

# Sabadell

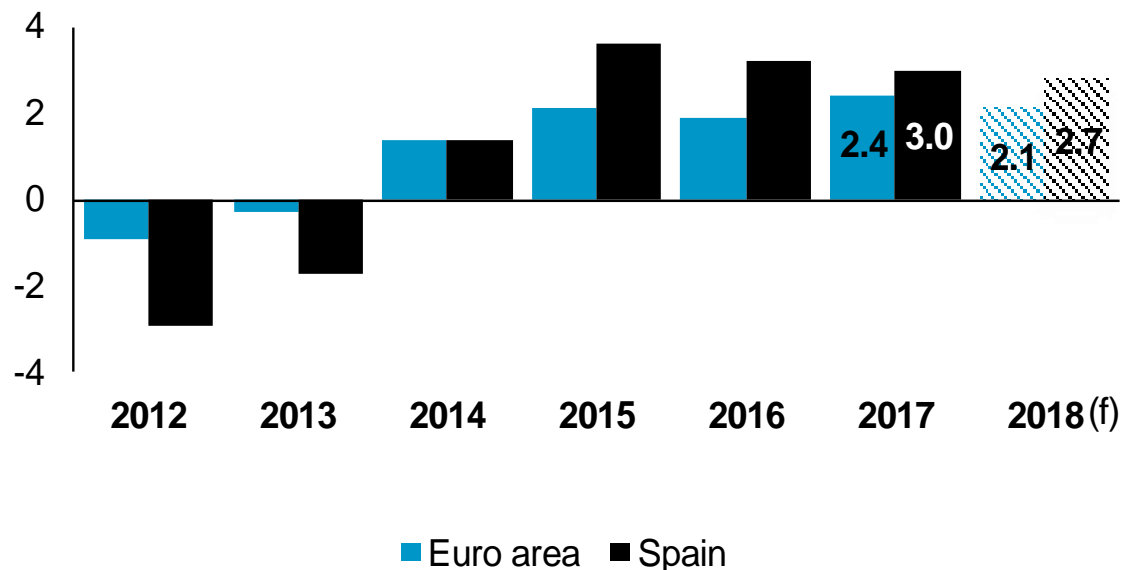
BofAML 23<sup>rd</sup> Annual Financials CEO Conference

The Landmark Hotel, London  
September 26, 2018

# Spanish economy is outperforming the Eurozone

## GDP

Annual variation in percentage

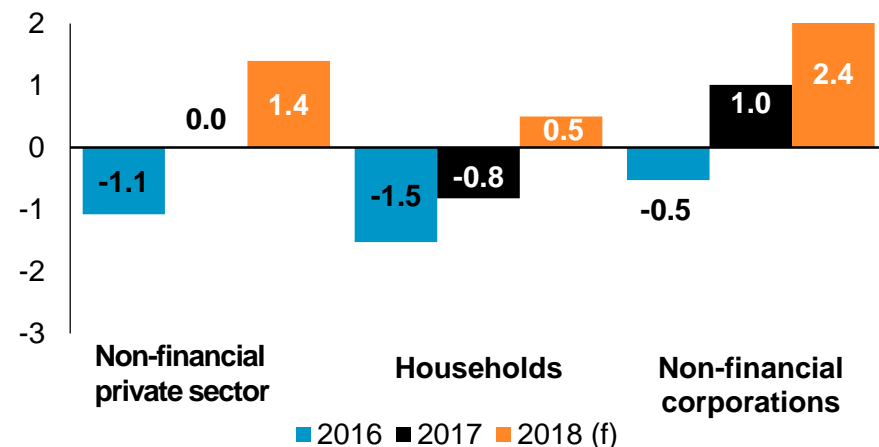


- Spanish GDP growth is outperforming Europe
- Improvement in the labour market – unemployment down 44% since peak
- Current account balance registered a surplus for the fifth year in a row
- Corporates and individuals have progressed substantially in their deleveraging
- Household expenditure and residential investments are growing while business investment has also remained dynamic
- The tourism industry remained strong, although it is slowing down

# Banking sector profitability continues to improve

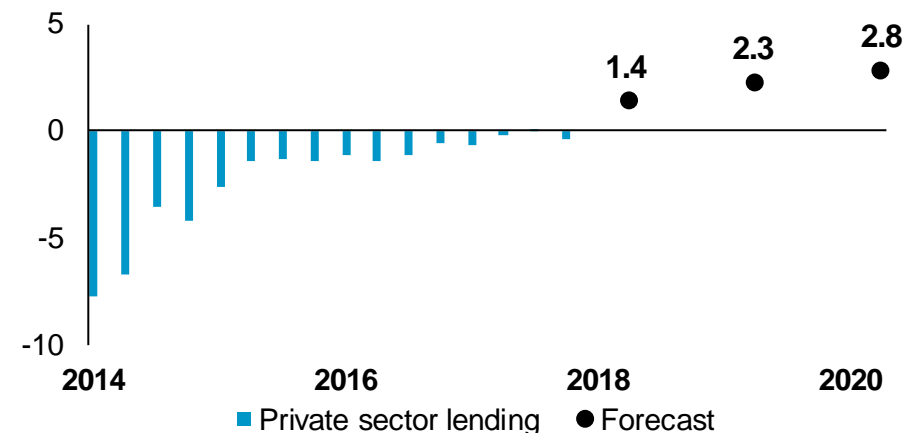
## Credit to the private sector by segment

Year-end, year-on-year variation in percentage



## Credit to the non-financial private sector

Year-end, stock w/o non-performing loans, year-on-year variation in percentage

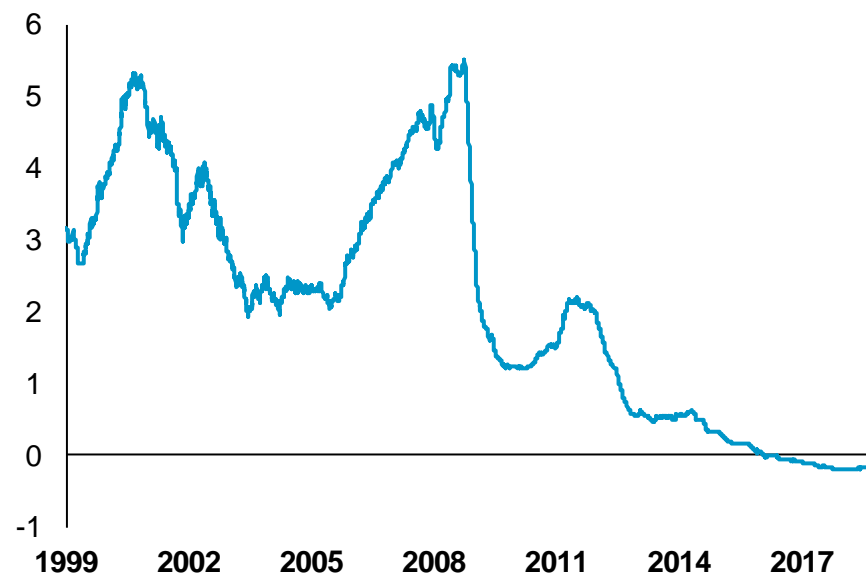


- Credit to return to positive growth rates this year after reaching break-even point in 2017
- High dynamism in secured and non-secured new lending to households and strong performance of the SME and corporate segments
- Front-book yields continue to stand above back-book levels
- Lower government bond portfolios profitability is being mitigated by ongoing reduction of funding costs
- Strong progress in bank legacy assets clean-up

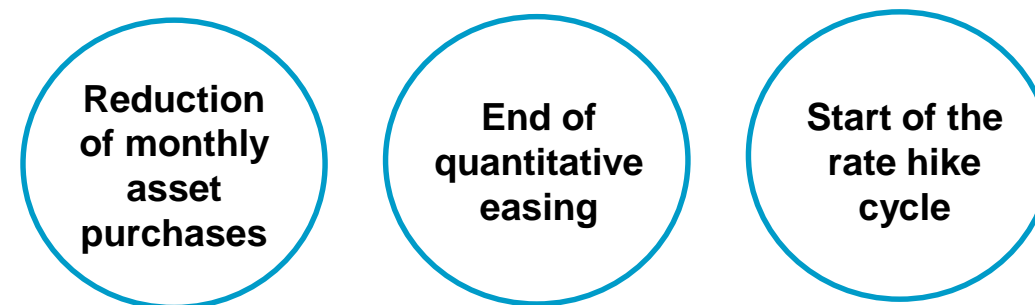
# Interest rate hike scenario delayed slightly but still expected for 2H19

## Interest rates have reached bottom

12 months Euribor. In percentage



The ECB has announced its exit strategy from the heterodox measures of monetary policy...



... but will continue to show an accommodative stance

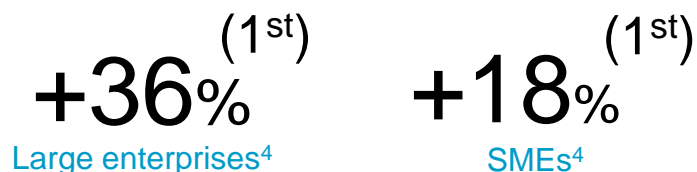
**Spanish banks are well positioned to profit from rate rises**

# Sabadell benefits from a higher exposure to the profitable SME segment...

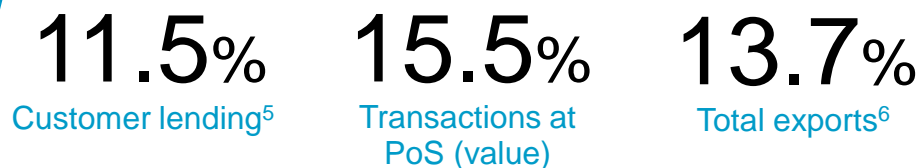
Significant market penetration in Spain



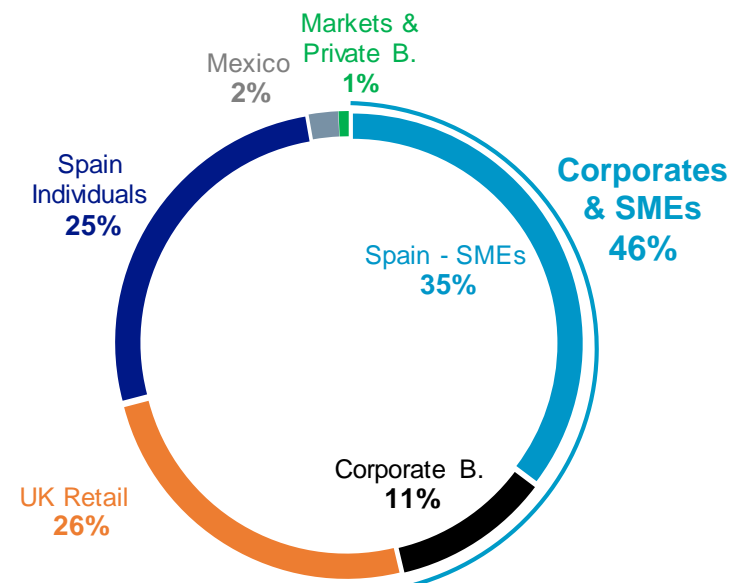
NPS<sup>3</sup> leadership in both SMEs and large enterprises



Strong market share across products



Diversified lending portfolio across businesses and geographies<sup>1</sup>



Note: Data as at June 2018 or last month available.

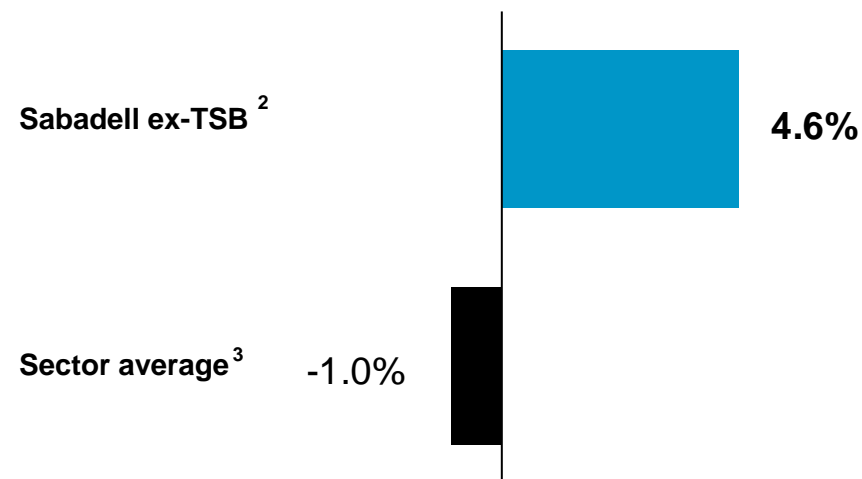
<sup>1</sup> Performing loans, excluding the impact of the APS (i.e. the 80% of the APS problematic exposure which is presented as performing and the net loans and receivables account). Data as at June 2018.

<sup>2</sup> Large enterprises: ≥ €10M turnover. SMEs >€0.9 and < €10M turnover. Microcompanies < €0.9M turnover. <sup>3</sup> Source: Benchmark NPS Accenture Report. Net promoter score (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 Sabadell to a friend or colleague?” NPS is the percentage of customers who score 9-10 after subtracting the percentage who score 0-6. Considers peer group entities. <sup>4</sup> Large enterprises in NPS analysis: ≥ €5M turnover. SMEs < €5M turnover. <sup>5</sup> Excluding loans to real estate companies and repos. <sup>6</sup> Excluding guarantees.

# ... and stands out relative to peers YoY in terms of volume growth in Spain

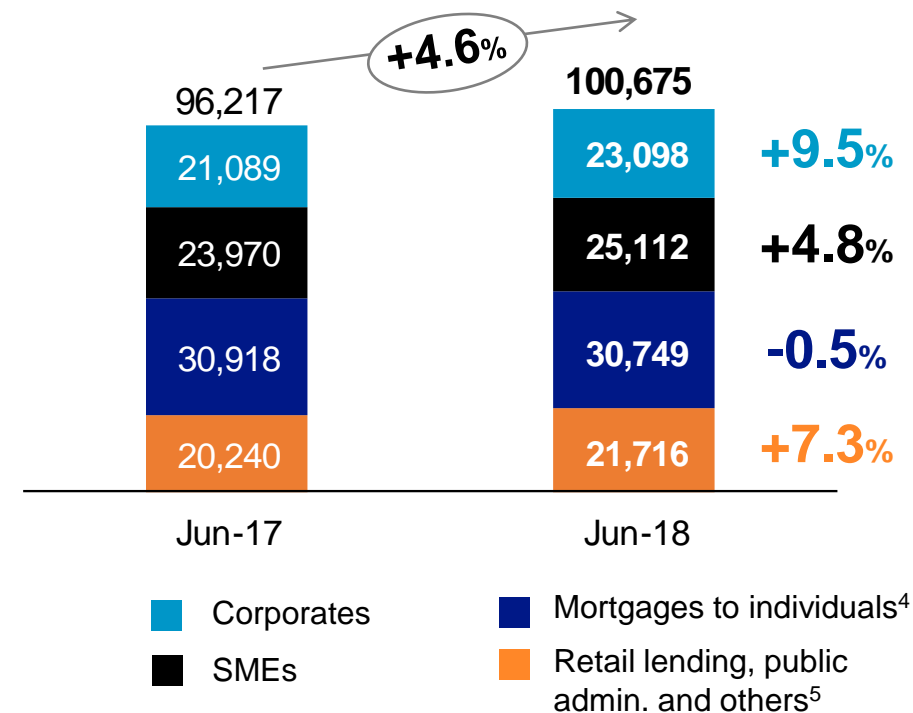
## Performing loan growth YoY <sup>1</sup>, ex-TSB

In percentage



## Performing loan growth by segments<sup>2</sup>, ex-TSB

In million euros, in percentage



<sup>1</sup> Excluding repos.

<sup>2</sup> Excludes the impact of the APS NPL run-off (i.e. the APS NPL run-off refers to the 80% of the APS problematic exposure, which is presented as performing as it is assumed by the DGF, and the change in the net loans and receivables account).

<sup>3</sup> Peer group includes Santander Spain, BBVA Spain, CaixaBank Ex-BPI and Bankinter and excludes Bankia as there is no comparable data available for the period under review. Arithmetic mean excluding Sabadell.

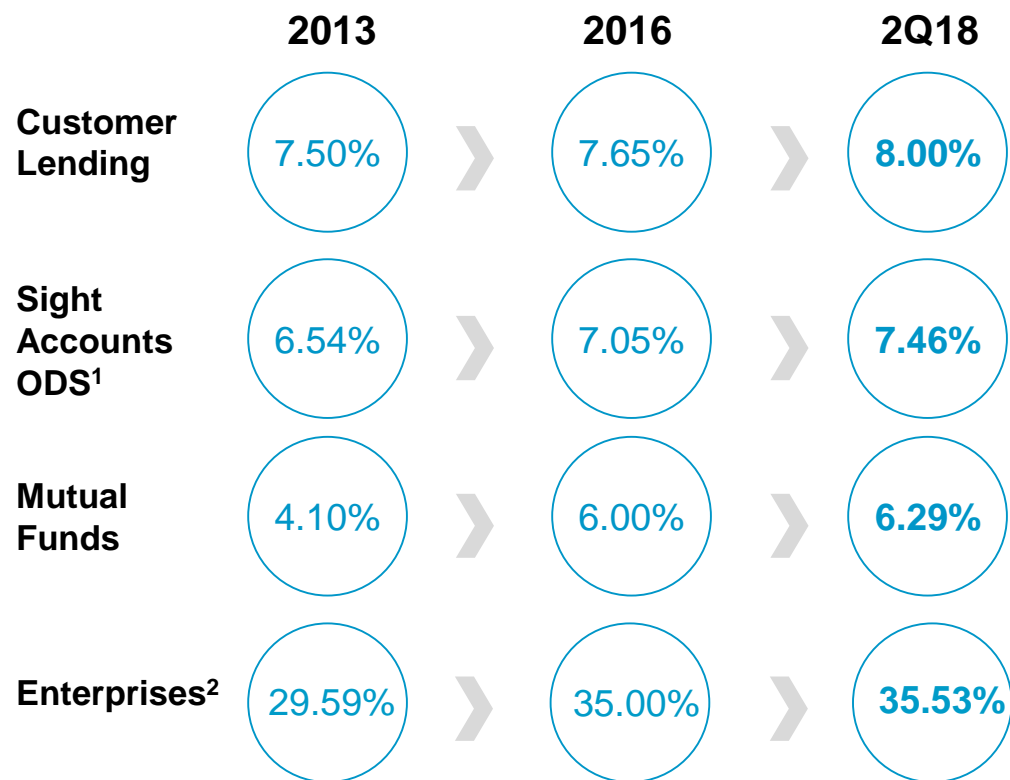
<sup>4</sup> Refers to residential mortgages for individuals only within Spain.

<sup>5</sup> Retail lending refers to non-mortgage lending to individuals and "others" includes construction and real estate sectors.

# Market shares in Spain have increased steadily, but not at the expense of loan spreads

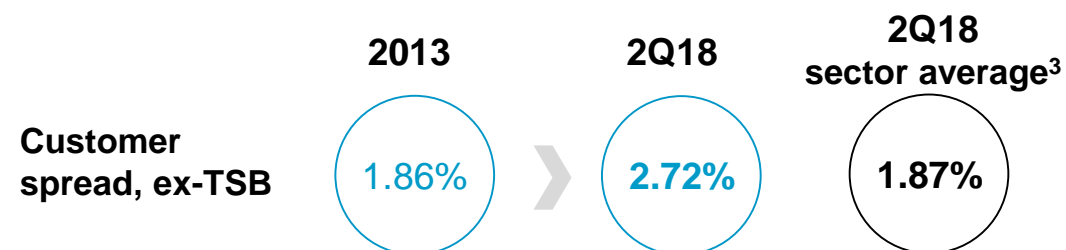
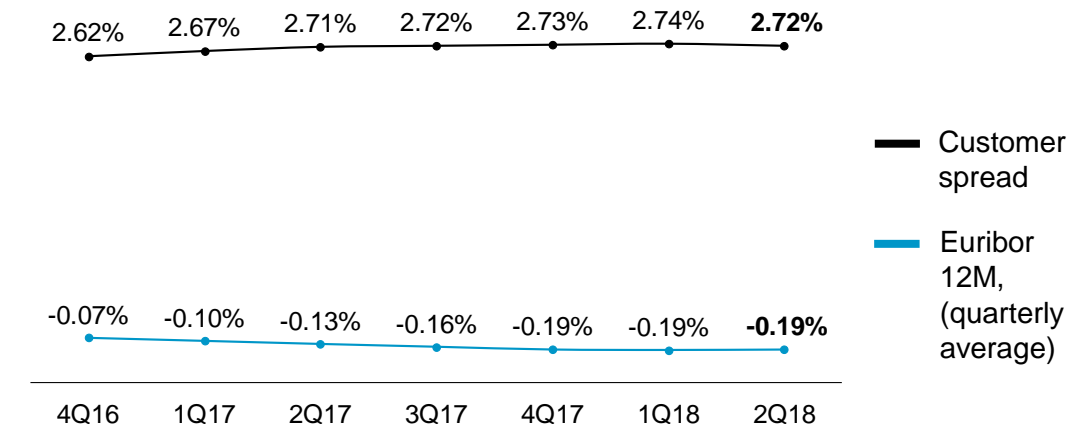
## Main market shares and market penetration

In percentage



## Customer spread and Euribor evolution, ex-TSB

In percentage



Note: data as at June 2018 or last month available.

<sup>1</sup> Other domestic sectors.

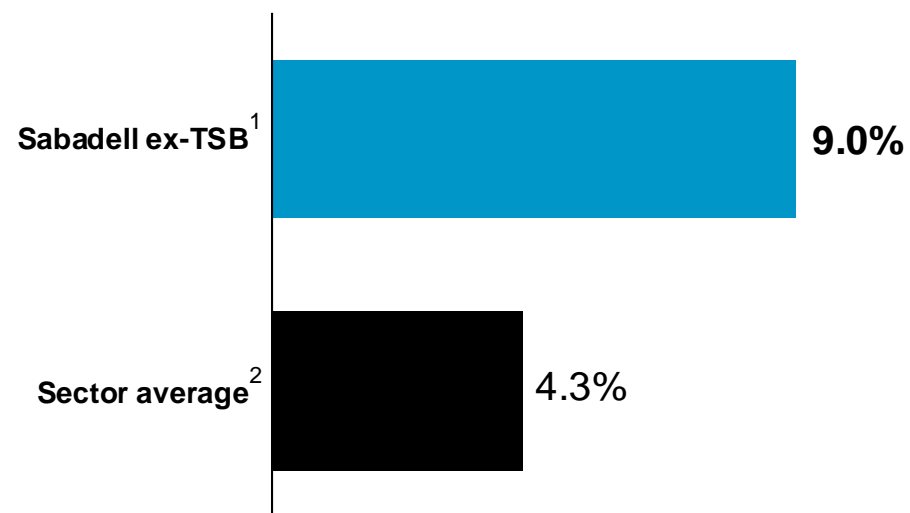
<sup>2</sup> Mid corporates, pure SMEs and retail stores.

<sup>3</sup> Peer group: Bankia (inc. BMN), BBVA Spain, CaixaBank (ex-BPI), and Santander Spain (inc. Banco Popular). Arithmetic mean excluding Sabadell.

# Sabadell also stands out in terms of fee income growth

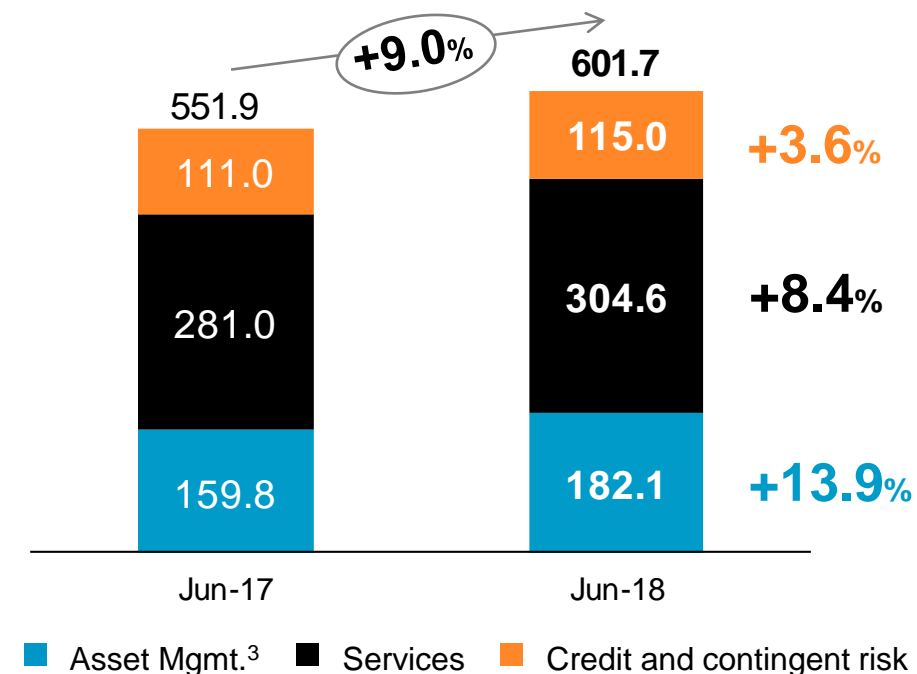
## Fee growth YoY, ex-TSB

In percentage



## Fee growth by segment YoY<sup>1</sup>, ex-TSB

In million euros, in percentage



Note: Data corresponds to cumulative results to June 2018 vs. cumulative results to June 2017.

<sup>1</sup> Data is considered on a like-for-like basis for comparison purposes, i.e. like-for-like assumes constant FX and excludes Sabadell United Bank and Mediterráneo Vida.

<sup>2</sup> Peer group includes Santander Spain (Popular 2Q17 fee income contribution has been estimated with its individual accounts), BBVA Spain, CaixaBank Ex-BPI and Bankinter ex Portugal and Bankia (including BMN). Arithmetic mean excluding Sabadell.

<sup>3</sup> Includes mutual funds, pension funds, insurance brokerage and wealth management commissions.



# We are focused on key areas with growth potential



Increase insurance penetration among Sabadell's customers while launching a broad **digital insurance offering**



Establish Sabadell as a benchmark player for **Savings & Investments**



Take advantage of our current customer base to **grow in this profitable and expanding market segment**



Make use of our long-standing expertise and advanced analytics to **grow further in the SME segment**

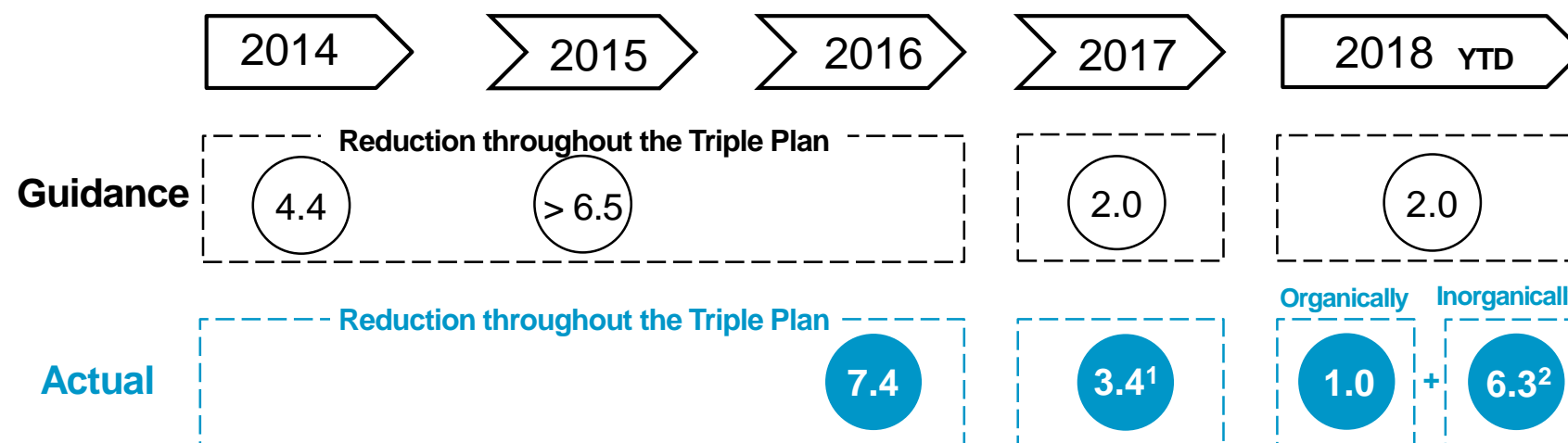


Increase our presence in areas which represent a **market opportunity to expand our business further**

# Sabadell has improved its risk profile significantly over the last few years...

## NPA reduction, ex-TSB

In billion euros



We have consistently exceeded our problematic exposure reduction targets

**We have decreased our net NPA ratio from 7.8% in 2013 to 1.7%<sup>2</sup> today**

Note: Includes contingent risk. Sabadell ex-TSB's NPLs, foreclosed assets and NPAs include 20% of the problematic exposure included in the APS, which is assumed by Sabadell in accordance with the APS protocol.

<sup>1</sup> Includes €1,252M carved out into our new business line *Solvía Desarrollos Inmobiliarios*.

<sup>2</sup> Pro forma data considering the institutional NPA sales announced in 2Q18.

# ... and in 2018 it announced the sale of the majority of its real estate legacy exposure

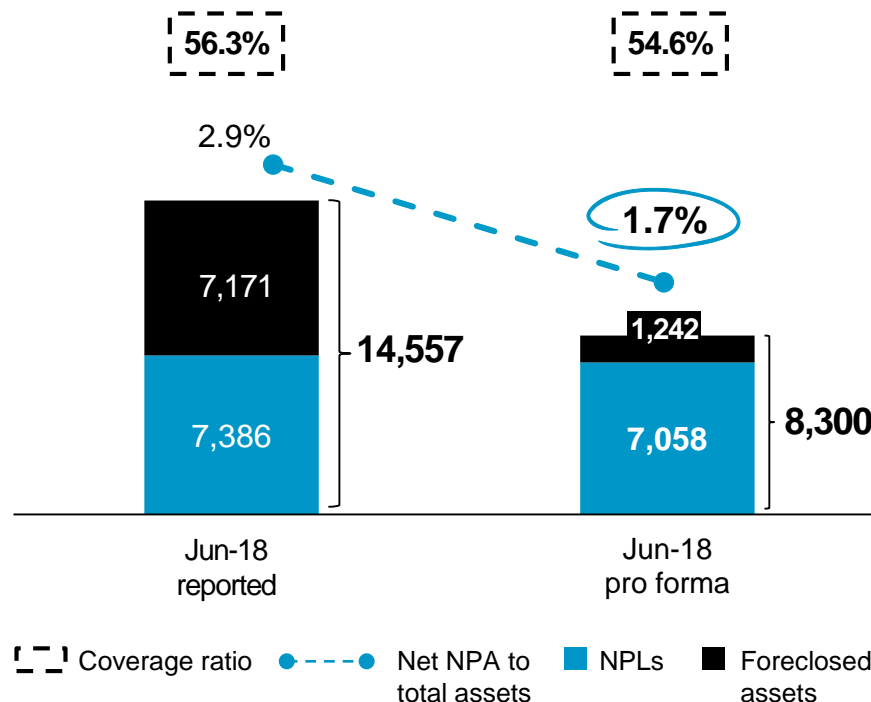
## NPA exposure

In million euros

**€12.2bn**

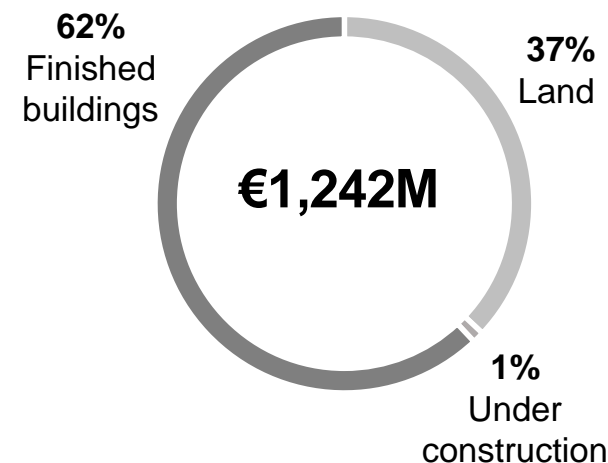
**Total gross NPAs sold**

**€6.3bn**  
**NPA reduction**



## Foreclosed assets break down, pro forma

In million euros



**The transactions will be accretive to both EPS and capital and will accelerate the pace of problematic assets disposals, well ahead of our 2020 business plan targets**

# TSB customers are generally receiving a consistent service in line with industry standards



**Mobile app logins  
and web logins**



At **pre-migration levels**



**Wait times on our  
telephone channel**



Consistently in **single figure minutes**



**Fully digital  
product offering**



We are currently **working on going digital with our full product offering**

# The new platform will deliver benefits to TSB and its customers



**Operational efficiency**



**Capacity to create innovative products**



**Competitive advantage**



**Quicker time-to-market with a digital and customer-centric mindset**



**Open Banking**



**Fully adapted to Open Banking**



**Collaboration /Partnerships**



**Partnership with Mastercard plus e-commerce and digital payments solutions**



**Easier upgrades**



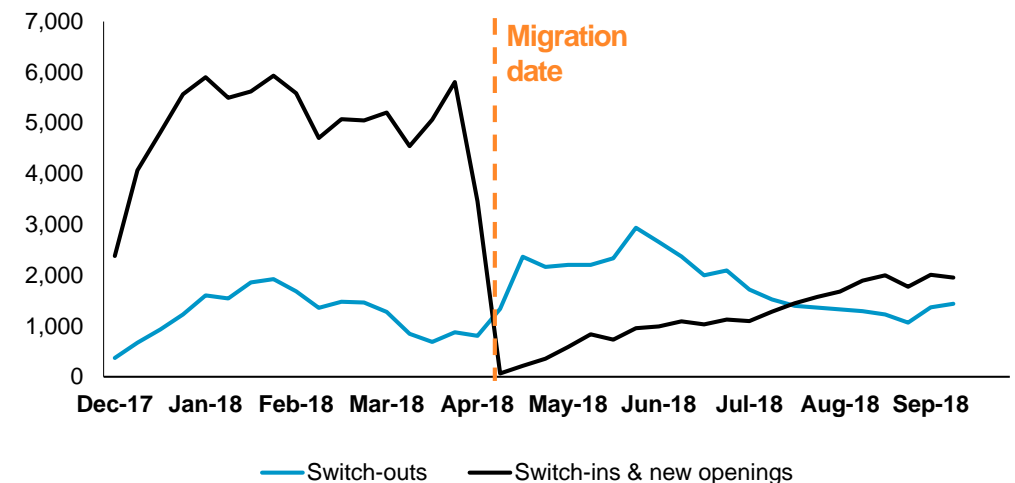
**Faster and cheaper Technology upgrades**

# Positive lending and current account growth in Q2 with improving business momentum

- **At the end of Q2**
  - ✓ Franchise mortgage lending was positive
  - ✓ Total current accounts were growing
  - ✓ Strong liquidity and capital ratios
- **Going forward from 2019**
  - ✓ Robust volume growth while margins will be challenged by a highly competitive environment and the end of TFS

## Weekly current accounts switchers

In units



# We have four key priorities in the UK market

## Priorities in the UK market

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Putting things right for our customers



Regaining commercial momentum



Continuing to make the organisation more efficient – Focus on cost cutting



Product diversification – SME strategy roll-out

Local banking for Britain



# Sabadell is strongly committed to the ongoing digital transformation

## Digital transformation

Efficiency

Productivity



Convenience

Simplicity




**4.7M**  
(+12% YoY)

**3.3M**  
(+22% YoY)

Group Digital customers    Group mobile customers

**Distribution model**  
"There, wherever you are"

 **Remote relationship managers**  
(extended service hours)

**768k**  
(+181% YoY)  
Active Management customers  
Spain

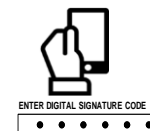
**Digital sales**  
51% in UK  
18% in Spain

**17.1k**  
(+52% YoY)  
Digital Sales  
Unsecured loans  
Spain

## User Experience



Mobile payments



Digital signature



Voice payments



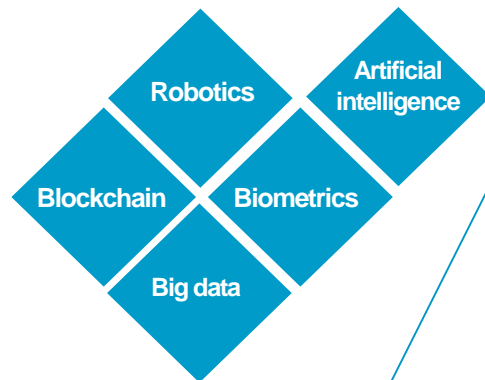
Instant Money

**+47%**  
NPS mobile app  
Spain



# New technologies are an opportunity to enhance the banking business

Leveraging on innovation in new technologies to enhance the banking business



## Tailored value propositions



Business intelligence



**5.6M**  
(+43% YoY)

Pull data-driven commercial impacts in Spain



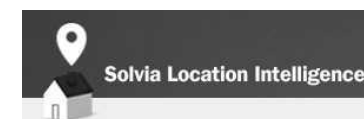
**€17M**  
(+53% YoY)

Additional revenues driven by business intelligence

## Helping customers to make better decisions



Know your local customers and competitors to make better business decisions



Intelligent pricing and advice tools to buy, sell or rent a house

# Through InnoCells we have a proactive presence in the innovation ecosystem in the banking industry

## InnoCells

By Banco Sabadell

**Sabadell digital knowledge hub:**

- Exploring new **digital-based business models**
- Monitoring **market trends** and scouting **startups**
- Prioritising **areas of interest** and identifying **opportunities**

### Business Building

Developing **capabilities** and **strategic businesses** for the Group

**5**  
Cells in execution



### Strategic investments

Corporate venture fund, **direct investments, acquisitions** and **indirect investments** in third-party funds

**Direct investment**



BIOMETRIC VOX

**Indirect investment**



CARDUMEN CAPITAL

**Strategic acquisition**



**International vocation** with a focus on Spain, UK, Mexico, USA and Israel

# Sabadell is well positioned for the new growth cycle and to meet its profitability targets

## ◆ Underlying business

- Strong core banking business momentum
- High margin SME franchise
- Diversified footprint
- Well positioned to benefit from rising interest rates
- TSB migration completed. 2019 to be a normalised year

## ◆ Strong asset quality

Balance sheet clean-up mostly concluded

## ◆ Sound capital & liquidity position

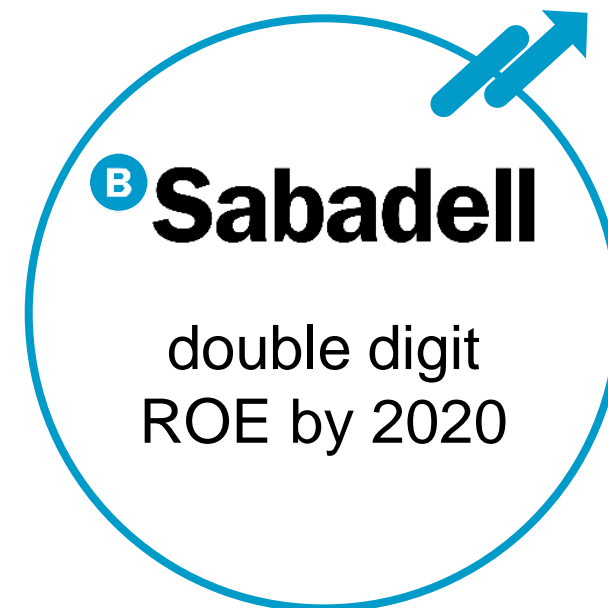
Sound solvency and liquidity position well above regulatory requirements and in line with sector levels

## ◆ Positive macro outlook

Macroeconomic trends in Spain support our earnings outlook

## ◆ New opportunities from digital tech

Ongoing progress in our digital transformation



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