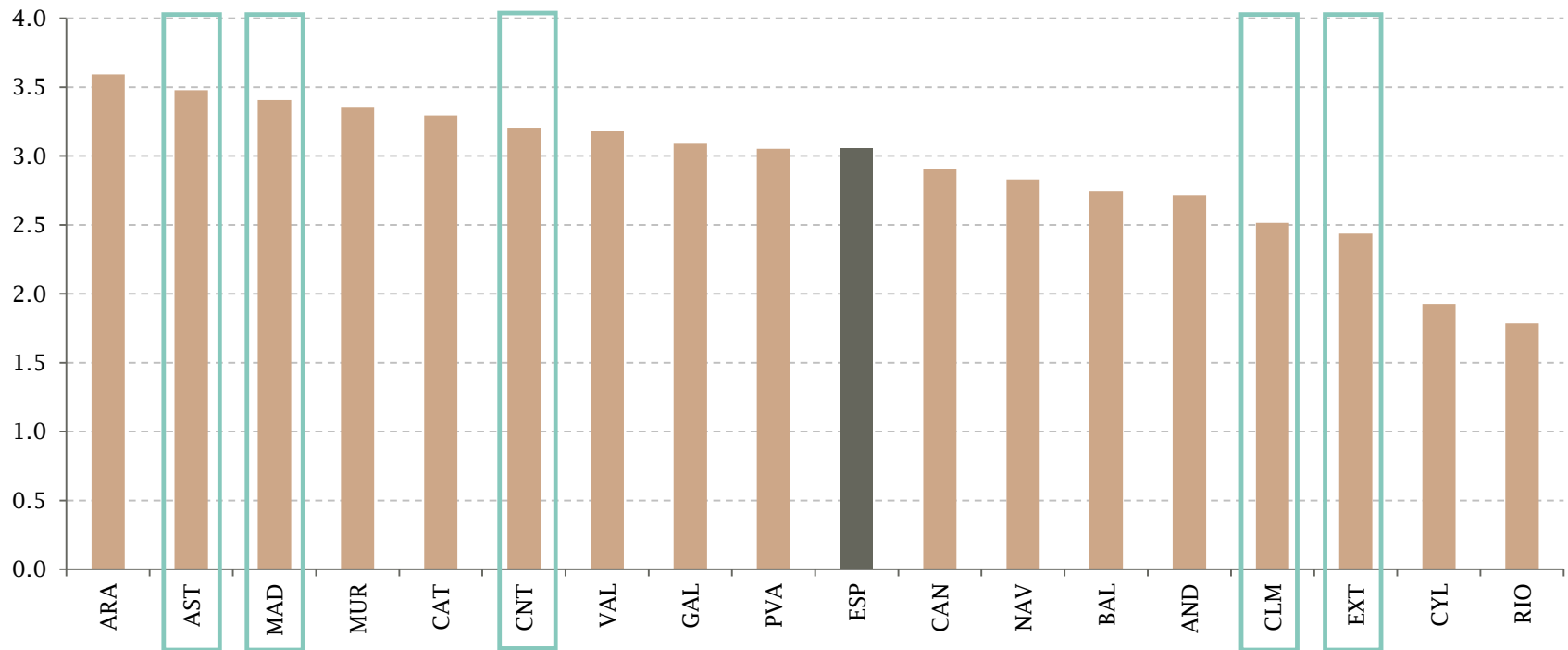
Source: INE

Spain's unemployment rate hit its lowest level in 10 years.

# Macro Environment. Economic activity

## GDP growth

2017, %



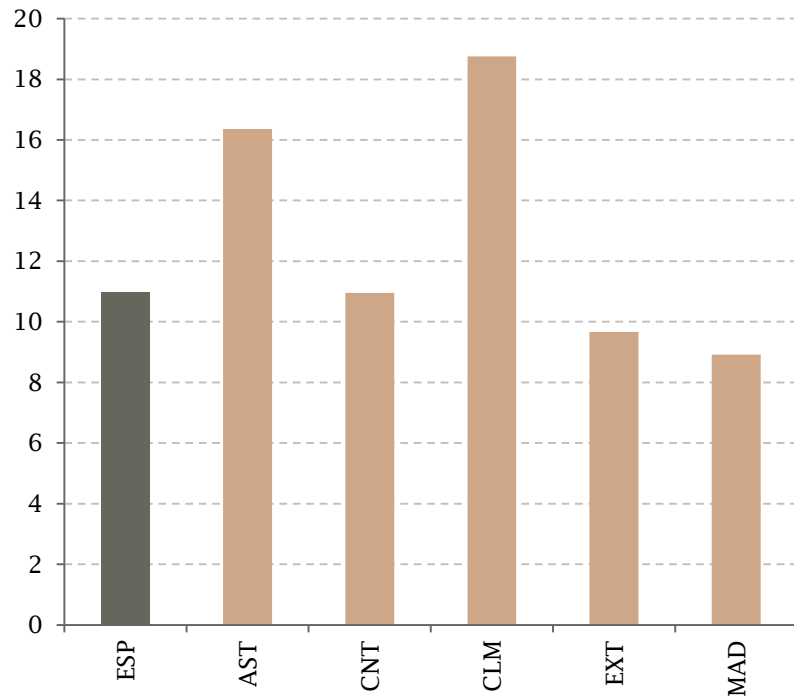
Source: INE

Industry accounts for over 20% of total gross value added in Asturias (AST), Cantabria (CNT) and Castilla-La Mancha (Spain =16%), boosting economic growth in 2017.

# Macro Environment. Housing market

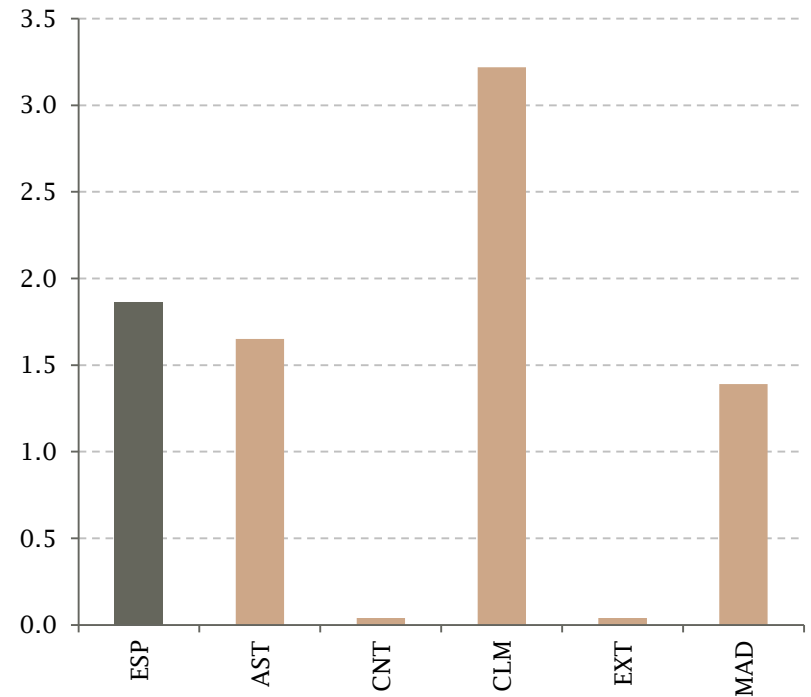
## Transfer of property rights

YoY, 2018 (jan-sep), %



## Housing oversupply

2017, %



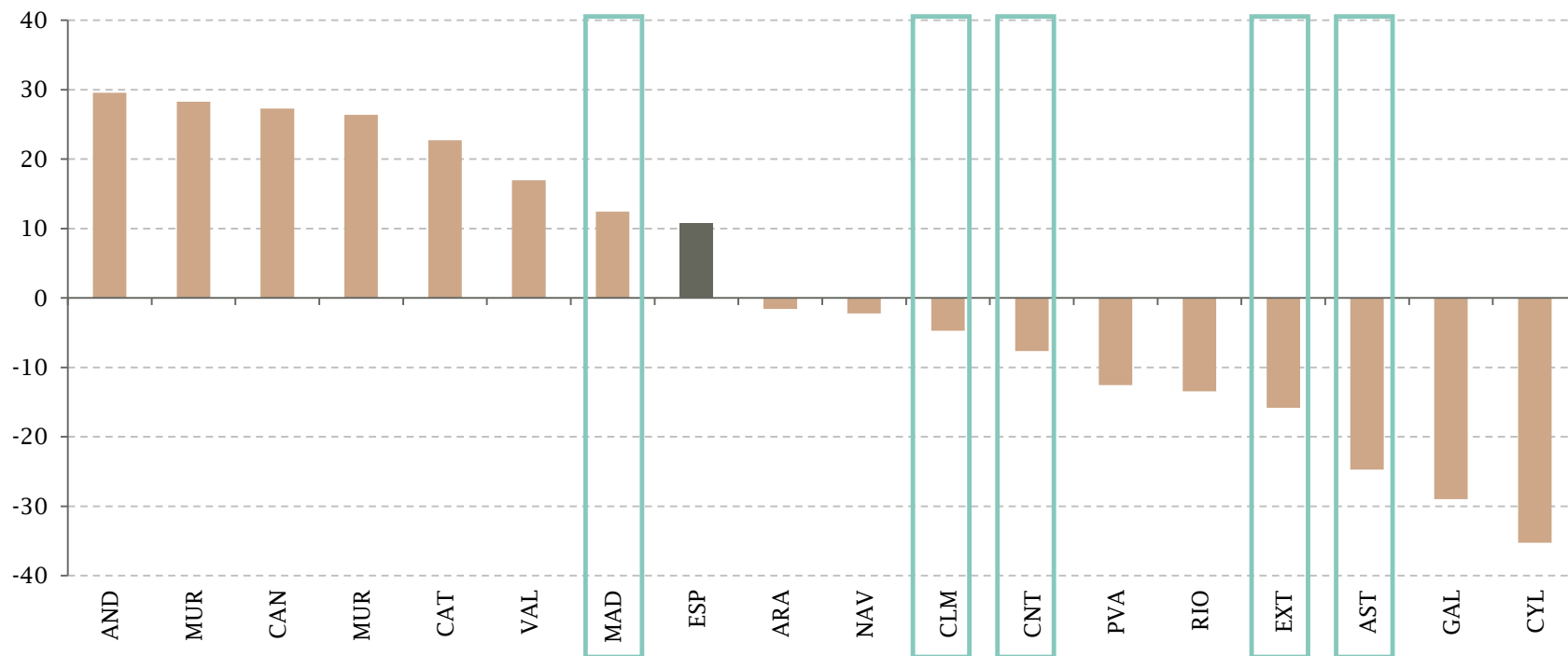
Source: INE and Ministerio de Fomento

- ✓ Housing transactions are growing in home regions at a higher rate than national average.
- ✓ Oversupply of homes in Cantabria (CNT) and Extremadura (EXT) is 0%.

# Macro Environment. Household financial wealth

## Loan - Deposits

% of GDP, 2017



Source: BdE and INE

- ✓ Low interest rates environment benefits Spanish leveraged regions.
- ✓ Higher interest are expected to boost economic activity of households with savings.



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# Agenda

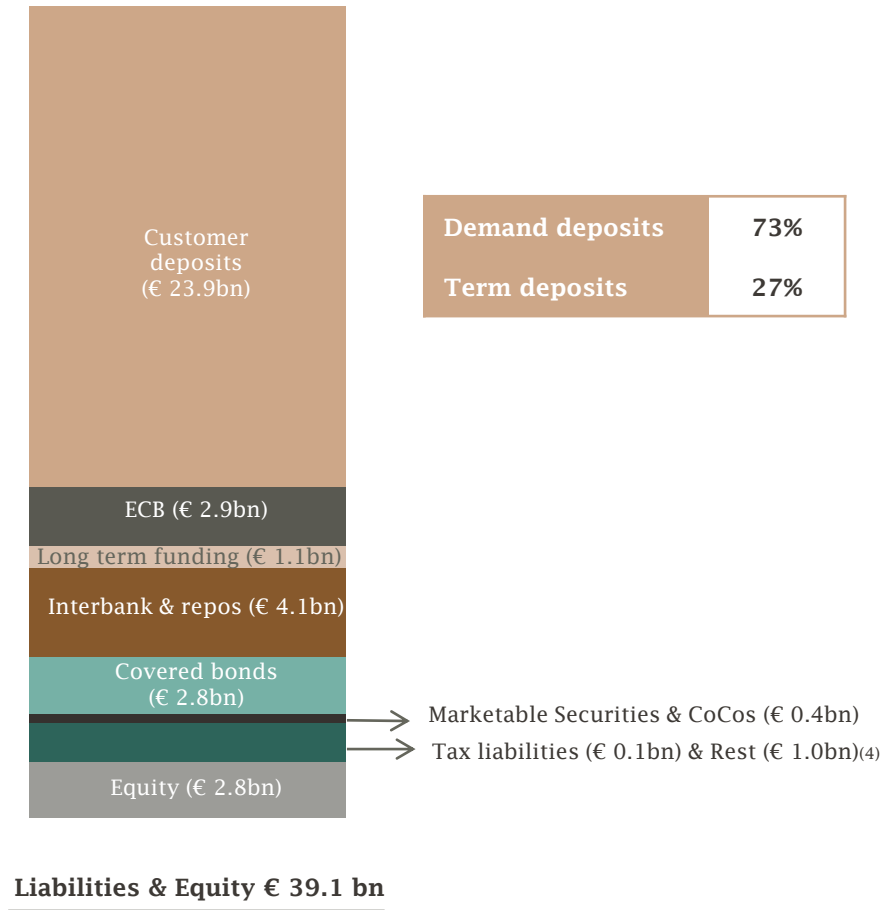
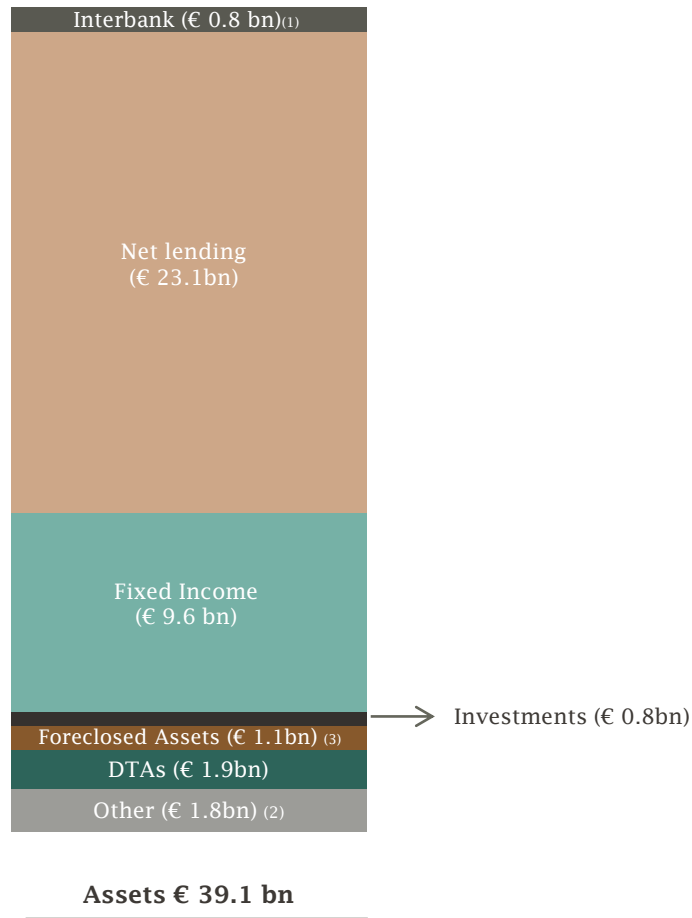
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1. Overview
  2. Mortgage pool
  3. Wholesale Funding. Covered Bonds
  4. Macro Environment
  5. Appendix

# Appendix. Consolidated P&L

€m	3Q17	4Q17	1Q18	2Q18	3Q18	Var. 3Q18 vs 2Q18		9M17	9M18	Var. 9M18 vs 9M17	
						€m	%			€m	%
Interest Income	124	127	127	140	135	-5	-4%	378	403	25	6%
Interest Cost	-23	-24	-23	-24	-21	3	-14%	-76	-67	8	-11%
<b>NET INTEREST INCOME</b>	<b>100</b>	<b>103</b>	<b>105</b>	<b>116</b>	<b>115</b>	<b>-2</b>	<b>-2%</b>	<b>303</b>	<b>335</b>	<b>33</b>	<b>11%</b>
Dividends	0	1	0	4	0	-4	nm	2	5	3	211%
Results from equity method stakes	4	15	2	22	2	-20	nm	29	27	-3	-9%
Net fees	40	52	44	48	42	-6	-13%	130	134	5	4%
Gains on financial assets & others	5	30	26	3	6	3	81%	60	36	-24	-40%
Other operating revenues/(expenses)	-3	-54	-7	-3	-5	-2	91%	-23	-14	9	-39%
<b>GROSS INCOME</b>	<b>146</b>	<b>146</b>	<b>171</b>	<b>191</b>	<b>160</b>	<b>-31</b>	<b>-16%</b>	<b>500</b>	<b>523</b>	<b>23</b>	<b>5%</b>
<b>Administrative expenses</b>	<b>-98</b>	<b>-95</b>	<b>-91</b>	<b>-93</b>	<b>-85</b>	<b>9</b>	<b>-9%</b>	<b>-292</b>	<b>-269</b>	<b>23</b>	<b>-8%</b>
Staff expenses	-64	-63	-58	-61	-57	5	-8%	-186	-176	10	-5%
General expenses	-34	-32	-33	-32	-28	4	-11%	-106	-93	13	-12%
Amortizations	-3	-11	-9	-9	-9	0	3%	-25	-27	-2	8%
<b>PRE PROVISION PROFIT</b>	<b>45</b>	<b>41</b>	<b>71</b>	<b>89</b>	<b>66</b>	<b>-23</b>	<b>-26%</b>	<b>182</b>	<b>226</b>	<b>44</b>	<b>24%</b>
Provisions	-6	-26	-5	-9	-8	0	-2%	20	-22	-42	nm
Impairment on financial assets	-184	-37	-17	-14	-13	1	-4%	-232	-44	187	-81%
Impairment losses on other asses	0	-1	-8	0	-1	-1	nm	1	-8	-9	nm
Other profits or losses	-393	32	-1	-4	-8	-4	103%	-434	-13	421	-97%
<b>PROFIT BEFORE TAXES</b>	<b>-537</b>	<b>8</b>	<b>41</b>	<b>62</b>	<b>35</b>	<b>-27</b>	<b>-43%</b>	<b>-463</b>	<b>138</b>	<b>601</b>	<b>nm</b>
Taxes	163	3	-11	-7	-10	-3	37%	149	-28	-178	nm
Discontinued operations (net)	0	0	0	0	-2	-2	nm	0	-2	-2	nm
<b>NET INCOME</b>	<b>-374</b>	<b>11</b>	<b>29</b>	<b>55</b>	<b>24</b>	<b>-31</b>	<b>-57%</b>	<b>-314</b>	<b>108</b>	<b>421</b>	<b>nm</b>
<b>NET INCOME ATTRIBUTABLE</b>	<b>-337</b>	<b>11</b>	<b>29</b>	<b>55</b>	<b>24</b>	<b>-31</b>	<b>-57%</b>	<b>-270</b>	<b>108</b>	<b>378</b>	<b>nm</b>

# Appendix. Balance Sheet



(1) Interbank include cash and interbank deposits

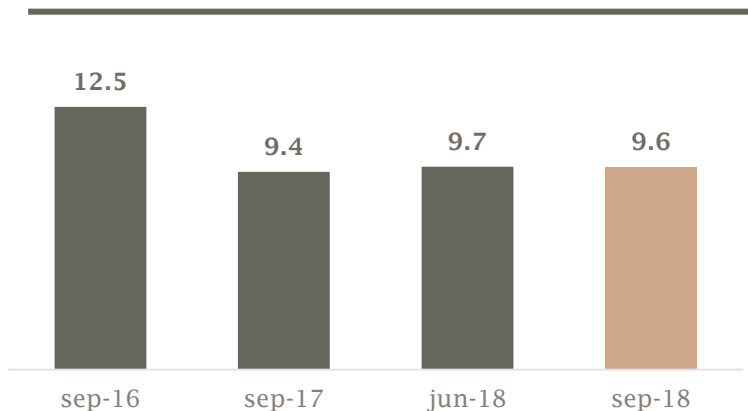
(2) Rest of assets include tangible and intangible assets and derivative hedging among others

(3) Assets currently held for sale

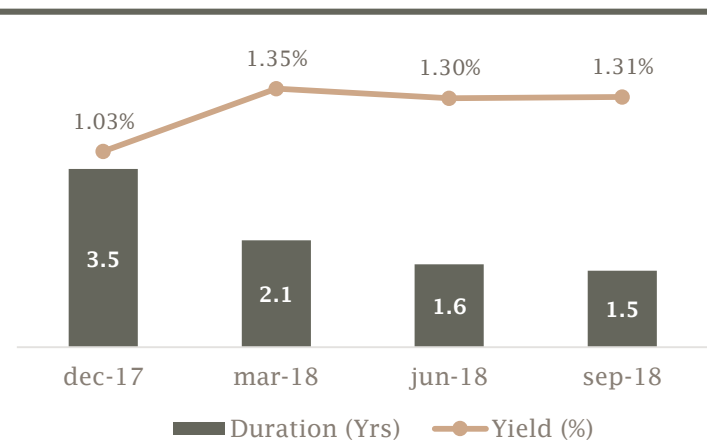
(4) Rest of liabilities include provisions, accrued interests and micro-hedging among others

# Appendix. Fixed Income portfolio

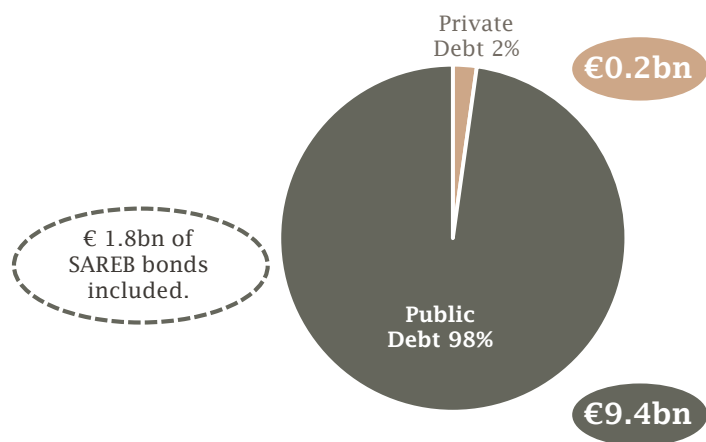
## Fixed income portfolio evolution (€ bn)



## Fixed income portfolio profile <sup>(2)</sup>



## Fixed income portfolio by issuer <sup>(1)</sup>



## Fixed income portfolio breakdown

September 2018	Amount (Eur bn)	Yield	Duration
Fair Value through OCI	1.60	1.15%	1.08
Amortised Cost	8.02	1.35%	1.60
<b>TOTAL</b>	<b>9.62</b>	<b>1.31%</b>	<b>1.51</b>

1. Accounting values. Including accrued coupon  
2. Weighted average duration in years. Yields EOP.

# **Liberbank**

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