

Sabadell 2020

Investor Day

23 February 2018

The Landmark Hotel, London



Sabadell 2020

Investor Day agenda

10:00 a.m.

Welcome and agenda (*Mrs. Cecilia Romero, Head of Investor Relations*)

Our vision (*Mr. Josep Oliu, Chairman*)

Our plan (*Mr. Jaime Guardiola, CEO*)

Growth and transformation in Spain (*Mr. Carlos Ventura, General Manager Commercial Banking Spain*)

TSB – the next chapter (*Mr. Paul Pester, TSB CEO*)

12:00 p.m.

Lunch

1:00 p.m.

Competitiveness in operations, a superior platform (*Mr. Miguel Montes, COO*)

Our financial plan to enhance profitability (*Mr. Tomàs Varela, CFO*)

Q&A

3:00 p.m.

Closing remarks (*Mr. Josep Oliu, Chairman*)

Sabadell 2020

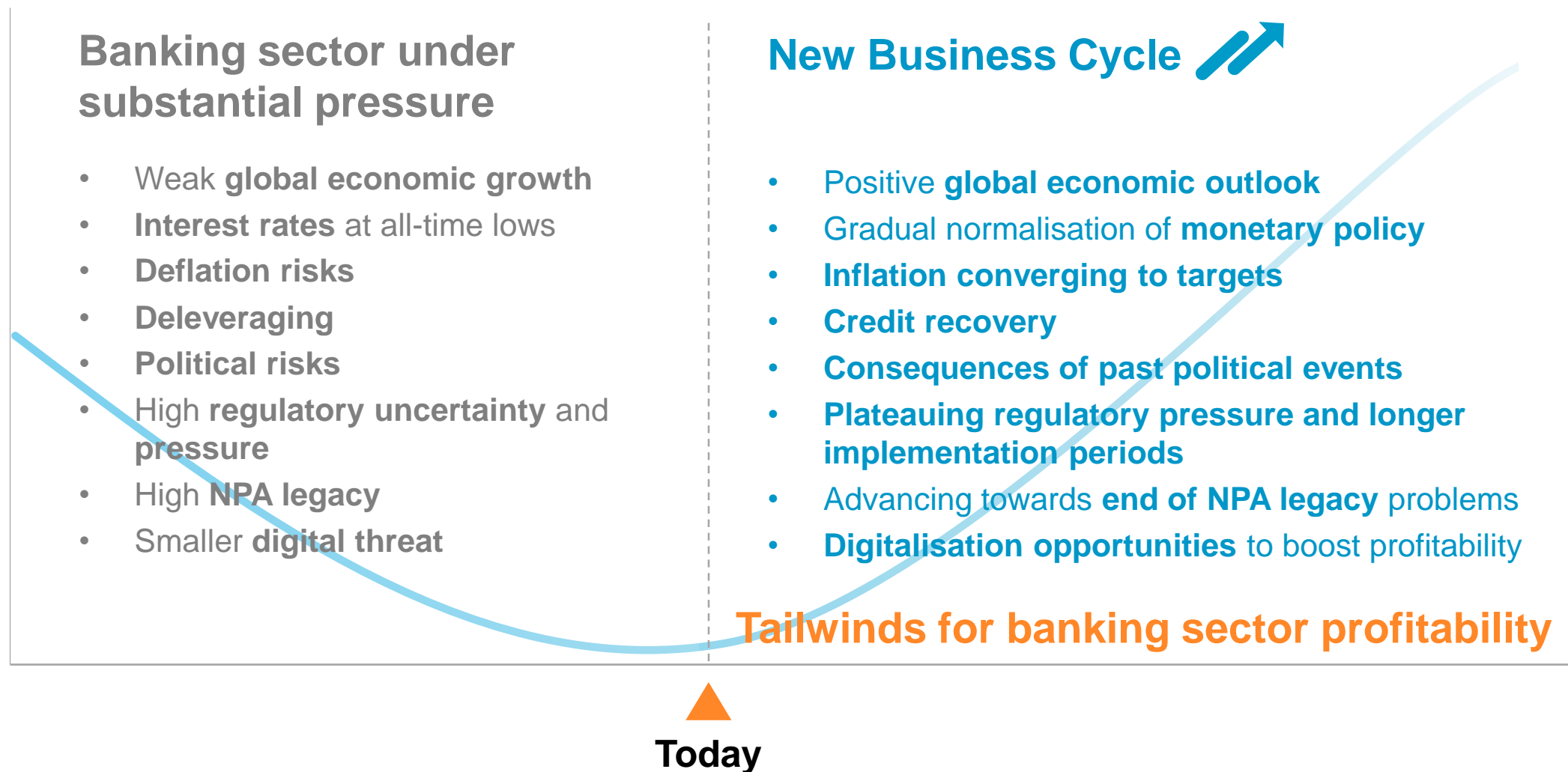
Investor Day

Our vision

London, 23 February

Josep Oliu
Chairman

Sabadell's new strategic plan embraces a new cycle for value



Good evolution of the global economy...

1 Favourable growth/inflation mix

- Synchronised growth
- No deflation risks



2 Reduced support from central banks

ECB

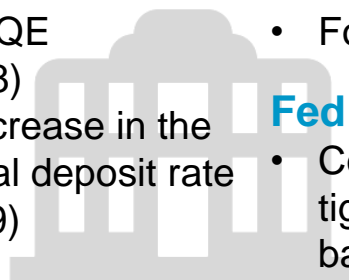
- End of QE (Sep-18)
- First increase in the marginal deposit rate (Mar-19)

BoE

- Focused on Brexit

Fed

- Continuation of the tightening cycle and balance sheet reduction



3 Gradual tightening of global financial conditions

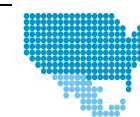
- Somewhat higher volatility in financial markets
- Increase in sovereign debt yields
- FX developments driven by politics

4 Focus on the outcome of several geopolitical events:

Brexit
and the
European
construction
process



USA
and
mid-term
elections



NAFTA
and
Mexican
elections



Good global economic outlook while some geopolitical issues still remain

... is also apparent in the economies in which we are present

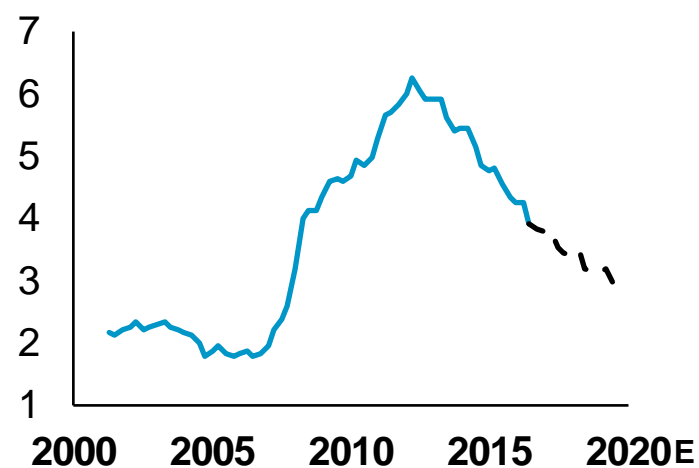
Spain

GDP growth will remain above Euro area growth

Bank lending to increase and favourable evolution of the real estate sector

Unemployment

In million



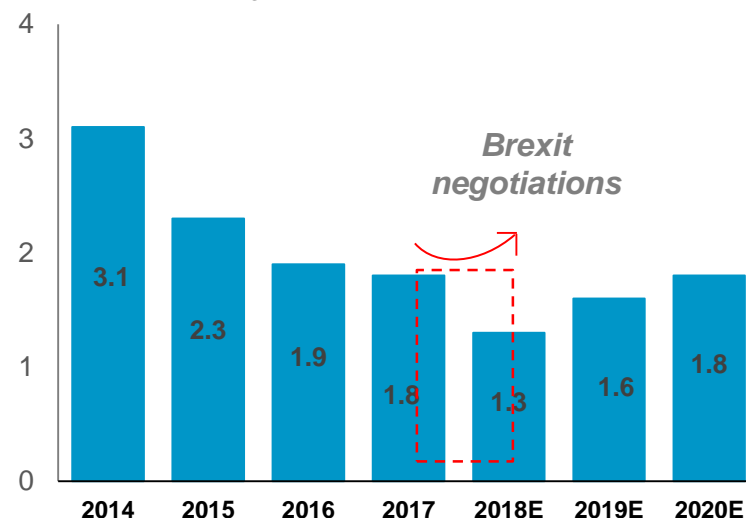
United Kingdom

Economic developments driven by Brexit

The baseline scenario calls for an orderly Brexit with a transition period

GDP

YoY in percentage



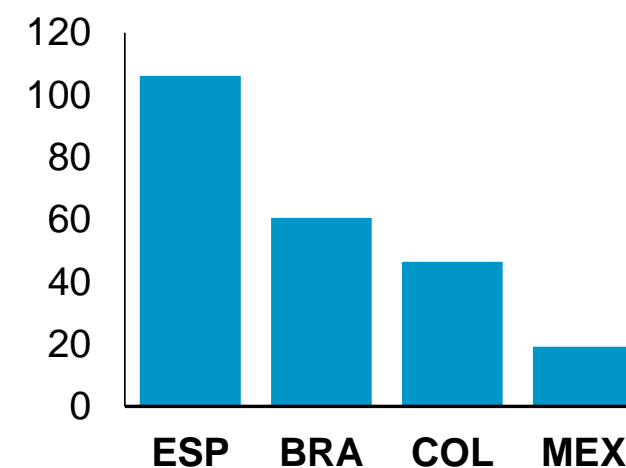
Mexico

Economic growth will remain close to current levels

Positive outlook for the financial sector

Bank lending

(to private non-financial sector, % of GDP)



A more favourable banking environment

Regulatory environment

-  **Post-crisis regulatory framework**

-  **Compliance costs**

-  **New regulatory priorities**

Outlook and supporting factors


- Plateauing new regulatory pressure and longer implementation periods of agreed reforms


- Increasing due to entry into force of regulation and development of technical standards and guidelines


- Conduct, transparency, consumer protection and macroprudential dimensions



Banking environment

-  **Low interest rates**

-  **Business models**

-  **Non-performing loans**

Outlook and supporting factors

- Gradual normalisation of monetary policy and the increase in long term yields benefit profitability

- Higher reliance on non-interest income, cost-cutting efforts

- Speeding-up balance sheet clean-up with a more positive real estate market back-drop



Tailwinds for mid-term bank profitability in a complex regulatory environment

Today, Sabadell is a strong and solid franchise

Key financials 2017

Balance sheet and P&L

Total assets

221,348€M

Gross operating income

5,737€M

Net profit

801.5€M

**Payout:
49%**

Solvency & liquidity

CET1 (FL pro forma post IFRS9)

12.0%

Liquidity coverage ratio (LCR)⁴

168%

Asset quality

NPL ratio¹

5.14%

Net NPA ratio¹

3.5%

NPA coverage ratio^{1,2}
(pro forma post IFRS9)

54.7%

Profitability

ROTE

7.3%

ROA

0.4%

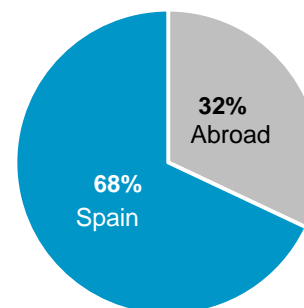
Cost-to-income ratio⁵

50.1%

Business highlights

Diversified portfolio

Lending by geography³



SabadellCapital

Sabadell
El banco de las mejores empresas

Branches

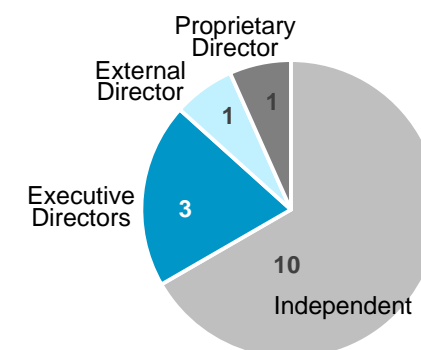
5

Representative Offices

14

Corporate Governance

Board composition



- Proficient independent board members of different profiles
- Board members are analysed on an ongoing basis

13% Positions held by women

20% Positions held by international directors

- Fully committed to highest standards through continuous improvements

Note: Data as of December 2017.

¹ Includes contingent risk. Sabadell ex-TSB's NPLs, foreclosed assets and NPAs include 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell in accordance with the APS protocol.

² Excluding mortgage floor provisions.

³ Data based on performing loans.

⁴ Data ex-TSB.

The rules of the game have changed...

The post-crisis caution
of the market still
remains...

... but the drivers of future profitability
of the sector have changed



Evolution of **customer behaviour**



New entrants



Emerging **technologies**



Focus on **competitiveness** (investment needed)

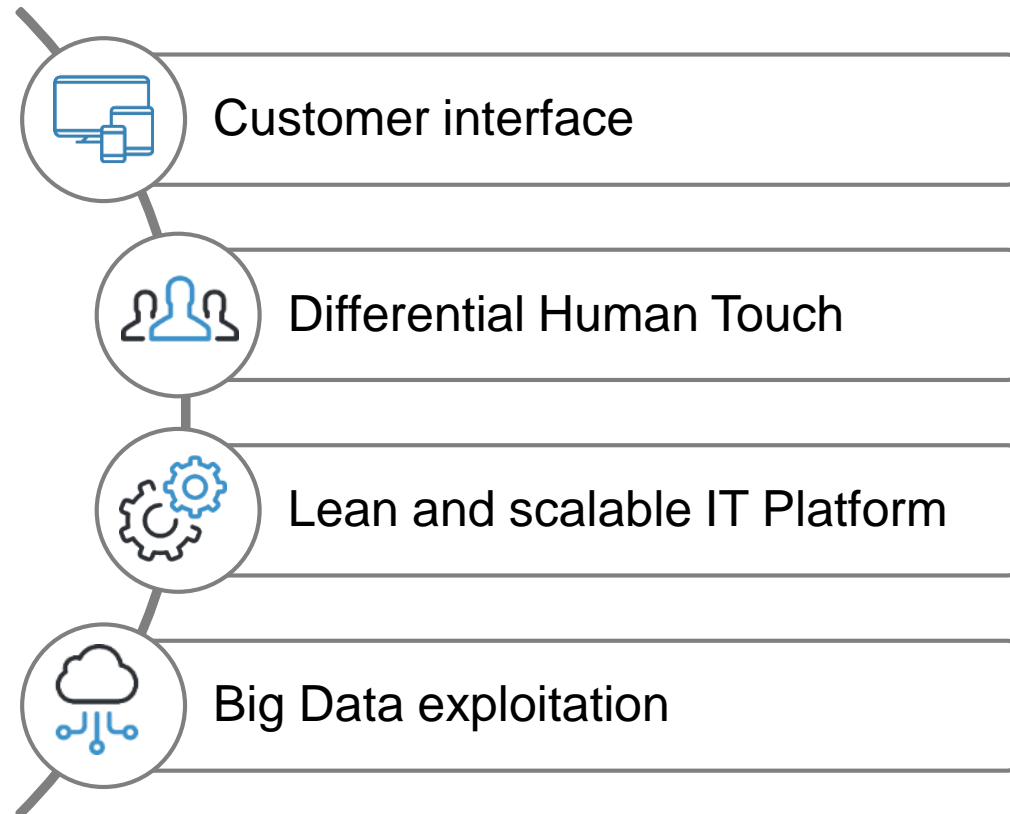


Improve **efficiency**

We cannot run the new world of banking with the same tools

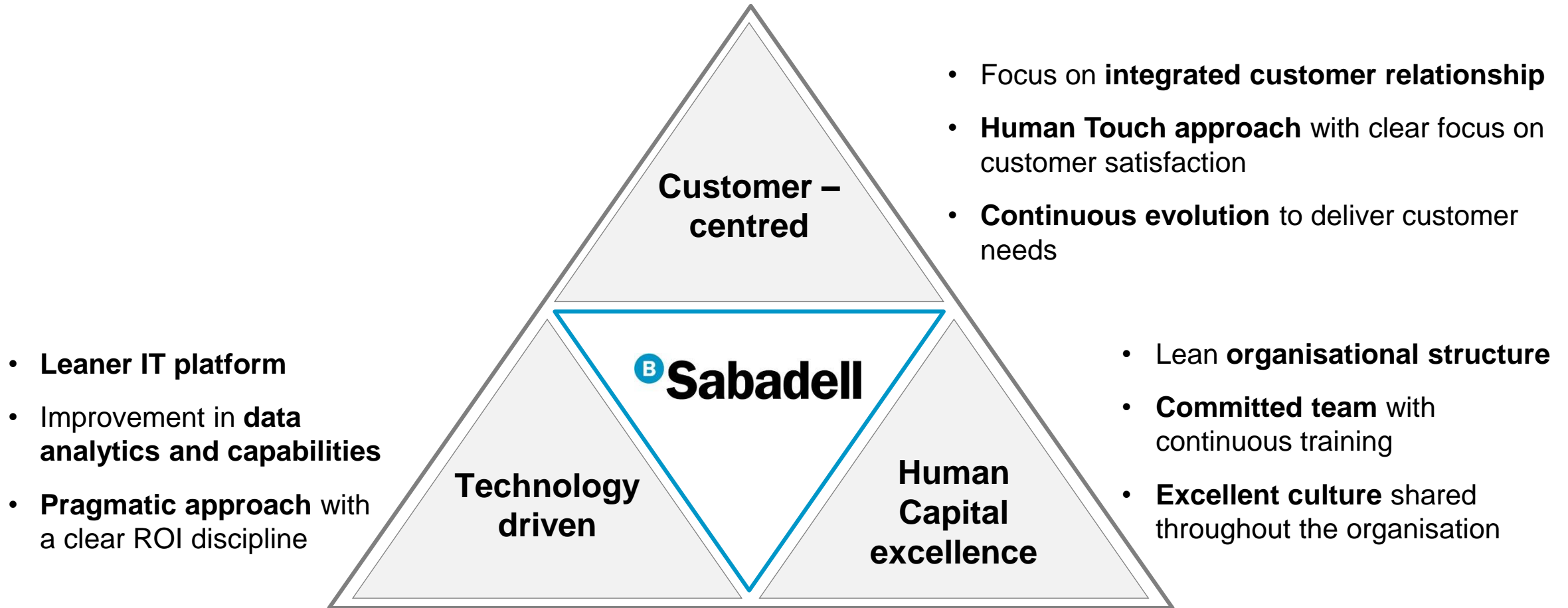
... and banks will need to prove that they can provide a superior and highly efficient customer experience

Key elements for the future



 **Sabadell**
is already
prepared to
deliver on all
these elements

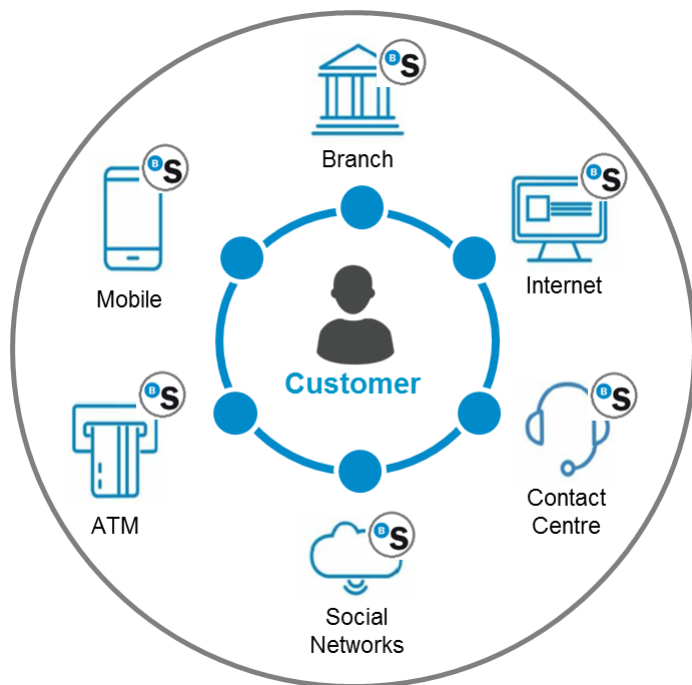
Sabadell's approach to banking



Our approach strengthens our brand recognition, reinforces our culture and creates value for our shareholders

The customer is at the core of our culture

Sabadell is a ubiquitous bank that offers customers multiple access points that are equally convenient



Human Touch



The best of the digital world

The customer chooses when and how they want to interact with the bank



Sabadell Protección es nuestra propuesta personal de seguro. Es personal porque un gestor especializado escuchará y analizará tu situación para ofrecerte un seguro adaptado a todas tus necesidades. Y lo es también porque si tu situación cambia nosotros procuramos también lo hará. Más información sobre todos los seguros y sus bonificaciones especiales en nuestras oficinas o en banco.sabadell.com/sabadellproteccion

"Know each other, listen to each other, know what the other needs"



Acompañarte

La cuenta que te acompaña en todos los cambios de tu vida.

"Stay with you. The bank account that stays with you throughout the different stages of your life"

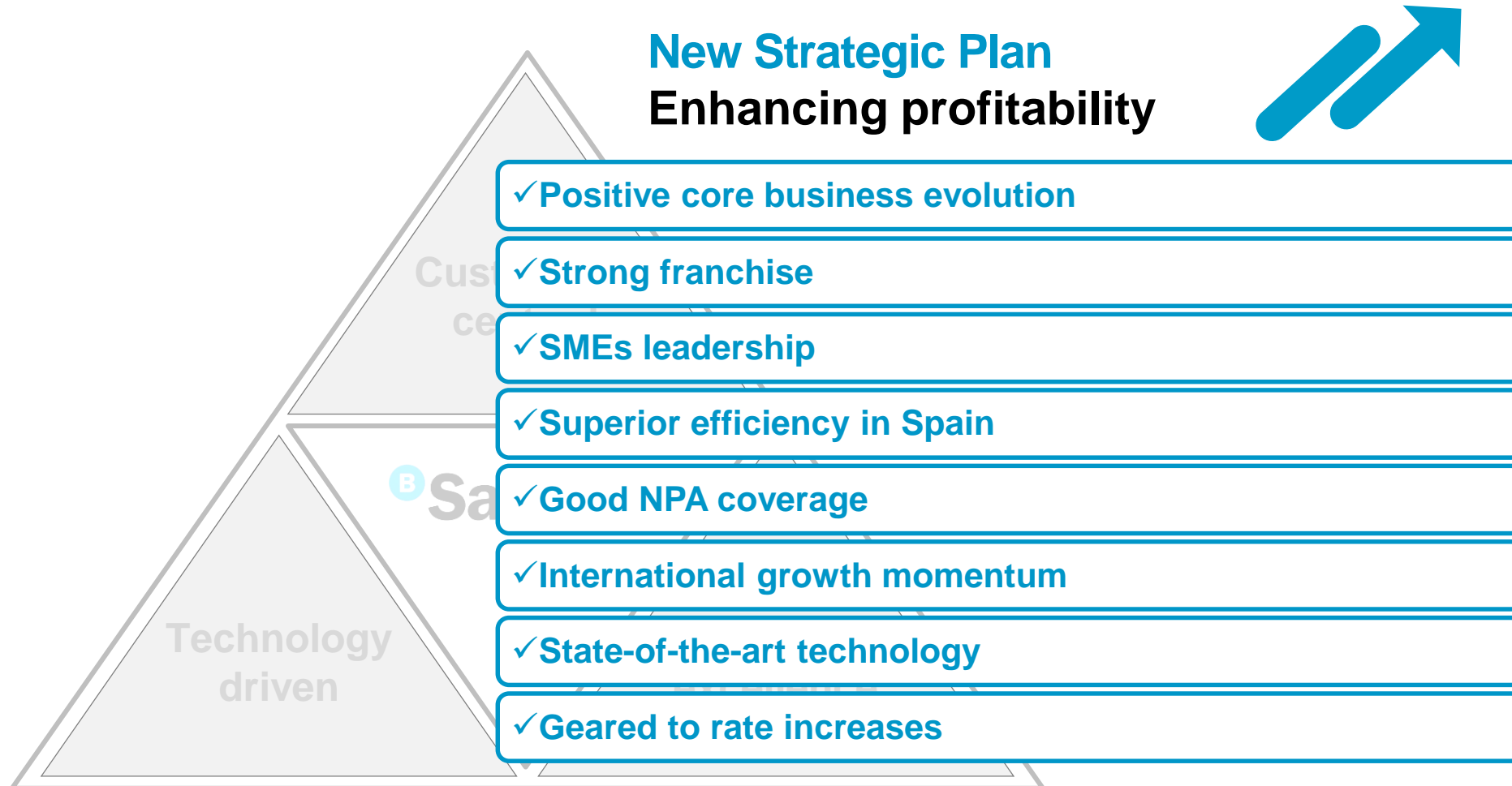


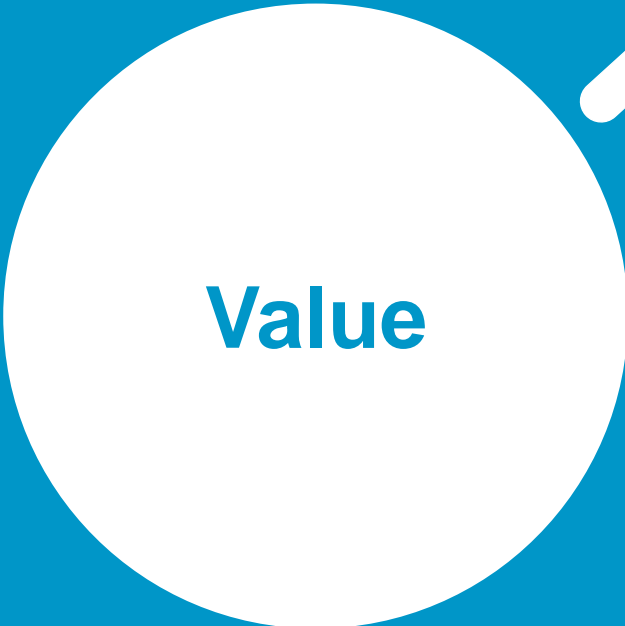
Saba
Estar donde

Compromiso Empresas es ofrecerte todo lo que tu empresa necesita y necesitará en un solo acuerdo y por escrito. Como contar con un gestor especializado en productos de empresa. Se encargará de solucionar todas tus necesidades financieras, simplificar tus trámites y agilizar tus gestiones. Este es nuestro compromiso. Aunque en realidad, son muchos más. Descúbrelos en banco.sabadell.com/compromisoempresas

"The key is to think as if we were one"

Sabadell enters a new strategic phase with solid foundations





- Growth of business
- Improvement of efficiency
- Normalisation of non – performing assets

- Technological capabilities as an opportunity to develop the value proposition
- Attractive organisation and people with the necessary skills

- Brand and customer experience as differentiating elements
- Consolidation of the bank's internationalisation process

Sabadell 2020

Investor Day

Our plan

London, 23 February

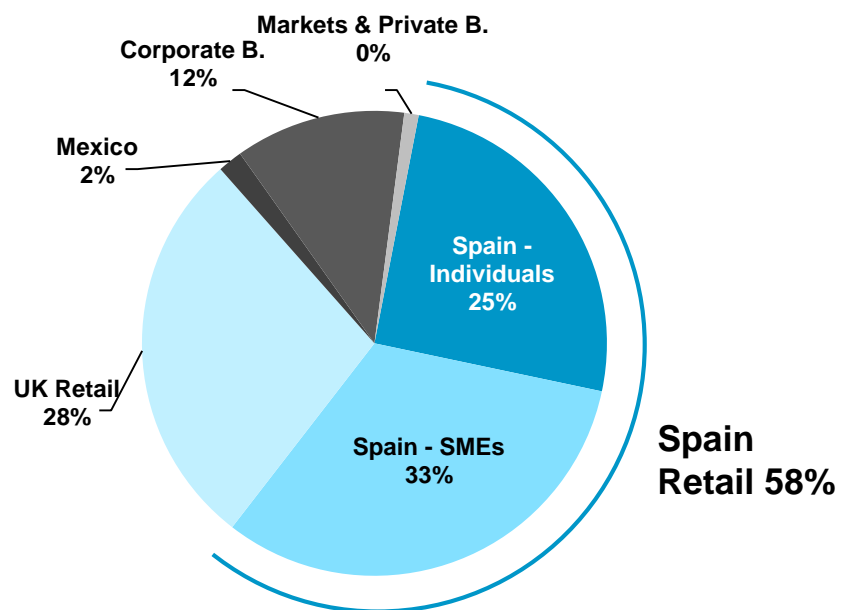
Jaime Guardiola

CEO

Large well-diversified domestic universal banking player with a sound domestic SMEs segment franchise

- Diversified portfolio across businesses and geographies

Customer Lending¹



- Strong SMEs franchise in Spain to profit sooner from the economic recovery

- Significant market penetration in Spain

74% Large companies² **51%** SMEs²

- NPS³ leadership in both SMEs and large companies

+34% (1st) Large companies⁴ **+19% (1st)** SMEs⁴

- Strong market share across products

11.6% Customer lending⁵ **15.3%** Transactions at PoS (value)

Note: Data as of December 2017 or last month available.

¹ Performing loans, excluding also the impact of the APS (i.e. the 80% of the APS problematic exposure which risk is presented as performing and the net loans and receivables account).

² Large companies: ≥ €10M. SMEs < €10M.

³ 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.

⁴ Large companies in NPS analysis: ≥ €5M. SMEs < €5M.

⁵ Excluding loans to real estate companies and repos.

Strong core banking revenue and solid cost management

- Business growth above market

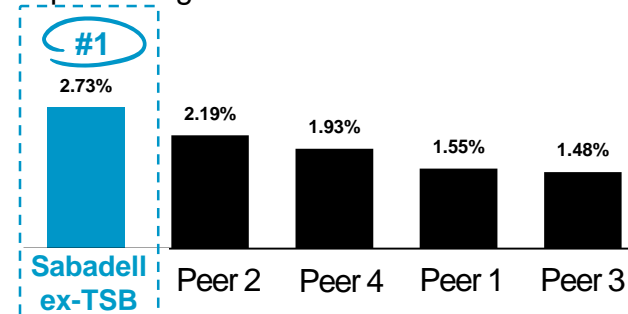
	Market shares		
	2013	2017	
Customer lending Spain	7.5%	7.9%	+40bps
Customer deposits Spain ²	6.5%	7.3%	+80bps
Mutual Funds (AuM Spain)	4.1%	6.3%	+220bps

	2017 flow vs. stock	
	Flow	Stock
Mortgages UK (TSB)	2.8%	> 1.9%
PCAs UK	6.2%	> 4.6%

- Good profitability with solid core-banking momentum

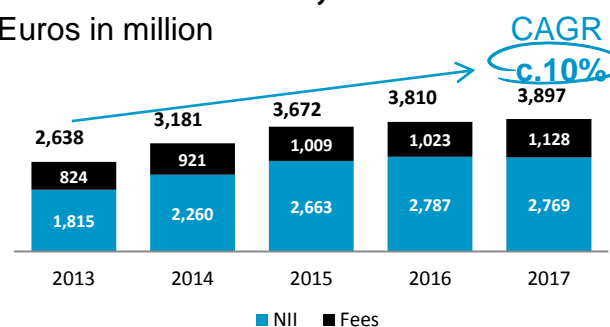
Customer spread, ex-TSB¹

In percentage. Data as at Q4 2017



Core revenue, ex-TSB

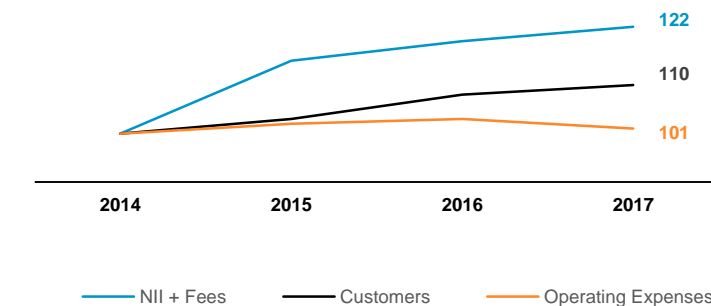
Euros in million



- Consolidated our leap in size while improving efficiency

Evolution of customers, expenses, and revenues

Sabadell, ex-TSB. Rebased to 100 (2014 = 100)



Cost-management levers:

Acquisition synergies + Unit cost improvements + Operational model transformation

Note: Peer group: Bankia (ex-BMN), BBVA Spain, CaixaBank (ex-BPI), and Santander Spain (ex-Banco Popular). Source: Quarterly reports.

¹ In the case of Sabadell Group, the customer spread stands at 2.80%.

² Excluding General Governments.

Focus continues on commercial and digital transformation while continuing to deliver top customer experience

- Strong focus on a sound commercial and digital transformation



**Hub & spoke
branch model**



**Sabadell
Mobile**



**Active
management**



**360° client
management**



**Proteo
Mobile**

24+24 48h response time
for consumer loans

- Management focus on customer experience

Net promoter score (NPS)¹

Sabadell NPS and ranking vs peers

	2013	2017	
Spain	Large companies (turnover ≥ €5M)	15% (1 st)	34% (1 st) +19pps
	SMEs (turnover < €5M)	3% (1 st)	19% (1 st) +16pps
	Personal banking	-4% (5 th)	29% (2 nd) +33pps
	Retail individuals	-22% (5 th)	5% (4 th) +27pps
UK	TSB	-	25%

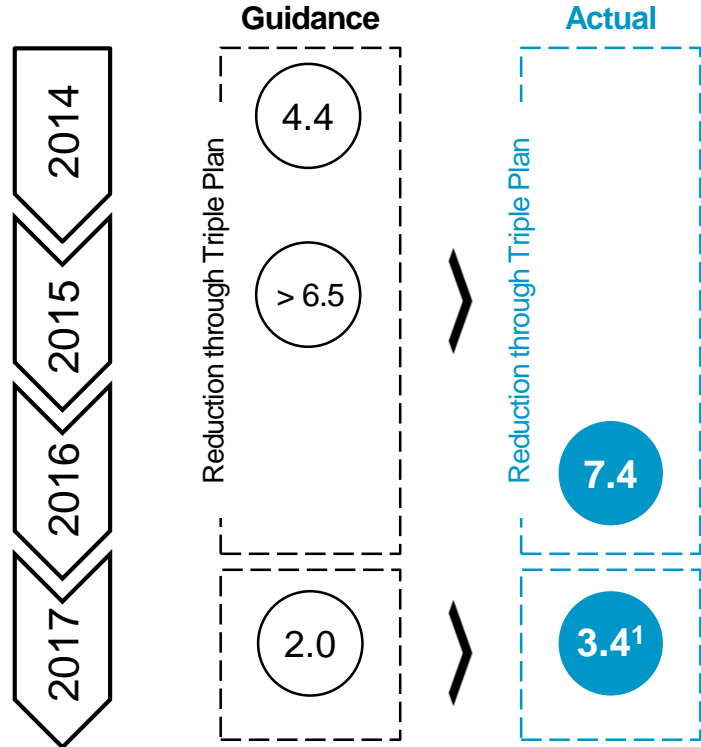
¹ Source: Benchmark NPS Accenture Report. Net promoter score (NPS) is based on the question "On a scale of 0-10, where 0 is not at all likely and 10 is extremely likely, how likely is it that you would recommend Sabadell to a friend or colleague?" NPS is the percentage of customers who score 9-10 after subtracting the percentage who score 0-6. Considers peer group entities.

Sabadell has transformed its balance sheet over the past years

- Proven track record on NPA reduction...

NPA reduction ex-TSB

Euros in billion

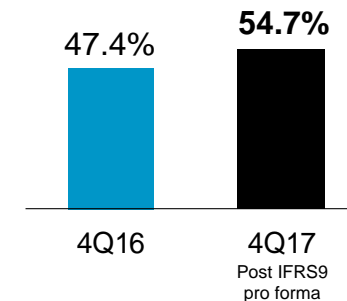


We have increased our NPA reduction guidance several times and reduced our problematic exposures far beyond our revised targets

- ... while boosting our coverage levels

NPA coverage², Sabadell Group

In percentage



3.2%
Net NPA ratio

CoR outlook
2017: 144bps to 2018E: c.60bps

Our net NPA to assets ratio has fallen since 2013 from 7.8% to 3.2% post IFRS 9

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

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

² Excluding mortgage floor provisions.

Our key objective for the next three years will be to enhance profitability

1


Enhancing profitability

- Business growth
- Efficiency optimisation
- NPA normalisation

ROTE
c.13%
(2020E)





2




Brand and customer experience as differentiating elements

3




Transformation: technological capabilities to evolve the value proposition

4



Attractive organisation and **people** with the necessary skills

5



Develop our **international franchises**: UK and Mexico

Further core revenue growth driven by increasing business volumes and an active pricing strategy

Profitability

Brand and customer experience

Transformation

Organisation and people

International franchises

We will deliver an attractive ROTE leveraging on:

Strong core banking revenue growth...

...improvements in efficiency...

...and normalisation of our balance-sheet



Core banking revenue¹

+5% CAGR²

- NII: **>4% CAGR²**
- Net Fees & Commissions: **>6.5% CAGR³**



Business volume⁴

+4% CAGR

- Customer lending: **c.4% CAGR**
- Customer deposits: **c.4% CAGR**
- Off-balance sheet funds: **c.8% CAGR**

Note: All CAGRs refer to the 2017-2020E period.

¹ Core banking revenue refers to net interest income plus commissions.

² Like-for-like evolution: 2017 excludes SUB, Mediterráneo Vida as well as the mortgage enhancement contribution.

³ Like-for-like evolution: 2017 excludes SUB, Mediterráneo Vida.

⁴ Including gross loans and customer funds (on-balance and off-balance).

An increasing core revenue, along with stable group cost will drive our cost-to-income ratio to c.47% in 2020

Profitability

Brand and customer experience

Transformation

Organisation and people

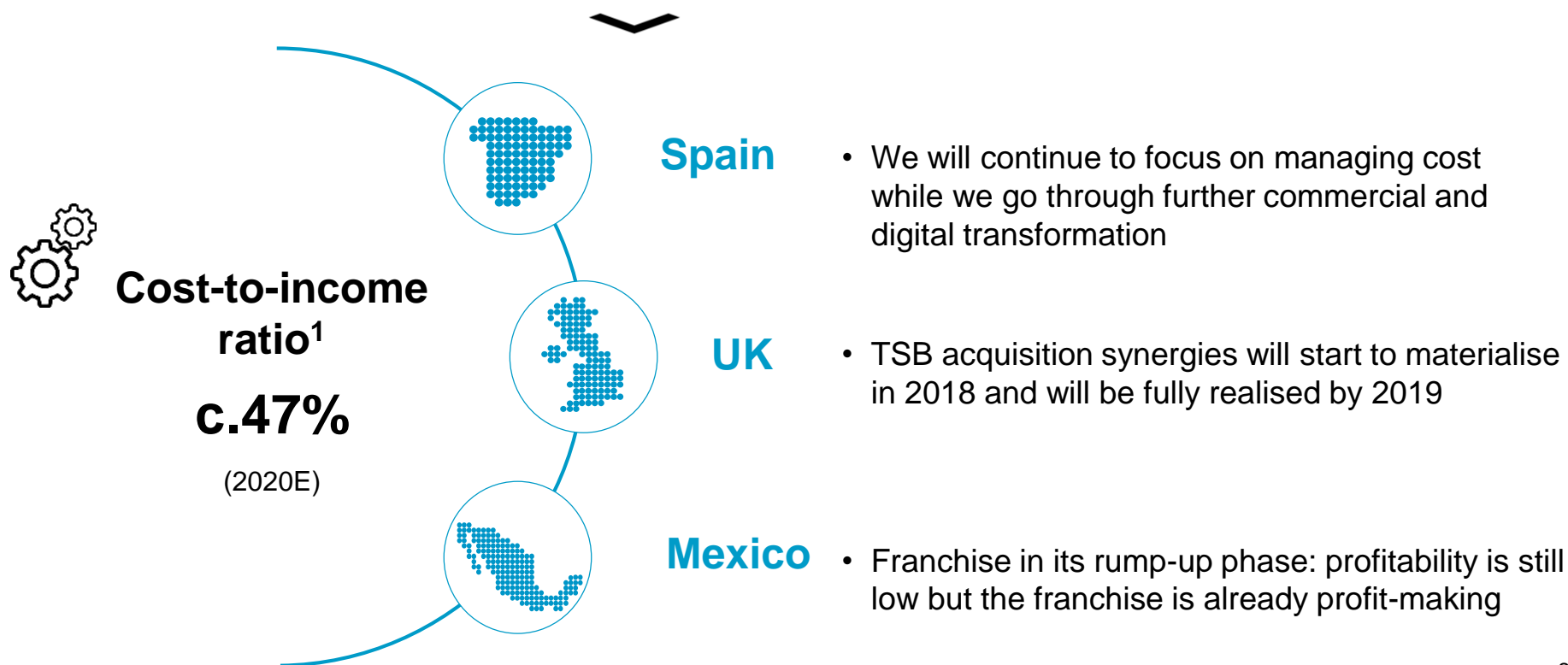
International franchises

We will deliver an attractive ROTE leveraging on:

Strong core banking revenue growth...

...improvements in efficiency...

...and normalisation of our balance-sheet



¹ Cost-to-income ratio defined as operating expenses (excluding amortisation) divided by gross operating income.

CoR reduction to accelerate improving earnings visibility in the medium term

Profitability

Brand and customer experience

Transformation

Organisation and people

International franchises

We will deliver an attractive ROTE leveraging on:

Strong core banking revenue growth...

...improvements in efficiency...

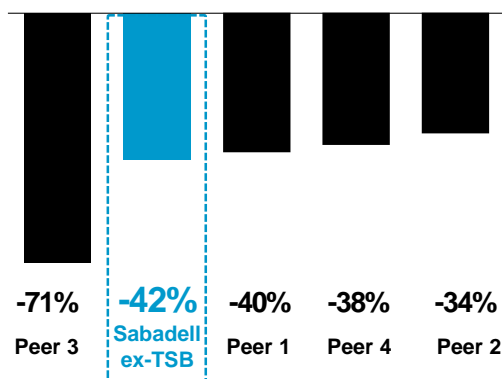
...and normalisation of our balance-sheet

- **Clear NPA reduction strategy supported by a strong track record and attractive real estate market conditions**

- **Good coverage levels provide flexibility to accelerate the normalisation of our balance-sheet**

NPA reduction

2013-2017 ex-TSB. In percentage



NPA reduction (ex-TSB)

>€6bn

(2017-2020E)

Cost of Risk

c.40bps

(2020E)

Note: Peer group: Bankia, BBVA Spain, CaixaBank (ex-BPI), and Santander Spain. Source: Quarterly reports.

Data as of results presentations. For international banks includes business in Spain only. Data from Dec-2013 to Dec- 2017. NPLs and NPAs include 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell according to the APS protocol.

Our priority is to deliver on our brand promise



Attractive brand

- Recognised
- Relevant
- Differential
- Genuine



Outstanding customer experience

- Consistent with our brand promise

Strong brand values

- Commitment
- Sincerity
- Non-conformism
- Empathy
- Rigour
- Efficiency



Communication

 **Sabadell**
There, wherever you are



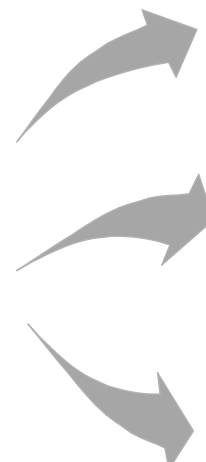
Activation

- Processes
- Employees
- Behaviours

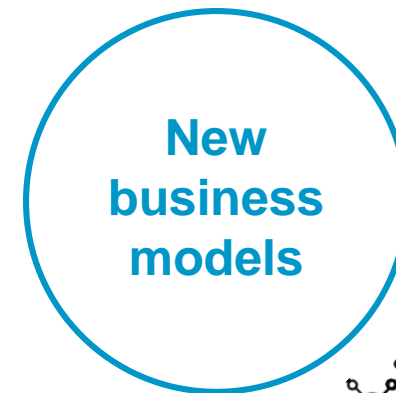
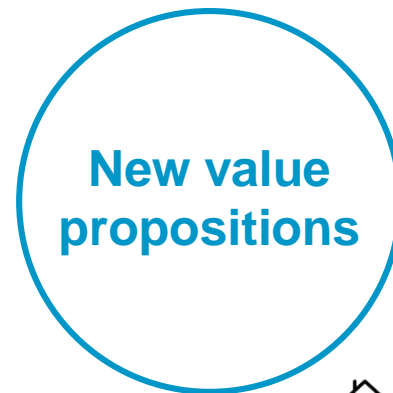
We will accelerate our transformation



Sabadell will **accelerate** its transformation in order to...



- ...deliver a **customer experience** that exceeds customer expectations
- ...seize **business opportunities** arising from new technologies
- ...anticipate potential **new banking paradigms**



Our people remain key to our success

- Profitability
- Brand and customer experience
- Transformation
- Organisation and people**
- International franchises

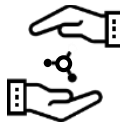
In an increasingly competitive business environment, our people are key to seize the opportunities we have and to deliver our objectives



People as a key factor for differentiation



Talent retention and attraction



New required **skills**



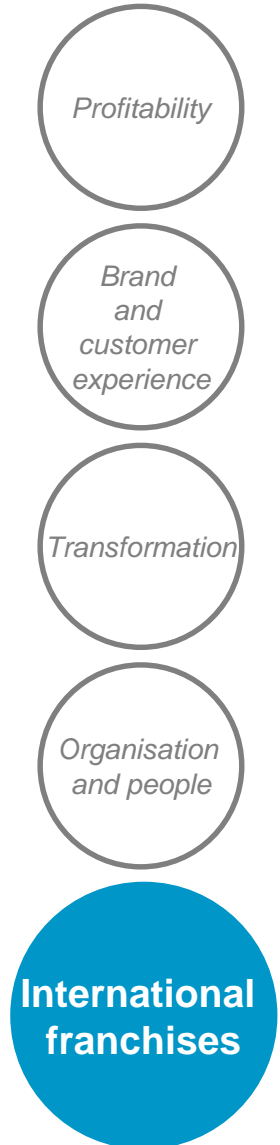
Action plan

Proximity: between HR management and businesses

Planning: critical skills development, forecast HR needs, etc.

Culture: employees behaviours aligned with brand / culture

We will increase the value of our international franchise



TSB: Focus on three key drivers

Growth

- Franchise lending (+9% CAGR 2017-2020E)
- PCA share of flow $\geq 6\%$ per annum

Efficiency

- Exploit the benefits of the new platform
- New corporate core organisation design

SMEs

- Launch of new SMEs business line
- Currently opting to the RBS remedies

We will increase the value of our international franchise

Profitability

Brand and customer experience

Transformation

Organisation and people

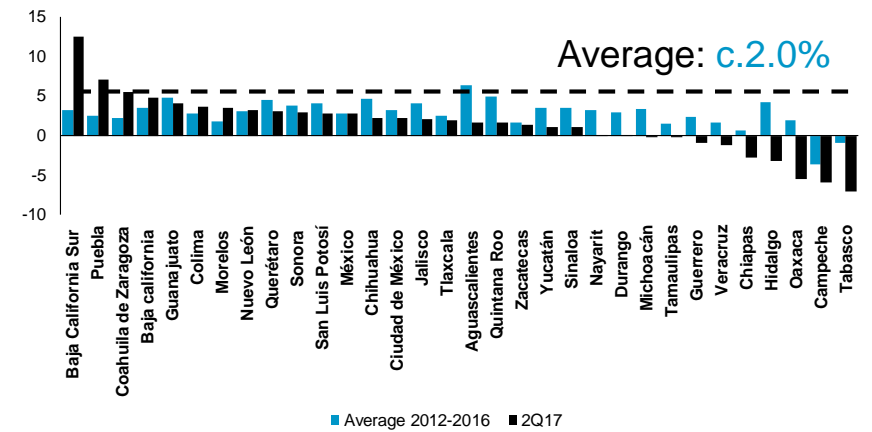
International franchises

Mexico: Tailwinds for the banking industry in Mexico

GDP growth will continue to be around 2.0%¹

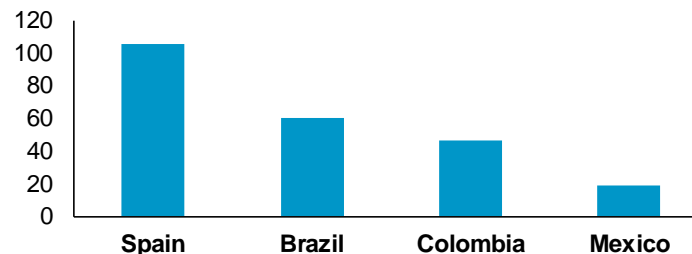


Quarterly indicator of economic activity by state (% YoY)

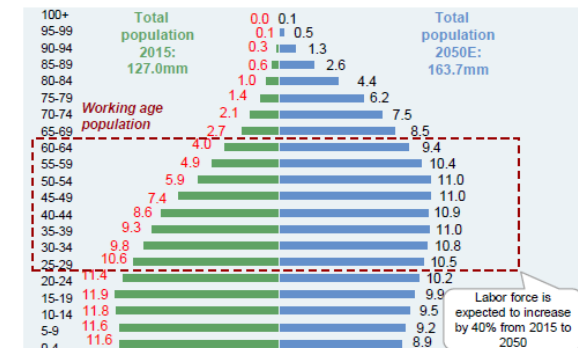


High potential for banking penetration in Mexico

Banking credit to the non financial private sector (% of GDP as of 1Q17)²



Demographic dynamics supporting the growth of the labour force³

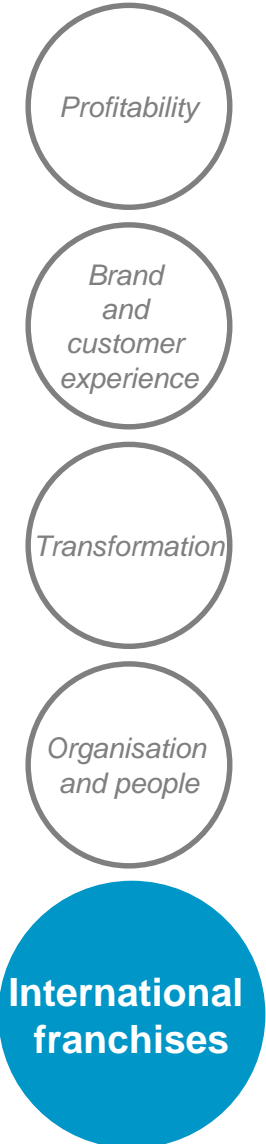


¹ Source: "INEGI" - National Institute of Statistics and Geography in Mexico.

² Source: BIS statistics.

³ Source: IHS, UN Department of Economic and Social Affairs, INEGI and IMF.

We will increase the value of our international franchise








Mexico: **Specific approach for each business line in Mexico**

	Approach		Next steps
Corporate banking (Launched in 2014)	<ul style="list-style-type: none"> • Local bankers (as lever for initial business attraction) • Up to date: focus on lending 	➤	<ul style="list-style-type: none"> • Deeper relationships with our customers (offering extension)
Business banking (Launched in 2016)	<ul style="list-style-type: none"> • Initial leverage on Sabadell expertise • Network of strategically located Business Centers 	➤	<ul style="list-style-type: none"> • Deployment of new capabilities (IT platform, products, etc.)
Retail banking (Launched in 2018)	<ul style="list-style-type: none"> • 100% digital banking model, leveraged on remote RMs¹ • Differential customer experience • Pilot launched in late 2017 	➤	<ul style="list-style-type: none"> • Fine-tuning of our value proposition according to market feed-back • Deployment of new capabilities (IT platform, products, etc.)

¹ RMs refers to Relationship Managers.

Strategic priorities

2020 Key takeaways

-  **Profitability:** we are committed to a c.13% ROTE by 2020E
-  **Brand and customer experience:** attractive brand promise and outstanding customer experience
-  **Transformation:** acceleration of our transformation, widening its scope and anticipating to new paradigms, with a clear ROI discipline
-  **Organisation and people:** the best team, with the required skills, and an attractive organisation for talent
-  **International franchises:** development of our international franchises with focus on value creation

Sabadell 2020

Investor Day

Growth and transformation in Spain

Carlos Ventura

London, 23 February

General Manager Commercial Banking Spain

Starting point

Business performance



- **Strong market position in Spain:** volumes, income and market shares
 - Pacesetters in SMEs segment
 - Very positive trend in individuals
- **Leadership in customer spread**
- **Top performance in customer experience**
(leadership in large companies and SMEs)
- **Significant progress in commercial transformation:** focus and momentum on both capacity building and use of the built capabilities

Sabadell 2020 objectives



Growth and efficiency

- Growth: customers, volumes, market shares and margins
- Efficiency: contention of actionable costs



Focus on areas with growth potential

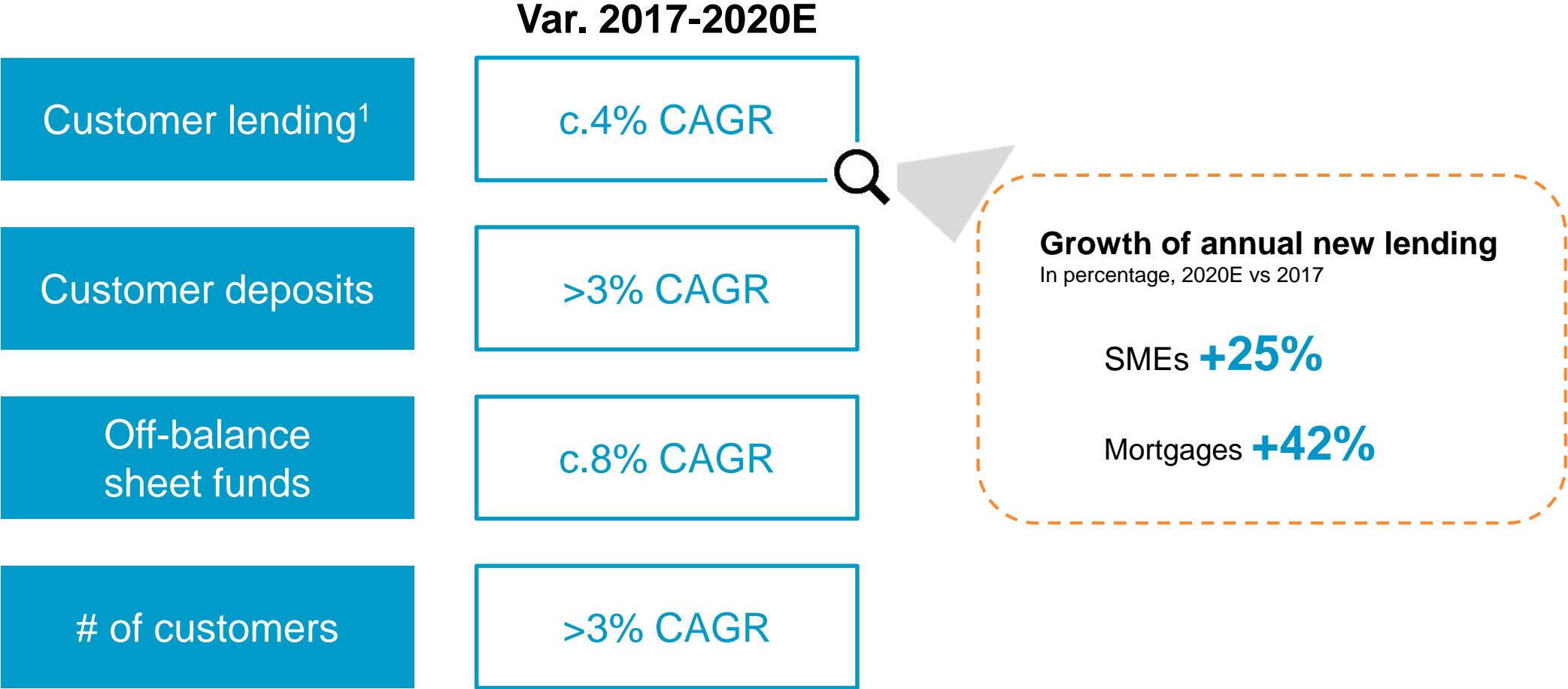
- Insurance
- Regions with potential (Madrid)
- Unsecured lending
- Savings & Investments
- Lending market share in SMEs



Increased business sustainability

- Consistent brand
- Differential customer experience
- Business transformation

Ambitious growth targets in Spain for 2020

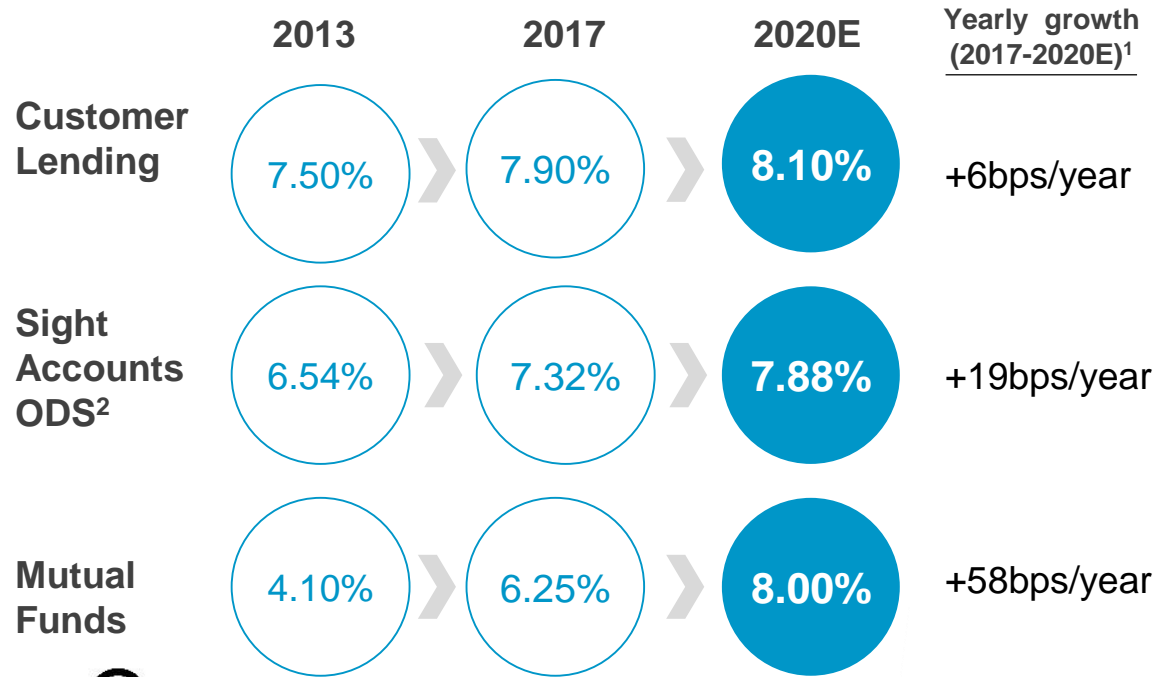


Note: targets 2020E refer to Commercial Banking Spain.
¹ Performing loans.

Growing market shares and penetration

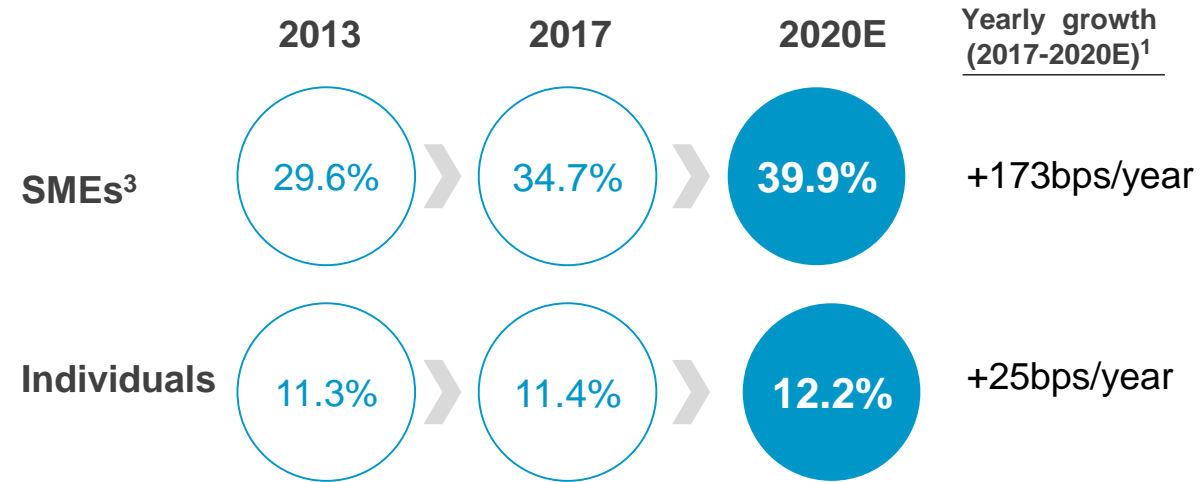
Main market shares

In percentage



Market penetration

In percentage



Strong performance of Sabadell mutual funds:



94% of our AuM are in mutual funds ranked in the top 2 profitability quartiles in Spain⁴

Note: 2017 data as December 2017 or last month available.

¹ Average yearly growth.

² Other Domestic sectors.

³ Mid Corps, Pure SMEs & Retail stores.

⁴ As of December 2017, considering the 3-year average profitability.

Well defined strategic programmes which will allow us to achieve our targets

Organic growth

Current business
“We will grow the current business...”



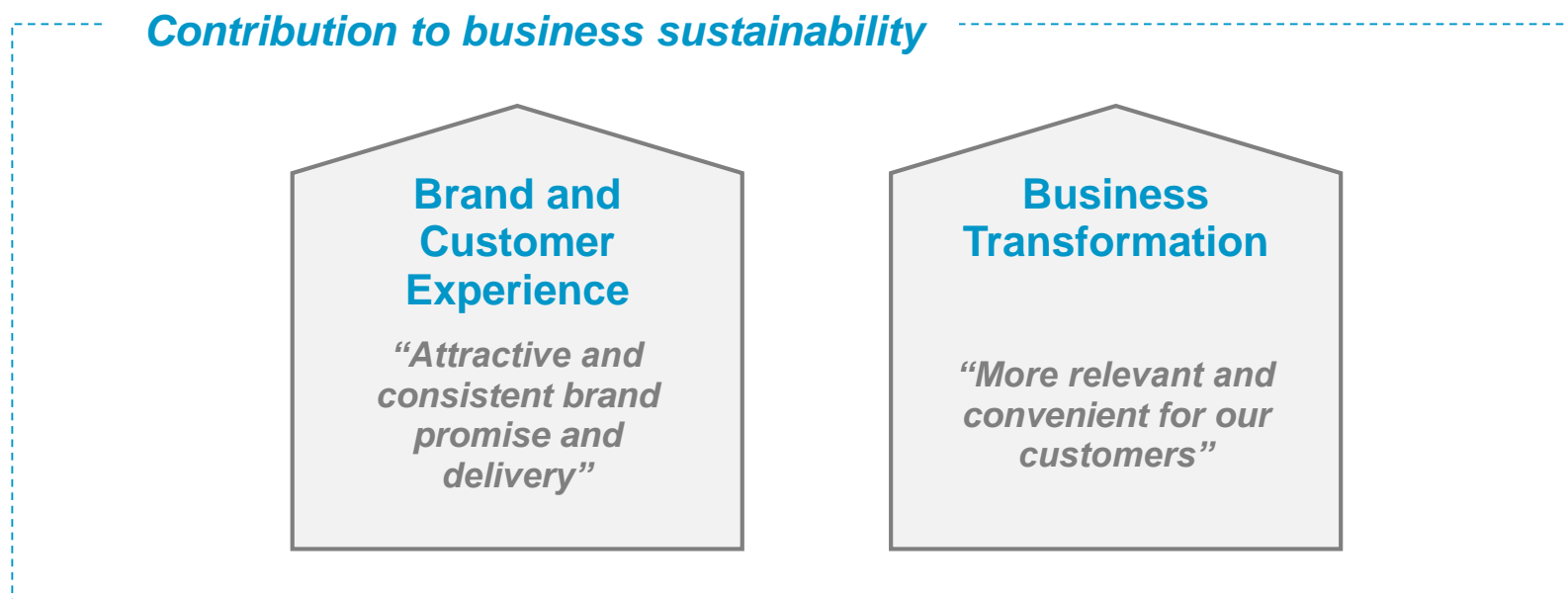
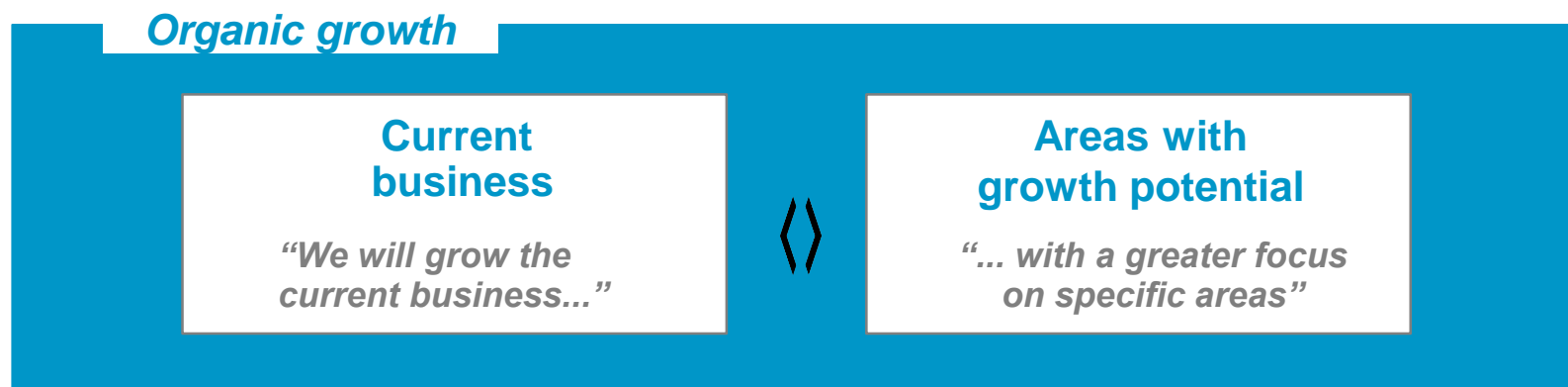
Areas with growth potential
“... with a greater focus on specific areas”

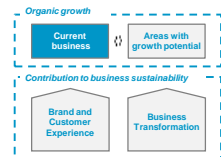
Contribution to business sustainability

Brand and Customer Experience
“Attractive and consistent brand promise and delivery”

Business Transformation
“More relevant and convenient for our customers”

Well defined strategic programmes which will allow us to achieve our targets





Evolution of our customer-acquisition model

- **Current business:** maintain commercial momentum to continue increasing market shares across products and segments, while defending pricing
- There are two topics with specific action plans:

① Evolution of our **customer-acquisition model**

② Increased focus on **fees and commissions**

Brand reinforcement
B Sabadell

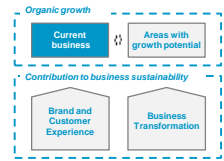
+

- **Digital customer acquisition**
(100% remote customer registration)
- **Indirect channels**
(prescribers / associate banking / collectives)
- **New products with focus on customer acquisition**
- **Dedicated RMs¹**
(RMs focused on customer acquisition)

of customers
+10%

2020E

¹ RM: Relationship Manager.



Increased focus on fees and commissions

- **Current business:** maintain commercial momentum to continue increasing market shares across products and segments, while defending pricing

- There are two topics with specific action plans:

① Evolution of our **customer-acquisition model**

② Increased focus on **fees and commissions**

▲ customer base / transactionality / cross-selling

+

Fees optimisation plan



2017 fees & commissions growth > 10%¹

2018 Approach:

- **Not-engaged customers**

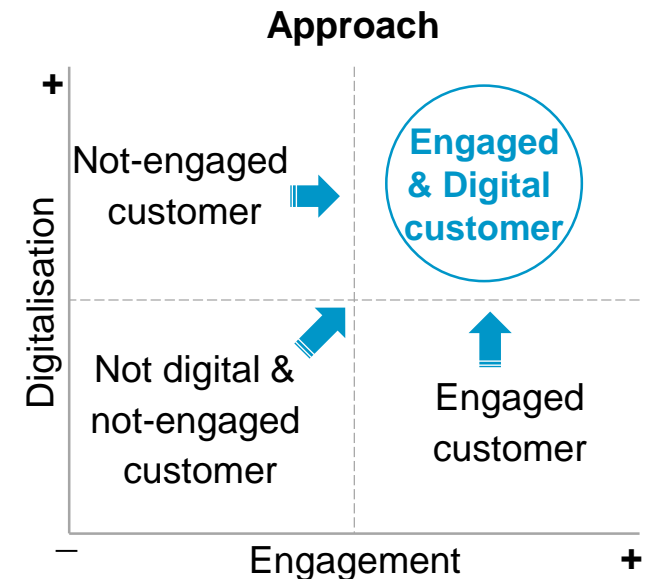


Penalize lack of engagement:
▲ Commissions (within market standards)

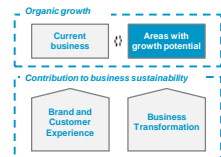
- **Engaged customers**



Reinforce engagement: appropriate management of special conditions



¹ Sabadell ex-TSB.

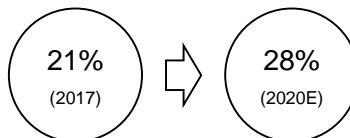


Focus on areas with growth potential

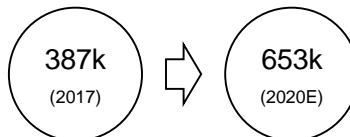
Objectives

- **Increase insurance penetration among Sabadell's customers**

- # of Sabadell customers with insurance protection



- New annual insurance protection contracts



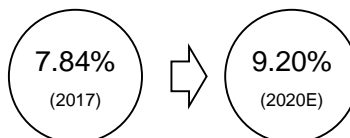
Key aspects

- New **digital** insurance offering



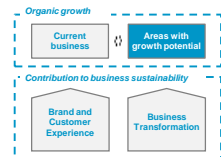
- **Business growth in Madrid**

- Market penetration in Madrid



- Market **opportunity**
- Approach aligned with our previous plan **“Oportunidad Madrid”**





Focus on areas with growth potential

Unsecured lending

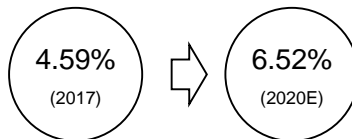
Savings & Investments

Lending market share in SME

Objectives

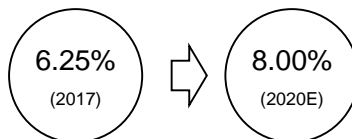
- Growth in unsecured lending**

- Unsecured lending market share¹



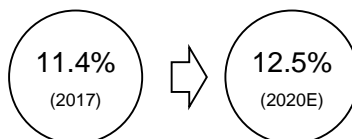
- Establish Sabadell as a reference player for Savings & Investments**

- Mutual Funds market share



- Growth of our market share in SMEs segment**

- Lending market share in SMEs



Key aspects

- Profitable** and **growing** market segment



- Potential to grow within the Bank's **current customer base**

- Market **growth potential**

- Evolution of our **value proposition**



- Mutual funds** performance

- Dynamism of **commercial activity**

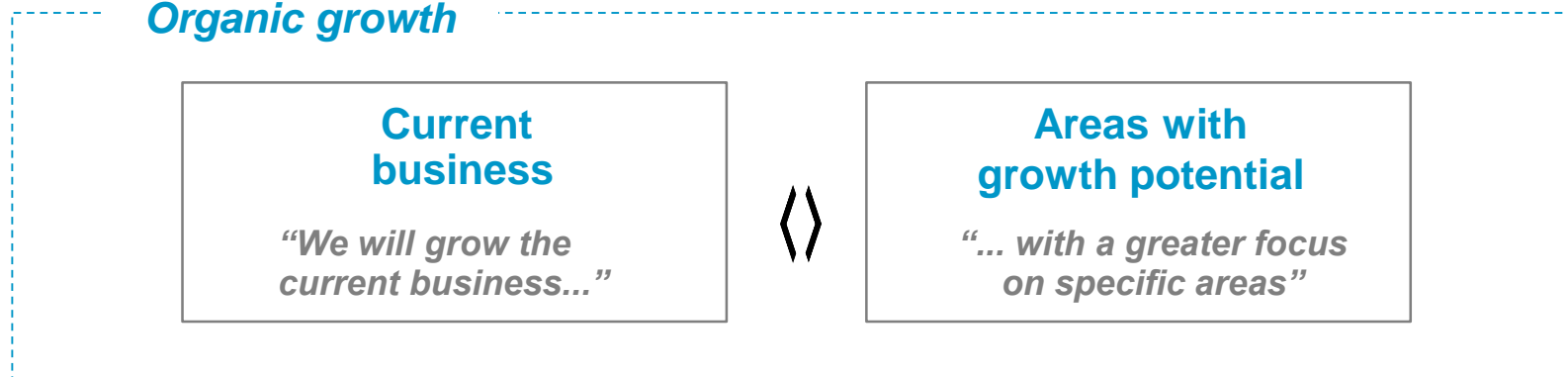
- Advanced analytics**



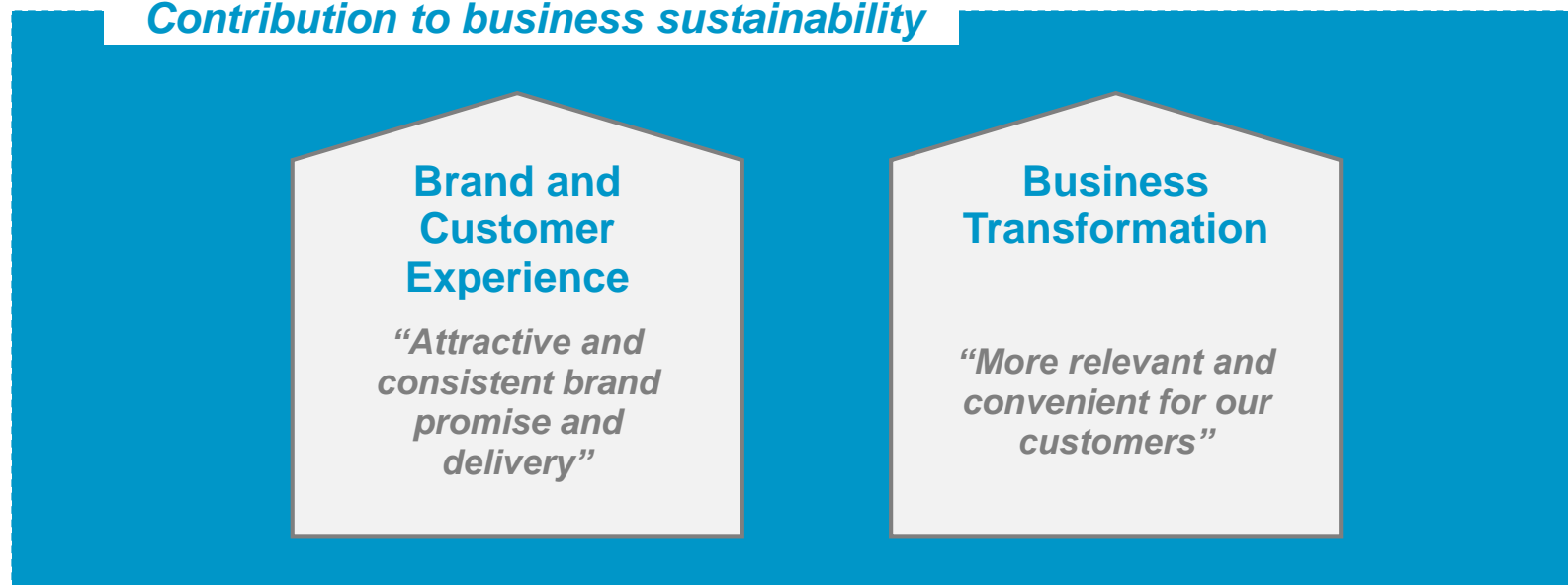
¹ Excludes Sabadell Consumer Finance.

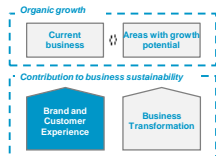
Well defined strategic programmes which will allow us to achieve our targets

Organic growth



Contribution to business sustainability



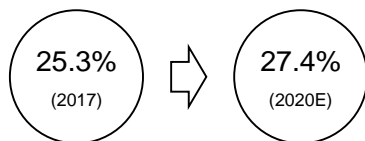


Our priority is to deliver on our brand promise

Brand

- **Keep building an attractive brand promise**

Brand consideration



Customer Experience

- **Deliver differential customer experience**

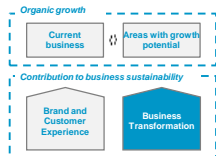
	2013	2017	2020E
NPS ¹	Large companies	1 st	1 st
	SMEs	1 st	1 st
	Personal banking	5 th	2 nd
	Retail individuals	5 th	4 th



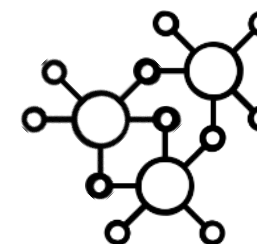
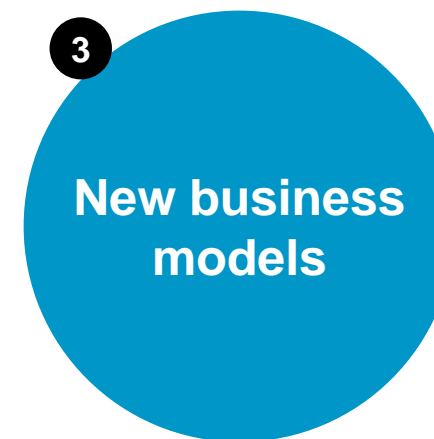
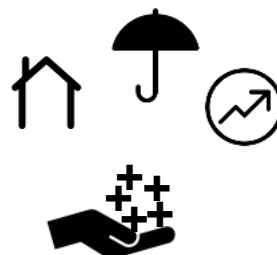
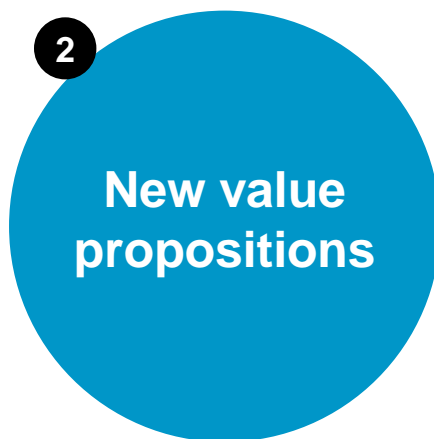
Action plan

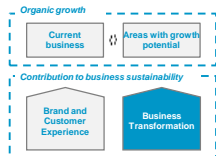
- Engage the organisation: generate momentum
- Translate and infuse our values into our behaviours, processes and offering
- Employees as brand ambassadors and promoters of customer experience
- Monitoring and adjustment

¹ 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.



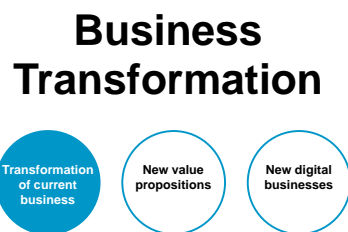
Sabadell is approaching its business transformation in three different dimensions





1 Transformation of our current business

The systematic deployment of new capabilities is already embedded in our daily management approach, and we are now increasing our focus on reaping the rewards of transformation: enhanced competitiveness, productivity and efficiency

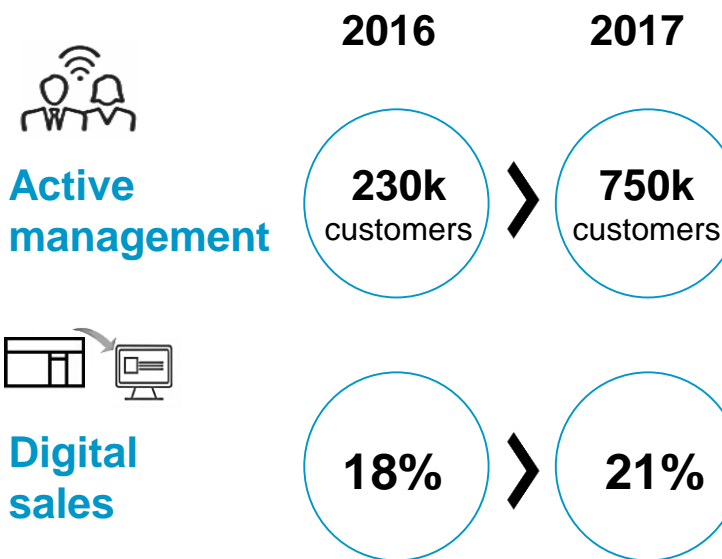


Status

Individuals: key capabilities deployed, and current focus on promoting its use

SMEs & Mid Corps: focus on generating transformation momentum and on building new capabilities

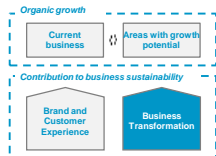
Deployment of new capabilities underway



Next releases

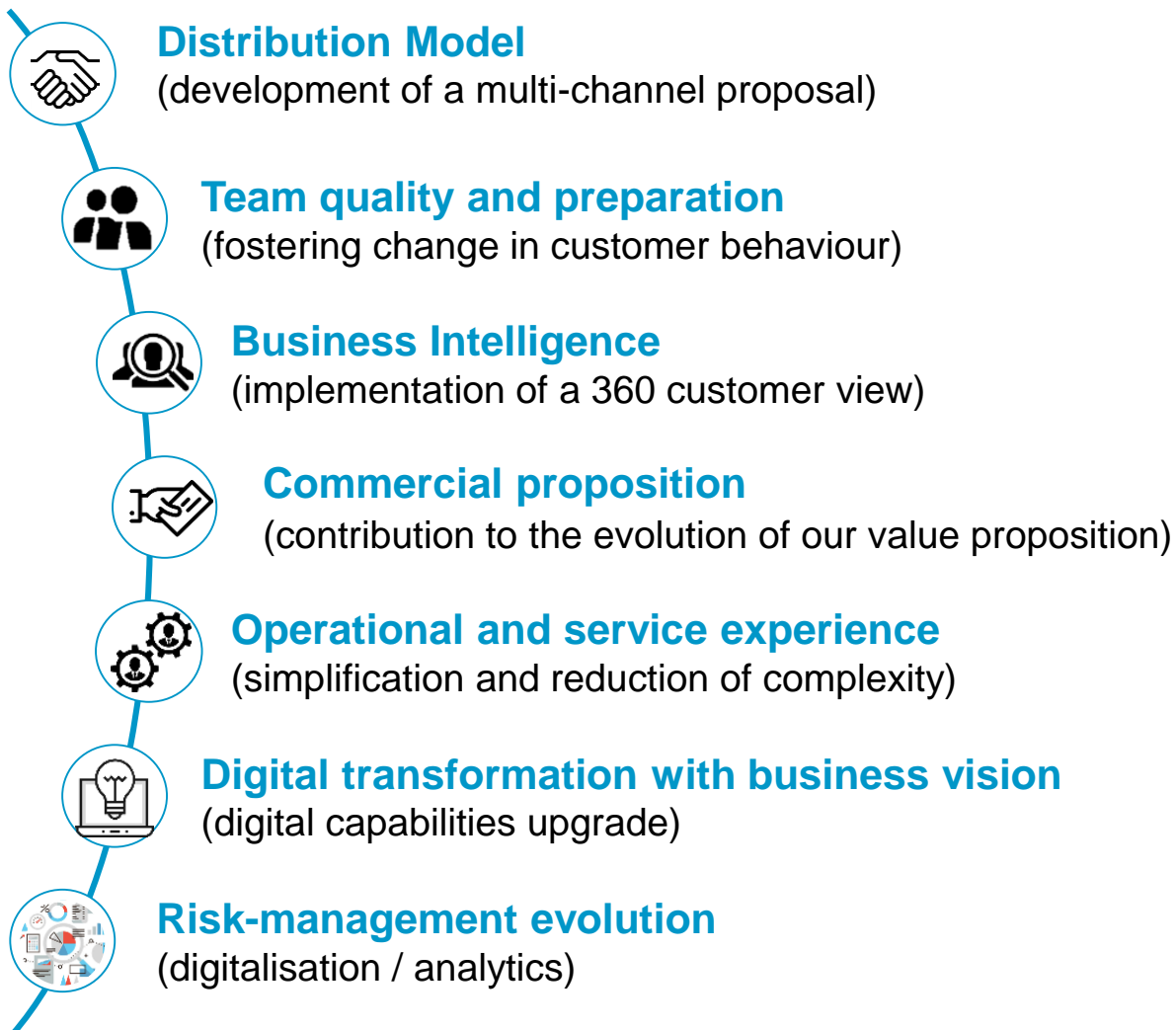
- New products available online (savings, ...)
- Digital on boarding
- Channels evolution (mobile, web, ..)
- Advanced Business Intelligence
- Commercial tools (remote signature, CRM¹, ...)

¹ CRM refers to Customer Relationship Management.

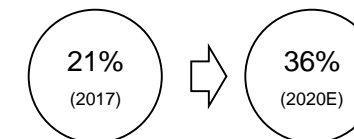


1 Transformation of our current business

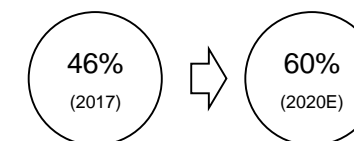
Business Transformation



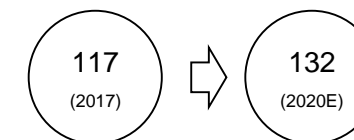
Digital sales in Spain



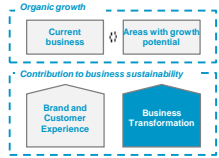
Digital customers in Spain



Productivity¹ (business volume / expenses)



¹ Productivity defined as (Gross loans to customers ex repos+ on balance sheet customer funds+ off-balance sheet funds) / (Personnel expenses + General Admin expenses). Like-for-like evolution: 2017 excludes SUB and Mediterraneo Vida.

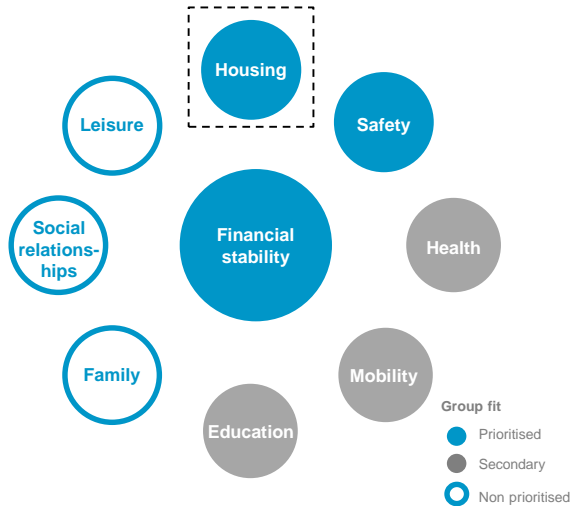


2 Development of new value propositions from a customer needs point of view

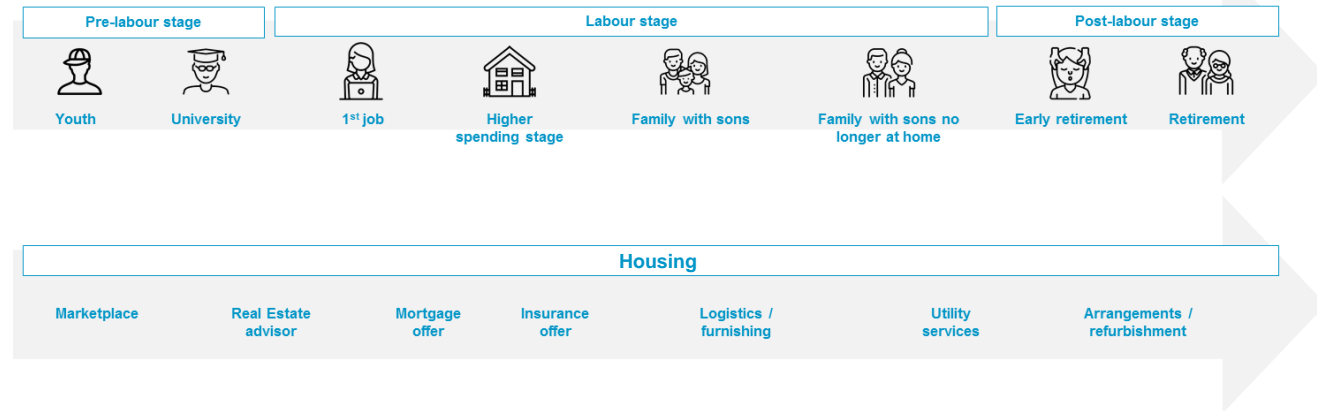
We are also widening the scope of our transformation: we will enrich our value proposition to cover customer needs beyond the strictly financial requirements

Action plan

Business Transformation

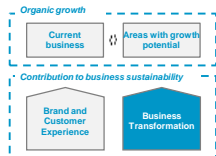


Illustrative



Key elements:

- Market intelligence
- Technology
- Regulation
- Alliances with third parties



3 Participation in the financial innovation eco-system

We will anticipate potential new banking paradigms that may emerge in the future

Business Transformation

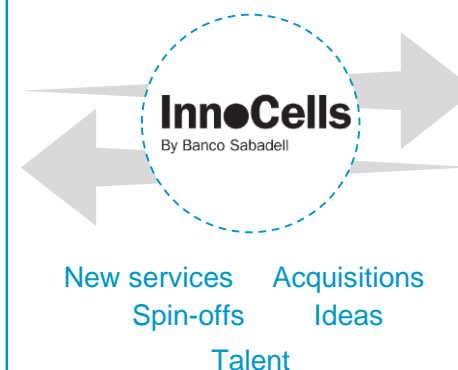


InnoCells

By Banco Sabadell



- Strategic investments in technological and digital businesses
- Collaboration with start-ups and in-house entrepreneurs to develop digital businesses
- Digital know-how Hub of Sabadell



Our business in Spain in 2020



Positive trend in business performance

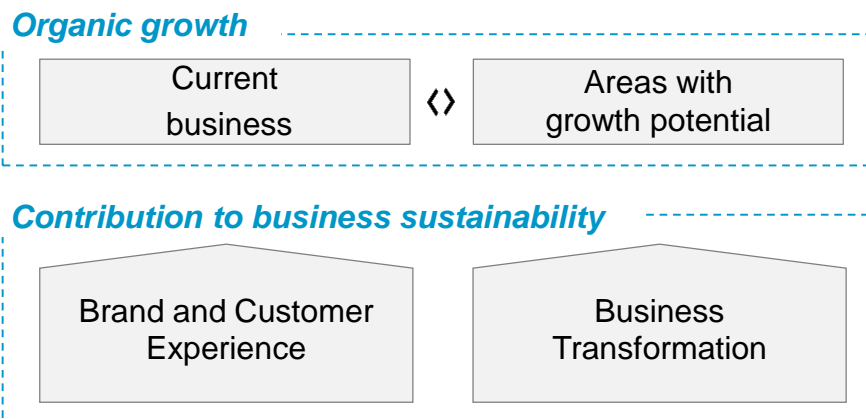


Banking business objectives in Spain

- Growth, efficiency and margins
- Focus in areas with growth potential
- Increased business sustainability



Strategic programmes



Key targets 2020E

**c.4%
CAGR**

Customer lending¹

**>3%
CAGR**

Customer deposits

**c.8%
CAGR**

Off-balance sheet funds

**>3%
CAGR**

of customers

Note: targets 2020E refer to Commercial Banking Spain.

¹ Performing loans.

Sabadell 2020

Investor Day

TSB – the next chapter

London, 23 February

Paul Pester

TSB CEO

At IPO in June 2014 TSB set out to establish itself as Britain's challenger bank

Local banking
for Britain



June
2014

Britain's challenger bank:

- ✓ Large scale, full capability, UK retail bank
- ✓ Low risk, simple, clean balance sheet
- ✓ Clear strategy delivering significant value-enhancing growth within current model
- ✓ Low current profitability – growing to strong ROE with momentum and dividends over time
- ✓ Experienced and committed leadership team

Our growth strategy has three clear components

In the first five years successful delivery of our growth strategy will lead to a TSB Bank 40-50% larger than today

June 2014

TSB's growth strategy

1

Provide great banking to more people

2

Help more people borrow well

3

Provide the kind of banking people want and deserve

Target outcomes 5 years after IPO (2019)

1. PCA¹ market share (flow) consistently in excess of 6%
2. 40-50% growth in franchise² customer lending
3. Increase use of digital channels in sales and service
4. Constrain long-term cost growth to no more than 3% p.a.

Double digit ROE with momentum and strong dividend paying intent and capability over time

¹ Personal Current Account.

² TSB branded.

As of the end of 2016, TSB delivered its end of 2019 growth targets – 3 years ahead of plan



Target outcomes – by end 2019¹

1. PCA² market share (flow) consistently in excess of **6%**
2. **40-50%** growth in franchise customer lending
3. Increase use of digital channels in sales and service
4. Constrain long-term cost growth to no more than **3%** p.a.

Double digit ROE with momentum and strong dividend paying intent and capability over time

Position as of end 2016

7.3% average monthly share of flow since Jan 2014

47% growth in customer lending³

52% of sales through digital channels compared to 18% in Jan 2014

0.6% compound annual growth rate in costs 2014 – 2016

Britain's most recommended high street bank

9.4% RoE⁴ – pre step-up in TSA costs and migration benefits

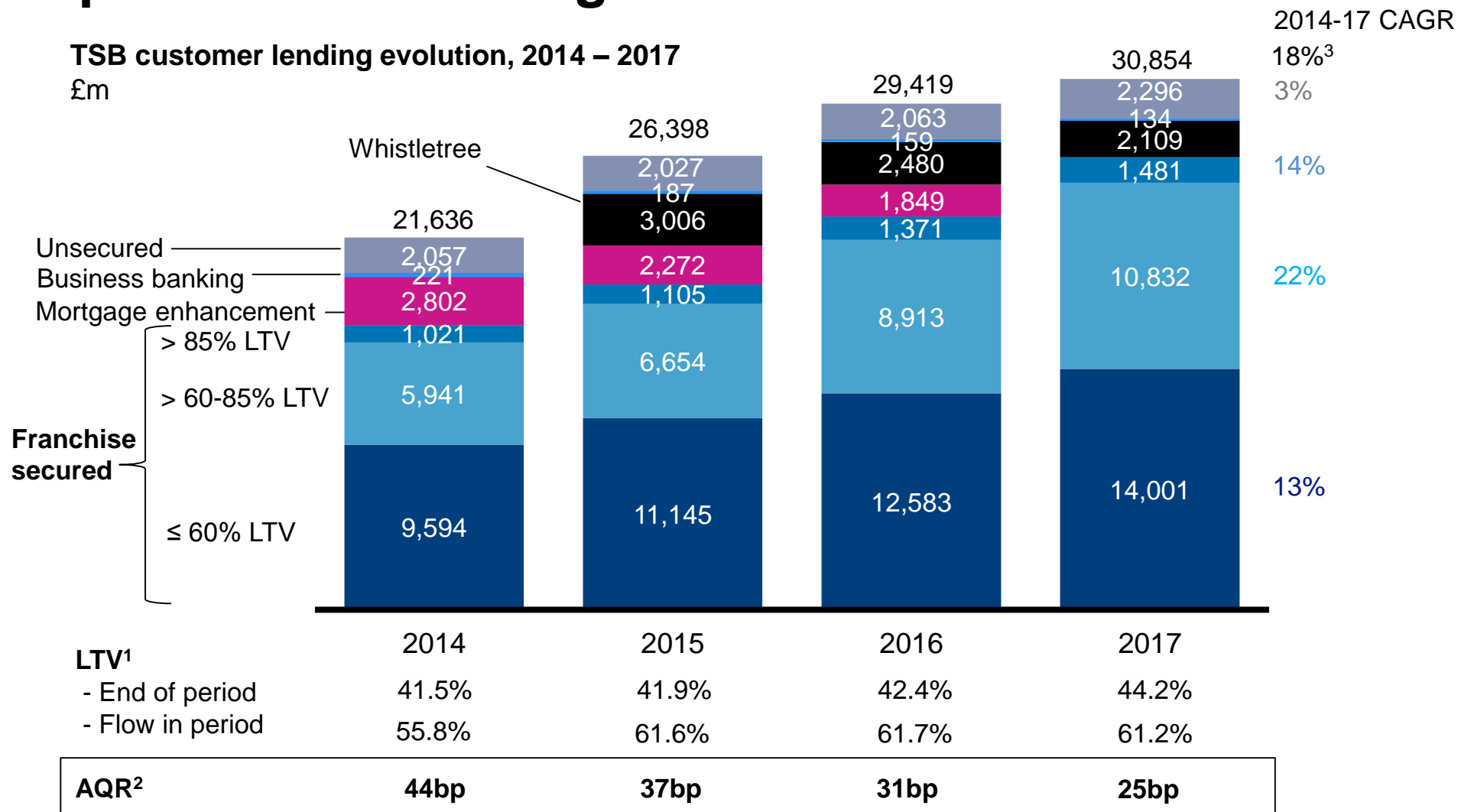
¹ 5 years after IPO.

² Personal Current Account.

³ Excluding mortgage enhancement.

⁴ Target equity.

This growth has been achieved whilst maintaining a low risk profile and reducing the cost of risk

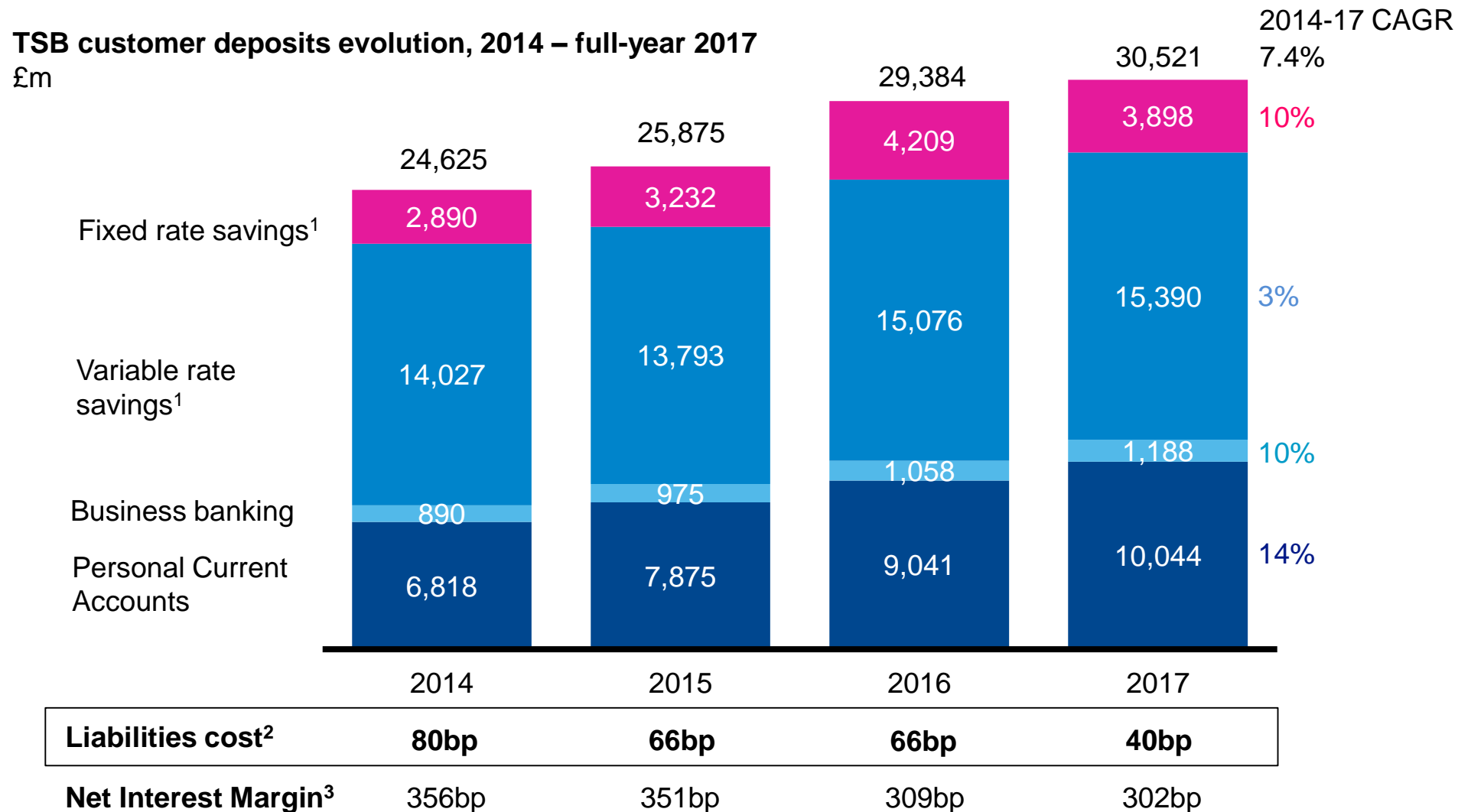


¹ Loan to value.

² Asset quality ratio, including Whistletree and the Mortgage Enhancement.

³ Excluding mortgage enhancement.

Similarly, the liability side of the balance sheet has grown whilst reducing the cost of liabilities



¹ Including ISAs.

² Customer interest payable.

³ Management basis net interest income divided by average loans and advances to customers, gross of impairment allowance.

The resulting underlying 2017 profit growth was strong

TSB profit before tax evolution, 2015-2017

£m	2015	2016	2017	2016-2017 change
Income				
- Franchise	834.0	851.2	961.1	12.9%
- Whistletree	2.2	71.4	57.7	(19.2%)
- Mortgage Enhancement	63.3	46.2	61.7	33.5%
Total income	899.5	968.8	1,080.5	11.5%
Costs				
- IT outsourcing (TSA costs)	(85.4)	(91.8)	(213.8)	132.9%
- Other	(626.1)	(612.0)	(607.5)	(0.7%)
Total costs	(711.5)	(703.8)	(821.3)	16.7%
Impairments and fraud	(82.3)	(87.3)	(77.8)	(10.9%)
Management profit before tax	105.7	177.7	181.4	2.1%
Underlying management profit¹	105.7	177.7	287.9	62.0%
One-offs and banking volatility	(38.1)	4.3	(18.7)	(534.9%)
Statutory profit before tax	67.6	182.0	162.7	(10.6%)

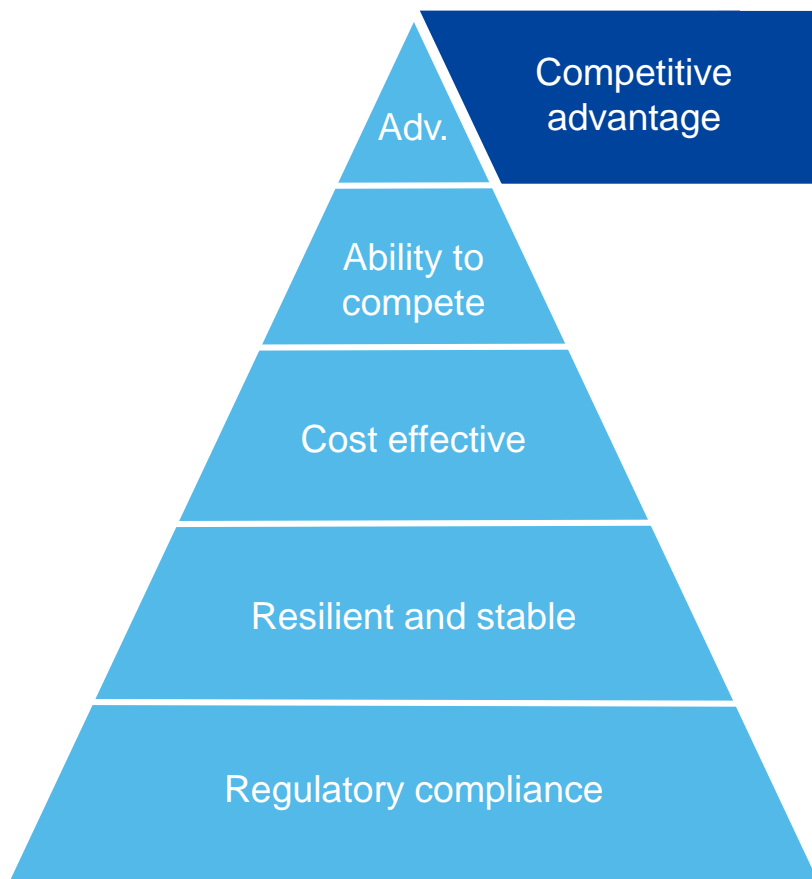
Increase in fees paid to LBG

Strong underlying profit growth

¹ Excluding the impact of the early call of the mortgage enhancement, and the TSA uplift in 2017.

Migration onto TSB's own infrastructure will reverse the TSA cost increase – and position TSB for continued success

Design principles behind new platform

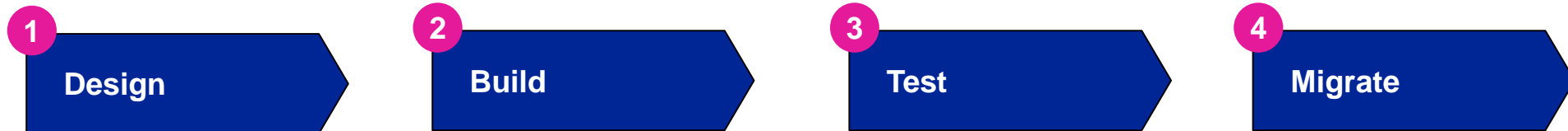


- ✓ Competitive advantage: leveraging opportunities to introduce market differentiation without introducing risk to delivery
- ✓ Ability to compete: with a solid basis for future business transformation
- ✓ Operating costs: operating costs materially lower than today
- ✓ Resilience and stability: to provide a fully functioning bank with no detriment to customer service
- ✓ Compliance: with all UK legal and regulatory requirements

Migration benefits

- ✓ Reverse increase in IT costs
- ✓ Reduced development time/cost for new services/products
- ✓ Access to SME banking capability

The design, build and test of the new infrastructure is close to completion



Design the new platform consistent with the Design Principles

- c.2,500 human-years of effort
- c.4,000 processes designed
- 154 Dossiers in scope


Complete



Build the platform to the specified Design

- >1,500 software components
- Two new data centres built
- 140 miles of cabling laid


Complete

Test the Build against the Design Spec

- 55,000 test cases executed
- Non-functional testing

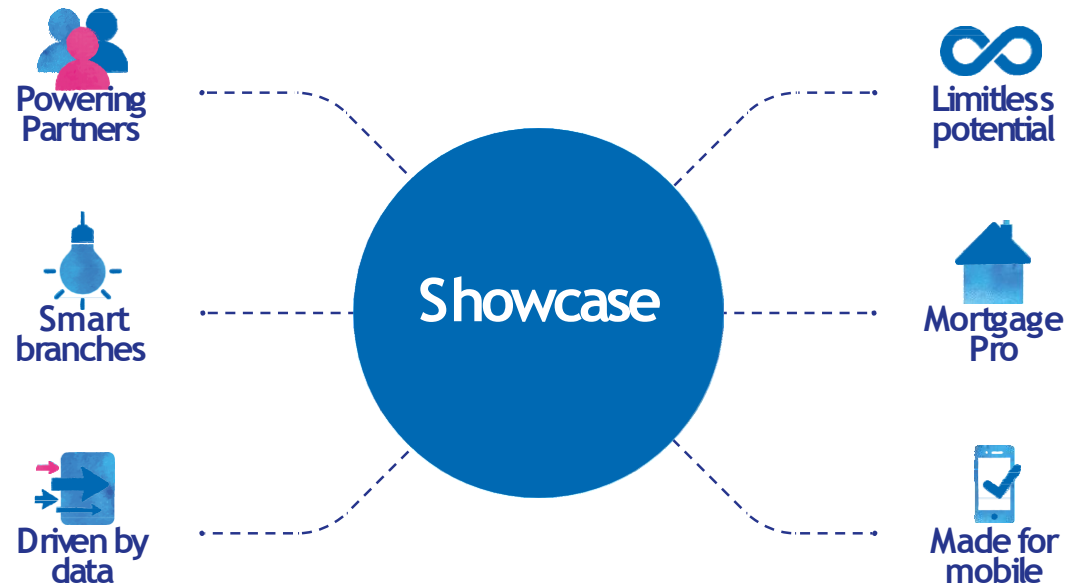
 **Showcase event**
 **TSB Beta**

Extract data from LBG, transform and load onto new platform

- 248 terabytes of data to be moved
- First full Dress Rehearsal completed successfully on 3-4 Feb
- Final landing slot being agreed

Migration-ready by end Q1 2018 and targeting April completion

The 30 November 2017 showcase event was a great opportunity to demonstrate the capability of the new platform



Around 2,000 TSB employees are or will be using “TSB Beta” to prove the end-to-end operation of the new platform



- >1,300 employees transacting on the new platform via TSB Beta
- 96% of TSB ATMs operating on the new platform
- Faster payments operating via 5 sort codes for c.45k customers on the new platform
- 140 mortgage brokers using the new platform (Mortgage Pro)
- >8,000 TSB employees using the new digital workplace
- All Mobile customers operating on the new platform
- Public website operating on the new platform

The outlook is for a relatively benign UK economy over 2018-2020, supporting steady growth in lending markets

	2017 outcomes	2018-2020 outlook
Mortgage market	<ul style="list-style-type: none"> Market £12-13bn larger than expected at £1.37tn Market “flow” strong at £257bn 	<ul style="list-style-type: none"> Total market growth of c.2% p.a over 2018-2020 Market “flow” at c.£240-260bn over 2018-2020
Unsecured lending market	<ul style="list-style-type: none"> Market slightly larger than expected at £207bn Market includes auto finance 	<ul style="list-style-type: none"> Total market growth of c.4% p.a. from 2018-2020
Corporate lending market	<ul style="list-style-type: none"> SME market broadly flat in 2017 	<ul style="list-style-type: none"> Total corporate lending growth of c.3% p.a. from 2018-2020, large companies likely to outpace SMEs
Household deposit balances	<ul style="list-style-type: none"> 2017 outcome as expected at c.£1.32tn 	<ul style="list-style-type: none"> Total market growth of c.3% p.a from 2018-2020 supported by rate rises

Our priorities in 2018 are to complete migration, make the most of the new platform and continue to grow

<p>Complete migration</p>	<p>1. Complete migration</p>
<p>+</p>	
<p>Make the most of the new platform...</p>	<p>2. Launch SME banking, including leveraging the RBS remedies</p> <p>3. Commence the redesign of TSB – reducing costs and increasing agility</p>
<p>+</p>	
<p>Continue to grow organically</p>	<p>4. Maintain PCA share of flow $\geq 6.0\%$</p> <p>5. Continue to grow assets</p>

TSB's SME banking launch will combine the best of "physical" and "digital" propositions for small businesses and entrepreneurs across the UK

Target segments: small and micro SMEs across the UK

- Business size
 - Micro: <10 employees
 - Small: <50 employees
- Strong growth in this market
 - 500,000 new SMEs in 2017
 - 5.7m total small SMEs
- Typically transactions and deposits led businesses
- Typically high ROE on lending
- Strong alignment to TSB brand and capabilities

Proposition and brand positioning: *"Helping Britain's small businesses and entrepreneurs thrive"*

Distribution

- Branch-based Relationship Managers (RMs) in key locations
- iPad and video conference enabled branches
- Market-leading digital capability

Products

- Competitively priced core product set – Business Current Accounts, deposits, cards, lending
- Range of partnerships for wider services

Approach

- Design-led, integrating best of TSB in-house capability and fintechs

Current position – targeting H2 2018 launch

- Commercial Banking Director appointed – team building
- Announced recruitment of 15 RMs for
 - Manchester
 - Birmingham
 - Leicester
 - Edinburgh
- Digital onboarding and lending being built

We will be competing for a Pool A Innovation and Capability Fund grant and to participate in the Incentivised Switching Scheme

Alternative remedies – summary

Total fund of £775m to be used to promote SME banking competition

- **Capability and Innovation Fund Grants** (£425m)

Pool A: £120m, £100m, £60m

Pool B: £50m, 2 x £15m

Pool C: 4 x £10m

Pool D: 5 x £5m

- **Incentivised Switching Scheme** (£350m)

£0.1-1.0m T/O: £3,000

£1.0-1.5m T/O: £6,250

£1.5-2.0m T/O: £13,125

£2.0-2.5m T/O: £16,875

> £2.5m T/O: £25,000

- **Independent Body**

To be established to receive bids and award grants

Process

1. TSB is eligible to compete for a **Pool A** grant
2. RBS is required to transfer a minimum of 120,000 SME banking customers
3. The Independent Body is expected to be established in Q1 2018
 - grant applications in Q2 2018
 - grants awarded Q3 2018

Continuation of TSB's growth strategy post migration creates a high ROE business growing strongly

TSB's continuing growth strategy



Target outcomes by the end of 2020

1. **£8-10bn** net additional customer lending compared to end of 2017
2. Average PCA¹ share of flow at or above **6%**
3. Costs managed to achieve **c.55%** cost:income ratio² on a standalone basis in 2021
4. Leverage of Proteo4UK to build leading mobile and digital capability
5. Strong entry into small business banking market
6. Retain strong brand position

Strong double digit ROE³ with c.20% CAGR Management Profit growth over 2017-2020

¹ Personal Current Accounts.

² Includes amortisation.

³ Target equity.

Sabadell 2020

Investor Day

Competitiveness in operations, a superior
platform

London, 23 February

Miguel Montes

COO

Taking advantage of the digitalisation (~~challenge~~) opportunity

Increase competitiveness in digital capabilities and new business models, consolidating our top player position in efficiency

Cost management becomes one of the main challenges, and management is essential to...



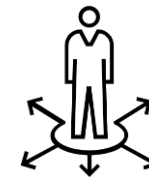
Increase productivity and efficiency

In core scope



Create optionality

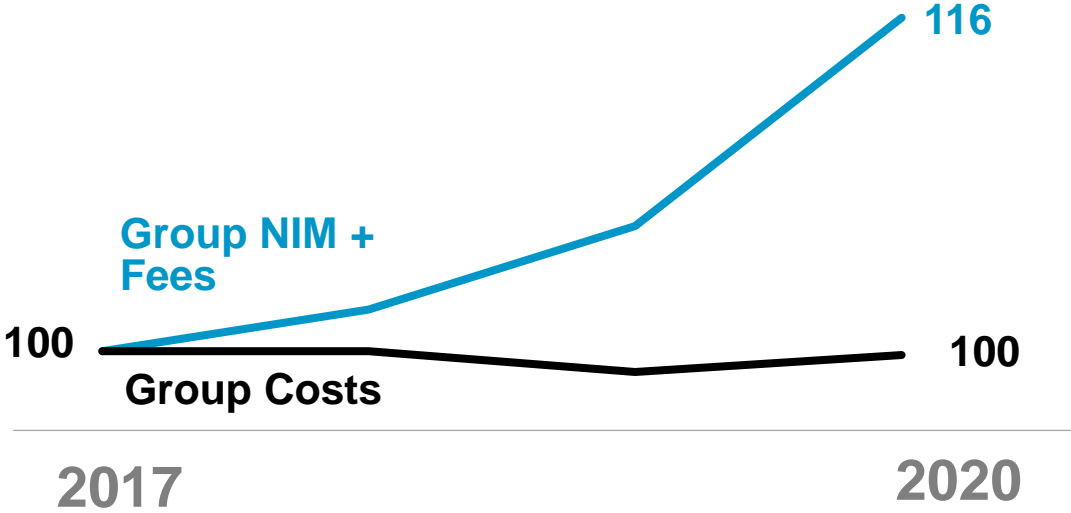
In new environments



Increasing the gap between income and expenses

Income and expenses evolution, Sabadell Group¹

Rebased to 100



Focus

- **Spain: Deploy optionality while increasing productivity**
- **UK: Deliver integration synergies (tech and operational)**
- **Mexico: Scale business on deployed platform**

¹ Excluding Sabadell United Bank, Mediterraneo Vida and Mortgage Enhancement.

² Cost-to-income ratio defined as operating expenses (excluding amortisation) divided by gross operating income (excluding one-offs and extraordinary trading income). 50% CI published (including extraordinary trading income).

Objectives for 2020: In the leading positions

Objectives



- Continue providing **productivity and efficiency** in the core business

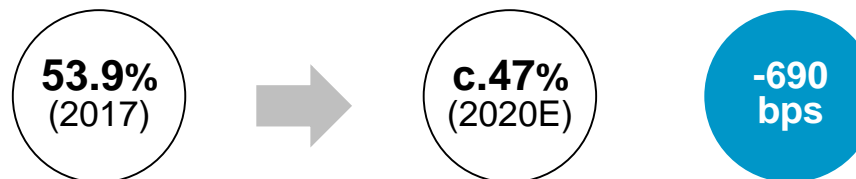


- Provide the required human capital and adapt the organisational structure, **while increasing productivity and employee satisfaction**

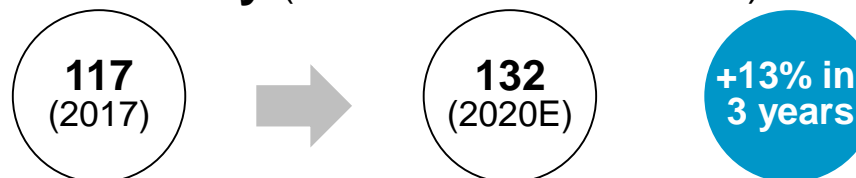


- Develop technological capabilities to **boost Sabadell's competitiveness**
 - **Develop IT capabilities to improve bank's efficiency**
 - Evolve IT platform to **offer opportunities** to tap **new profit** pools and **improve value proposition** (platform models)

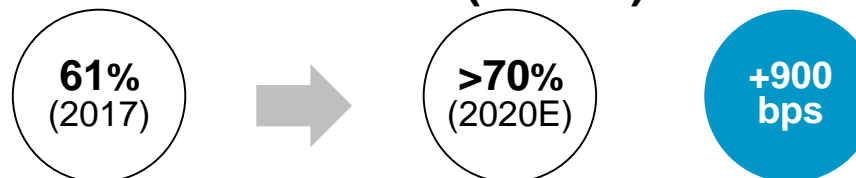
Group cost-to-income ratio¹



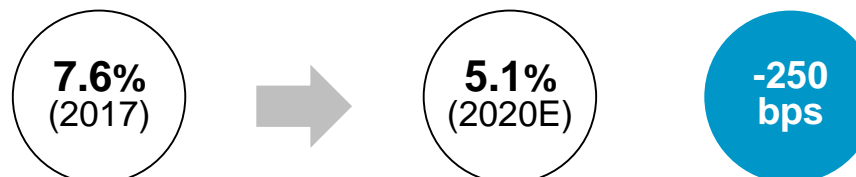
Productivity (business volume / costs)²



Great Place to Work (GPTW)³



IT cost over revenue



¹ Cost to income ratio defined as operating expenses (excluding amortisation) divided by gross operating income (excluding one offs and extraordinary trading income).

² Productivity defined as (Gross loans to customers ex repos+ on balance sheet customer funds+ off-balance sheet funds) / (Personnel expenses + General Admin expenses) (like for like evolution: 2017 excludes SUB and Mediterraneo Vida).

³ GPTW defined as the result of an internal survey to employees, measuring the global satisfaction of employees with the company.

A good starting point



Efficiency and productivity

- Sabadell is today one of the most efficient players in the industry (660 bps less than the average and 200 bps less than the second most efficient player), thanks to: acquisition synergies, improvements in unit costs and operating model enhancement
-



People and organisation

- Sabadell's operational model has allowed the bank to grow its capacity (its workforce has doubled since 2010), while maintaining unit costs
 - Industrialisation and centralised back offices – moving administrative tasks to more competitive locations
 - Higher needs in our Corporate Centre due to asset and digital transformation, increased regulations and internationalisation, although our competitive operational model offsets potential costs increases
-



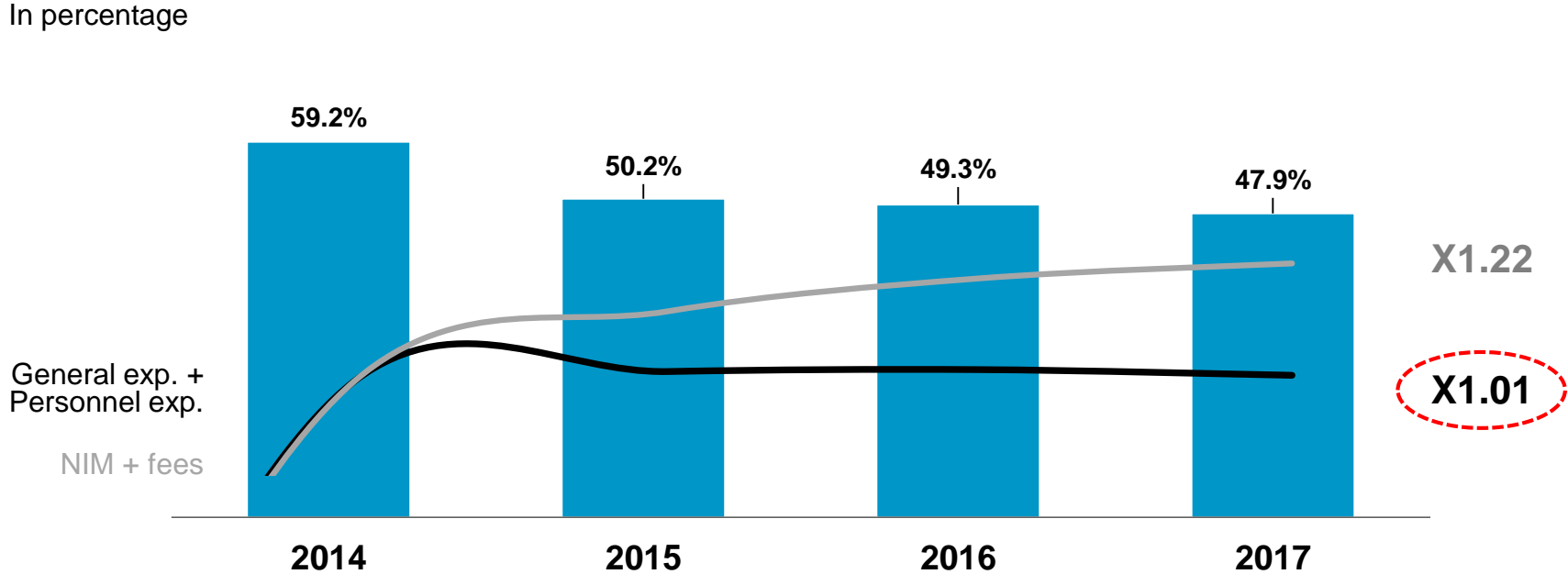
IT/Ops

- State-of-the-art core banking system, Proteo, which is also the foundation for TSB's new platform
- Arm's length IT/Ops service organisation, that allows cost arbitrage and transparency
- Low levels of fraud and cyber delinquency thanks to our focus on delivering new controls procedures (using Artificial Intelligence to anticipate threats) and reliability without impacting Customer Experience
- Highly rated set of apps (e.g. TSB's mobile app is the first to offer iris recognition)

Track record of boosting efficiency

- Sabadell ex-TSB improved its core efficiency ratio to 47.9% or by 11 pp since 2014

Core efficiency ratio, Sabadell ex-TSB¹



Levers



Acquisitions synergies



Unit cost improvements



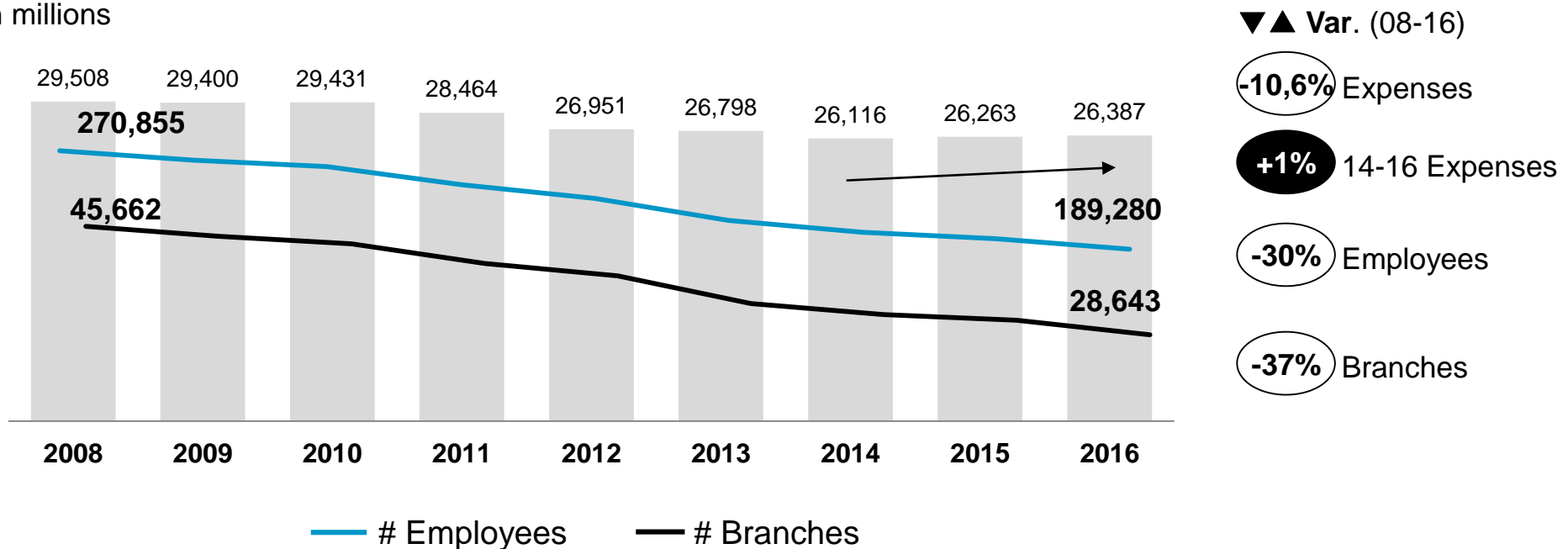
Operational model transformation

¹ Core efficiency ratio defined as operating expenses (excluding amortisation) divided by gross operating income excluding trading income and forex as well as the capital gains from the VIF reinsurance transaction.

Banking costs dynamics

The significant reduction in installed capacity has not reduced the cost base accordingly...

Costs evolution in Spain Banking industry
Euros in millions



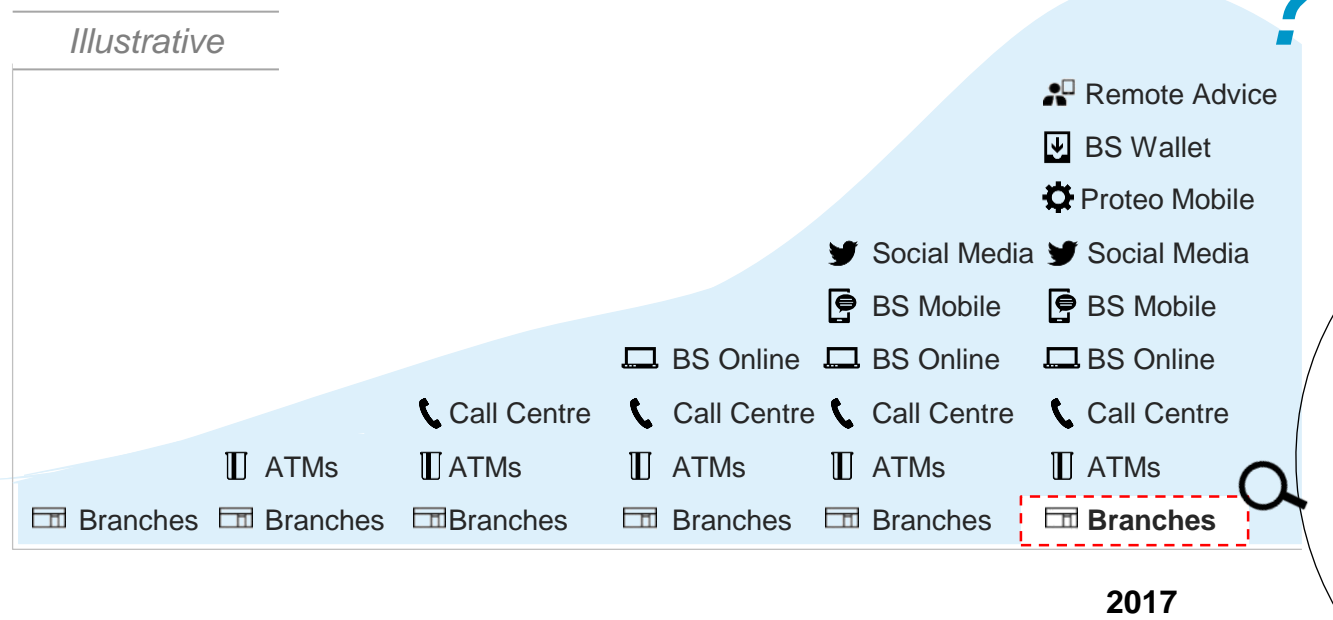
... in fact, it has even increased in the last 3 years due to the deployment of digital services and capabilities (creating optionality)

Note: Source: Bank of Spain (statistics).

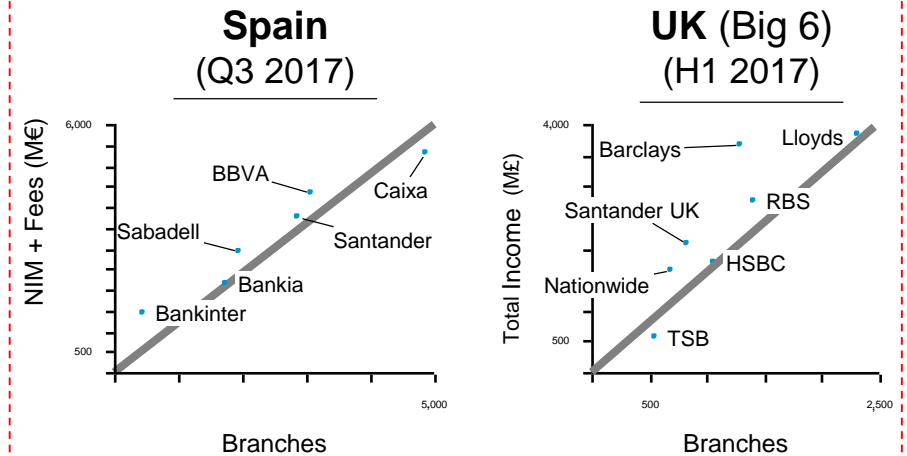
Banking costs dynamics

Given the coexistence of physical and digital channels, we are at the peak of channels deployment, which implies additional costs

Changes in available channels



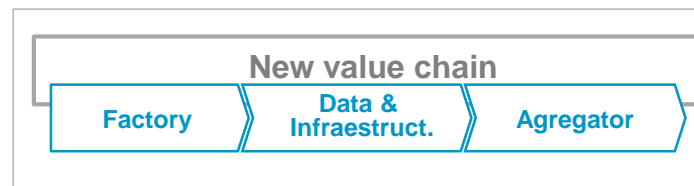
There is still a correlation between branch network size and income



Banks business models will continue to depend on branch networks as the main source of customer engagement

Sabadell's transformation program

Dual focus on business transformation to increase productivity and on new business opportunities...



Develop core business



Productivity enhancement

- **Distribution** model transformation
 - Active Customer Serviving
 - Physical distribution model (e.g. Hub & Spoke)
 - Digital distribution channel with transactional capacity
 - Sales force relevance and transformation
- **Pull model** based on Data & Analytics and segmented marketing

Create new business opportunities (optionality)



Business development

- Develop new value proposition to satisfy customer needs
 - Introducing new services to accompany our customers throughout the **value chain** (end-to-end vision)



New digital businesses

- Develop digital businesses to anticipate the **change of paradigm**
 - Boost banking transformations with new products and services
 - Hedge solutions: Cover our business disruption risk (e.g. GAFA)

...offsetting the impact of increasing complexity

Creating optionality using platform models

One of our key objectives is to further develop the relationship with our customers, a platform model will allow us to be the **Everyday Partner to our customers**

Today



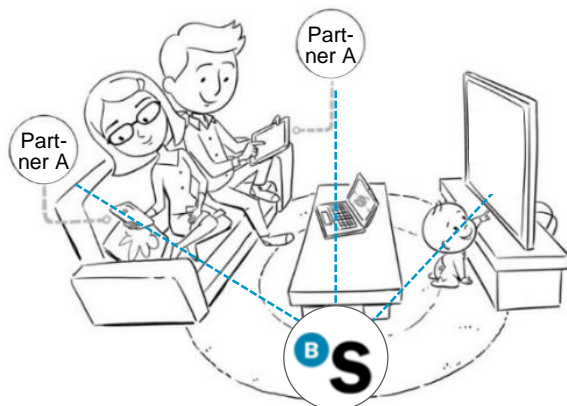
Shift from a perspective of customers based on their activities affecting the balance sheet to a perspective based on their needs

Aspirational



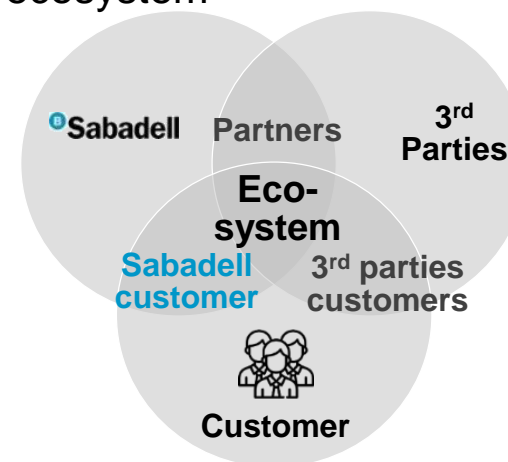
APIs & Open Banking

IT features that will allow us to **satisfy our customer's strategic requirements**, beyond banking regulatory requirements (PSD2)



Service Ecosystem Platform

Sabadell will transform **from a banking partner to a banking and non-banking partner** within the new service ecosystem



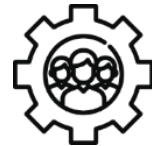
Our people, our transformation pillar

Our people are our key differentiating factor as they represent the brand promise and corporate values



Development rather than restructuring

- Focus on talent management, training and transforming resources for new business needs (deployment of new **active customer servicing agents**)



Organisational initiatives to boost relationship with customers

- Enhance **mobility of our commercial** workforce by implementing new tools
- Improve the **commercial agenda** (procedures, planning, etc.)
- **Introduce robotics** to reduce administrative tasks, focusing in customer interactions and engagement
- **Artificial Intelligence and Business Analytics** to anticipate customers needs



Continue improving gender diversity

- Good starting point, currently, >55% female employees and 34.6% female managers

Applying emergent technologies to our business

Implemented first proof of concepts (POC) to pilot the application of technologies in our banking model and test scalability



Processes Robotisation

Implementation of robotics in operational processes to achieve a reduction of 150 FTEs and 20M€ in cost savings



Business intelligence

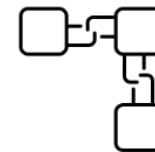
Use of cognitive systems to identify customers' requirements and **automatically** generate **commercial actions**

Non Exhaustive



Account Information Service Provider (AISP)

Taking advantage of PSD2 opportunities – Use of informational aggregators offering SMEs 360° tools for cash management



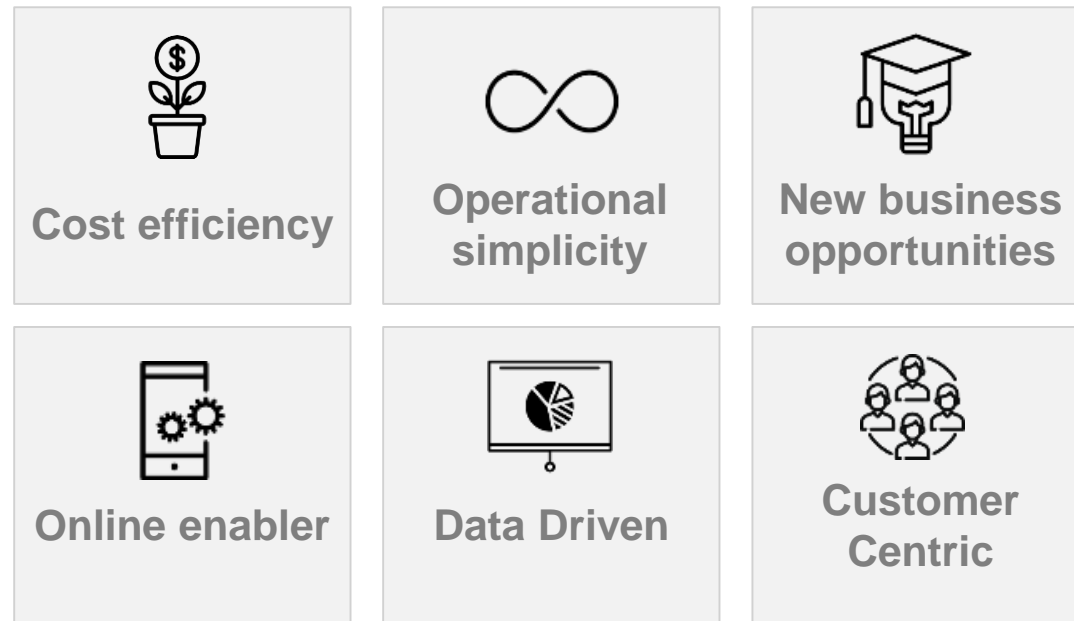
Blockchain – Real Estate

Connecting major providers, offering a one-click solution to set up direct debits for utilities (internet, electricity, etc.)

TSB migration, a distinctive capacity of Sabadell

We have built the best IT platform for TSB success...

... breaking the UK benchmark



- **Deployment of a new IT Platform in UK**, thanks to our in-house core banking system, Proteo
- **Data migration from Lloyds IT platform to Proteo4UK**

From a limited small incumbent to a powerful challenger

Our aim: Taking advantage of digital opportunities increasing competitiveness

From the product and services side...

Deployment of new digital capabilities to **increase our customer engagement**

- Providing support to **improve our value proposition**
- **Opportunities** to access **new profit pools**

From the cost side...

- Continue our **transformation process** to gain productivity and generate surplus resources
- **Leverage on our IT Platform** to gain competitiveness



The digital era is bringing competition and new business opportunities...

...Sabadell embraces the market dynamics supported by its operational superiority

Sabadell 2020

Investor Day

Our financial plan to enhance profitability

Tomàs Varela

Group CFO

London, 23 February

Improving context for the banking sector

Favourable growth / inflation mix

- Global growth to be more synchronised
- Positive and contained rates of inflation

Gradual tightening of global financial conditions

- Reduced support from central banks
- Ample liquidity in financial markets

Potential impact of geopolitics and economic policy

- Orderly Brexit despite complex negotiations
- Progress in the European construction process
- More populist tone in the US
- Risks to Mexican politics from NAFTA renegotiation
- Elections increase political uncertainty in Mexico

Improving context for the banking sector

- Tail-winds for EU banking sector mid-term profitability
- “Plateauing” and recalibration of post-crisis regulations
- Balance sheet repair efforts intensify
- New impetus to finalise Banking and Capital Markets Union
- Increased usage of macroprudential policy

Central banks
focused on
scaling back
monetary
stimuli

Core sovereign
yields increase,
low euro
periphery
spreads

Stronger euro
relative to the US
dollar and stability
relative to the
British pound

Spain: Strong dynamism in economic activity



Strategic plan baseline scenario

	2016	2017	2018E	2019E	2020E
GDP (%, year-on-year)	3.3	3.1	2.5	2.4	2.0
Inflation (%, year-on-year)	-0.3	2.0	1.4	1.7	1.9
Unemployment rate (%, annual average)	19.6	17.2	15.6	14.2	13.0
House prices (%, year-end)	4.5	6.5 ¹	3.5	3.5	3.0
Credit (%, w/o NPLs, year-end)	-1.1	-0.5 ¹	1.4	2.9	3.5
Deposits (%, year-end)	3.3	2.9	4.5	5.0	5.0

¹ Estimation.

Our business plan macroeconomic assumptions do not include recent positive developments in market expectations

UK: Stable economic activity despite complex Brexit negotiations

Reasonable growth supported by strong global activity

Lack of spare capacity in the labour market reinforced by lower net migration

Absence of second-round effects will allow inflation to eventually return to 2% target

House prices broadly flat over the next 3 years

Strategic plan baseline scenario

	2016	2017	2018E	2019E	2020E
GDP (%, year-on-year)	1.9	1.8	1.3	1.6	1.8
Inflation (%, year-on-year)	0.7	2.7	2.7	2.1	2.0
Unemployment rate (%)	4.9	4.4	4.9	5.0	5.0
House prices (%, annual average)	7.6	3.2	-2,0	0.5	3.3
Credit (%, year end)	3.0	2.4	2.0	2.4	2.5
Deposits (%, year end)	5.7	3.9 ¹	2.9	4.3	4.5

¹ Estimation.

Our business plan macroeconomic assumptions do not include recent positive developments in market expectations

Further progress in monetary policy normalisation

Reduced support from central banks

- **ECB:** End of QE (Sep-18) and first increase in the marginal deposit rate (Mar-19)
- **BoE:** Recent interest rate hikes expectations have not been included in our business plan assumptions
- **Fed:** Continuation of the tightening cycle and balance sheet reduction

Gradual tightening of global financial conditions

- Higher volatility in financial markets
- Increase in sovereign debt yields
- FX developments driven by politics

More favourable regulatory context for the banking sector

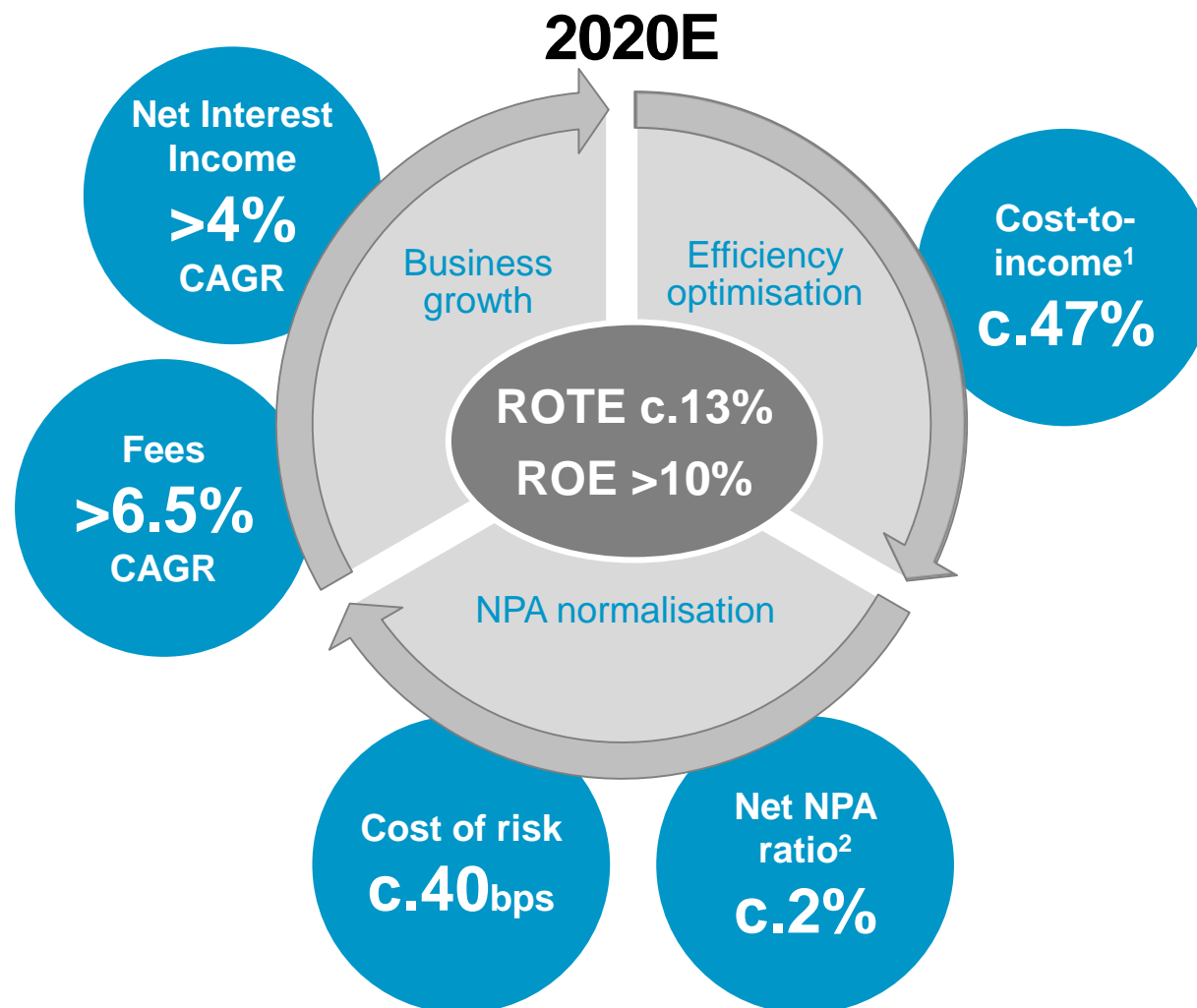
- Recalibration of banking regulation, although supervisory pressure set to continue

Strategic plan baseline scenario

Year-end. In percentage	2017	2018E	2019E	2020E
Euribor 3m	-0.33	-0.23	0.14	0.72
Euribor 12m	-0.19	-0.11	0.29	0.94
BoE Bank rate	0.50	0.75	0.75	1.00

Year-end	2017	2018E	2019E	2020E
Dollars per euro	1.20	1.25	1.30	1.35
Pounds per euro	0.89	0.90	0.90	0.90
Mexican pesos per dollar	19.65	19.00	18.50	18.50

Profitability boosted by continued core banking revenue growth, efficiency improvements and NPA normalisation



Note: 2020E Group targets or 2017-2020E when applicable. Data on like-for-like basis which excludes Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement contribution.

¹ Cost-to-income ratio defined as operating expenses (excluding amortisation) divided by gross operating income.

² Net NPA / Total Assets, at Group level.



Timeline towards optimal profitability

**c.13%
ROTE**

2018

- Revenue comparability impacted by corporate transactions
- Low interest rates scenario
- Fees will be key for top-line growth
- Managing the cost base while transforming our business model
- TSB migration
- Significant improvement in CoR

2019-2020

- Higher loan growth and interest rate increases
- Core banking revenue growth together with stable Group expenses to drive cost-to-income¹ ratio even lower
- 100% of TSB migration synergies achieved
- Leap forward in the business' commercial and digital transformation
- NPA balance further reduced
- Normalised CoR

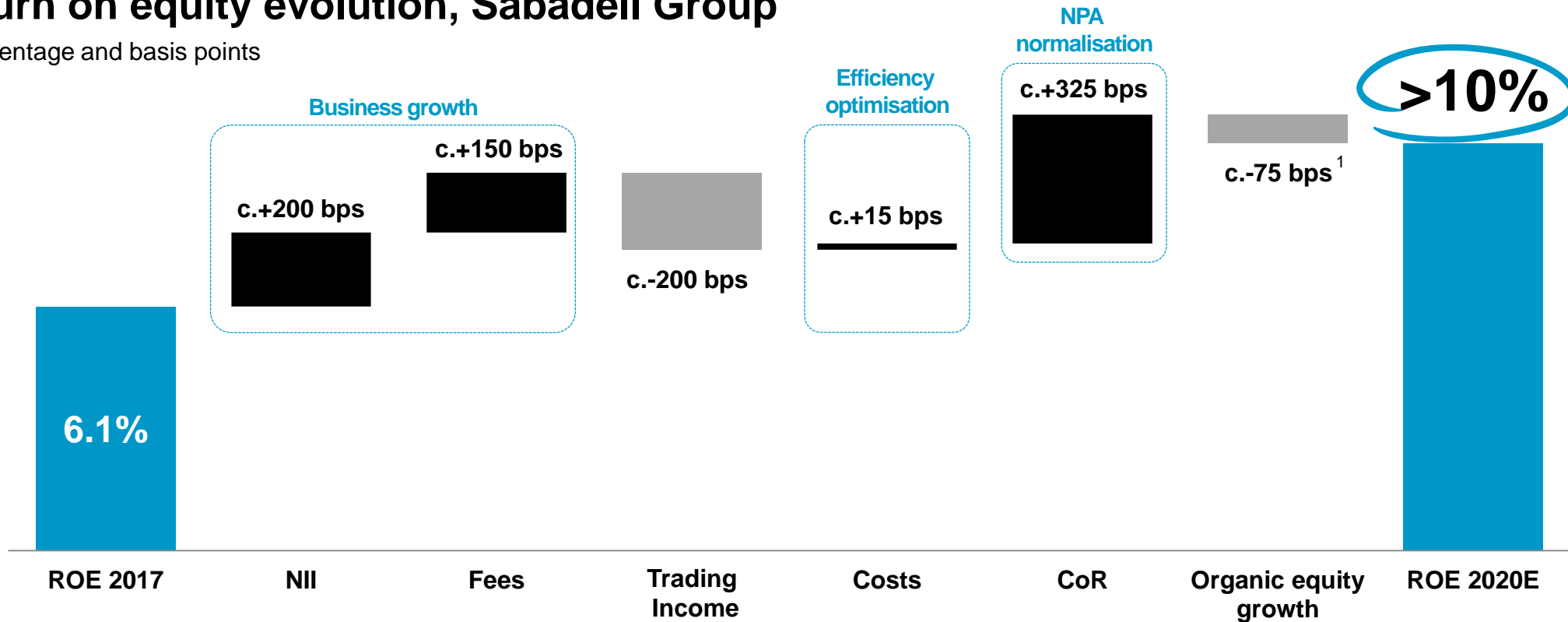
¹ Excluding amortisation.



Sustainable double digit profitability in a normalised environment

Return on equity evolution, Sabadell Group

In percentage and basis points



Core banking revenue and Cost of Risk normalisation will be the key drivers to achieve double digit ROE in 2020

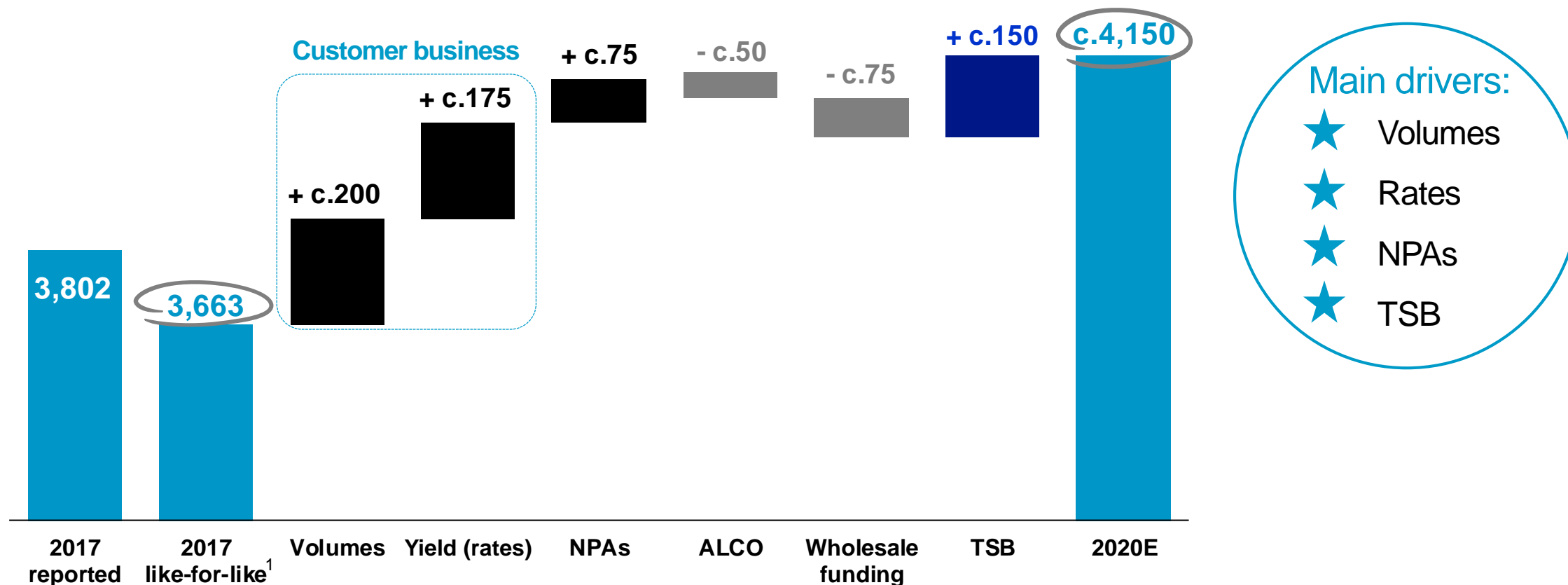
Note: Core banking revenue refers to net interest income plus fees.
 1 Includes AT1 coupon payment.



Customer business growth, in both Spain and the UK, will be central to the positive evolution of NII

Net interest income evolution, Sabadell Group

Euros in million



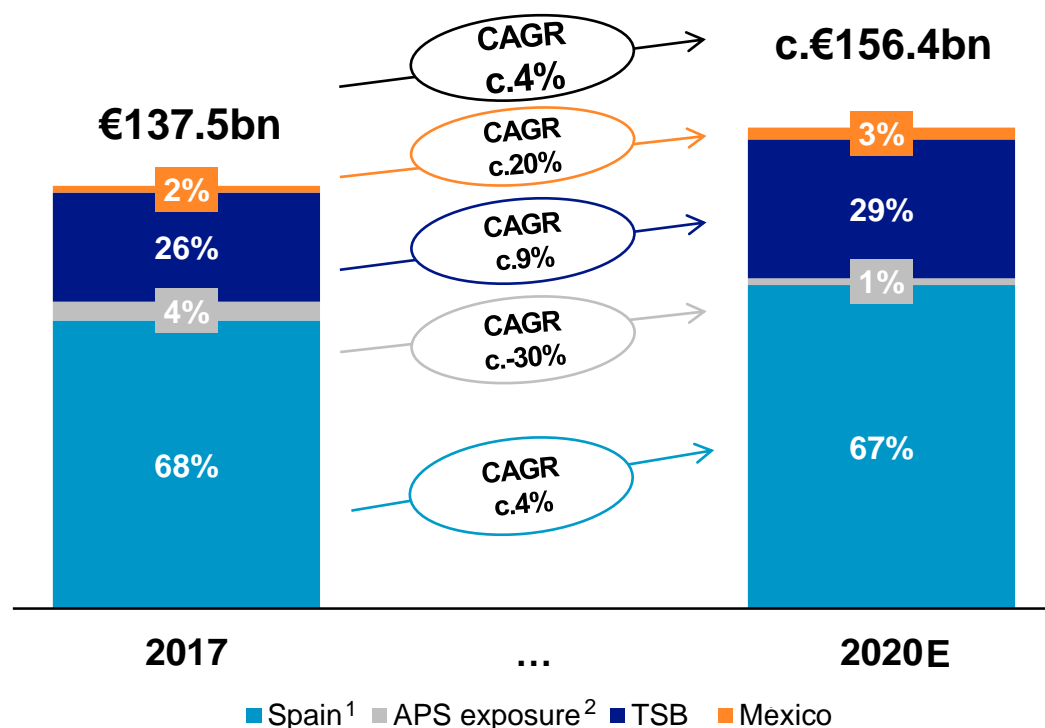
¹ Data on like-for-like basis which excludes Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement contribution.



Performing loans increasing above 4% CAGR thanks to a strong focus on SMEs and Corporates in Spain and on retail in UK

Performing loans, Sabadell Group

Euros in billion. In percentage



- ★ **Mexico:** Focus remains on Corporates and SMEs
- ★ **UK:** Growth driven by secured lending while launching SME strategy
- ★ **APS:** Portfolio in run off
- ★ **Spain:** Growth driven by SMEs and unsecured lending. The increase of new mortgage lending will more than offset attritions and prepayments

¹ Spain includes overseas branches (OFEX) and subsidiaries.

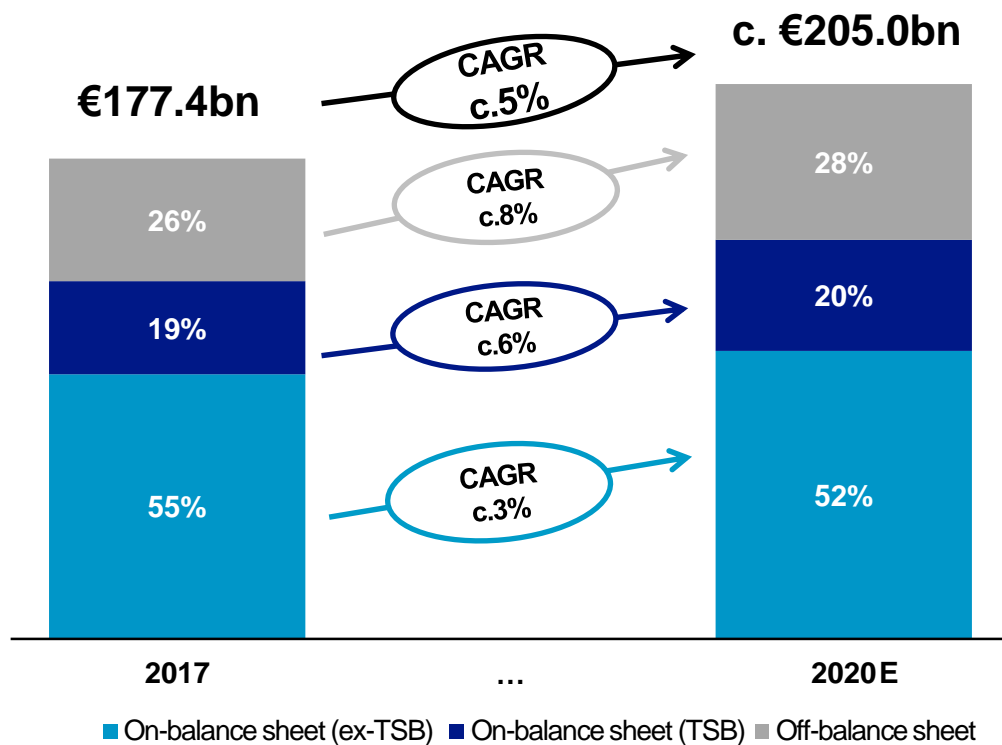
² APS exposure includes 80% of the APS problematic exposure which is presented as performing in the net loans as well as the DGF receivable account.



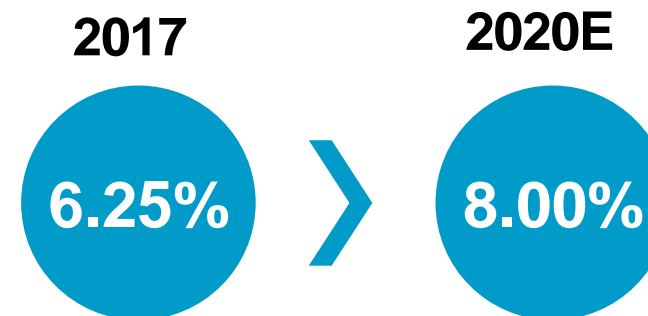
Customer funds growth focused on off-balance sheet funds...

Customer funds, Sabadell Group

Euros in billion. In percentage



... driven by increasing **mutual funds market share**...



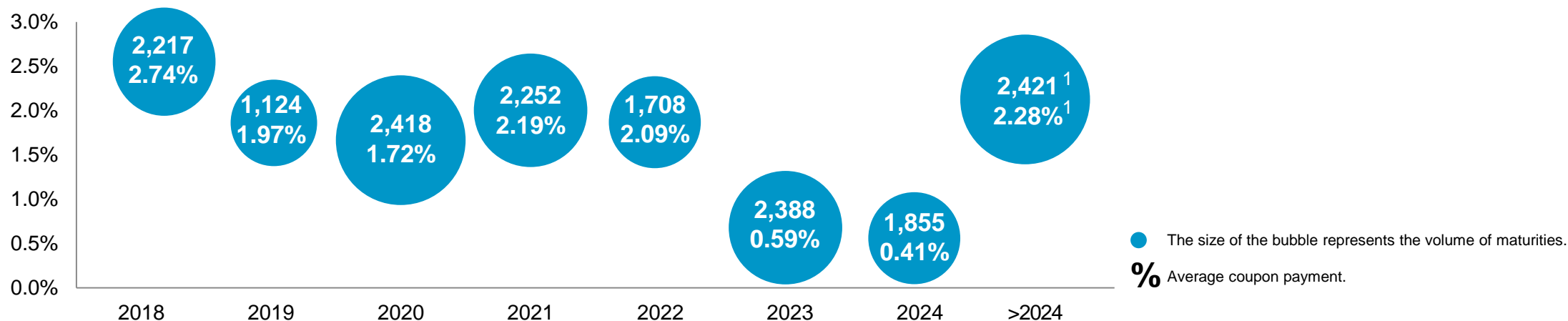
...while maintaining a **stable loan-to-deposit** ratio around 107% and a **comfortable liquidity coverage ratio** above 150%



Regular wholesale funding maturities for the next 3 years...

Upcoming wholesale maturities, Sabadell Group

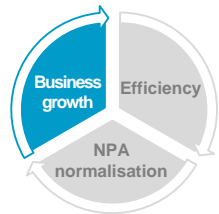
Euros in million. In percentage



... with an **attainable funding plan that will comply with MREL requirements:**

- **Additional Tier 1:** The 1.5% tier 1 bucket has already been filled
- **Tier 2:** The 2.0% tier 2 bucket is also almost full
- **Senior unsecured:** Regular presence in the market with 1 or 2 benchmark transactions per annum to build up a buffer for MREL

¹ Excluding AT1.



Our commercial strategy will enable us to achieve our business growth targets...

	Focus	Drivers	Target 2020E	Accumulated growth target 2020E
Spain >	<ul style="list-style-type: none"> • Current business • Areas with growth potential 	SMEs new lending	+8% CAGR	c.25%
		Mortgages new lending	+12% CAGR	>40%
		Off-balance sheet funds	+8% CAGR	c.30%
		New protection insurance contracts	+19% CAGR	c.70%
		# of customers	>3% CAGR	c.10%
TSB >	<ul style="list-style-type: none"> • Maintain the organic momentum 	PCA share of flow	≥6%	N/A
		Franchise loan portfolio	+9% CAGR	>25%
Mexico >	<ul style="list-style-type: none"> • Corporate banking • Business banking • Retail banking 	Loan portfolio	+20% CAGR	c.70%
		Cost-to-income ratio ¹	<65%	N/A

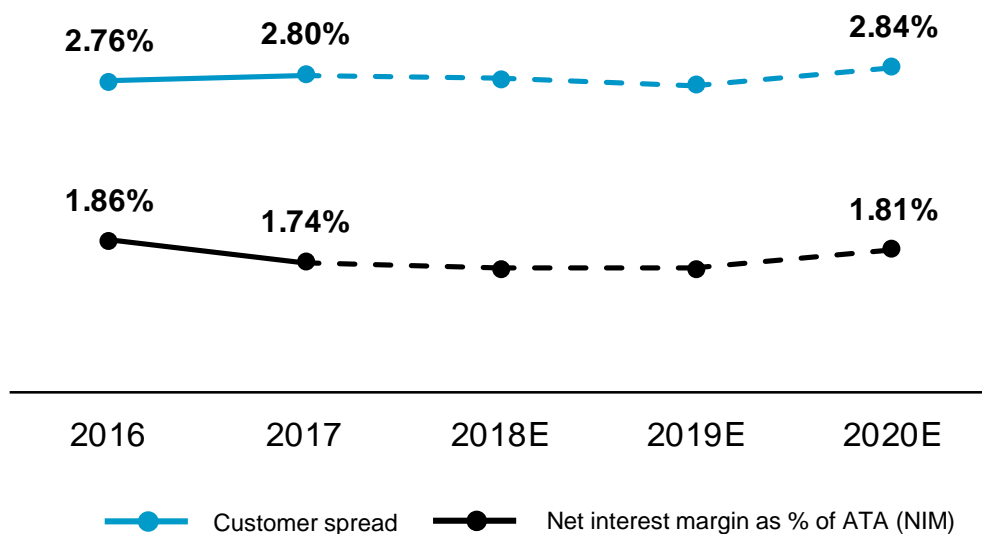
¹ Cost-to-income ratio defined as operating expenses (excluding amortisation) divided by gross operating income.



... while improving customer profitability

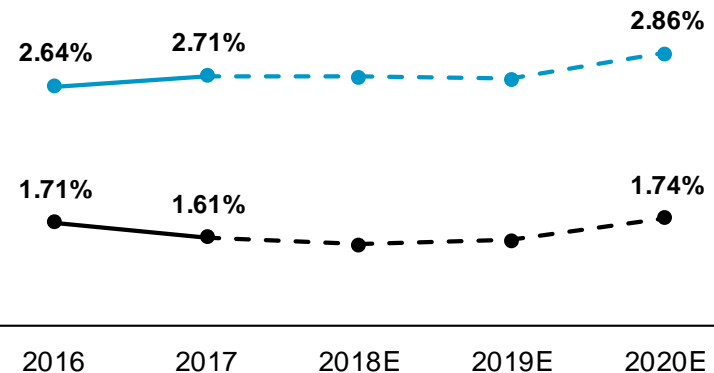
Net interest margin and customer spread, Sabadell group

In percentage



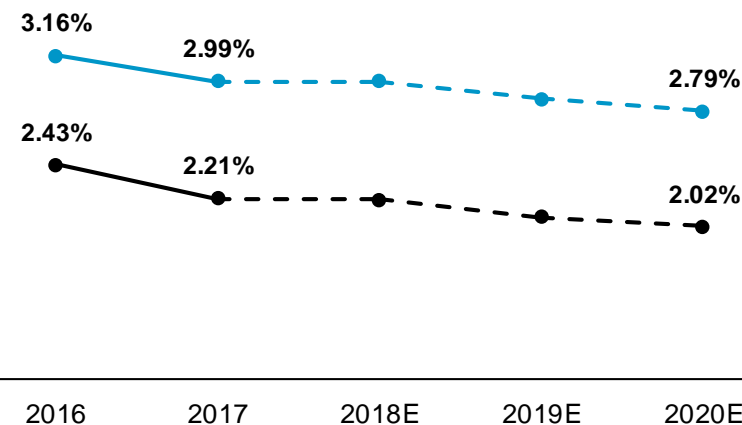
Sabadell, ex-TSB

In percentage



TSB

In percentage



Positive loan mix evolution in Spain will more than offset customer spread compression in UK

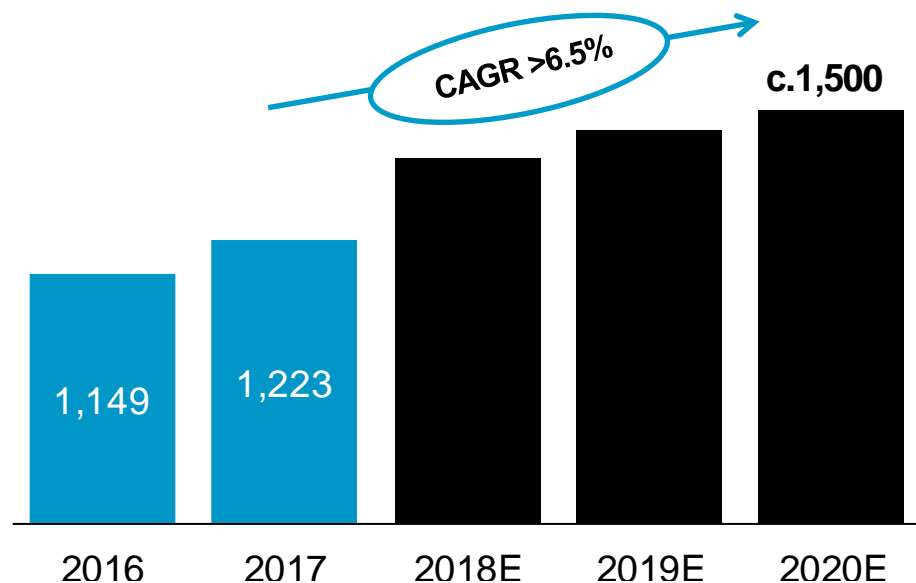
Note: 2017 figures exclude Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement portfolio.



Reinforcing customer loyalty and penalising lack of engagement will allow us to grow in commissions...

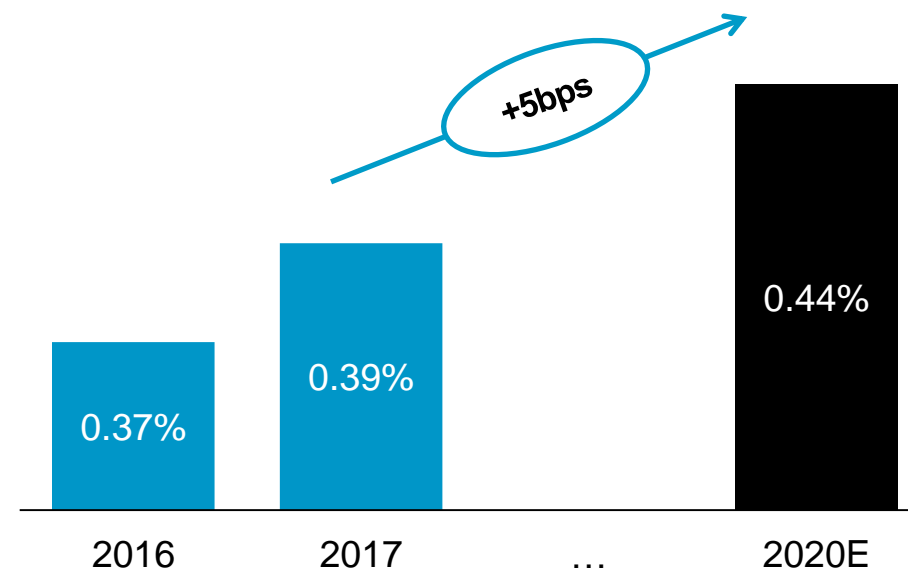
Commissions evolution, Sabadell Group

Euros in million



Commissions over business volume¹, Sabadell Group

In percentage points



... with a **higher ratio of net fees over business volume**

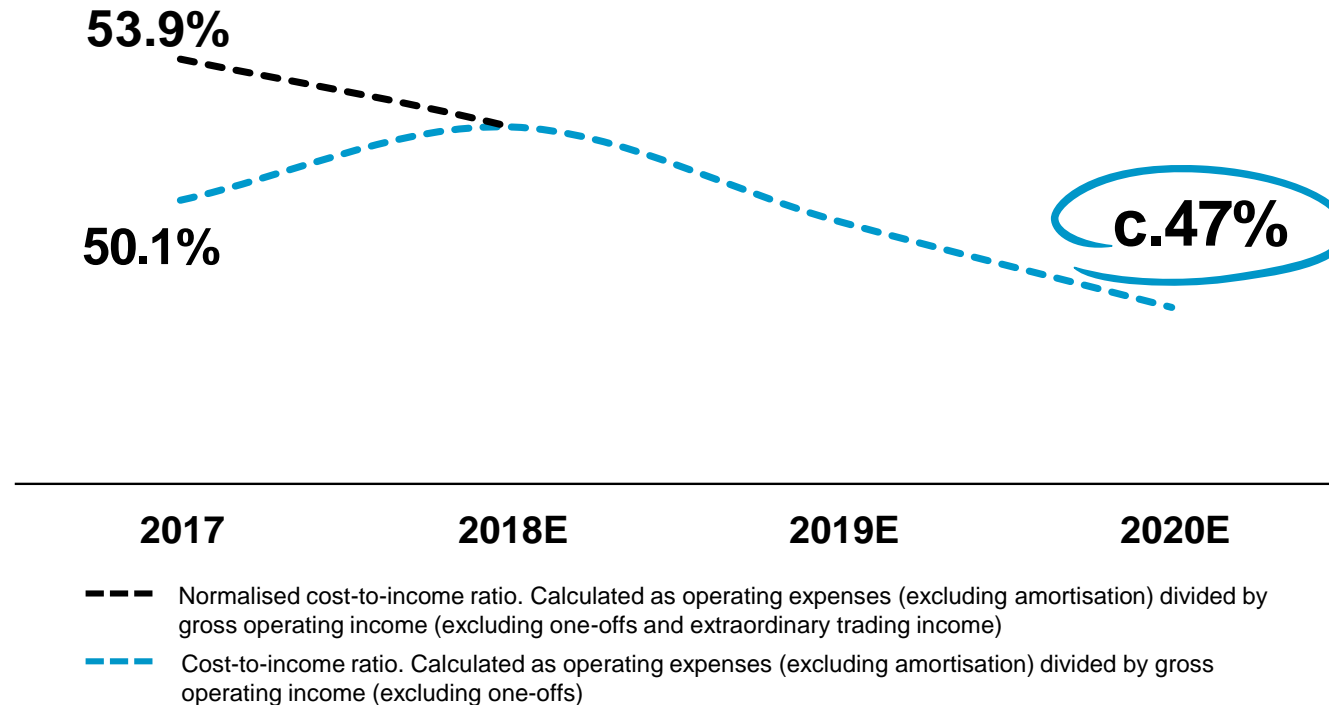
¹ Business volume includes loans, deposits and off-balance sheet funds.



Efficiency improvements despite a solid starting point at ex-TSB level

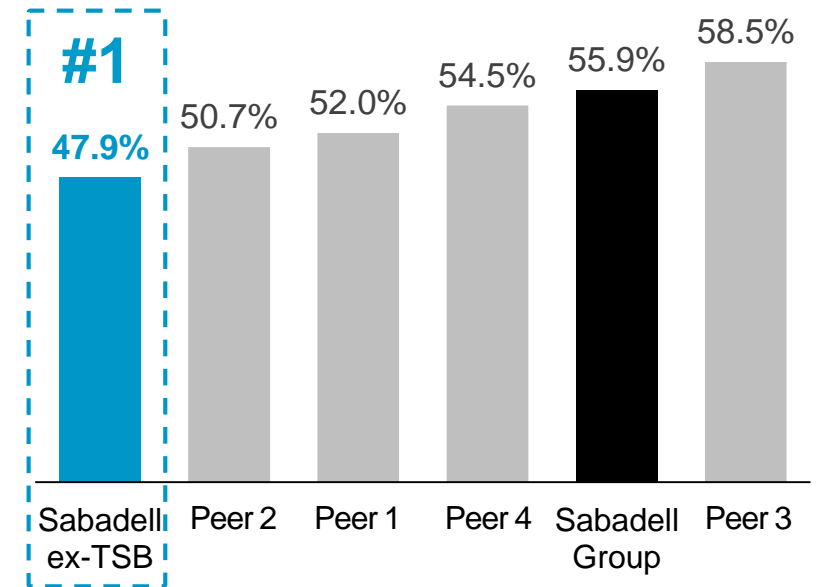
Group cost-to-income ratio evolution

In percentage



Core efficiency ratio¹ vs. peers

In percentage. Data as of 2017



2020 operating expenses to remain flat vs. 2017 like-for-like²

Note: Peer group: Bankia (ex-BMN), BBVA Spain, CaixaBank (ex-BPI), and Santander Spain. Source: Quarterly reports.

¹ Core efficiency ratio defined as operating expenses (excluding amortisation) divided by gross operating income excluding trading income and forex as well as the capital gains from the VIF reinsurance transaction and the early call of the Mortgage enhancement portfolio.

² Like-for-like figures in 2017 exclude Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement portfolio.

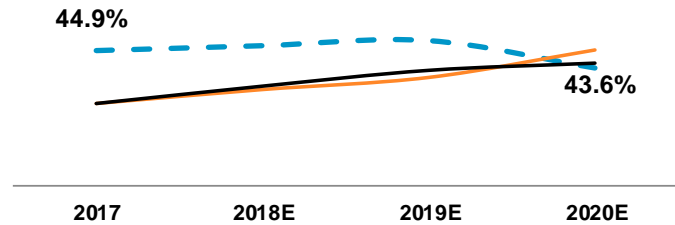


Cost trends will reflect the different business life cycles in each core market

Gross operating income and costs evolution by core market

In percentage and rebased to 100¹

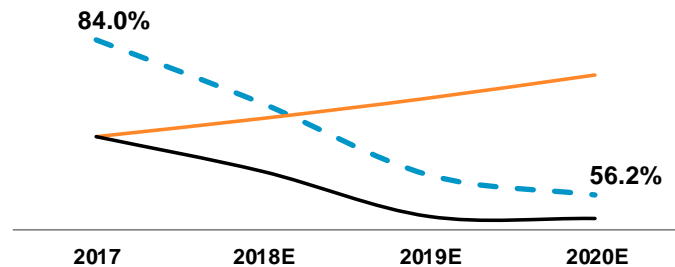
1 Ex-TSB and ex-Mexico²



Stable efficiency ratio despite inflationary pressure in costs from:

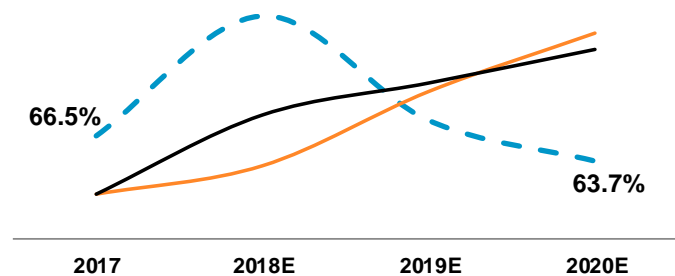
- Transformation and digitalisation of our business model, which will ultimately help us to keep differentiating ourselves and improving customer convenience and service quality
- Implementation of new regulations (MiFID II, PSD2), which could also represent a commercial opportunity for us

2 TSB²



- Income growth and synergies (GBP160M fully achieved in 2019) to drive down efficiency ratio over the period

3 Mexico

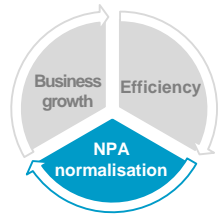


- Initial ramp-up in costs as we continue to grow the business, which is already generating profits
- Efficiency improvements to accelerate from 2019, decreasing to c.58% by 2022

--- Cost-to-income ratio — Gross operating income — Operating expenses

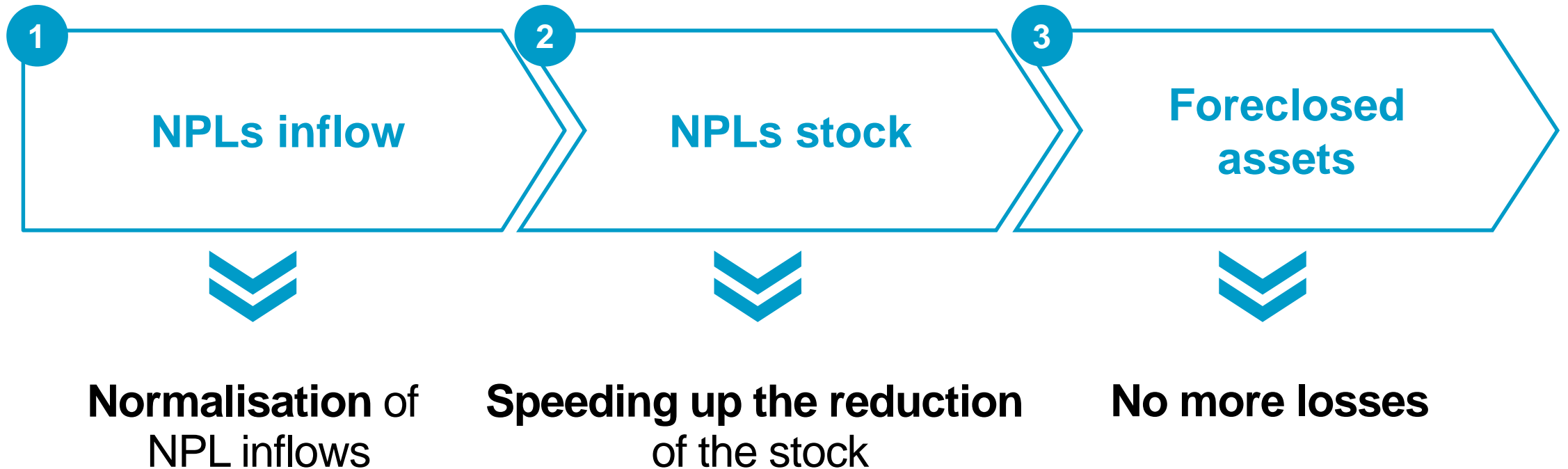
Note: Cost-to-income ratio defined as operating expenses (excluding amortisation) divided by gross operating income (excluding one-offs and extraordinary trading income).

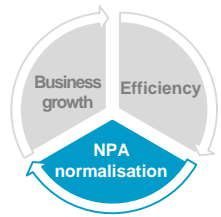
¹ Gross operating income and operating expenses figures rebased to 100 starting in 2017. ² Like-for-like figures in 2017 exclude Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement portfolio.



Well thought-out NPA reduction strategy

Specific management priorities with a particular approach for each type of NPA



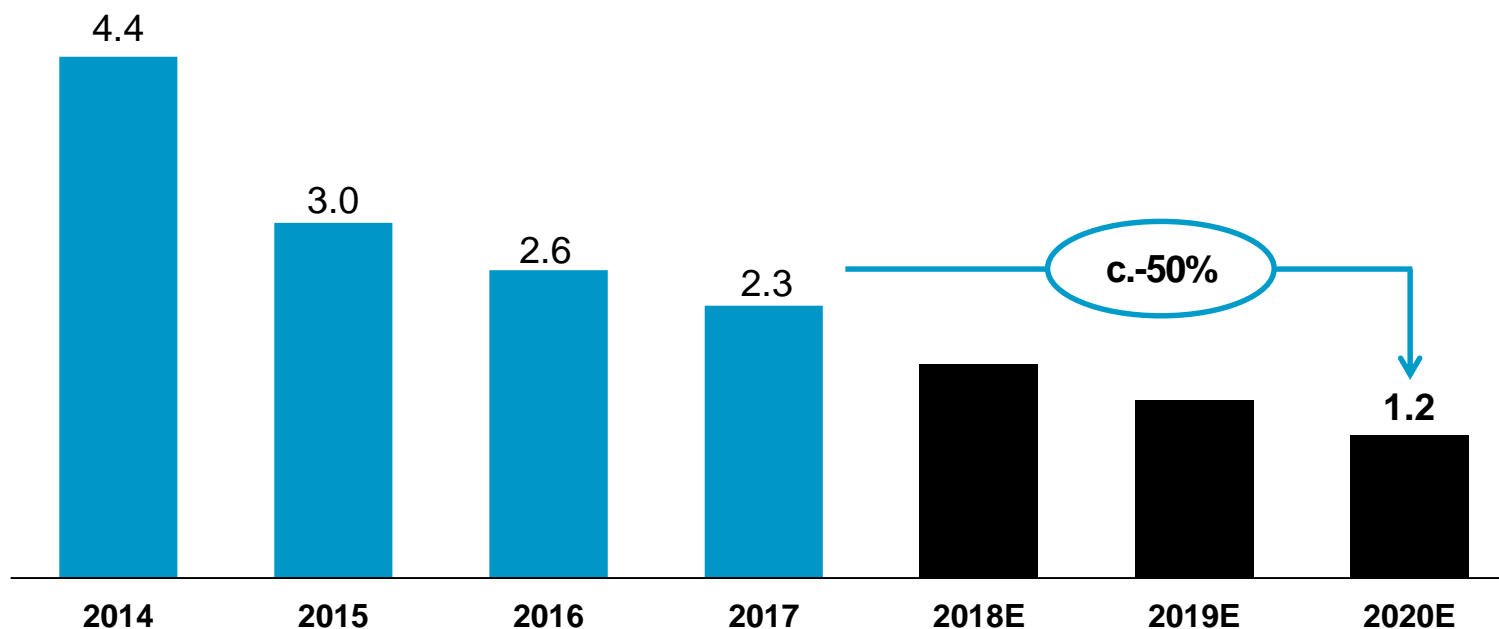


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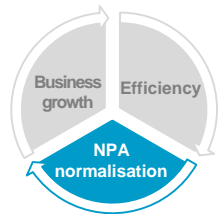
Further reduction in NPLs inflow...

Gross NPL entries, ex-TSB

Euros in billion



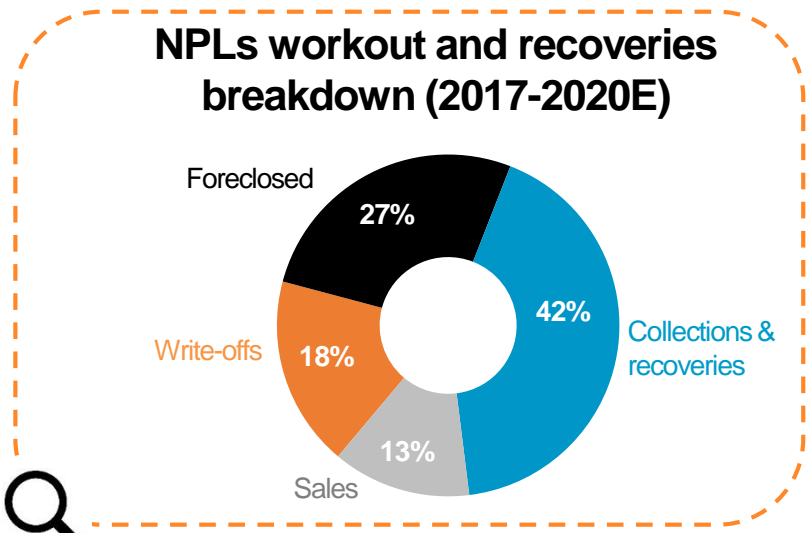
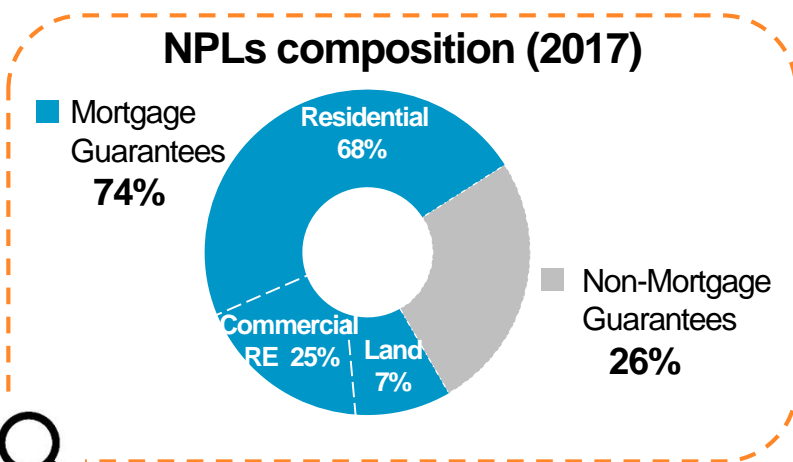
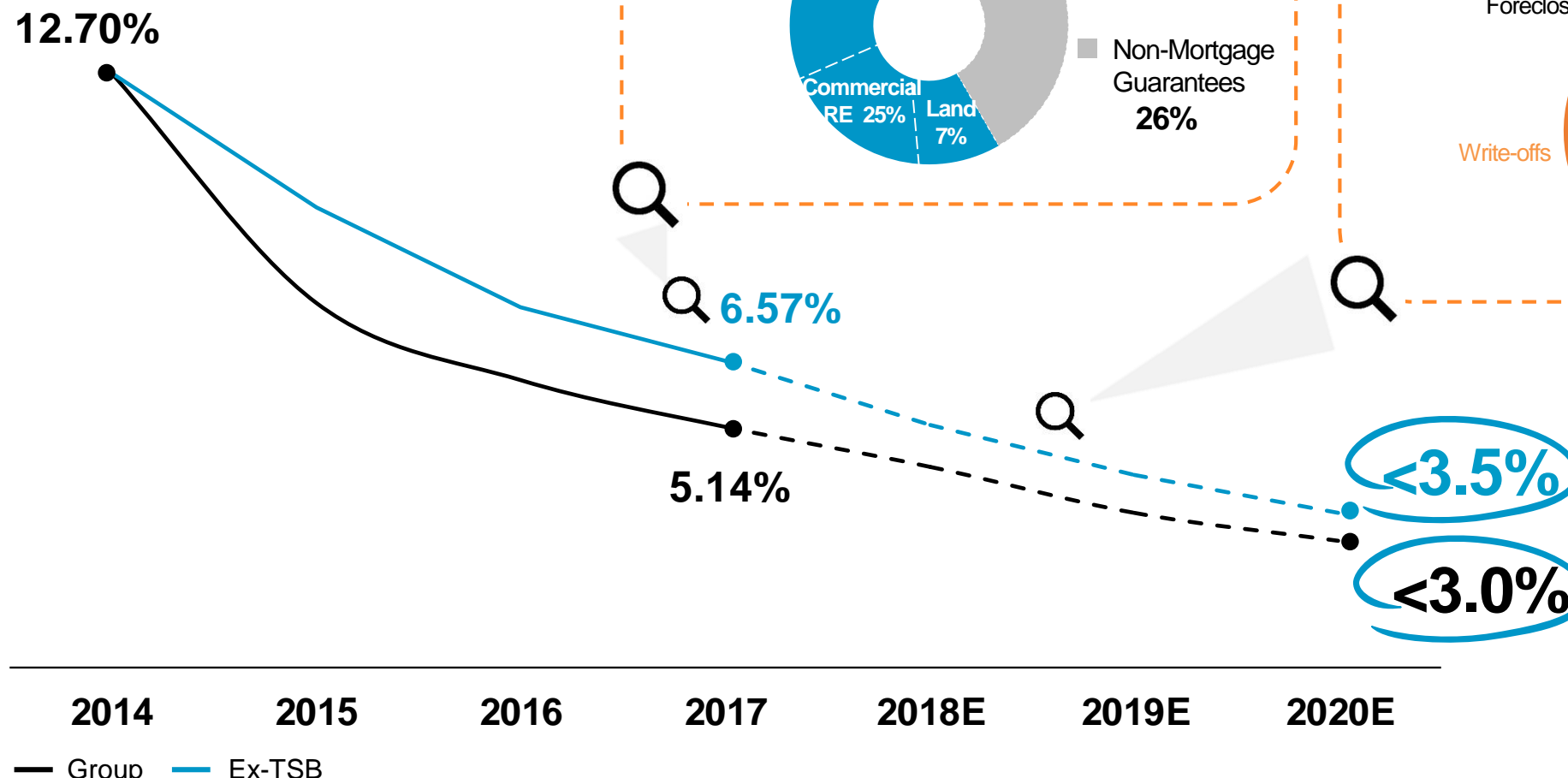
... driven by an ongoing focus on **preventive actions**, and the use of **business intelligence tools** supported by a **favourable economic environment**

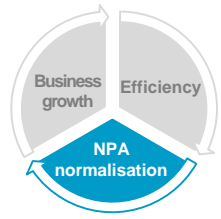


2 Speeding up the reduction of NPLs stock

NPL ratio evolution

In percentage



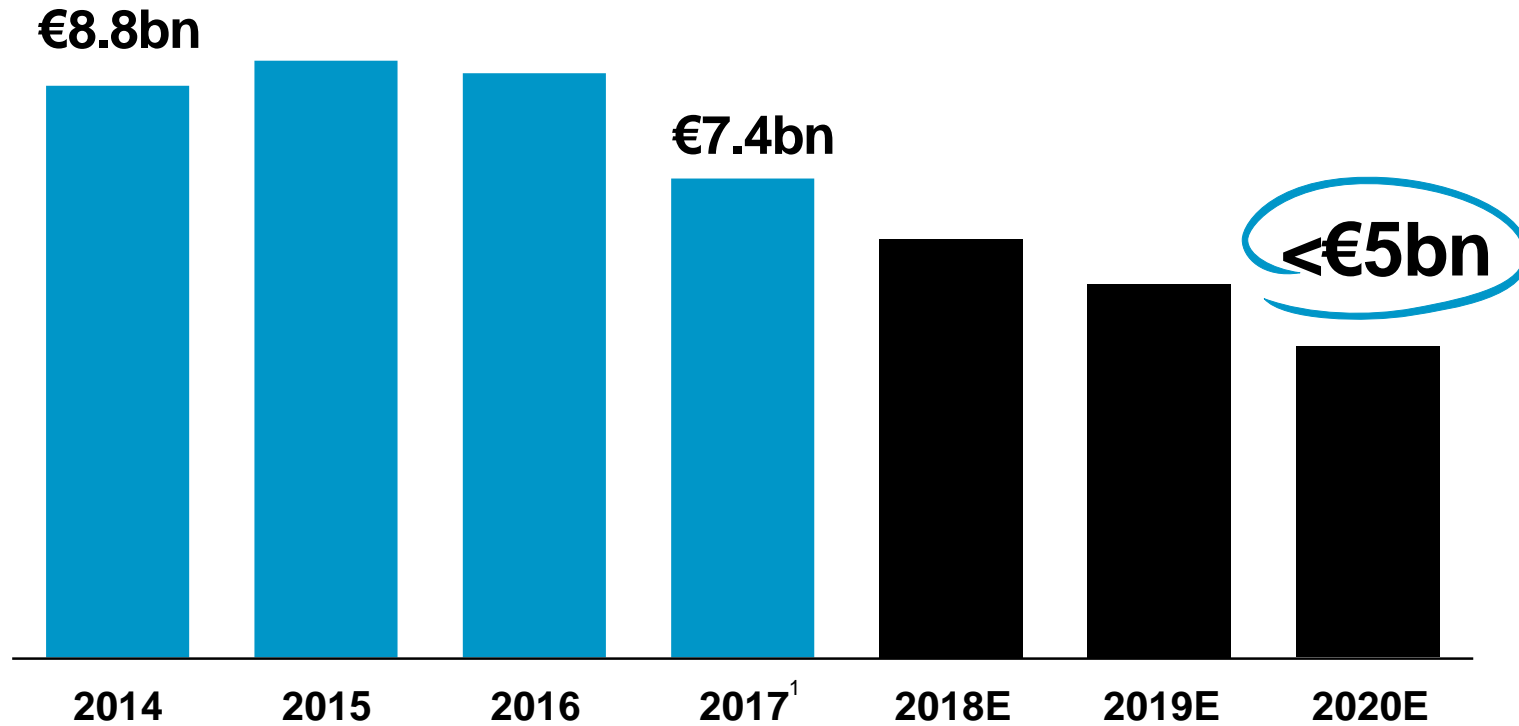


3

No more losses on foreclosed asset sales with a significant improvement in composition

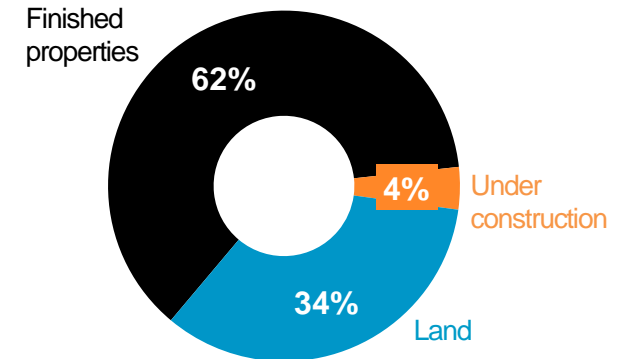
Foreclosed assets evolution, ex-TSB

Euros in billion

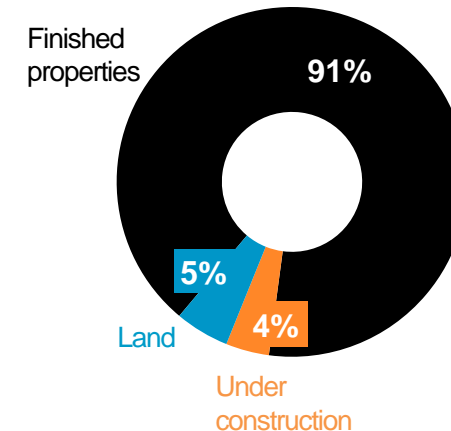


Foreclosed assets composition, ex-TSB

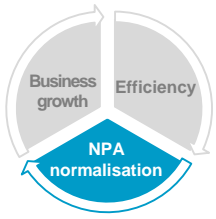
2017



2020E



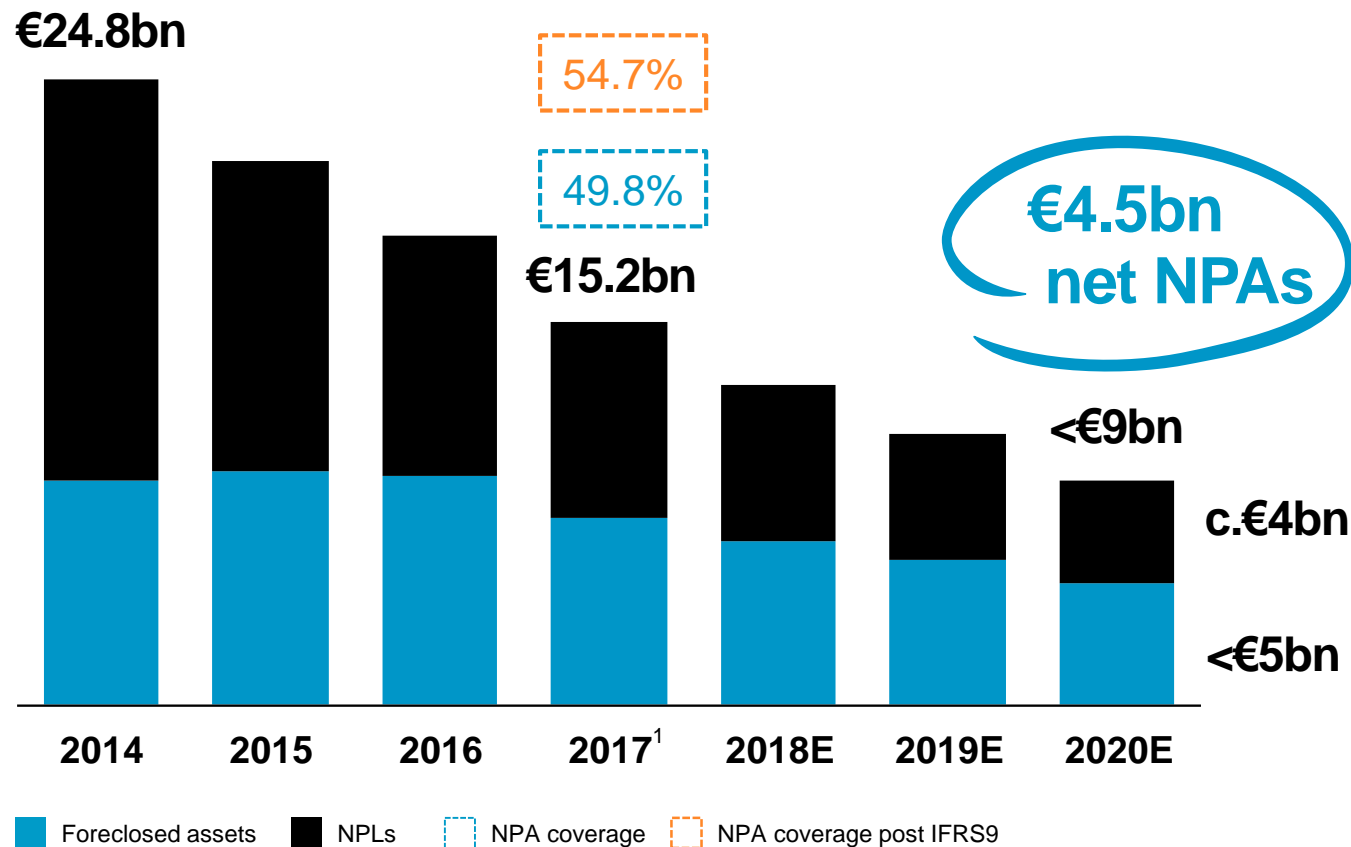
¹ 2017-2020 data excludes €1,252M carved out into our new business line *Solvia Desarrollos Inmobiliarios*.



Net NPAs representing c.2% of the total assets by 2020

Problematic exposure and coverage evolution, ex-TSB

Euros in billion. In percentage



>€2bn
NPA
reduction
per year

50%
NPA
coverage
ex-TSB

c.2%
net NPA
ratio²

¹ 2017-2020 data excludes €1,252M carved out into our new business line *Solvía Desarrollos Inmobiliarios*.

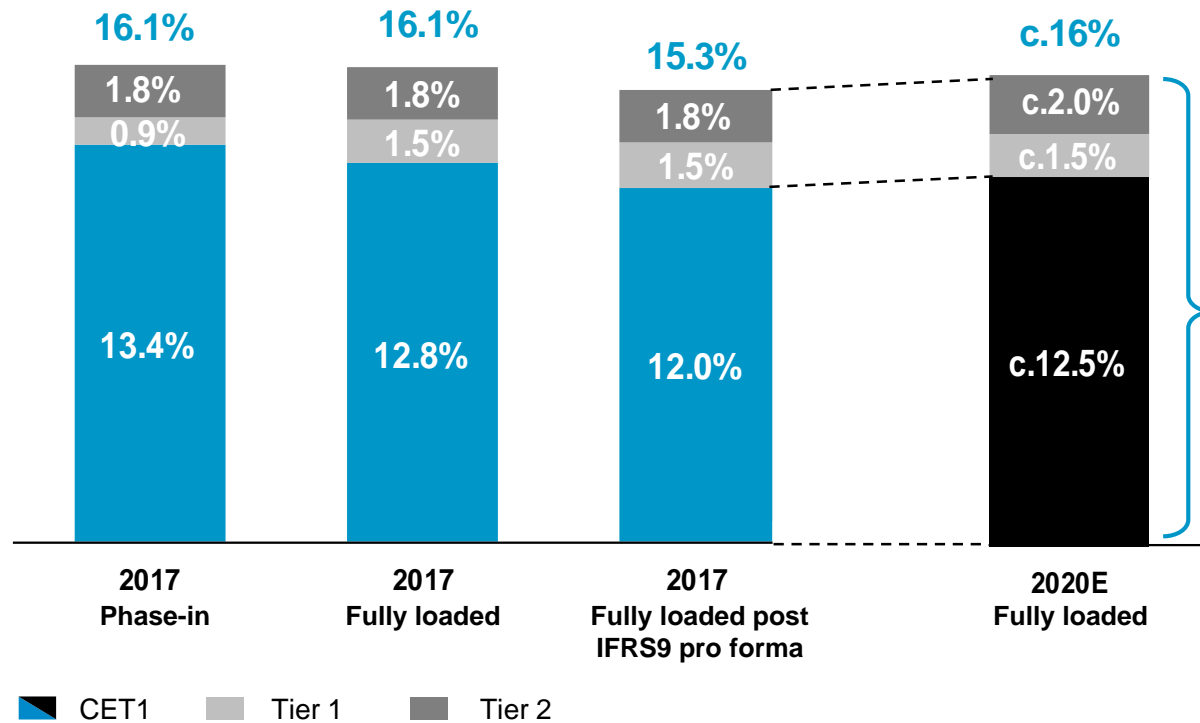
² Net NPAs divided by total assets, at Group level.



We will continue to strengthen our capital position

Capital position, Sabadell Group

In percentage

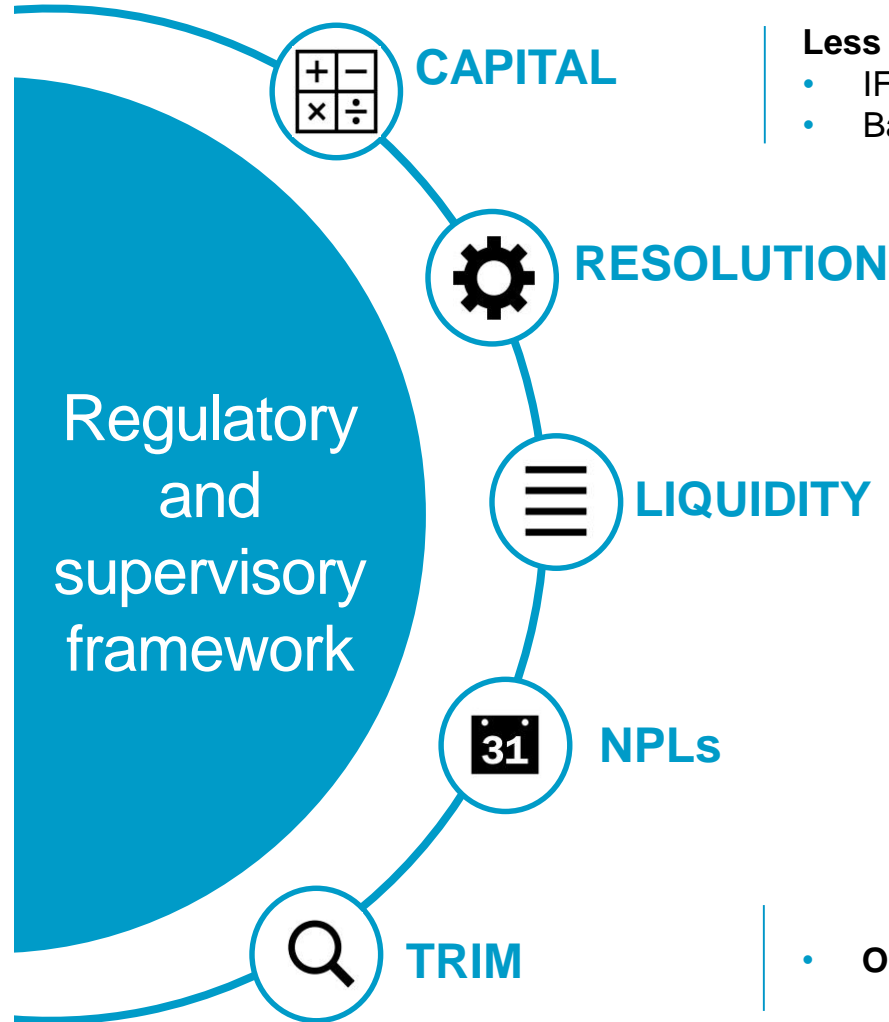


**c.12.5%
FL CET1**

**c.50%
Dividend
payout**



Uncertainty has begun to clear as more and more regulatory matters are resolved



Less uncertainty:

- IFRS 9: already implemented and transitional adjustments applied (phased in until 2023)
- Basel III: pending transposition to EU law. Very little impact envisaged

Yet to be resolved by regulators:

- MREL framework (under discussion)
- Actively providing support to resolution authorities in resolution planning

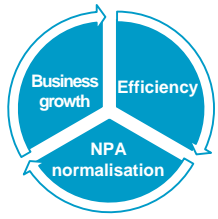
- NSFR (CRDV/CRR2 under discussion) already above the 100% requirement

European NPL action plan:

- New NPLs: SSM NPL Addendum to be released in March 18
- NPL stock. Banco Sabadell has a clear NPL reduction strategy

- Ongoing fieldwork with the SSM, expected to be complete in 2019

After our swift adaptation to the regulatory framework we expect to see some stability in capital requirements going forward



Group guidance 2018

% growth. CoR in basis points

Performing loans	>3%
Net Interest Income	c.2%
Core banking revenue ¹	>5%
Costs ²	c.1%
Cost of Risk	60bps

Note: Targets expressed on a like-for-like basis in 2017, excluding Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement contribution.

¹ Core banking revenue refers to net interest income plus commissions.

² Excluding amortisation.



Group guidance 2020

2020E

Business growth	Net Interest Income	>4% CAGR
	Commissions	>6.5% CAGR
	Performing loans	c.4% CAGR
Efficiency	Cost-to-income ratio ¹	c.47%
NPA normalisation	NPA coverage	49%
	NPL ratio	<3%
	NPA reduction (accumulated)	>€6.0bn
	Cost of Risk	c.40bps
Profitability	ROE	>10%
	ROTE	c.13%

Note: Targets expressed on a like-for-like basis in 2017, excluding Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement contribution.

¹ Cost-to-income ratio defined as operating expenses (excluding amortisation) divided by gross operating income.



Key takeaways

Positive macro trends

- **Tailwinds for the banking sector** will support mid-term profitability improvements
- Business plan based on **conservative macroeconomic assumptions**

Business growth

- **Well-defined commercial and business strategy**, with competitive advantages and top customer experience, **to grow volumes while increasing customer profitability**
- **Balance sheet well positioned to benefit from medium term interest rate increases**

Efficiency enhancement

- **Efficiency expected to improve**, even when considering the cost to leverage the opportunities from the digital transformation and new regulations, the pressure from an inflationary environment and the cost involved in growing our bank in Mexico

NPA normalisation

- Clear path to **NPA normalisation** with **the flexibility to accelerate** it even more
- Improved market conditions provide increasingly attractive **institutional transaction opportunities to reduce NPAs faster** while preserving capital

Strong capital & shareholder remuneration

- **Strong capital position**, comfortably in excess of requirements, **will favour shareholder remuneration**
- After our swift adaptation to the regulatory framework we expect to see some **stability in capital requirements going forward**

Strong core banking revenue growth, COR normalisation, and efficiency optimisation will enable us to reach a ROTE of c.13% by 2020

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