

# Sabadell

## Strategic Update

February 7, 2017

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# 1

Triple plan  
results

# 2

2017: a transition  
year

# 3

Horizon 2020

# 1

Triple plan  
results

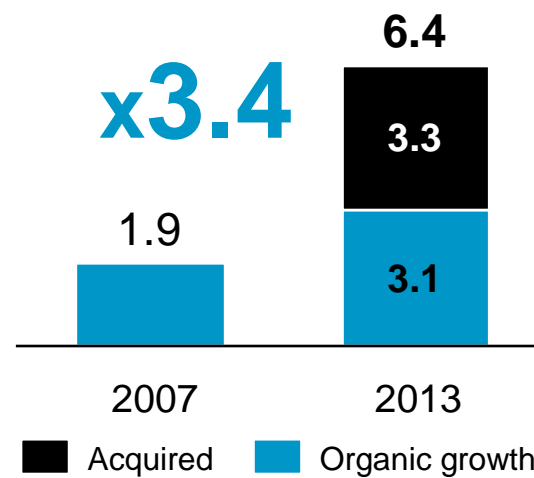
# By 2013 the bank had taken a significant leap forward...

Finalising a period of domestic inorganic growth...

- 2010 Banco Guipuzcoano
- 2012 Banco CAM
- 2013 Caixa Penedès
- Banco Gallego
- Lloyds España

...evolving from a specialised bank to a universal bank...

Customers in Spain  
In millions

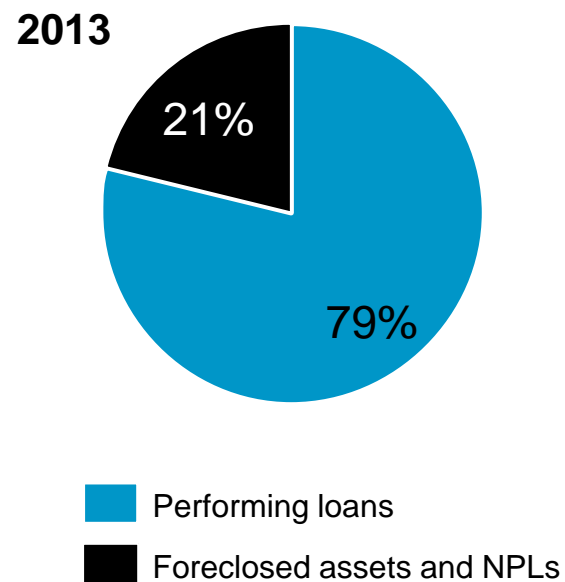


... and building a franchise in Florida

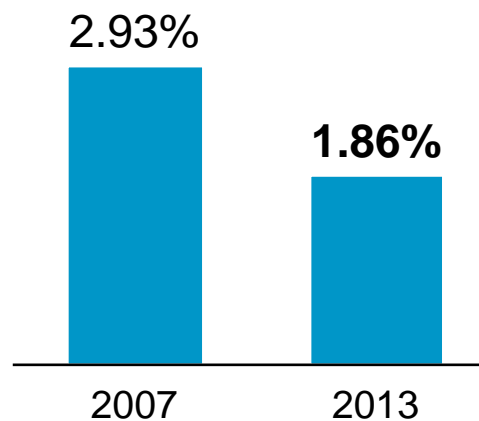
- 2007 Transatlantic Bank
- 2008 BBVA Miami
- 2009 BNY Mellon
- 2011 Lydian

# ... but further challenges remained

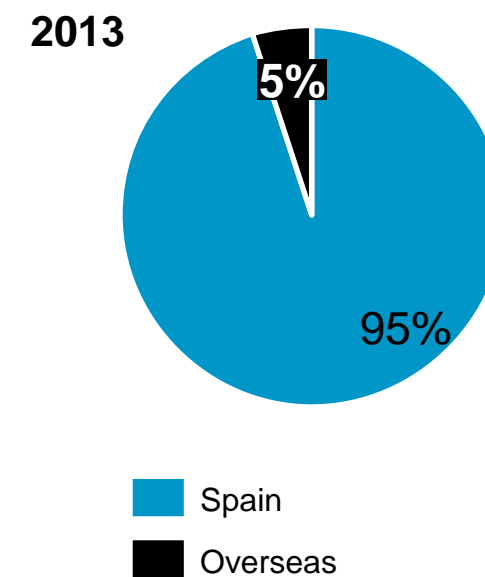
## Loans and foreclosed assets distribution



## Customer spread



## Loans by geography



# The Triple plan 2014-2016 was our response to these challenges

## Triple 2014 - 2016



**Transformation**

 T1 Balance sheet

 T2 Operational

 T3 Commercial

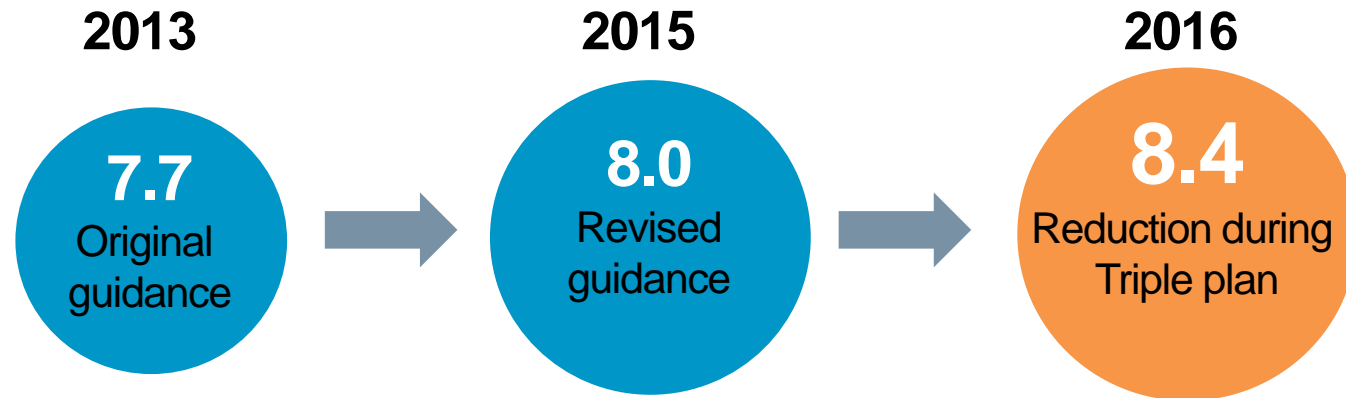
**Profitability**

**Internationalisation**

# We launched TRIPLE to transform our balance sheet ...

## NPL reduction, ex-TSB

Euros in billion



- At the end of 2015, after two years of faster than anticipated disposals, we increased our Triple plan NPL and NPA reduction guidance

## NPA reduction, ex-TSB

Euros in billion



- By the end of 2016, both NPL and NPA reductions were well above the Triple plan revised reduction guidance

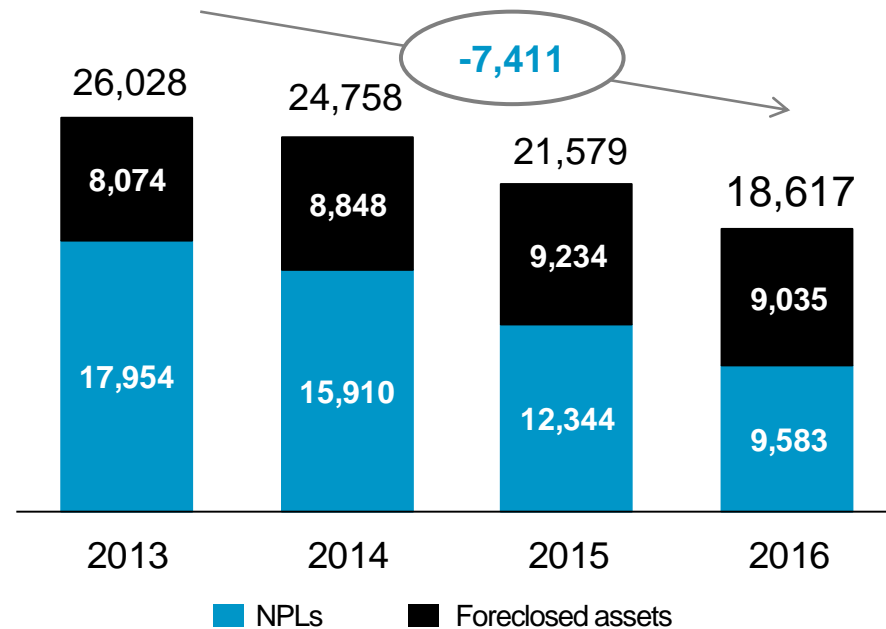
... and we have reduced our problematic exposures far **beyond our revised targets**



# Our proactive real estate sales and NPL management strategy has allowed us to ...

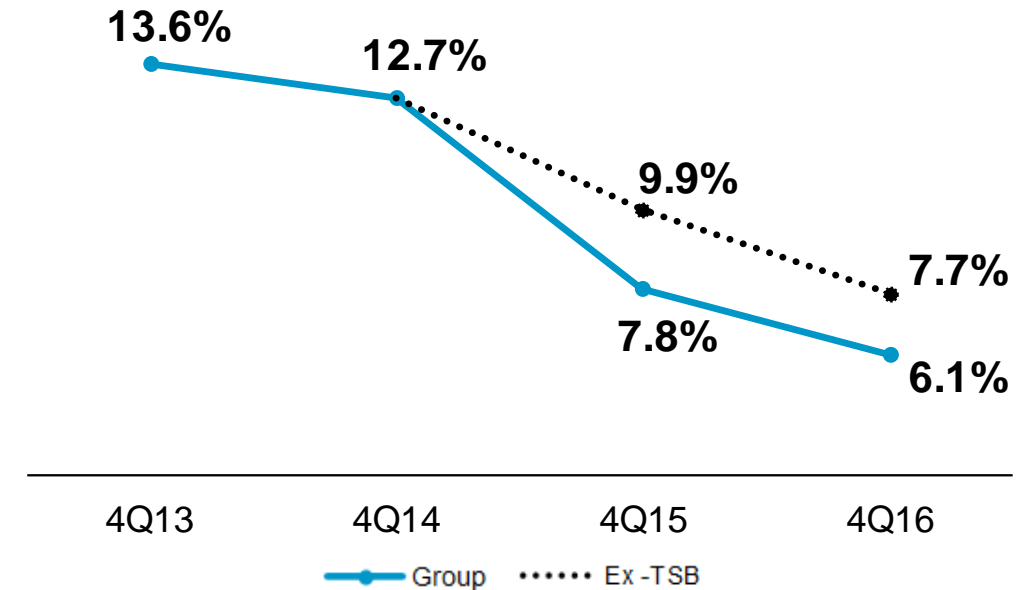
## NPAs evolution since Triple, ex-TSB

Euros in million



## NPL ratio evolution since Triple

In percentage



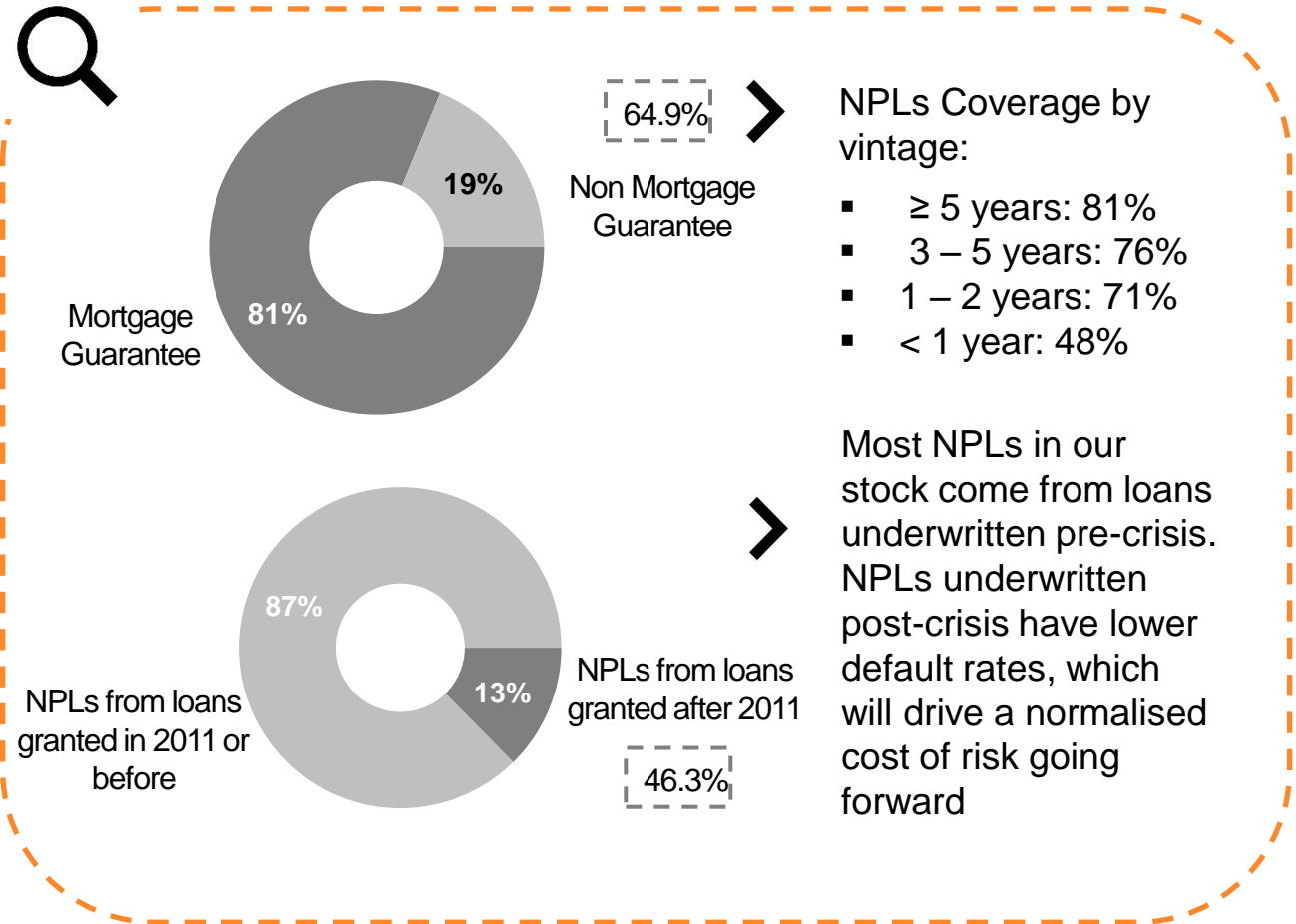
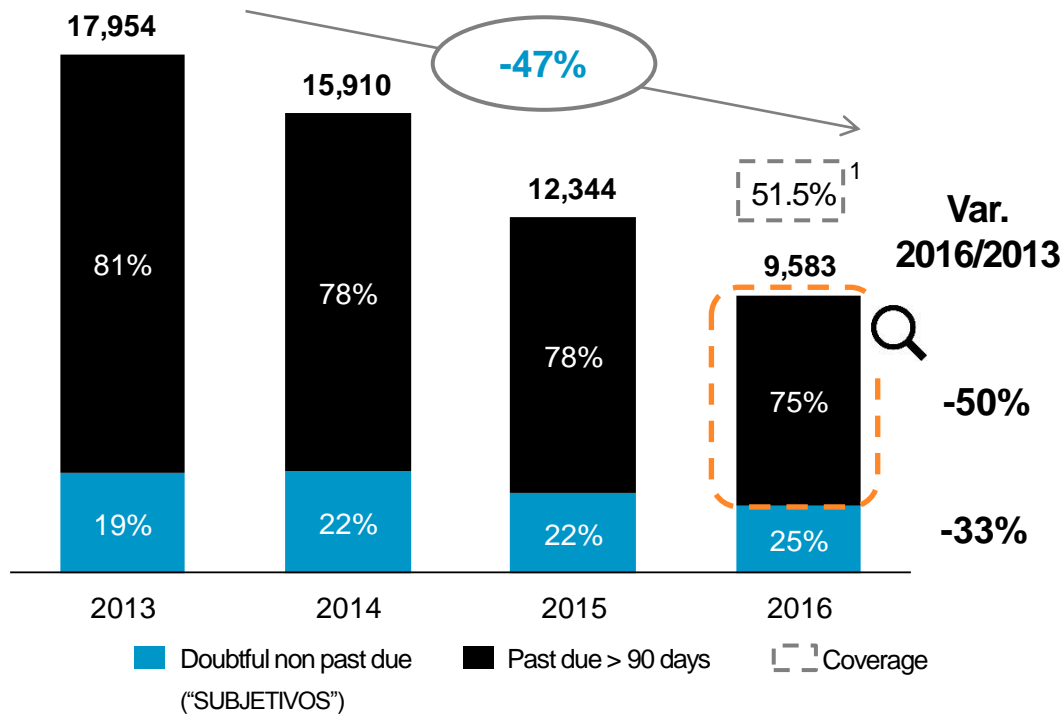
...**reduce our NPAs by €7.4bn** and **lower our NPL ratio** by more than 50% in just three years

Note: Includes contingent risk. The Group and Sabadell ex-TSB's NPLs and NPAs include 20% of the NPLs and NPAs included in the APS, which risk is assumed by Sabadell according to the APS protocol.

# The improvement in NPLs has gone beyond a volume reduction...

## NPL evolution, ex-TSB

Euros in million. In percentage



... achieving a better composition, due to a lower percentage of past due NPLs

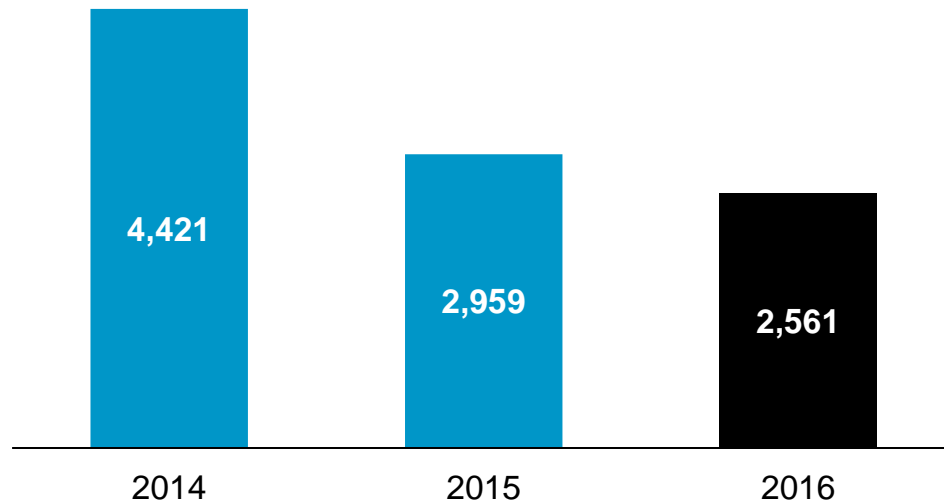
Note: Includes contingent risk and 20% of the NPLs included in the APS, which risk is assumed by Sabadell according to the APS protocol.

<sup>1</sup> NPL provisions include €410M for contingent events associated to the mortgage floors. Excluding this provision, NPL coverage stood at 47.25% (ex-TSB) as of December 2016.

# Gross NPLs entries also reflect the reduction trend ...

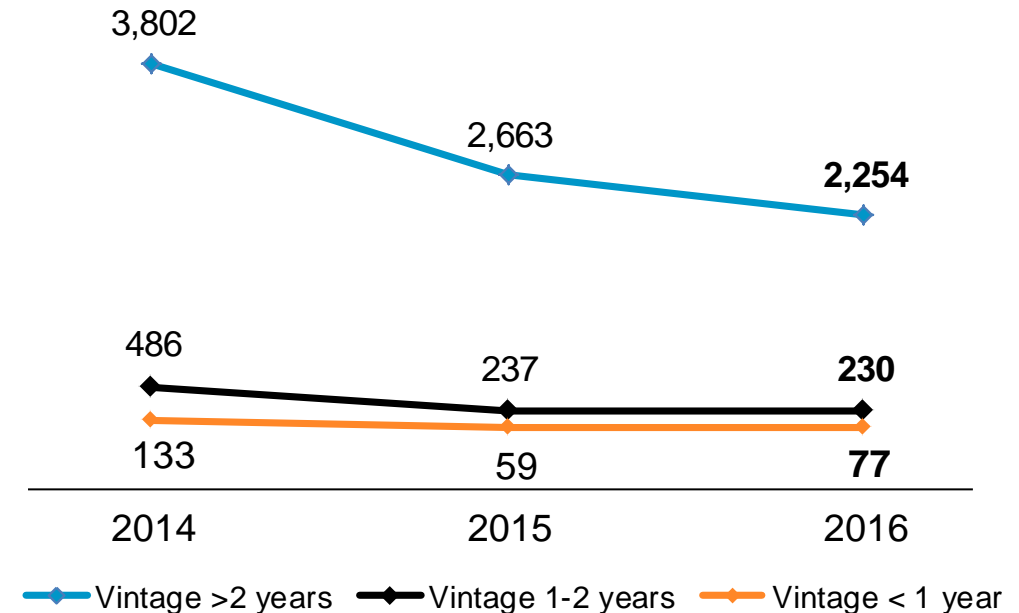
## Gross entry evolution, ex-TSB

Euros in million



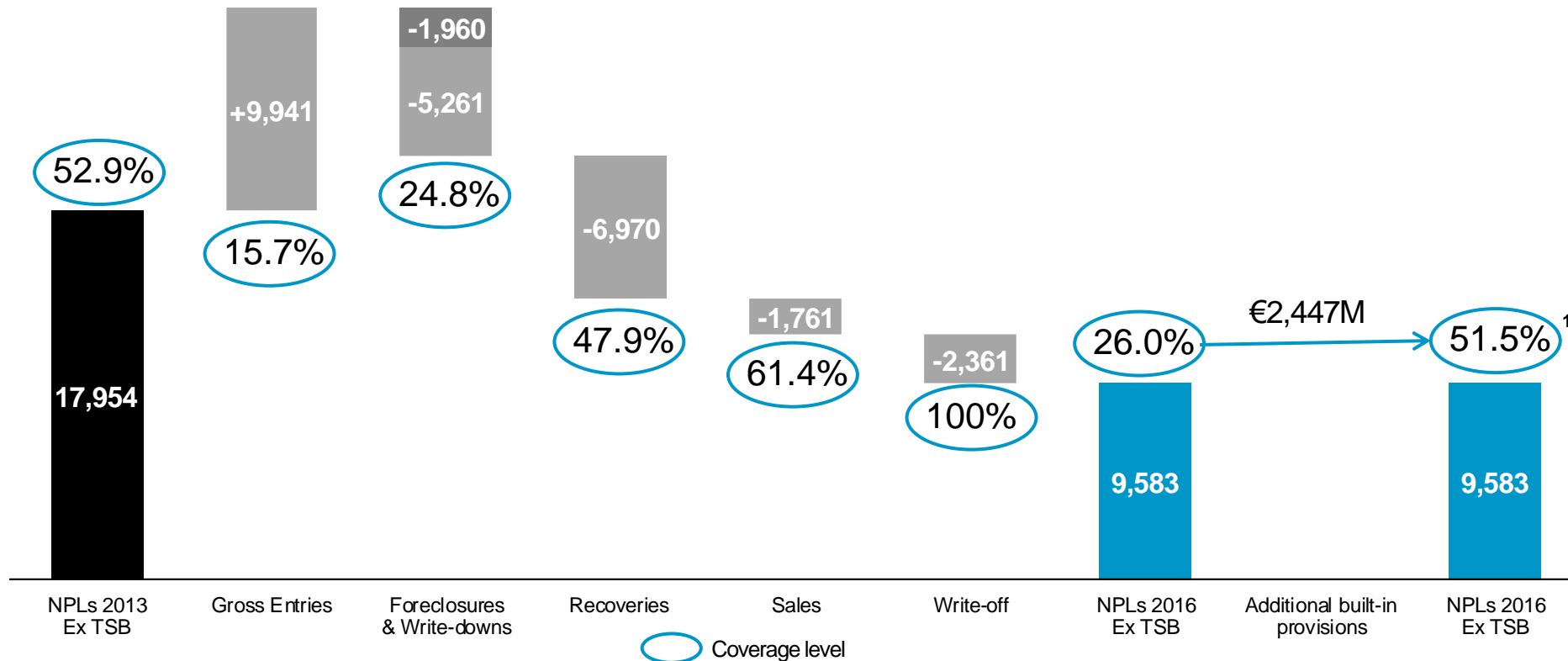
## Gross entries by vintage, ex-TSB

Euros in million



... as well as an improvement in mix

# We have reduced €18bn of our NPLs without significantly impacting our coverage ratio...



... which validates our coverage levels

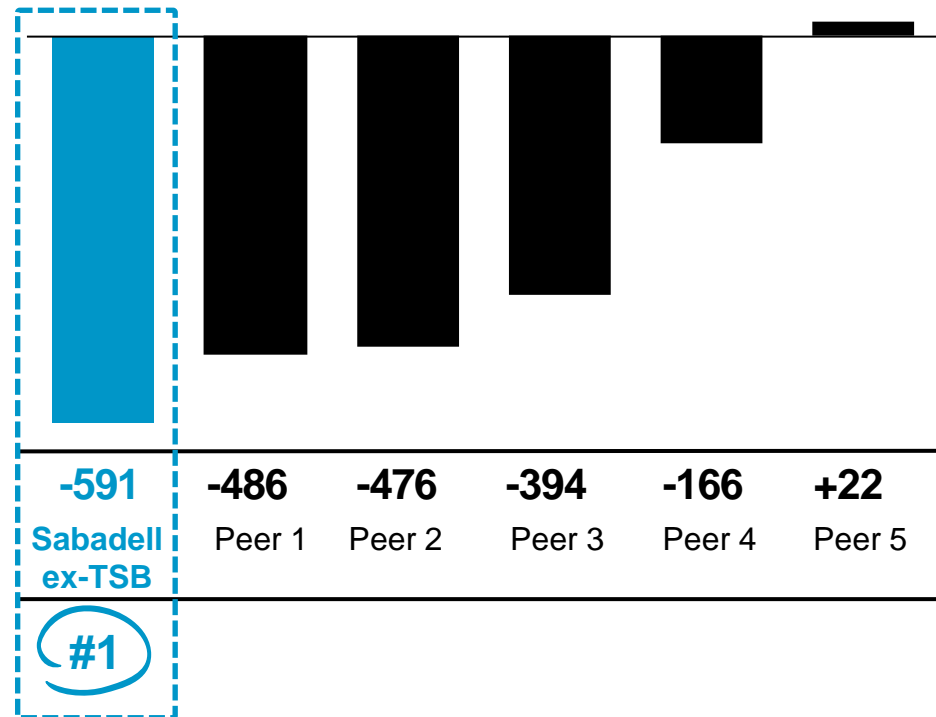
Note: NPLs include 20% of the NPLs included in the APS, which risk is assumed by Sabadell according to the APS protocol.

<sup>1</sup> NPL provisions include €410M for contingent events associated to the mortgage floors. Excluding this provision, NPL coverage stood at 47.25% (ex-TSB) as of December 2016.

# Today we are the bank that has improved the most its NPL ratio and #2 in NPA reduction since 2013

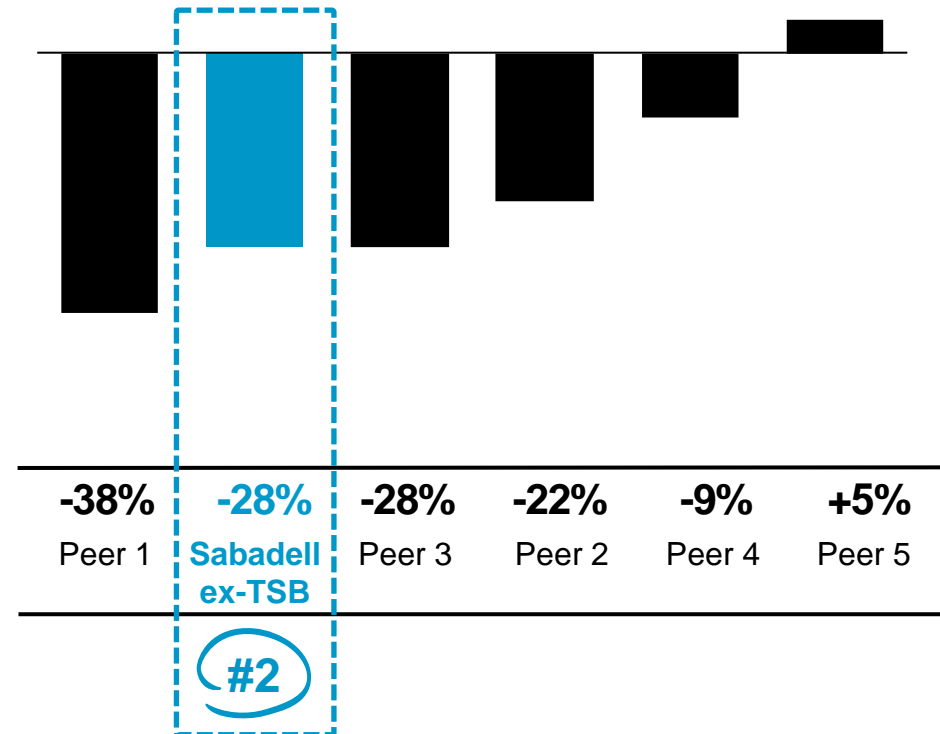
## NPL ratio reduction since Triple, ex-TSB

In basis points



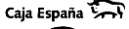








## NPA reduction since Triple, ex-TSB

In percentage



# Solvía, our fully owned real estate servicer, was instrumental in this strategy

2013	2014	2015	2016
<p>Solvía is integrated in the Asset Management Department of Sabadell</p> 	<p>Recognition campaign of Solvía brand</p> 	<p>Migration of REOs from Ceiss and Bankia and REDs from Ceiss</p>   	<p>Development of the commercial network with the opening of 11 agencies and 4 franchises</p>
<p>Start of servicing activities to third parties</p> 	<p>Addition of the Banco Gallego portfolio</p> 	<p>Opening of the first Solvía agency in Alicante</p>	<p>Focus on achieving efficiencies</p>
	<p>Solvía is the first foreclosing agent of SAREB to manage a portfolio</p> 		<p>Progress of the real estate development business with Sabadell and SAREB</p>
	<p>Carve-out of Sabadell's structure</p> 		

## Solvía

Sold Properties

**+91,000**

Developed Households

**+3,600**

Assets Under Management

**+€30,000M**

Rentals Under Management

**+10,000**

2016 Revenues

**€157.5M**

2016 Gross Profit

**€57.8M**

**Solvía is the Top 1 Spanish Real Estate servicer in Spain<sup>1</sup>**

<sup>1</sup>Source: Axis Corporate Report, December 2016.

# And we have seized opportunities to generate value with our assets

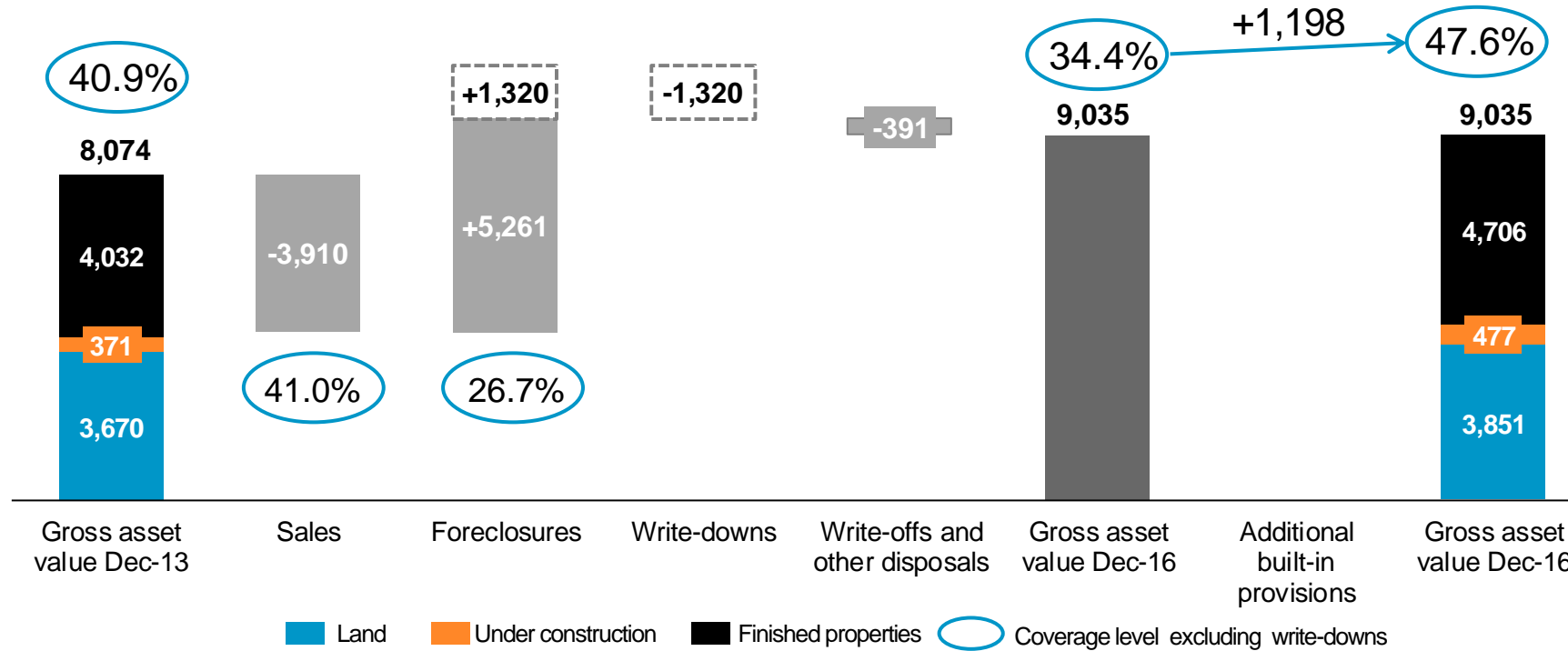
## Promotion and development



## HI Partners



# Our foreclosed asset coverage has increased from 40.9% to 47.6% during the Triple plan period ...



Solid coverage performance especially considering that we are a **Top bank in NPA reduction**

**Including “initial write-downs” for the period, our current foreclosed assets coverage rises to 54.2%<sup>1</sup>. If we include the write-downs before 2014, coverage would reach 57.5%<sup>1</sup>**

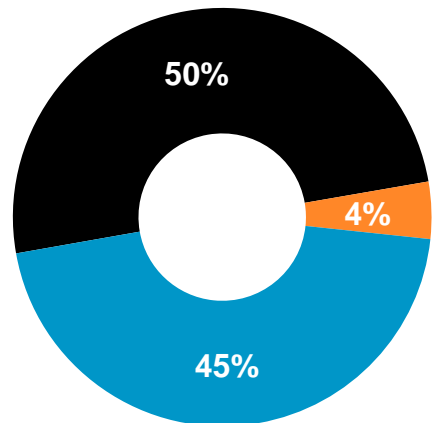
Note: Sabadell ex-TSB's Foreclosed assets include 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell according to the APS protocol.

<sup>1</sup> Including provisions associated to the original financing and initial write-downs.

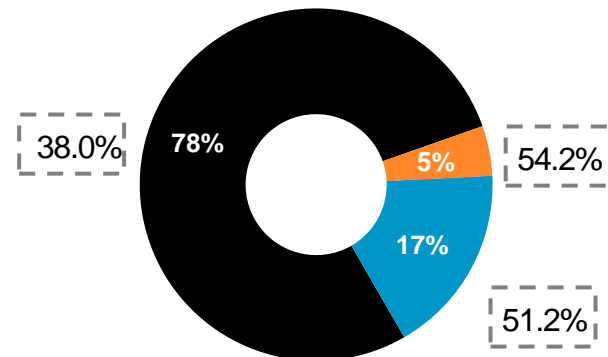


# ... and the mix has also improved, helped by the high rotation of the portfolio

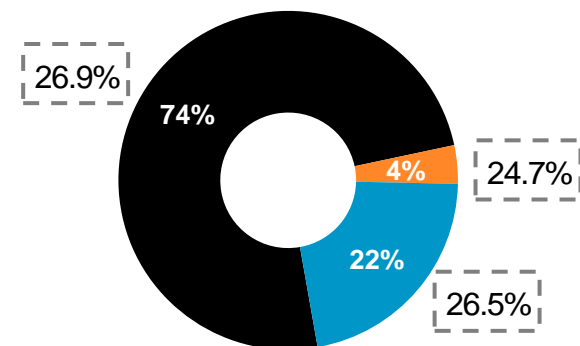
2013 Foreclosed assets



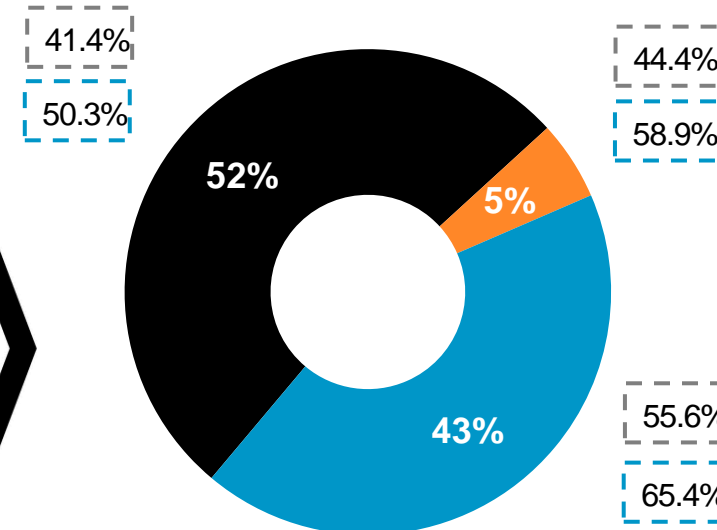
Sales 2014-2016



New entries 2014-2016



2016 Foreclosed assets



74% of our stock was foreclosed within the last 5 years and close to 50% just over the last three years, which shows its high rotation

Year of foreclosure	% Stock	% Coverage
<=2011	26%	64%
2012	14%	49%
2013	13%	44%
2014	17%	42%
2015	17%	43%
2016	14%	32%

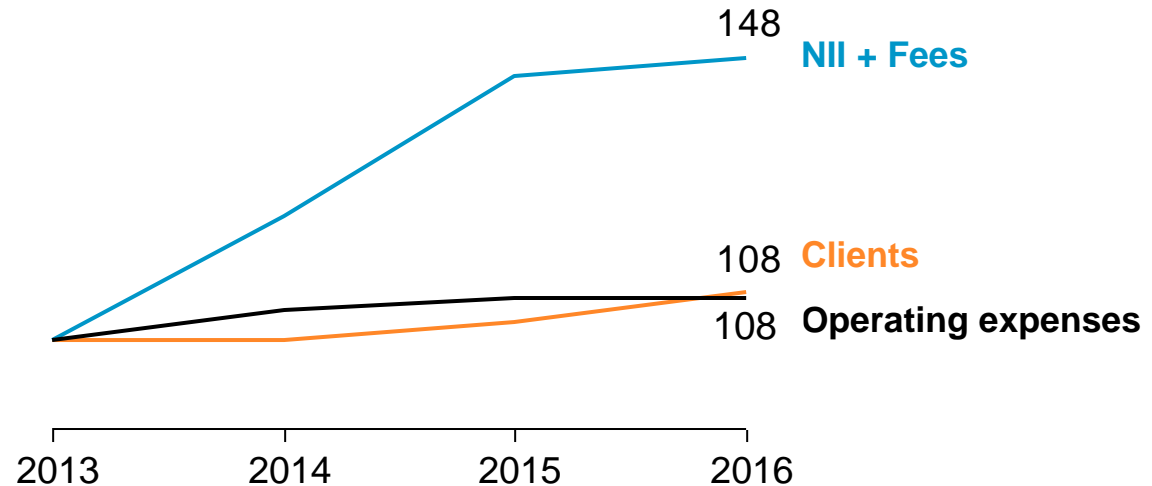
■ Land   
 ■ Under construction   
 ■ Finished properties   
    Coverage   
    Coverage including write downs

# We also launched TRIPLE to complete our operational transformation ...

... and today we have consolidated our leap in size, while **gaining efficiency**

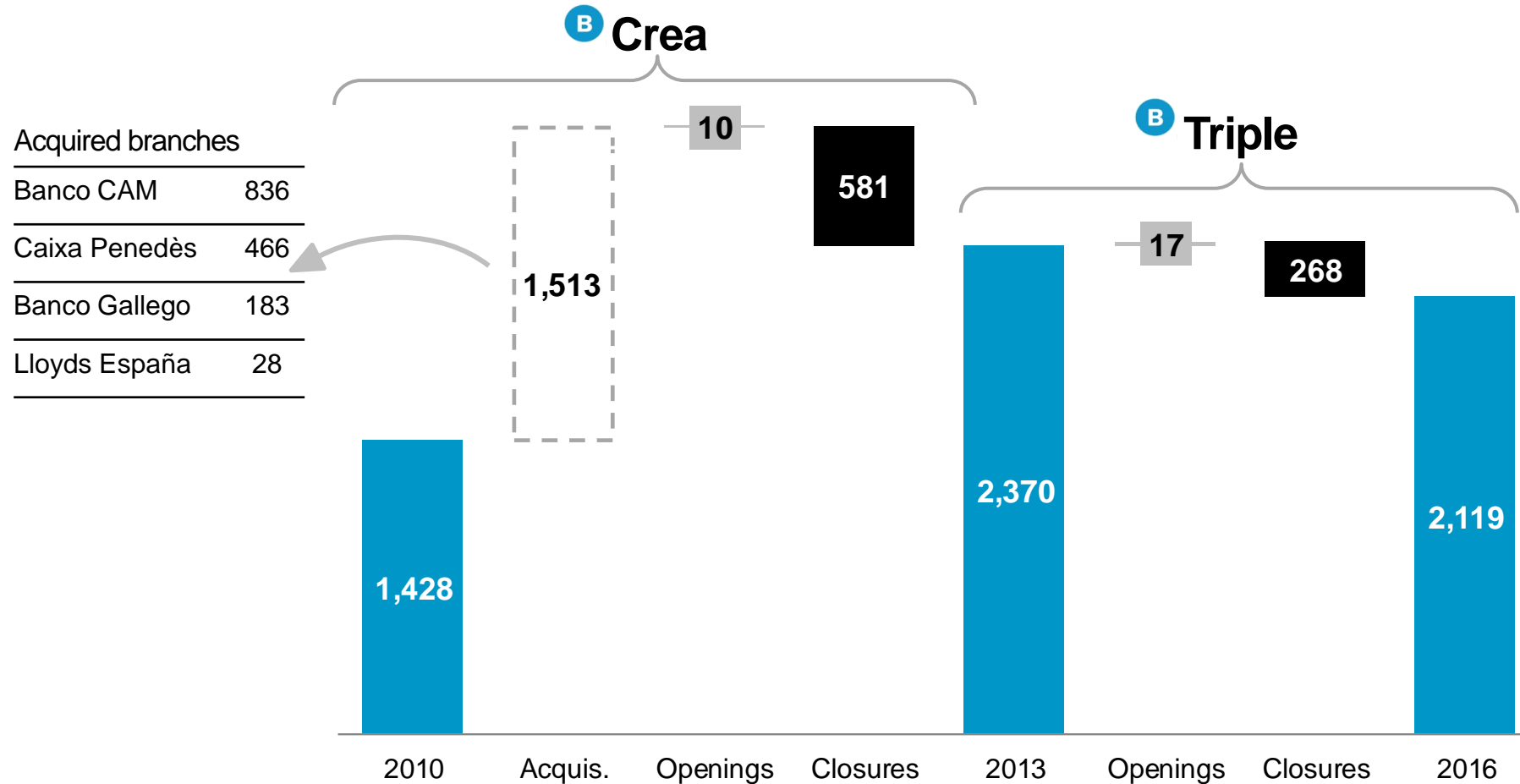
## Evolution of clients, expenses, and revenues

Sabadell, ex-TSB  
Rebased to 100 (2013 = 100)



# Sabadell is continuously optimising its branch network ...

## Branch network evolution in Spain



Acquired branches	
Banco CAM	836
Caixa Penedès	466
Banco Gallego	183
Lloyds España	28

... **having closed 268 branches during Triple**

# We launched TRIPLE to embrace commercial transformation ...

... and in terms of customer experience we **are ranked No. 1 by companies**, and in the top three by individuals

## Net Promoter Score<sup>1</sup>

	2016	Rank	▲ since 2013
Corporates (sales >€5M)	29%	<b>#1</b>	+ 14pp
Business banking (sales <€5M)	16%	<b>#1</b>	+ 13pp
Personal banking	29%	<b>#2</b>	+ 33pp
Retail banking	4%	<b>#3</b>	+ 26pp

<sup>1</sup>Source: Report Benchmark NPS Accenture. Considers peer group entities. Data as last available month.

# 5 “tangible” initiatives to improve efficiency and become customer experience leaders

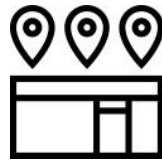
Initiative	Objective	Some examples of how we do it
1. Distribution model	Adjust the distribution model to the needs of customers, improving satisfaction and efficiency	<ul style="list-style-type: none"> <li>▪ Hub &amp; Spoke offices</li> <li>▪ Active Management (remote RM's)</li> <li>▪ Simplified network organisational structure</li> </ul>
2. Digital capabilities	Provide the best digital capabilities to our customers	<ul style="list-style-type: none"> <li>▪ Sabadell Mobile</li> <li>▪ Sabadell Wallet</li> <li>▪ Digital Signature</li> <li>▪ Instant Money</li> <li>▪ Touch ID</li> <li>▪ Sabadell Chat</li> </ul>
3. Commercial intelligence	Provide a personalised offering and launch value added products to customers	<ul style="list-style-type: none"> <li>▪ Customer impact driven by pull events</li> <li>▪ Kelvin Retail</li> </ul>
4. Value proposition	Improve our value proposition	<ul style="list-style-type: none"> <li>▪ Proteo Mobile</li> <li>▪ Companies commitment</li> </ul>
5. Simplification	Simplify the interaction of our customers with the bank	<ul style="list-style-type: none"> <li>▪ 1 single contract for all deposits products</li> <li>▪ 48 hours response time for consumer loans</li> <li>▪ New registration process for new customers</li> </ul>

# The leap in our digital transformation has enabled Sabadell to move forward



**2.2M**

Digital Customers  
41% of our customers



**863**

New model branches  
41% of our branch network



Simplebank

**One Click**

As a digital sales handler



**1.7M**

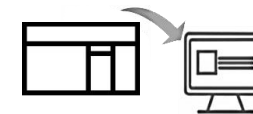
Mobile Customers  
32% of our customers

**Best rated banking App**



**230k**

Customers enrolled in Active Management  
159 remote relationship managers



**86%**

Of transactions are executed through remote channels



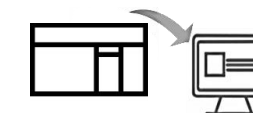
**Kelvin Retail**

Data-analytics service for businesses that provides value-added information about their commercial activity and their competitive market



**3,500**

Tablets distributed to RM's<sup>1</sup>



**19%**

Of our sales are executed through digital platforms

<sup>1</sup>RM stands for Remote Management.

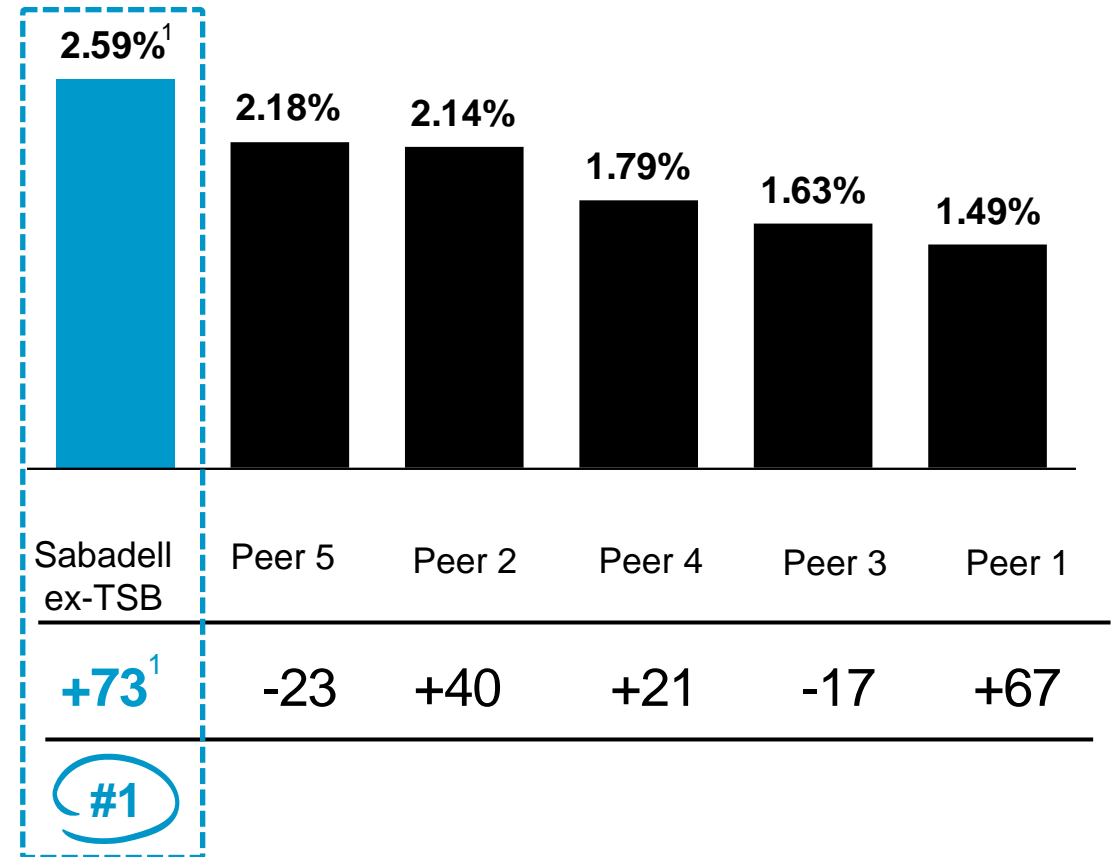


# We launched TRIPLE to improve profitability ...

... and today we have achieved the **top customer spread in Spain**, being the bank with the largest increase since 2013

## Customer spread, ex-TSB<sup>1</sup>

In percentage. Data as of 4Q2016



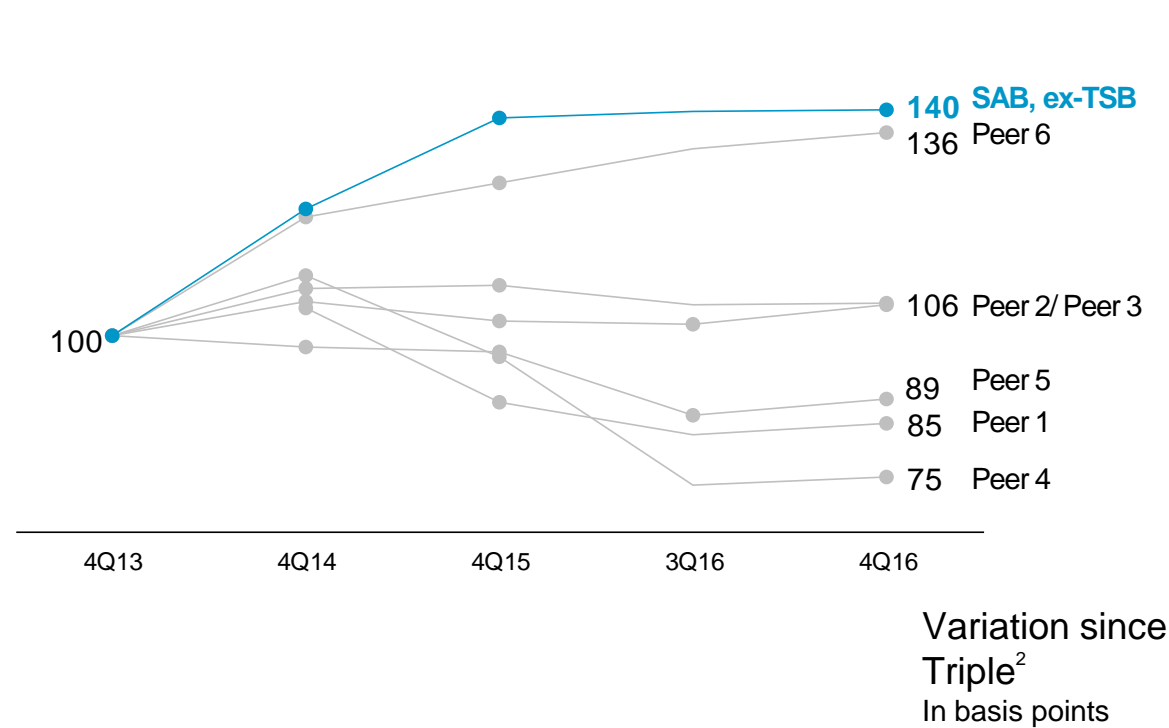
<sup>1</sup> In the case of Sabadell Group, the Customer Spread stands at 2.69% and variation since Triple rises to 83 basis points.

<sup>2</sup> Data as of Banks analyst 's results presentations. For international banks includes business in Spain only. Data from Dec-2013 to Dec-2016.

# Our margin had the best performance among peers

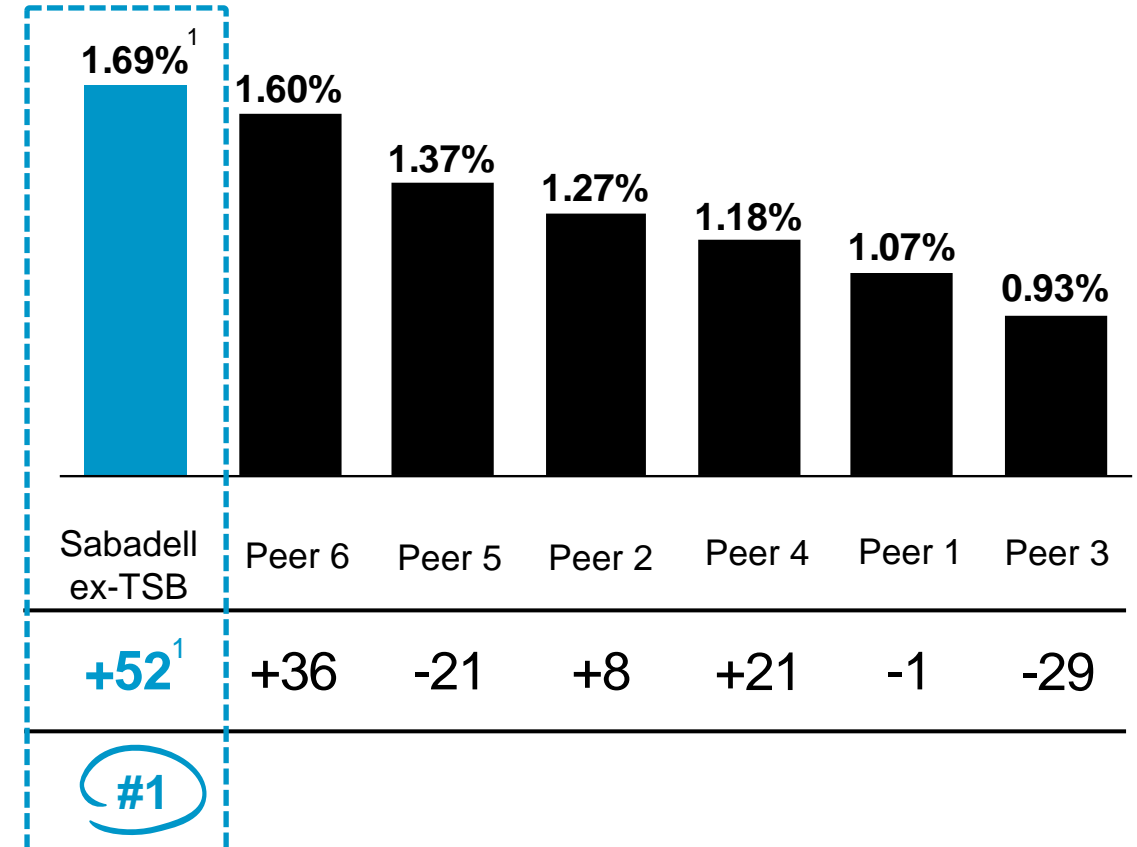
## Net interest income evolution, ex-TSB

Rebased to 100



## NIM as % of ATA, ex-TSB<sup>1</sup>

In percentage. Data as of 4Q2016









<sup>1</sup>In the case of Sabadell Group, NIM as % of ATA stands at 1.82% and variation since Triple rises to 65 basis points.





<sup>2</sup>Data as of Banks analyst 's results presentations. Data from Dec-2013 to Dec-2016.



# We have achieved our main commercial domestic growth targets

	Insurance protection margin	Consumer finance margin	Treasury distribution income	Mutual funds fees	Pens.plan & savings insur. margin	Private banking margin
<b>TRIPLE objective</b>	+ 72%	+ 32%	+ 43%	+ 94%	+ 17%	+ 41%
<b>2016 result</b>	+ 96% 	+ 84% 	+ 72% 	+ 100% 	+ 24% 	+ 45% 

	Market share PoS turnover	Market share credit card turnover	Market share mutual funds	Market share transactionality	Market share total export	Ranking securities trading
<b>TRIPLE objective</b>	x 1.3	x 1.3	x 1.6	x 1.3	x 1.3	Top 5
<b>2016 result</b>	x 1.4 	x 1.3 =	x 1.5 	x 1.2 	x 1.3 =	Top 3 



# Through Triple we aimed at placing 10% of our business outside of Spain ...

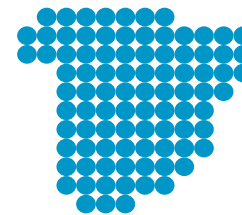
... and today **one third of our business is overseas**, surpassing our target

## Triple Plan milestones

- ✓ TSB acquisition
- ✓ Creation of a retail bank in Mexico
- ✓ SUB & SIB development in USA
- ✓ New RO in Colombia & Peru

## Sabadell Group loan distribution

In percentage



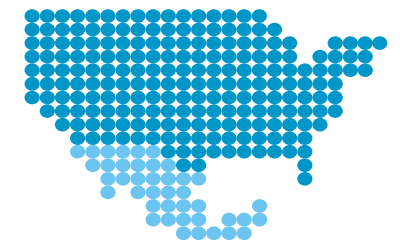
Spain

68%



UK

24%



Americas

8%



# Our greatest step in terms of internationalisation was the acquisition of TSB in the UK

TSB's growth strategy at launch

Provide great banking to more people

Help more People to borrow well

Provide the kind of banking people want and deserve

## IPO Targets for 2019 (5 years after IPO)

## Position at the end of 2016

PCA <sup>1</sup> market share (flow) consistently in excess of <b>6%</b>	<b>7.3%</b> average monthly share of flow since Jan 2014
<b>40-50%</b> growth in franchise customer lending	<b>46%</b> growth in customer lending (including Whistletree) <sup>2</sup>
Increase use of digital channels in sales and service	<b>c. 52%</b> of sales through digital channels
Constrain long-term cost growth to no more than <b>3% p.a.</b>	<b>0.6%</b> compound annual growth rate in costs 2014 – 2016

TSB is **performing above** its IPO targets

<sup>1</sup> Personal current accounts.

<sup>2</sup> Excluding mortgage enhancement. Since IPO.

# 2016 was the first full year for TSB as part of Sabadell group ...

## TSB delivery against Strategic pillars



Share of current account flow

**6.4%**

Deposit growth YoY

**+14%**

Loan growth YoY

**+19%<sup>1</sup>**

Remortgage flow growth YoY

**+50%**

NPS<sup>2</sup>

**+23.4**

Britain's most recommended *High Street Bank*<sup>3</sup>

**1<sup>st</sup>**

... and it had **an outstanding performance**

<sup>1</sup> Refers to Franchise only.

<sup>2</sup> NPS is based on the question "On a scale of 0-10, where 0 is not at all likely and 10 is extremely likely, how likely is it that you would recommend TSB to a friend or colleague?" NPS is the percentage of TSB customers who score 9-10 after subtracting the percentage who score 0-6. Calculated as a 12 month rolling average, with the exception of the 2013 NPS, which is a spot score at October 2013.

<sup>3</sup> Source: Independent benchmark study (covering all major banks) conducted by BDRC Continental; sample 15,000 UK consumers, March 2016.

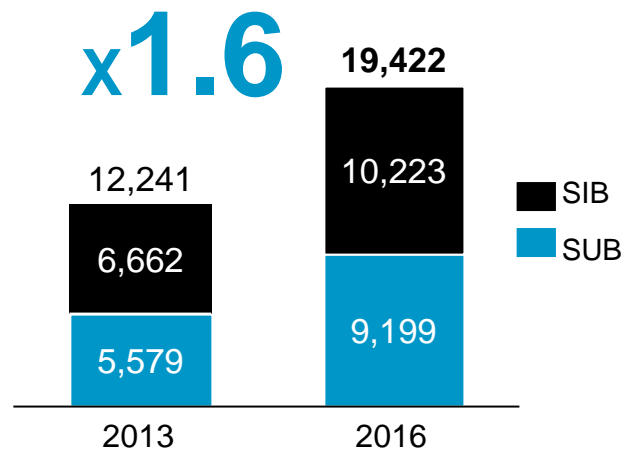
# In America we are growing at a fast rate

## USA

- Sabadell International Branch**
- Full international branch in Miami operational since 1993
  - International banking, corporate banking and project finance
- Sabadell United Bank**
- Sixth largest Florida headquartered bank by deposits

### Business volume in USA

US dollar in million

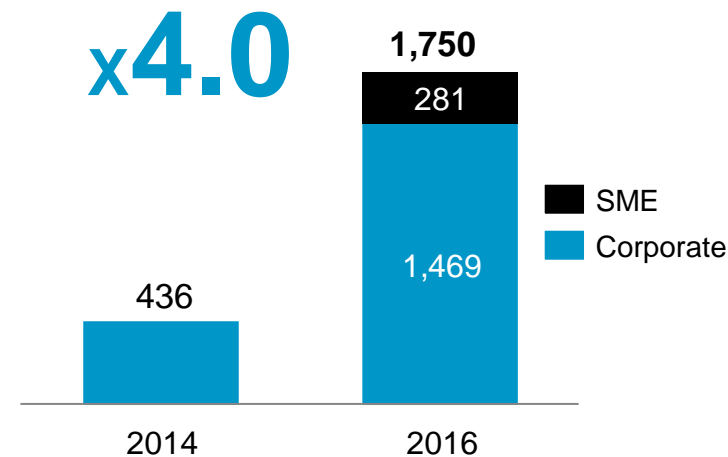


## Mexico

- Launched Corporate, Structured Finance and SMEs activity
- Opened 5 business centres

### Loans in Mexico

US dollar in million

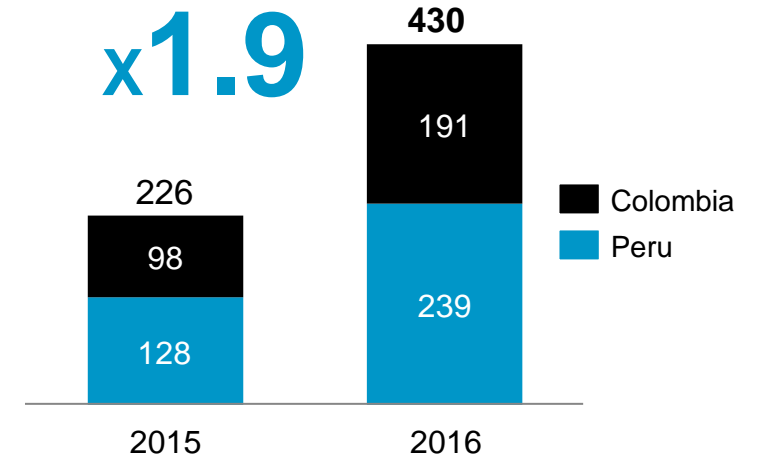


## Colombia and Peru

- Opened Representative Offices in October 2015

### Loans in Colombia and Peru

US dollar in million

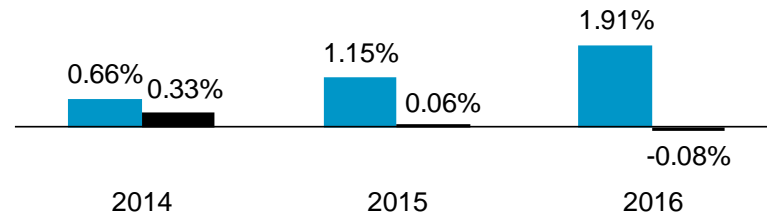


# During the last 3 years we have managed to Triple our results, despite the external headwinds ...

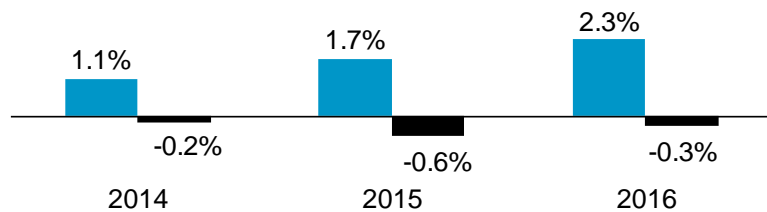
## Triple plan assumptions vs. actual

In percentage

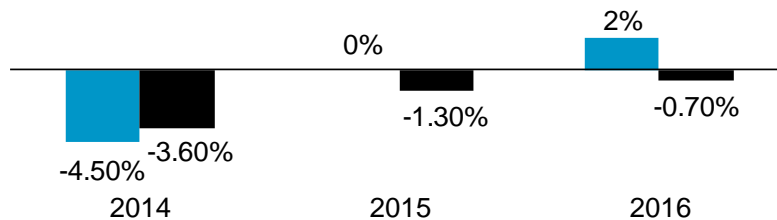
EURIBOR  
12 months  
evolution



HICP  
inflation



Sector loan  
volume  
evolution



Regulatory  
and macro  
events



New regulatory requirements impacting capital and provisions

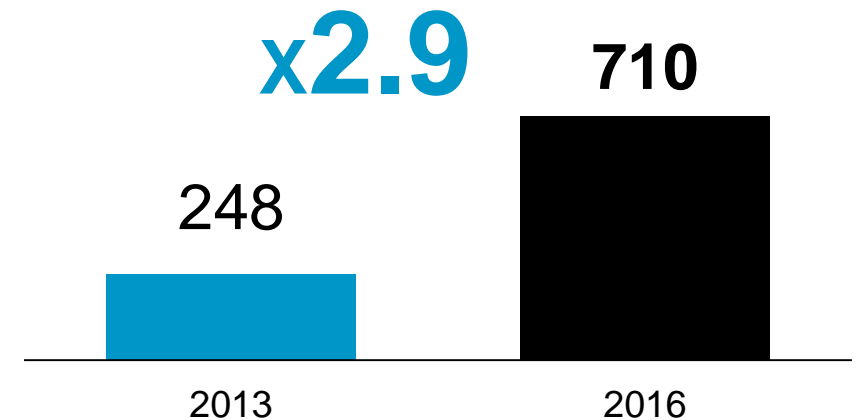
■ Triple plan forecast ■ Actual

... achieving **all Triple targets** in the first 2 years of the Plan













































## Group net profit

Euros in million



# We have achieved most of our Triple plan financial targets

Year 3

	Triple Plan target	Sabadell Group 2016		Sabadell Ex-TSB 2016	
Net interest income	€3bn	€3.8bn	  	€2.8bn	  
Commissions	€1bn	€1.1bn	  	€1.0bn	  
NPL Reduction <sup>1</sup>	€7.7bn	€8.2bn	  	€8.4bn	  
NPA Reduction <sup>1</sup>	€4.4bn	€7.2bn	  	€7.4bn	  
Capital phase-in	11.9%	12.0%	  	12.0%	  
Capital fully loaded	11.2%	12.0%	  	12.0%	  
Net interest margin	1.76%	1.86%	  	1.71%	  

<sup>1</sup>Includes contingent risk. The Group and Sabadell ex-TSB's NPLs and NPAs include 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell according to the APS protocol.

# In 2016 NII performance has been conditioned by an all-time low interest rate environment...

**Net Interest Income (NII)**



NII €230M below Triple target, mainly affected by:

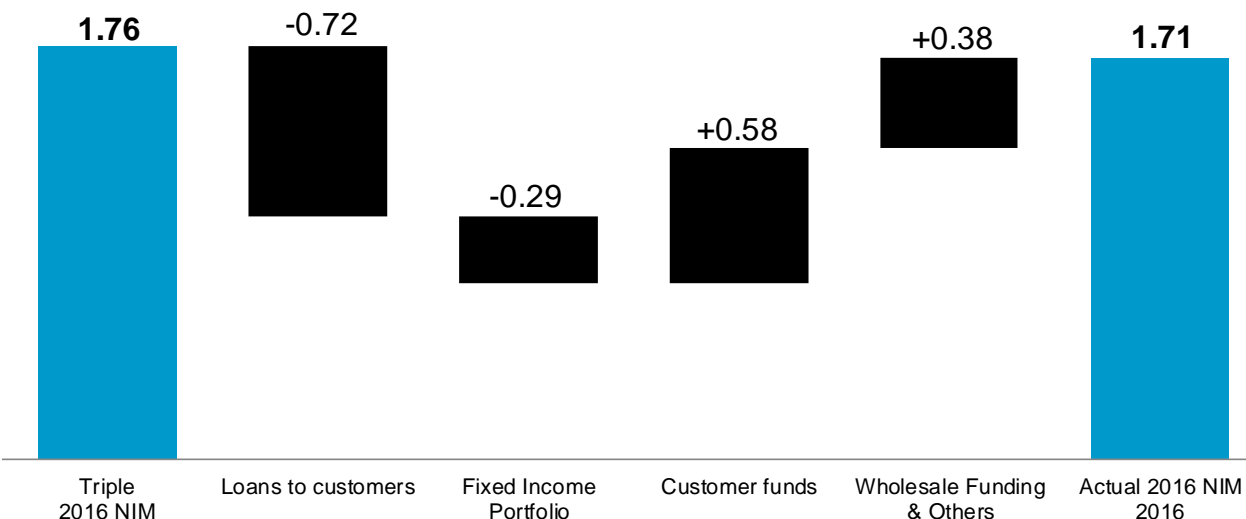
- Unprecedented lower-for-longer interest rate environment (€80M)
- The size of the ALCO portfolio was €7bn smaller than our Triple plans assumption (€130M)

Customer spread	2014	2015	2016
Real (a)	2.23	2.49	2.64
Triple (b)	2.01	2.43	2.94
(a-b)	0.22	0.06	-0.31
Net Interest Margin	2014	2015	2016
Real (a)	1.38	1.61	1.71
Triple (b)	1.29	1.55	1.76
(a-b)	0.09	0.06	-0.05



... and our **Net Interest Margin is only 5 bps** below our target. At the same time, **we have achieved volume assumptions for both, loans as well as customer funds**

**Net Interest Margin<sup>1</sup>. Causal analysis** (in basis points)



<sup>1</sup>Accumulated (annual) net interest margin.



# This, and other factors, have determined our level of achievement of other Triple targets during 2016

**Cost-to-Income**



**Cost-to-Income** of Triple impacted by:

- Ex-TSB → Lower NII. If NII had been achieved, the Cost-to-Income target would also have been achieved

**Net Income**



Besides NII, **Net Income** has been impacted by other factors:

- One-off impairments (BCP, new Bank of Spain provisioning circular and mortgage floor provisioning)
- Other factors impacting impairments: (1) larger reduction of foreclosed assets; (2) unexpected deflationary environment, impacting the economy and the recoveries capability in the second half of the plan; and (3) the heavy load on the Spanish judicial system has pushed us to rely more on out-of-court settlements to speed up the stock resolution, which has meant higher impairments

**ROTE**



**ROTE** has been determined by:

- Lower than expected net income
- Capital increase due to TSB acquisition
- Increased capital requirements in response to regulation

# 2

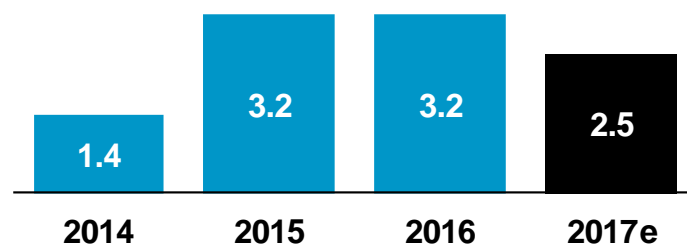
2017: a transition year

# Spain

The economy is proving to be very dynamic, with positive inflation

## GDP

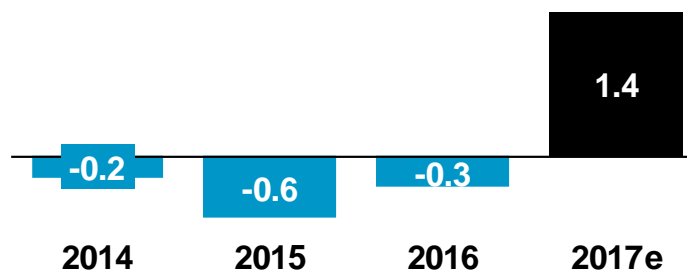
Year average, annual variation in percentage



GDP is growing at similar levels to those observed before the crisis

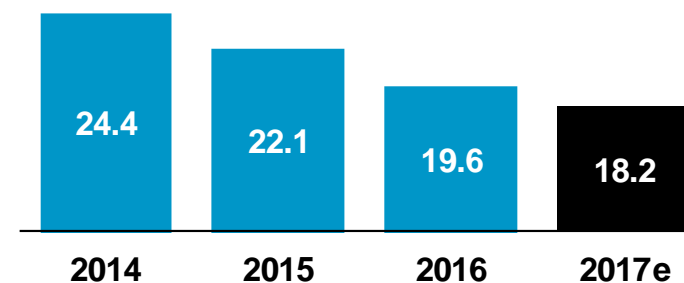
## HICP inflation

Year average, annual variation in percentage



## Unemployment rate

Year average, percentage of active population

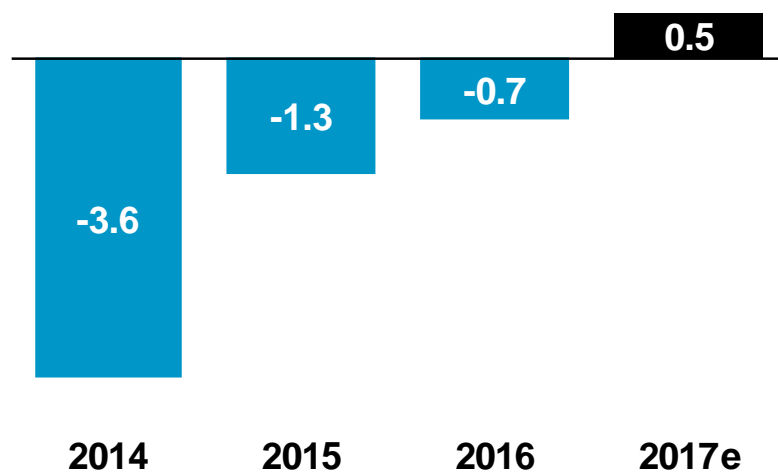


# Spain

Lending to the private sector will gradually improve

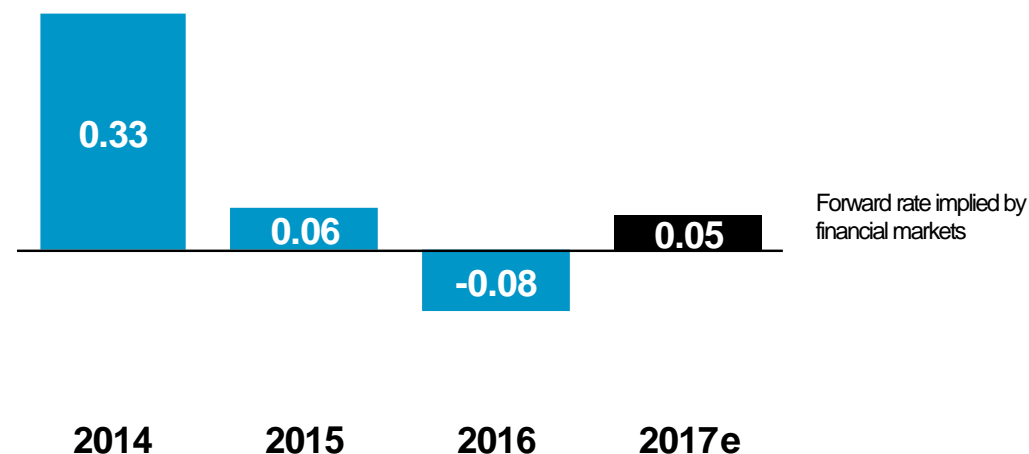
## Lending to the private sector

Year end, YoY change in percentage



## Euribor 12 months

Year end, in percentage



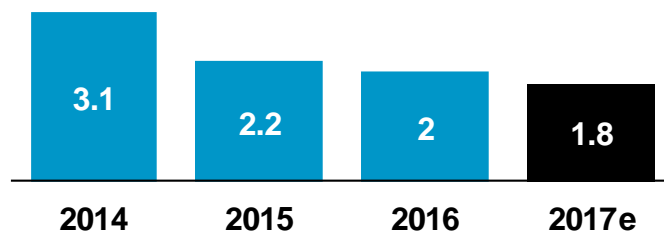
The Euribor curve has already reached its bottom

# United Kingdom

The economy has performed better than initially expected

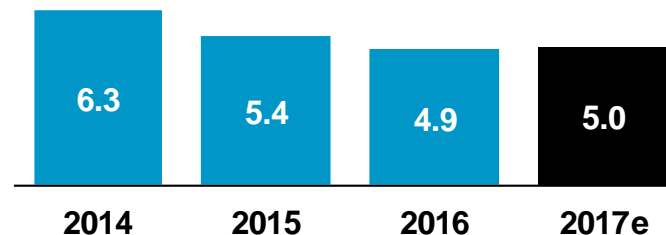
## GDP

Year average, annual variation in percentage



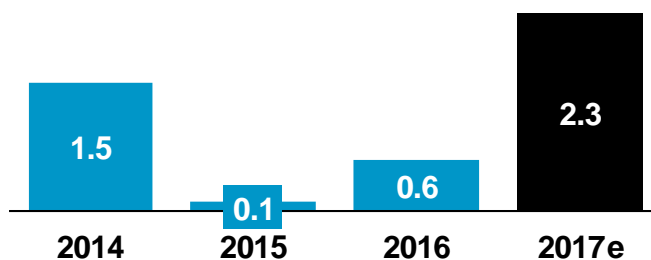
## Unemployment rate

Year average, percentage of active population



## HICP inflation

Year average, annual variation in percentage



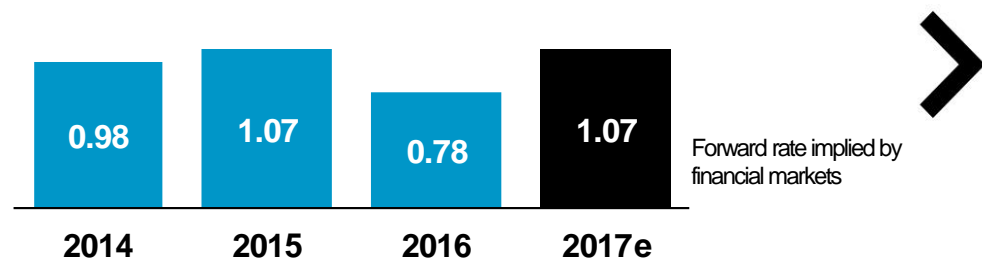
Most analysts have revised their economic forecasts upwards

# United Kingdom

Positive momentum for lending in 2017

## Libor 12 months

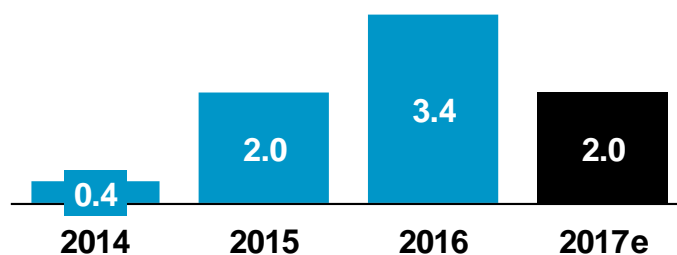
Year end, in percentage



Financial markets expect that the next BoE policy move will be a rate hike

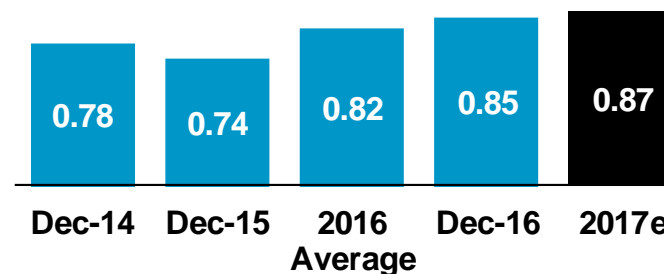
## Lending to the private sector

Year end, YoY change in percentage



## Pounds per euro

Year end



# 2017 represents a transition year...

## Key TSB events

- ✓ TSB migration
- ✓ One-off step up in IT costs
- ✓ TSB expected loss reserve runs off

## Focus on



**Leap in  
transformation  
&  
successful  
completion of  
TSB migration**

## ... with the following key priorities ...

1. Successful completion of TSB IT platform migration
2. Commercial activity protecting margins and increasing fees
3. Cost containment (both in Spain and UK)
4. Continued reduction in non performing assets (target of €2bn annual reduction)
5. Leap in commercial transformation (remote management and digital offering)

Sabadell ex-TSB will absorb TSB's one-off (step-up in IT costs in the year anticipated in the LTSA agreement, and an increase in provisions due to full expected loss reserve deployment)

**... and a strong focus on delivering on net profit guidance**



# 1. TSB platform will bring even better banking to UK customers



- ✓ Working hand in hand with Lloyds, we are on track to deliver **a complex and ambitious migration project**
- ✓ The data centre configuration (active-active) will provide **the most secure technology available**
- ✓ **7,000 thin client terminals** will be deployed in 2017
- ✓ Single source of truth and instant scalability provide **agility**

# 1. The TSB migration project is on track and all milestones have been met

## Key achievements

## Overall status

**Mobile App**



- New TSB Mobile App developed and launched
- c.1,000 Partners currently participating in the pilot



**On track**

**Proteo4UK delivery**




- Proteo4UK build phase is 95% completed
- User testing (UAT) started as scheduled in October
- Certifications for Faster Payments solutions achieved according to plan



**On track**

**Data migration**



- Data Mapping and Extraction progressing as planned
- Reached contractual framework with Lloyds, a key partner in the project, to make the migration a success



**On track**

**SABIS UK and GSE**



- SABIS UK became fully operational
- Global Services Enterprise (GSE) successfully launched to intra-group synergies



**On track**

# 1. TSB migration is on track to be completed by late 2017...

## Key milestones during 2017

## Timing

Mobile App



- Initial rollout to 50k customers in February
- Full customer launch of the mobile app

- February/ beginning of March


Proteo4UK delivery



- Proteo4UK build phase completed
- Complete the testing phase (launch Pilot desktop in 1Q)
- In-depth training for TSB employees to ensure a smooth transition

- By year end

Data migration



- Rehearsal support
- Migration execution




- By year end



**Migration weekend is by the end of 2017**

# 1. ... and it will require all of our attention to be a success

A new lean platform empowers TSB to...

- ✓ Reduce production costs, **creating synergies**
- ✓ Gain **operational autonomy**
- ✓ Improve **customer experience** through:
  -  Digitalisation
  -  Time-to-market
  -  Range of products



**Larger savings** than originally expected in items like consultancy and other spare services, have **offset** the costs of **new developments** like the Data Warehouse and the new Mobile App

... building a competitive edge in the UK market

## 2. Our commercial strategy by divisions...

	Focus	Drivers	Target 2017
Commercial Banking Spain	▪ Client base growth	Sight deposits	+11.5% YoY
	▪ Transactionality	New working capital lending	+4.6% YoY
	▪ Business lending	New unsecured lending to individuals	+15.8% YoY
	▪ Consumer lending	New mortgages lending	+10.8% YoY
	▪ Increase in fee income	Fee income	> 5% YoY
TSB	▪ Maintain the organic momentum	Franchise mortgages	+14.0% YoY
		Unsecured loans	+4.3% YoY
		PCA flow	≥ 6%
America	▪ Maintain strong growth rate in USA ▪ Deploy new products and services in Mexico	Sabadell International Branch's AuMs	+3.2% YoY
		Sabadell United Bank's business volume	+7.7% YoY
		Mexico's gross loans	+28.5% YoY
Corporate Banking <sup>1</sup>	▪ Structured finance growth ▪ Worldwide customer management	Gross loans	+6.22% YoY

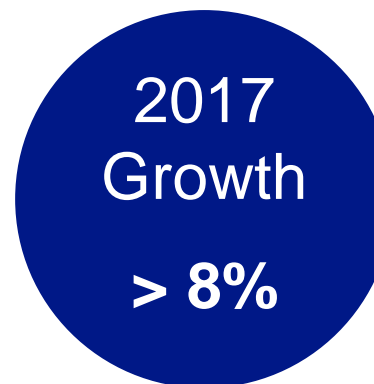
<sup>1</sup> Includes Spain Corporate Banking, international branches network (Miami, Paris and Casablanca) and Mexico SOFOM.

## 2. ... will enable us to grow volumes while protecting margins... <sup>B</sup>Sabadell

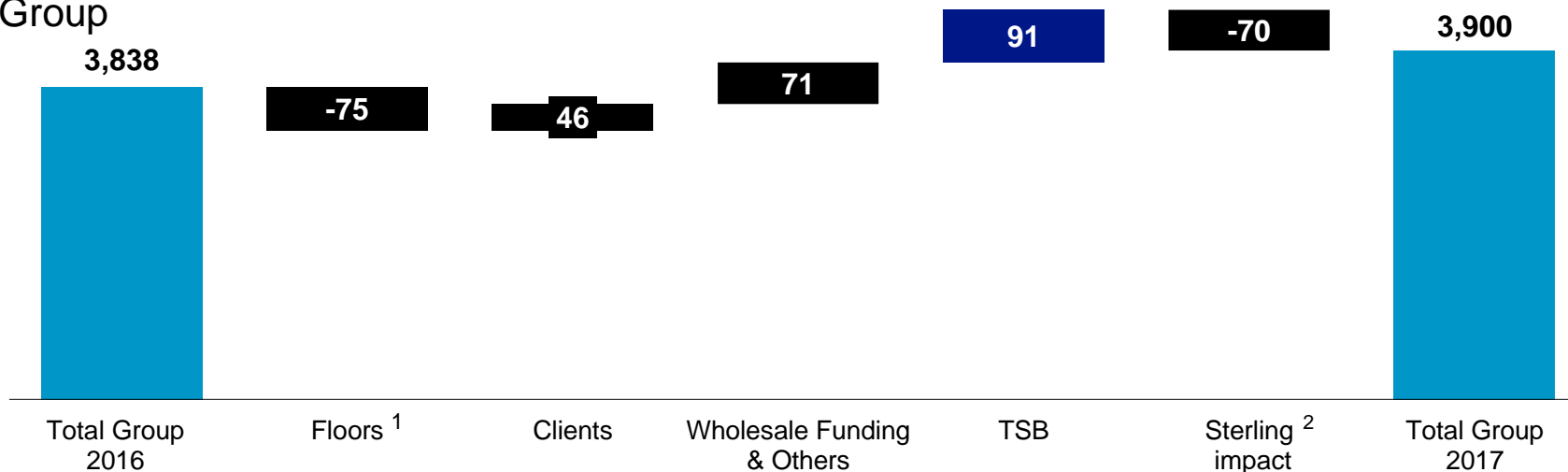
**Performing Gross Loans**  
Sabadell ex-TSB



**Performing Gross Loans**  
TSB (GBP)



**Net interest income**  
Sabadell Group

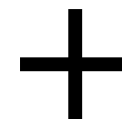


<sup>1</sup> Impact of the renegotiation of commercial agreements that contains floors with customers over 2016 and 2017.

<sup>2</sup> EURGBP exchange rate was 0.8166 in 2016, while 0.87 has been assumed for 2017.

## 2. ... and increasing fees

Focus	Drivers	Target 2017
Δ <b>Customer base</b>	Customer acquisition: Individuals	+7.6% YoY
	Customer acquisition: Businesses	+2.3% YoY
Δ <b>Transactionality</b>	Payroll enrolments	+26.5% YoY
	Credit card turnover	+14.0% YoY
	PoS turnover	+13.5% YoY
Δ <b>Cross-selling</b>	Mutual funds volume	+8.3% YoY
	Pensions plans volume	+7.5% YoY
	Margin of premiums on new insurance production	+15.3% YoY



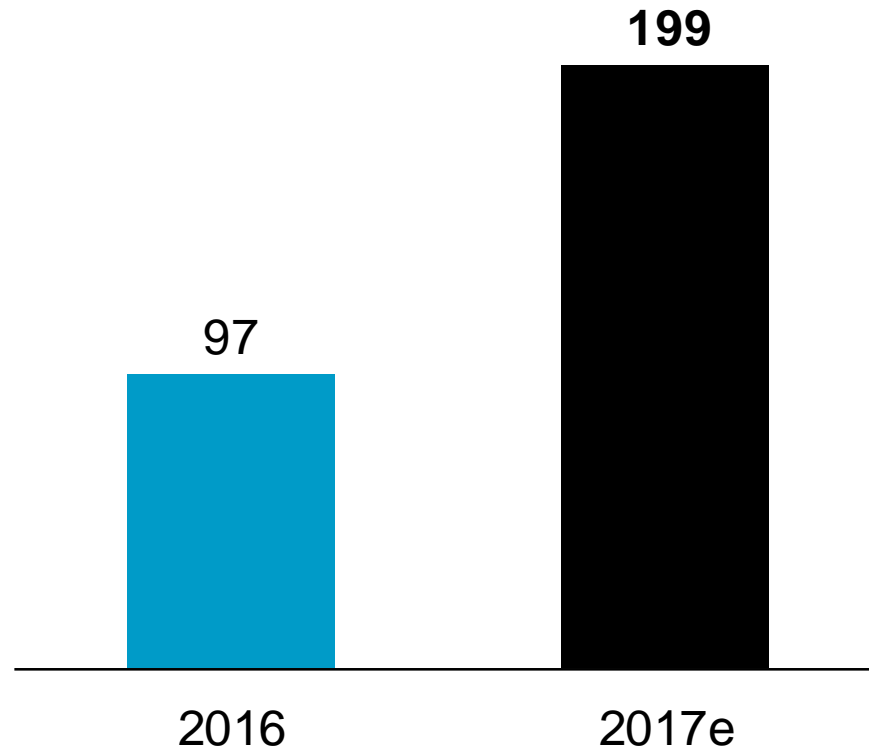
**Fees  
optimisation  
plan**

**2017  
Growth  
> 5%**

### 3. TSB will incur one-off items during the year, as already anticipated ...

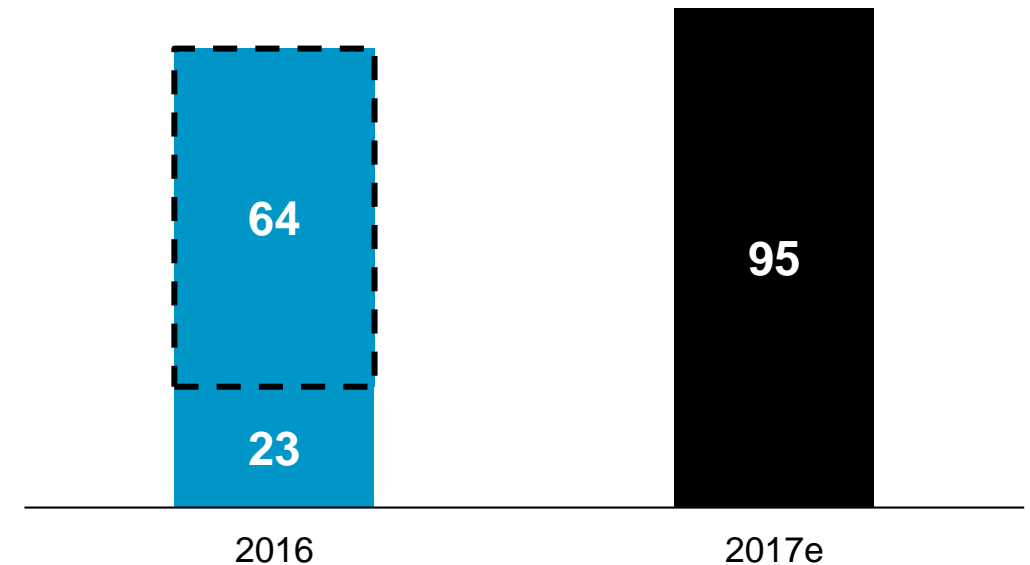
#### Step up in IT costs

GBP in million



#### Step up in consolidated provisions

GBP in million



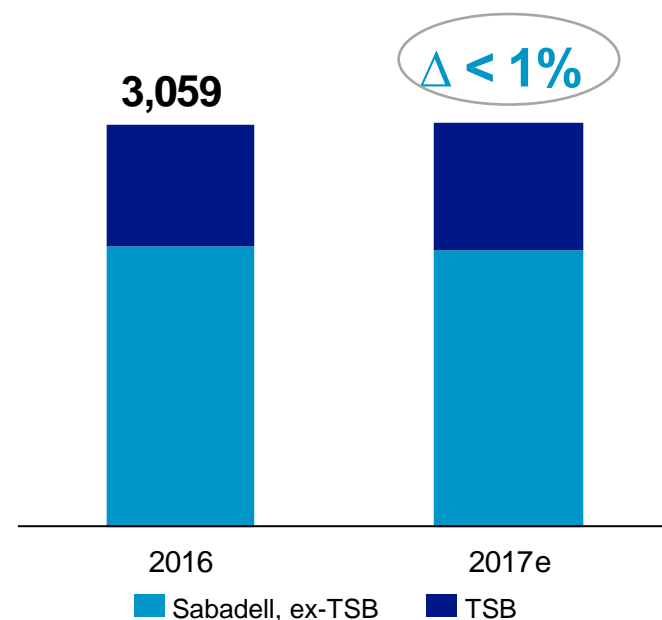
 Expected loss provisions recognised in the PPA



# 3. ... but we will continue to prioritise cost containment

## Group operating expenses including amortisation

Euros in million



Increased efficiency, leveraging the transformation process (operations, commercial, people)



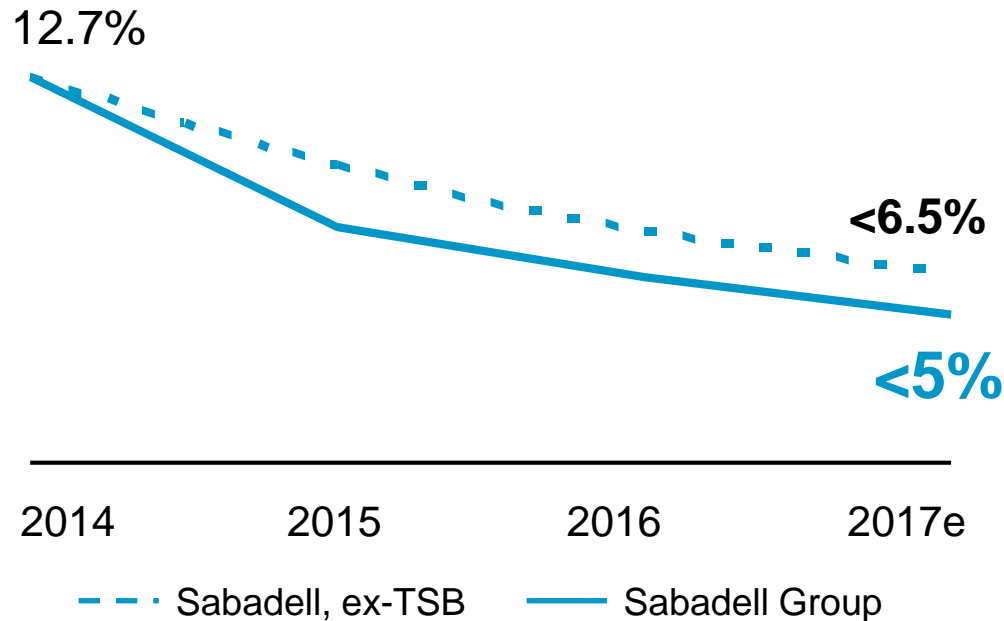
- ✓ 250 branch closures
- ✓ Optimisation of central services
- ✓ Initiatives to maximise savings

2017  
Total Group  
Cost  
Δ < 1%

# 4. We will maintain a strong focus on NPA reduction

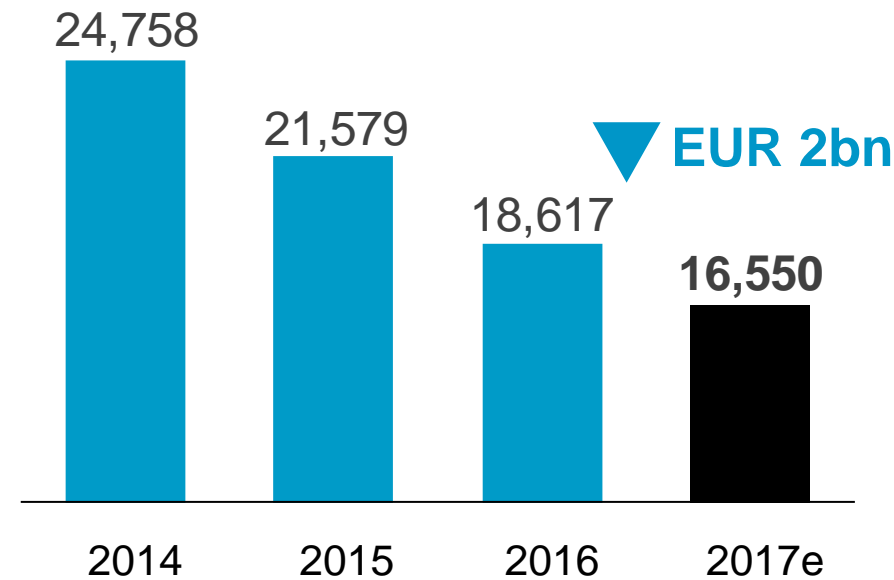
## NPL ratio evolution

In percentage



## Total problematic assets evolution, ex-TSB

Euros in million



2017 Provisions  
€1.1bn

48% Coverage  
excluding mortgage floors provision

# 5. Leap in commercial transformation through an increase in remote and digital clients ...

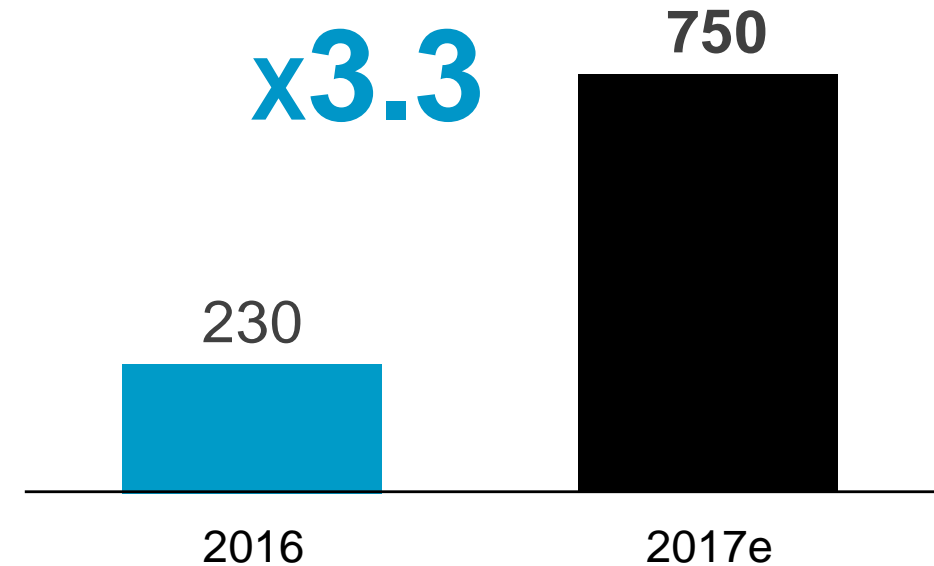
Increase the number of customers within the Remote Management model...

... while expanding our digital capabilities...

- Digital sales capabilities: 80% *(70% in 2016)*
- 30% of customer impacts driven by pull events (“leads”) *(20% in 2016)*
- 10% reduction in number of products

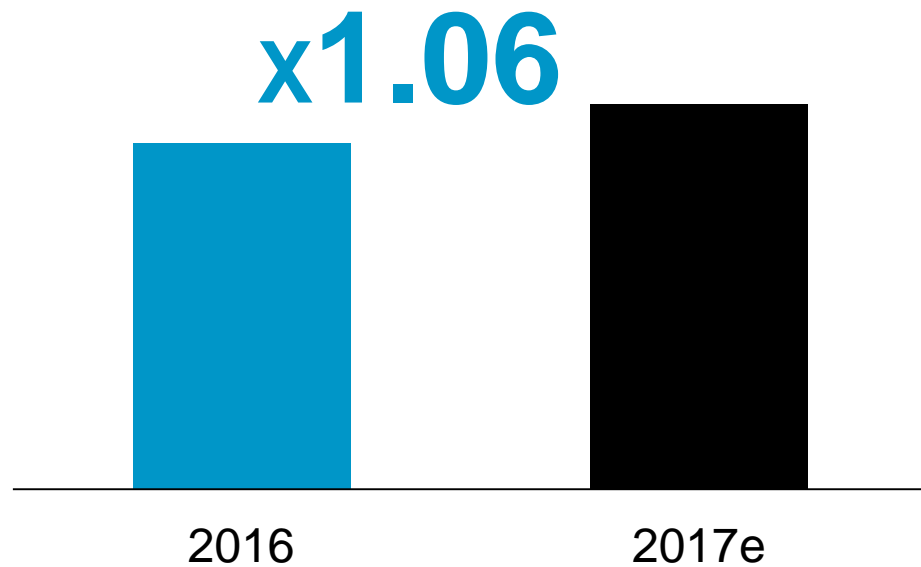
... and reinforce Sabadell’s brand

**Number of clients enrolled in Remote Management**  
In thousands

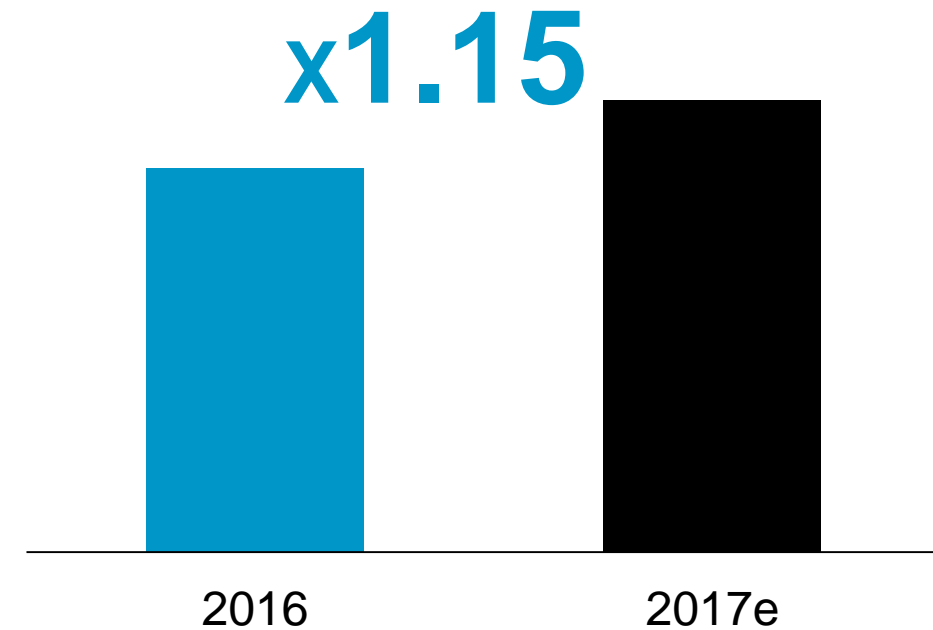


# 5. ... as well as through an increase in business volume

Business volume / employee, ex- TSB

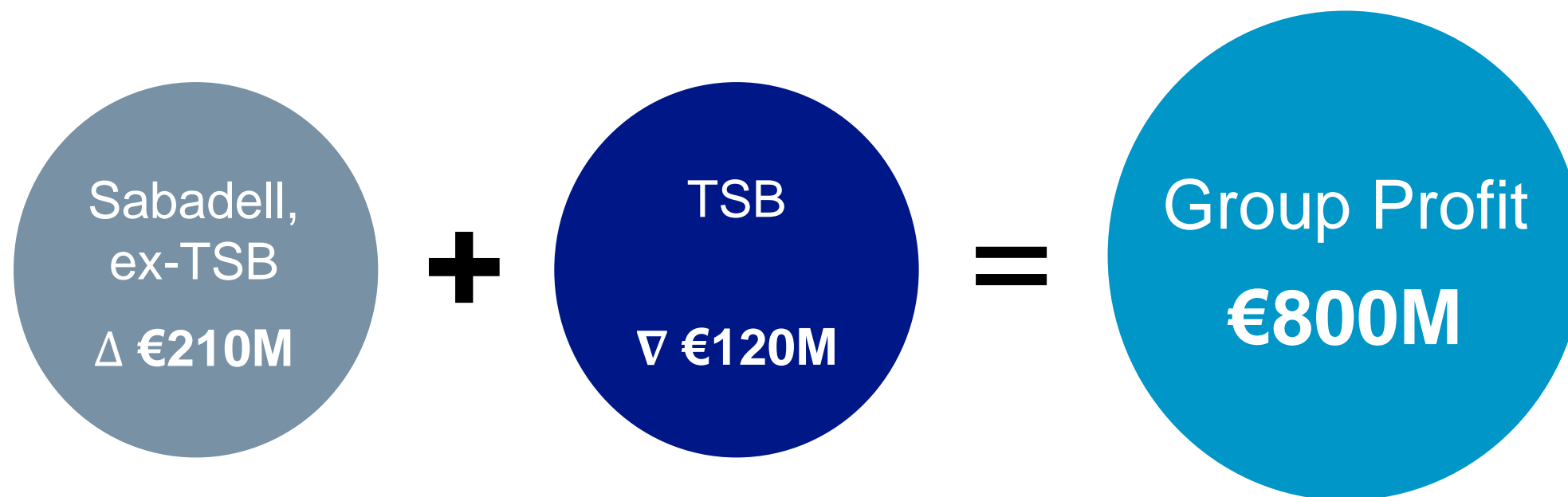


Business volume / branch, ex-TSB



# Despite the one-off items, we expect the group's net profit to grow

2017 profit target of EUR800M, supported by our strong domestic franchise and cost containment

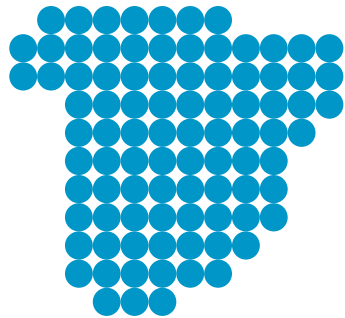


**3**

Horizon 2020

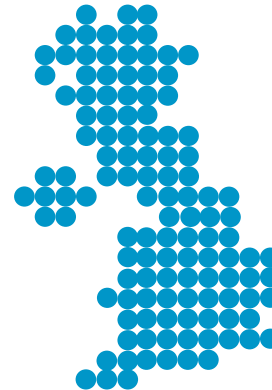
# Horizon 2020: three growth areas

## Spain



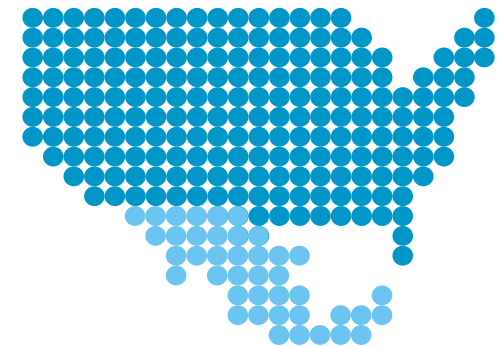
- Competitive position as Spain's #4 banking group
- Business model adapted to a more pull-oriented environment
- Competitive cost base
- Normalised cost of risk

## United Kingdom



- Technology autonomy
- Development of new businesses (SMEs)
- High NIM will enable strong RoE

## America






- Opportunities for future growth
- Strengthening of the business/corporate banking franchise in Mexico
- Innovative digital proposition in Mexico

# Strategic programmes 2020

## SPAIN

**1**

**Core business**

-  Brand strengthening
-  Growth and profitability
-  Commercial transformation

**2**

**Value-based management of NPAs**

**5**

**Optimise resource use (efficiency)  
and develop technological capabilities**

**6**

**Cultural transformation and talent development**

## UK

**3**

**TSB**

- Agility and customer relevance
- Efficiency
- Scalability

## AMERICA

**4**

**Mexico**

Development of business /corporate banking and launch of banking for individuals in Mexico



# 1. Core business in Spain

*Business: growth, profitability and leadership in customer experience*

## Individuals

- Growth in revenues and market share
- Primary bank

## Companies

- Growth in revenues and market share
- Leaders

## Strengthen the brand's positioning

**Income-generating products with growth potential**

**Promote fee-generating businesses**

**Δ market share in regions with growth potential**

- Other income**
- Real estate
  - Systematic identification of other opportunities

## Transformation

- Transform the distribution model with a focus on becoming more efficient
- Develop digital capabilities and promote their use
- Expand the commercial proposal (tools and methodology)
- Include intelligence based on data in the commercial model
- Simplification

## 2. Value-based management of NPAs

**Normalised NPL balance  
at end of period (CoR ~50bp)**

**NPLs legacy stock drawn to a close.  
Group NPL ratio < 3%, ex-TSB < 3.5%,  
and trending to a normalised level**

**Stock of problematic assets<sup>1</sup>  
< €10bn**

**Value creation through  
CAPEX (HIP, land) and close  
management of the largest projects**



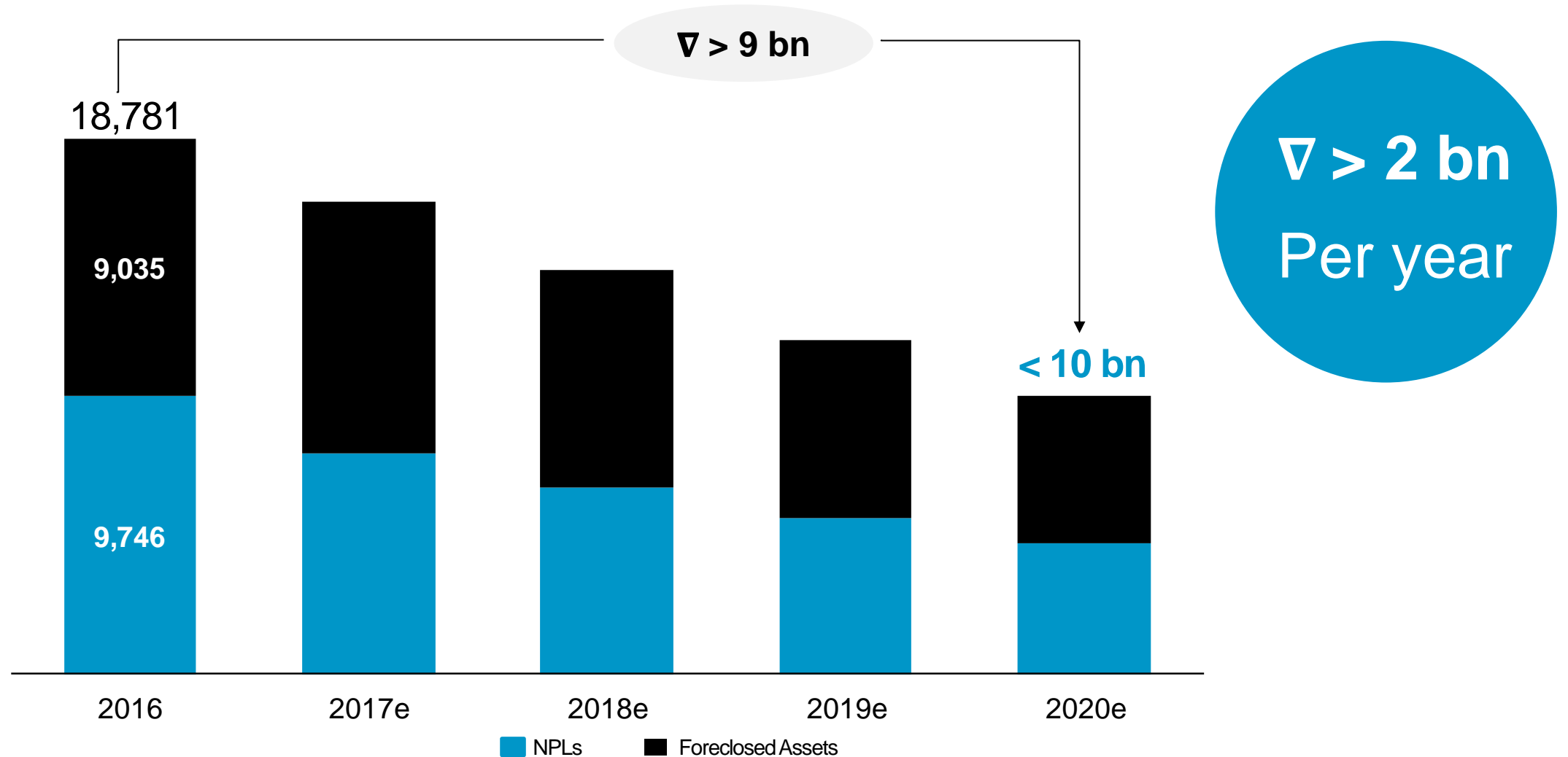
### **Value strategies**

- **NPLs early recovery**
- **Problematic assets  
management segmentation**
- **Asset sales by managing  
the value**
- **Create value with CAPEX**

<sup>1</sup> Data includes 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell according to the APS protocol.

## 2. Value-based management of NPAs

### NPAs Evolution, Sabadell group



Note: Data includes 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell according to the APS protocol.

# 3. United Kingdom: TSB

## TSB in 2018 and beyond



- |  |  |   |
|--|--|---|
| <p><b>2</b> <b>Grow scale</b></p> <ul style="list-style-type: none"> <li>▪ Retail organic</li> <li>▪ SME entry</li> </ul>  | <p><b>3</b> <b>Growing customer relevance</b></p> <ul style="list-style-type: none"> <li>▪ Build platform capability</li> <li>▪ Develop platform revenue models</li> <li>▪ Participate in platforms</li> </ul> | <p><b>4</b> <b>Agile TSB</b></p> <ul style="list-style-type: none"> <li>▪ Process redesign</li> <li>▪ Cultural change</li> <li>▪ TSB as an agile, digital organisation that happens to be a bank</li> </ul> |
| <p><b>1</b> <b>Improve efficiency</b></p> <ul style="list-style-type: none"> <li>▪ Deliver migration cost benefits</li> <li>▪ Continue focus on cost management</li> </ul> |  |   |

**Targeting a sustained double digit RoE**

# 4. Mexico



## Corporate Banking

- **Focus on profitability**
- **Strengthen the business (boost commercial team, and specialise in key segments, such as tourism)**



## SME Banking

- **Focus on deployment**
- **High level of ambition in terms of both business growth and expansion of branches and resources**



## Personal Banking



- **Initial capture model:**
  - ✓ Attract customers via SME banking
  - ✓ Attractive portfolio of products
- **Distinctive, personalised service model with a full, high-quality digital model**

**Building a value generator franchise**

**Source of work methodology, innovation and customer experience for the Group**

# 5. Optimise resource use and develop technological capabilities

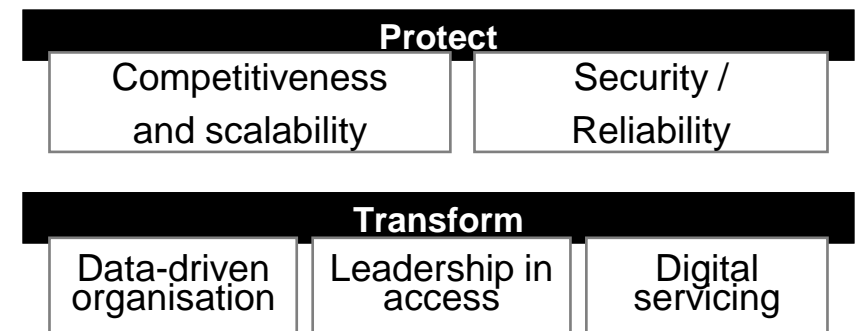
## Greater efficiency

- Spain** 
  - Optimise branches footprint and headcount
  - Develop a more digital relationship model
- TSB** 
  - Obtain synergies
  - Improve efficiency in line with competitors

## Technological capabilities and digital agenda

**Expand technological capabilities:**

- Add capabilities to develop new business models to the capabilities of integrating growth 



# 6. Cultural transformation & talent development

**People  
development**



- **Evolution of development and assessment processes**
- **Human capital and talent development**
- **Employees as a key element of the brand**

**New  
organisational  
dynamics**



- **Agile and productive organisation**
- **International organisation**

# Guidance 2020

**NPL Ratio**

Total Group < 3%  
Ex-TSB < 3.5%

**Cost of Risk<sup>1</sup>**

**50 bps**

**NPA Coverage**

**>55%**

**Texas Ratio**

**<55%**

**Double Digit**

**ROE**

**Cost-Income**

**c.45%**

<sup>1</sup> Including both NPL and foreclosed assets' cost of risk.



# Sabadell Strategic Update

Our journey towards excellence



February 7, 2017

**For any additional information,  
please contact:**



**Investor Relations**

**investorrelations@bancsabadell.com**

**+44 2071 553 853**