

# Quarterly financial report

Second quarter of 2015



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#### Basis of presentation

The consolidated profit and loss accounts and balance sheets as of the end of the first half of 2015 and 2014, together with the disclosures shown in this Financial Report, are presented in accordance with the accounting standards, principles and criteria defined in Note 1 to the Group's audited consolidated financial statements as of 31 December 2014.

The profit and loss account for 2014 has been restated for comparison purposes as a result of the early application in 2014 of IFRIC 21, particularly in connection with the developments in the fourth quarter of that year regarding how IFRIC 21 should be applied to the recognition and accrual of contributions to the Deposit Guarantee Fund. The change in accounting policies adopted in 2014 (see the sections on Basis of presentation and Comparability in the 2014 consolidated notes to financial statements) entails a reduction of €189.166 million (after taxes) in consolidated reserves as of 1 January 2014 and an increase of €59.073 million (after taxes) in net income attributable to the Group for the six-month period ended June 2014.

The group acquired control of TSB Banking Group PLC on 30 June 2015. As a result of consolidating the latter, the balance sheet figures are not comparable with those of the preceding periods.

## Key figures

	30.06.14	31.12.14	30.06.15	Change (%) YoY	Change (%) YoY ex. TSB
<b>Profit and loss account (€ '000)</b>					
Net interest income	1,075,987	2,259,706	1,298,978	20.7	
Gross operating income	2,682,444	4,800,526	2,960,019	10.3	
Pre-provisions income	(1) 1,643,368	2,749,104	1,908,571	16.1	
Attributable net profit	(1) 226,759	371,677	352,246	55.3	
<b>Balance sheet (€ '000)</b>					
Total assets	161,557,118	163,345,673	203,959,438	26.2	1.7
Gross loans to customers, excluding repos	119,506,578	117,963,953	148,962,599	24.6	-0.9
Gross loans to customers	119,983,383	118,551,550	149,372,347	24.5	-1.0
On-balance sheet funds	124,591,233	121,806,632	156,189,136	25.4	-3.6
Of which: Customer funds	(2) 95,043,236	94,460,668	130,369,596	37.2	0.3
Mutual funds	13,704,818	15,705,612	20,230,218	47.6	47.6
Pension funds and third-party insurance products	12,291,374	11,755,126	11,444,778	-6.9	-6.9
Funds under management	153,187,977	152,185,441	191,598,785	25.1	25.1
Shareholders' equity	10,231,035	10,223,743	12,062,061	17.9	
<b>Profitability and cost-to-income ratios (%)</b>					
ROA	(3) 0.21	0.23	0.35		
RORWA	(3) 0.43	0.50	0.66		
ROE	(3) 3.47	3.70	5.53		
ROTE	(3) 3.86	4.14	6.17		
Cost / income (ex amortisation)	(4) 55.57	53.14	48.58		
<b>Risk and capital management</b>					
Non-performing loans (€ '000)	17,386,329	15,909,945	13,962,177		
NPL ratio (%)	13.35	12.74	9.01		
NPL coverage ratio (%)	53.8	49.4	53.7		
Common Equity Tier 1	11.4	11.7	11.5		
Tier I	11.4	11.7	11.5		
Total capital ratio	12.4	12.8	13.0		
<b>Share data (period end)</b>					
Number of shareholders	232,799	231,481	260,549		
Number of shares	4,012,262,708	4,024,460,614	5,187,356,283		
Share price (€)	(5) 2.492	2.205	2.165		
Market capitalisation (€ '000)	9,998,559	8,873,936	11,230,626		
Earnings per share (EPS) (€)	(6) 0.08	0.09	0.11		
Book value per share (€)	2.55	2.54	2.31		
Price / Book value (times)	0.98	0.87	0.94		
Price / Earnings ratio (P/E) (times)	29.57	23.88	19.39		
Including conversion of convertible bonds: Fully diluted number of shares including conversion of convertible bonds	4,283,285,994	4,289,732,386	5,473,593,239		
Earnings per share (EPS) (€)	(6) 0.08	0.09	0.11		
Book value per share (€)	2.39	2.38	2.19		
Price / Book value (times)	1.04	0.93	0.99		
<b>Other data</b>					
Branches	2,336	2,320	2,919		
Employees	17,698	17,529	26,176		

- (1) In 2015, following the application of IFRIC 21 on accounting for levies, the contributions to the Deposit Guarantee Fund will be recognized in profit and loss as a single payment at year-end instead of being accrued during the year. Assuming linear accrual of those contributions, net income before provisions as of 30 June 2015 would amount to €1,815.8 million, compared with €1,559.0 million as of 30 June 2014 (+16.5% with respect to 1H14), and net income attributable to the group as of 30 June 2015 would amount to €287.3 million, compared with €167.7 million as of 30 June 2014 (+71.3% more than in 1H14).
- (2) Includes customer deposits (ex-repos) and other liabilities placed through the branch network: mandatory convertible bonds, non-convertible bonds issued by Banco Sabadell, commercial paper and others.
- (3) Includes accrual of the contribution to the Deposit Guarantee Fund.
- (4) Personnel and other general administrative expenses / gross income. To calculate these ratios, gross operating income was adjusted considering only recurrent trading income and exchange differences, while also assuming linear accrual of the contribution to the Deposit Guarantee Fund.
- (5) Without adjusting historical values.
- (6) Assuming linear annualisation of income to date and accrual of the contributions to the Deposit Guarantee Fund.

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## Summary of the quarter

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### Good earnings performance

- ✓ Net interest income continues to rise on a quarter-on-quarter basis due to the lower cost of funding (both customer deposits and capital markets), reaching €1,299.0 million in the first half of the year (+20.7% y/y and +2.0% q/q).
- ✓ Commission revenues maintained their solid performance in the quarter and amounted to €454.0 million in the first half of 2015. The year-on-year growth of 9.5% (+1.1% with respect to 1Q15) was the result of the expansion of off-balance sheet funds and of commercial actions aimed at increasing profitability.
- ✓ Strong trading income due to management of the ALCO portfolio. Extraordinary gains were offset by additional impairments to increase coverage levels. Trading income amounted to €1,114.3 million in the first half of 2015.
- ✓ The cost/income ratio improved to 48.58% (vs. 48.82% in 1Q15 and 53.15% in 2014).
- ✓ The Group's attributable net profit amounted to €352.2 million.

### Lending and customer funds are both rising

- ✓ Excluding TSB Banking Group (TSB), performing loans increased for the second consecutive quarter confirming the reactivation of lending volumes that had been observed in preceding quarters (mainly SMEs and corporates).
- ✓ On-balance sheet customer funds have been stable, excluding the acquisition of TSB, while off-balance sheet funds increased by 23.8% year-on-year and 3.5% on a quarter-on-quarter basis.

### Problematic assets continues the downward trend

- ✓ The volume of problematic assets has declined notably in the quarter, by €733 million. The reduction amounts to €2,670 million in the last 12 months.
- ✓ The Group's NPL ratio has declined by 70bp in the quarter, to 10.98% excluding the acquisition of TSB (9.01% with TSB).
- ✓ The NPL coverage level continues to improve, having attained 52.75% without considering TSB (53.65% with TSB), while foreclosed real estate assets coverage reached 43.6%.

### Acquisition of TSB Banking Group

- ✓ On 30 June 2015, within the framework of the takeover bid for all of the shares of TSB Banking Group PLC (TSB) announced on 20 March 2015, Banco Sabadell disclosed that it had obtained approval from the Prudential Regulatory Authority and, therefore, all conditions to which the bid was subject having being fulfilled, the bid was made unconditional to all intents and purposes.
- ✓ Consequently, the variations in the balance sheet amounts since the end of June 2015 have been affected by the inclusion of TSB, which has been consolidated for accounting purposes since 30 June 2015. In contrast, the year-on-year comparison of the profit and loss account (first half of 2015 versus first half of 2014) was unaffected by this factor since zero days of results were included.
- ✓ A preliminary valuation of the assets and liabilities of TSB resulted in the disclosure of a negative goodwill of €207.4 million, net of taxes. That extraordinary result was neutralised by additional impairments.
- ✓ On 8 July 2015, having attained acceptance of more than 90% of the shares of TSB to which the bid was addressed, Banco Sabadell resolved to exercise the squeeze out regarding those shares of TSB whose owners did not accept the bid, under the same conditions in accordance with English company law, thereby acquiring 100% of the shares of TSB.

## Performance review

### Macroeconomic environment

#### *Global economic and financial background*

Greece continued to be the centre of attention during the second quarter. In particular, negotiations between Greece and its international creditors to release international aid broke down. The Greek government did not accept the conditions attached to the latest proposal and, with the support of its parliament, arranged a referendum on 5 July to ask the Greek people whether they accepted that proposal. The executive expressed its preference for a "no" vote (1). From that point onwards, the ECB froze the emergency liquidity that it had been providing to the Greek banking industry. The steady run on bank deposits led the government to declare a bank holiday and to impose capital controls. Greece also became the first developed country to default on the IMF (€1.6 billion). The other members of the euro area expressed their willingness to use all available instruments to preserve the region's integrity and stability. Despite this uncertainty, the euro area economy has been recovering steadily, although some economic sentiment indicators did not perform as well as in the first quarter. Inflation rose slightly to enter in to positive territory. The US economy improved following a very weak first quarter as a result of the dollar's appreciation, the impact of lower oil prices on capital expenditure and other transitory factors. Meanwhile, inflation remained low. In Japan, the premier's popularity is at its lowest since he reached power in 2012 because of his intention of putting an end to Japan's non-belligerent status.

#### *Macroeconomic situation in Spain*

Economic activity continued to improve in the second quarter, as evidenced by variables such as industrial production and retail sales. Economic sentiment indicators are at levels that are clearly compatible with an economic expansion. As for prices, the June CPI registered the first positive year-on-year variation (+0.1%) since mid-2014, while core inflation reached its highest level since September 2013. On the tax front, the government brought forward to July the second part of the personal income tax cut that was originally planned for January 2016. Meanwhile, the municipal and regional elections confirmed a trend towards greater fragmentation on the political front.

#### *Macroeconomic situation in the UK*

The economy is performing well. Industrial output is rising at its fastest year-on-year pace since April 2014, while retail sales are proving to be very dynamic. Inflation remains contained and far from the central bank's monetary policy target. The May CPI increased by barely 0.1% year-on-year, while core inflation was 0.9%. On the political front, the Conservative Party obtained an absolute majority in parliament, which should entail a referendum on whether or not the country should remain in the EU. Standard & Poor's changed the outlook of the United Kingdom's sovereign debt rating (AAA) from stable to negative on the grounds that a referendum on remaining in the EU represents a risk for economic prospects in general and for the financial and exporting industries in particular.

#### *Macroeconomic situation in Latin America*

Growth projections for Latin America were revised downwards during the quarter, although there are still significant differences among countries. In Mexico, economic indicators reveal a steady recovery, while the parliamentary elections in June confirmed broad support for the governing party. The Southern Cone continues to be affected by lower oil prices, lower growth in China, and specific issues in certain countries. In particular, economic deterioration was the dominant note in Brazil even though uncertainty about the scope of the Petrobras corruption case and the likelihood of energy rationing have declined.

#### *Fixed-income markets*

The Fed maintained a cautious, flexible communication policy. Although it acknowledges the improvement in the economy in recent months, it considers that the weakness in the first quarter will have a negative impact on growth and unemployment in the year as a whole. As a result, the Fed expects the pace of rate increases to be more gradual and to begin later than initially projected. Meanwhile, the ECB expressed a more positive opinion about the economy. The asset purchase programme achieved its objective of buying €60 billion of assets per month (mainly government bonds). The ECB also insisted it will fully implement this programme. It highlighted that the program has improved funding conditions in the euro area.

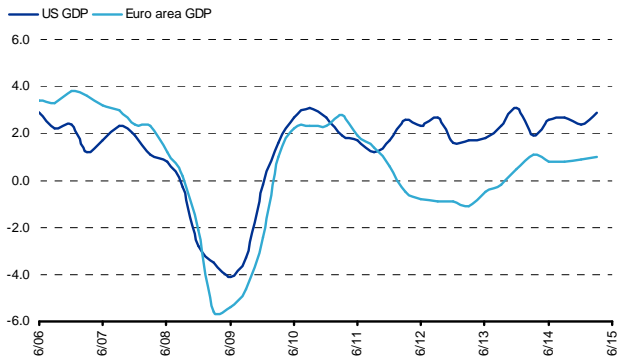
With respect to long-term fixed income markets, German government bond yields rose significantly. This was due principally to the surprise upswing in inflation in May, aspects of the working of the government bond market, the strong supply of paper and the fact that the ECB has not expressed concern about the high market volatility. This upswing was partly halted by the high level of uncertainty about Greece at the end of June. The Greek situation also drove an increase in non-core European countries' risk premiums. The yield on US government bonds increased, supported by better economic data in the US and the higher yield on German government bonds.

#### *Equity markets*

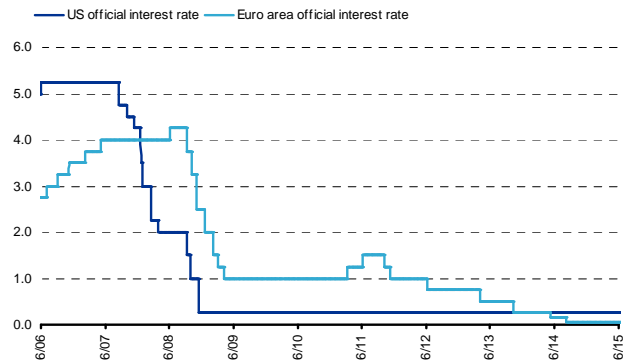
Europe's stock markets had a good start to the quarter, reaching their highest levels in recent years. This was followed by a downturn due, among other factors, to the sharp increase in German government bond yields and growing uncertainty about Greece. The Euro STOXX 50 lost -7.4% in the quarter while the IBEX lost -6.5%. In the United States, the S&P 500 lost -4.0% while the NIKKEI 225 slipped by just -0.5% (both in euro terms).

<sup>(1)</sup> In the Greek referendum, 61.3% voted "no", while 38.7% voted "yes". Following the referendum, Greece resumed negotiations with its international creditors. In the end, agreement was reached on the reforms that Greece must adopt in order to begin negotiations on a third bailout. This agreement has been ratified by the Greek Parliament, which also approved the first set of measures in areas such as taxation and the pension system. The EU also granted Greece a bridge loan, which it has used to fulfil its repayment commitments to the ECB in July and to pay outstanding amounts to the IMF.

GDP – USA vs. Euro area (y/y change, %)



Official interest rate – USA vs. Euro area (%)



## Profit & loss account evolution

Banco Sabadell Group ended the first half of 2015 with €352.2 million in net attributable profit (an increase of

55.3% year-on-year), after booking €1,749.1 million in provisions for NPL, securities and real estate.

### Income statement

(€000)	1H14	(1) 1H15	Change (%) YoY
<b>Net interest income</b>	<b>1,075,987</b>	<b>1,298,978</b>	<b>20.7</b>
Income from equity method and dividends	8,486	27,300	221.7
Net fees and commissions	414,479	454,047	9.5
Results from financial transactions (net)	1,132,894	1,114,268	-1.6
Foreign exchange (net)	38,338	82,281	114.6
Other operating income/expense	12,260	-16,855	--
<b>Gross operating income</b>	<b>2,682,444</b>	<b>2,960,019</b>	<b>10.3</b>
Personnel expenses	-609,695	-615,505	1.0
Non-recurrent	-30,910	-24,740	-20.0
Recurrent	-578,785	-590,765	2.1
Other general expenses	-293,447	-292,493	-0.3
Non-recurrent	-5,987	-2,311	-61.4
Recurrent	-287,460	-290,182	0.9
Amortization & depreciation	-135,934	-143,450	5.5
<b>Pre-provisions income</b>	<b>1,643,368</b>	<b>1,908,571</b>	<b>16.1</b>
Provisions for NPLs and other impairments	-1,415,318	-1,749,121	23.6
Gains on sale of assets	82,105	-3,315	--
Badwill	0	207,371	--
<b>Profit before tax</b>	<b>310,155</b>	<b>363,506</b>	<b>17.2</b>
Income tax	-78,887	-9,576	-87.9
<b>Consolidated net profit</b>	<b>231,268</b>	<b>353,930</b>	<b>53.0</b>
Minority interest	4,509	1,684	-62.7
<b>Attributable net profit</b>	<b>226,759</b>	<b>352,246</b>	<b>55.3</b>
Pro memoria:			
Average total assets	164,138,133	166,036,246	
Earnings per share (€)	(2) 0.04	0.06	

(1) In 2015, following the application of IFRIC 21 on accounting for levies, the contributions to the Deposit Guarantee Fund will be recognized in profit and loss as a single payment at year-end instead of being accrued during the year. Assuming linear accrual of those contributions, net income before provisions as of 30 June 2015 would amount to €1,815.8 million, compared with €1,559.0 million as of 30 June 2014 (+16.5% with respect to 1H14), and net income attributable to the group as of 30 June 2015 would amount to €287.3 million, compared with €167.7 million as of 30 June 2014 (+71.3% more than in 1H14).

(2) Not annualised.

## Income statement for the quarter

(€000)	1Q14	2Q14	3Q14	4Q14	(1) 1Q15	(1) 2Q15	Change (%) YoY
<b>Net interest income</b>	<b>530,042</b>	<b>545,945</b>	<b>574,060</b>	<b>609,659</b>	<b>643,077</b>	<b>655,901</b>	<b>20.1</b>
Income from equity method and dividends	22	8,464	-8,834	9,077	10,352	16,948	100.2
Net fees and commissions	200,971	213,508	215,129	231,283	225,834	228,213	6.9
Results from financial transactions (net)	930,660	202,234	166,136	464,574	736,249	378,019	86.9
Foreign exchange (net)	16,015	22,323	52,107	9,111	65,415	16,866	-24.4
Other operating income/expense	13,245	-985	-4,489	-199,731	-15,074	-1,781	80.8
<b>Gross operating income</b>	<b>1,690,955</b>	<b>991,489</b>	<b>994,109</b>	<b>1,123,973</b>	<b>1,665,853</b>	<b>1,294,166</b>	<b>30.5</b>
Personnel expenses	-298,766	-310,929	-296,788	-296,121	-301,047	-314,458	1.1
Non-recurrent	-5,976	-24,934	-1,807	-592	-5,572	-19,168	-23.1
Recurrent	-292,790	-285,995	-294,981	-295,529	-295,475	-295,290	3.3
Other general expenses	-151,871	-141,576	-137,926	-139,341	-146,339	-146,154	3.2
Non-recurrent	-3,788	-2,199	0	-878	-1,124	-1,187	-46.0
Recurrent	-148,083	-139,377	-137,926	-138,463	-145,215	-144,967	4.0
Amortization & depreciation	-67,951	-67,983	-70,041	-72,129	-76,060	-67,390	-0.9
<b>Pre-provisions income</b>	<b>1,172,367</b>	<b>471,001</b>	<b>489,354</b>	<b>616,382</b>	<b>1,142,407</b>	<b>766,164</b>	<b>62.7</b>
Provisions for NPLs and other impairments	-1,096,497	-318,821	-309,669	-774,672	-906,481	-842,640	164.3
Gains on sale of assets	69,927	12,178	3,195	151,648	9,580	-12,895	--
Badwill	0	0	0	0	0	207,371	--
<b>Profit before tax</b>	<b>145,797</b>	<b>164,358</b>	<b>182,880</b>	<b>-6,642</b>	<b>245,506</b>	<b>118,000</b>	<b>-28.2</b>
Income tax	-31,541	-47,346	-45,555	14,694	-69,757	60,181	--
<b>Consolidated net profit</b>	<b>114,256</b>	<b>117,012</b>	<b>137,325</b>	<b>8,052</b>	<b>175,749</b>	<b>178,181</b>	<b>52.3</b>
Minority interest	3,033	1,476	240	219	1,111	573	-61.2
<b>Attributable net profit</b>	<b>111,223</b>	<b>115,536</b>	<b>137,085</b>	<b>7,833</b>	<b>174,638</b>	<b>177,608</b>	<b>53.7</b>
Pro memoria:							
Average total assets	167,190,254	161,119,552	162,499,242	162,740,694	166,113,468	165,959,873	
Earnings per share (€)	(2) 0.02	0.04	0.07	0.09	0.04	0.06	

(1) In 2015, following the application of IFRIC 21 on accounting for levies, the contributions to the Deposit Guarantee Fund will be recognized in profit and loss as a single payment at year-end instead of being accrued during the year. Assuming linear accrual of those contributions, net income before provisions would be €1,815.8 million in the first half of 2015 (+16.5% with respect to 1H14) and net income attributable to the group would be €287.3 million in the first half of 2015 (+71.3% more than in 1H14).

(2) YTD at the end of each quarter (not annualised).

**Net interest income** continued the upward trend of previous quarters to reach €1,229.0 million in the first half of 2015, i.e. 20.7% more than in the same period of 2014, broadly as a result of the reduction in funding costs (both

customer deposits and the capital markets). The customer spread stood at 2.47% (2.44% in 1Q15) and the net interest margin on average total assets reached 1.59% (1.57% in 1Q15).

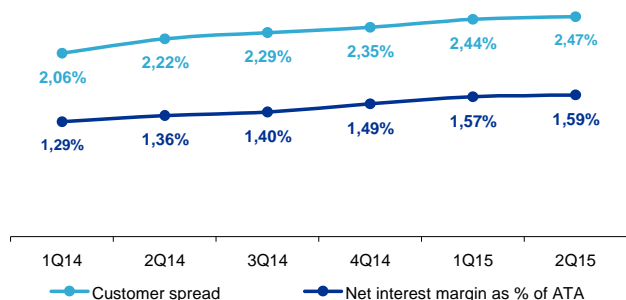


## Quarterly yields and costs

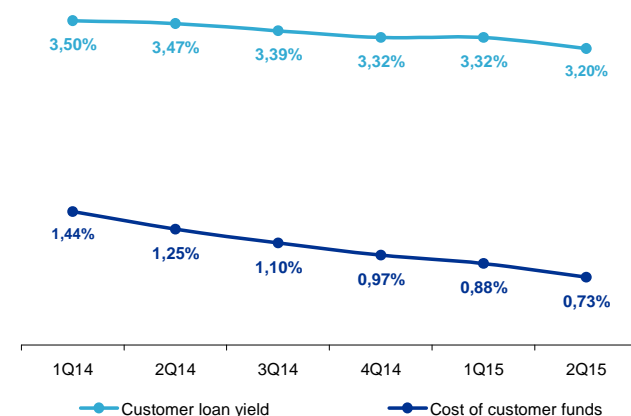
2014 (€'000)	1st Quarter			2nd Quarter			3rd Quarter			4th Quarter		
	Avg.balance	Rate %	Results	Avg.balance	Rate %	Results	Avg.balance	Rate %	Results	Avg.balance	Rate %	Results
Cash and balance with central banks & fin. inst.	4.277.014	1,10	11.605	3.998.214	1,06	10.539	4.278.672	0,91	9.791	4.480.122	0,72	8.164
Loans to customers (net)	108.442.873	3,50	936.272	106.316.927	3,47	920.825	105.962.409	3,39	904.230	105.085.900	3,32	879.643
Fixed-income securities	24.136.993	3,41	202.734	21.208.649	3,84	203.235	22.276.597	3,65	204.884	23.207.907	3,35	195.999
Equity securities	834.668	--	--	1.395.773	--	--	1.401.733	--	--	1.659.535	--	--
Tang. & intang. assets	3.904.974	--	--	3.922.139	--	--	3.802.468	--	--	3.422.926	--	--
Other assets	25.593.732	0,10	6.075	24.277.850	0,10	6.235	24.777.363	0,11	6.827	24.884.304	0,10	6.439
<b>Total assets</b>	<b>167.190.254</b>	<b>2,81</b>	<b>1.156.686</b>	<b>161.119.552</b>	<b>2,84</b>	<b>1.140.834</b>	<b>162.499.242</b>	<b>2,75</b>	<b>1.125.732</b>	<b>162.740.694</b>	<b>2,66</b>	<b>1.090.245</b>
Financial institutions	16.165.139	-1,40	-55.769	13.552.136	-1,52	-51.463	10.565.998	-1,71	-45.646	12.720.001	-1,29	-41.429
Customer deposits	92.164.157	-1,44	-327.850	92.504.475	-1,25	-289.269	94.121.172	-1,10	-261.851	93.502.083	-0,97	-228.219
Capital markets	27.506.366	-3,54	-239.842	27.238.731	-3,51	-238.425	26.563.127	-3,41	-228.133	26.314.842	-3,05	-202.105
Repos	9.319.950	-0,68	-15.732	6.666.753	-0,71	-11.863	9.824.642	-0,47	-11.525	8.573.936	-0,47	-10.059
Other liabilities	11.838.144	0,43	12.549	10.296.456	-0,15	-3.869	10.384.566	-0,17	-4.517	10.639.953	0,05	1.226
Shareholders' equity	10.196.498	--	--	10.861.001	--	--	11.039.737	--	--	10.989.879	--	--
<b>Total funds</b>	<b>167.190.254</b>	<b>-1,52</b>	<b>-626.644</b>	<b>161.119.552</b>	<b>-1,48</b>	<b>-594.889</b>	<b>162.499.242</b>	<b>-1,35</b>	<b>-551.672</b>	<b>162.740.694</b>	<b>-1,17</b>	<b>-480.586</b>
<b>Net interest income</b>			<b>530.042</b>			<b>545.945</b>			<b>574.060</b>			<b>609.659</b>
<b>Customer spread</b>		<b>2,06</b>			<b>2,22</b>			<b>2,29</b>			<b>2,35</b>	
<b>Net interest margin as % of ATA</b>		<b>1,29</b>			<b>1,36</b>			<b>1,40</b>			<b>1,49</b>	

2015 (€'000)	1st Quarter			2nd Quarter			3rd Quarter			4th Quarter		
	Avg.balance	Rate %	Results	Avg.balance	Rate %	Results	Avg.balance	Rate %	Results	Avg.balance	Rate %	Results
Cash and balance with central banks & fin. inst.	4.506.907	0,69	7.620	4.239.111	0,72	7.608						
Loans to customers (net)	105.699.264	3,32	866.029	106.085.332	3,20	845.109						
Fixed-income securities	26.659.263	2,94	193.159	26.000.341	2,87	186.025						
Equity securities	1.466.208	--	--	1.765.119	--	--						
Tang. & intang. assets	3.712.828	--	--	3.486.113	--	--						
Other assets	24.068.998	0,18	10.440	24.383.857	0,19	11.596						
<b>Total assets</b>	<b>166.113.468</b>	<b>2,63</b>	<b>1.077.248</b>	<b>165.959.873</b>	<b>2,54</b>	<b>1.050.338</b>						
Financial institutions	15.819.325	-1,06	-41.192	16.682.943	-0,91	-37.966						
Customer deposits	92.350.893	-0,88	-200.352	93.214.329	-0,73	-169.704						
Capital markets	25.895.734	-2,71	-173.287	25.814.242	-2,56	-164.870						
Repos	10.118.263	-0,42	-10.564	8.425.452	-0,43	-9.016						
Other liabilities	10.323.239	-0,34	-8.776	9.485.553	-0,54	-12.881						
Shareholders' equity	11.606.014	--	--	12.337.354	--	--						
<b>Total funds</b>	<b>166.113.468</b>	<b>-1,06</b>	<b>-434.171</b>	<b>165.959.873</b>	<b>-0,95</b>	<b>-394.437</b>						
<b>Net interest income</b>			<b>643.077</b>			<b>655.901</b>						
<b>Customer spread</b>		<b>2,44</b>			<b>2,47</b>							
<b>Net interest margin as % of ATA</b>		<b>1,57</b>			<b>1,59</b>							

Net interest margin (%)



Customer spread (%)



The figures below show the trend in net interest income as a percentage of average total assets and the trend in customer spreads.

Dividends received and results from equity method together increased considerably year-on-year to €27.3 million in the first half of 2015, compared with €8.5 million in the same period of 2014. Those revenues are due mainly to the insurance and pension fund business.

**Net fees and commissions** in the first half of 2015 totalled €454.0 million, up 9.5% year-on-year and 1.1% quarter-on-quarter. This growth was observed generally in all types of fees and commissions (risk operations, services, mutual funds, insurance and pension funds) and is attributable mainly to good performance by off-balance sheet funds and to commercial actions to enhance cross-selling of products and services.

### Net fees and commissions

(€000)	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	Change (%)		
							2Q14	1Q15	
Lending fees	28,829	28,829	27,957	30,367	28,781	28,402	-1.5	-1.3	
Guarantees commissions	25,558	26,822	25,898	26,846	25,694	25,829	-3.7	0.5	
Transferred to other entities	-944	-376	-277	-259	-280	-327	-13.0	16.8	
<b>Risk transaction fees</b>	<b>53,443</b>	<b>55,275</b>	<b>53,578</b>	<b>56,954</b>	<b>54,195</b>	<b>53,904</b>	<b>-2.5</b>	<b>-0.5</b>	
Cards	32,397	35,007	39,180	39,689	36,465	38,907	11.1	6.7	
Payment orders	10,967	11,292	11,727	12,006	11,362	12,090	7.1	6.4	
Securities	25,109	17,721	16,465	20,500	20,160	20,655	16.6	2.5	
Sight accounts	19,269	22,465	21,957	22,184	20,480	20,264	-9.8	-1.1	
Other transactions	20,090	23,141	23,346	26,931	27,523	24,515	5.9	-10.9	
<b>Commissions for services</b>	<b>107,832</b>	<b>109,626</b>	<b>112,675</b>	<b>121,310</b>	<b>115,990</b>	<b>116,431</b>	<b>6.2</b>	<b>0.4</b>	
Mutual funds	25,223	30,038	32,243	35,659	36,792	39,740	32.3	8.0	
Pension funds and insurance brokerage	14,473	18,569	16,633	17,360	18,857	18,138	-2.3	-3.8	
<b>Mutual and pension fund and insurance commissions</b>	<b>39,696</b>	<b>48,607</b>	<b>48,876</b>	<b>53,019</b>	<b>55,649</b>	<b>57,878</b>	<b>19.1</b>	<b>4.0</b>	
<b>Total</b>	<b>200,971</b>	<b>213,508</b>	<b>215,129</b>	<b>231,283</b>	<b>225,834</b>	<b>228,213</b>	<b>6.9</b>	<b>1.1</b>	
	414,479					454,047		Change YoY (%) 9.5	

In particular, mutual fund management and commercialisation fees and pension fund and insurance commercialisation fees together increased by 19.1% with respect to 2Q14. Assets in mutual funds expanded steadily, amounting to €20,230.2 million as of 30 June 2015, i.e. a 47.6% increase year-on-year.

**Income from financial transactions** amounted to €1,114.3 million in the first half of 2015, including €1,019.9 million in gains on the sale of available-for-sale fixed-income financial assets and €105.0 million in trading income. In the first half of 2014, income from financial

transactions amounted to €1,132.9 million, including €1,083.5 million in gains on the sale of available-for-sale fixed-income financial assets and €31.0 million in trading income.

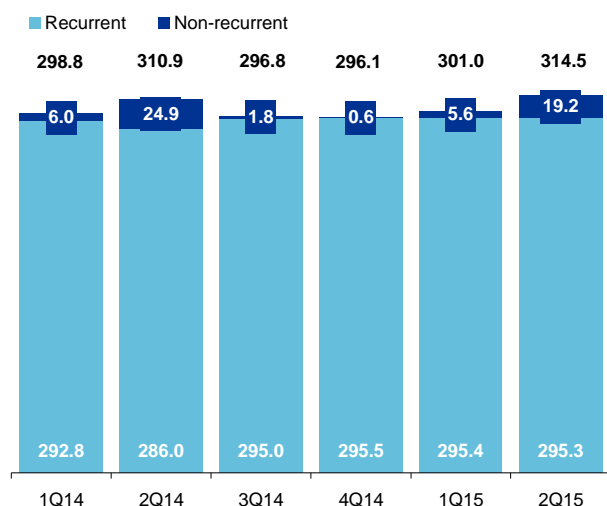
**Foreign exchange net gains** amounted to €82.3 million, an increase with respect to the first half of 2014.

**Operating expenses** (personnel and general) amounted to €908.0 million in the first half of 2015, of which €27.0 million are non-recurrent items (mainly personnel indemnities);

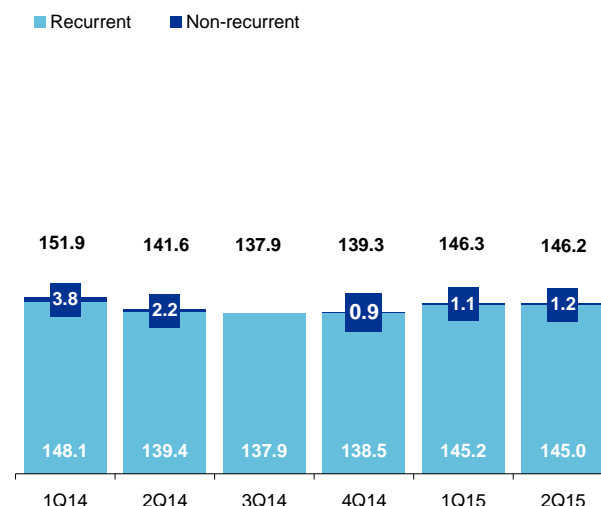
## Operating expenses

(€000)	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	Change (%)	
							2Q14	1Q15
Recurrent	-292,790	-285,995	-294,981	-295,529	-295,475	-295,290	3.3	-0.1
Non-recurrent	-5,976	-24,934	-1,807	-592	-5,572	-19,168	-23.1	244.0
<b>Personnel expenses</b>	<b>-298,766</b>	<b>-310,929</b>	<b>-296,788</b>	<b>-296,121</b>	<b>-301,047</b>	<b>-314,458</b>	<b>1.1</b>	<b>4.5</b>
IT and communications	-36,074	-31,497	-31,255	-28,627	-35,207	-33,022	4.8	-6.2
Advertising	-9,667	-10,677	-7,568	-10,853	-7,187	-14,145	32.5	96.8
Premises and office supplies	-43,846	-37,674	-37,748	-33,558	-39,042	-36,856	-2.2	-5.6
Taxes other than income tax	-23,716	-23,531	-23,228	-28,910	-25,012	-26,865	14.2	7.4
Others	-38,568	-38,197	-38,127	-37,393	-39,891	-35,266	-7.7	-11.6
<b>Other general expenses</b>	<b>-151,871</b>	<b>-141,576</b>	<b>-137,926</b>	<b>-139,341</b>	<b>-146,339</b>	<b>-146,154</b>	<b>3.2</b>	<b>-0.1</b>
<b>Total</b>	<b>-450,637</b>	<b>-452,505</b>	<b>-434,714</b>	<b>-435,462</b>	<b>-447,386</b>	<b>-460,612</b>	<b>1.8</b>	<b>3.0</b>
	-903,142				-907,998		Change YoY (%) 0.5	

### Personnel expenses (€mn)



### Other general expenses (€mn)



Once again, the cost/income ratio improved, to 48.58% at the end of the second quarter of 2015 (vs. 48.82% at the end of 1Q15 and 53.14% at the end of 2014). For this calculation, non-recurrent trading income and exchange differences were excluded from both years, and the contribution to the Deposit Guarantee Fund was accrued on a linear basis. **Pre-provisions income** amounted to €1,908.6 million in the first half of 2015 (+16.1% year-on-year). Accruing for the contribution to the Deposit Guarantee Fund on a linear basis in 2015, the year-on-year variation in pre-provisions income would be +16.5% (€1,815.8 million as of 30 June 2015).

**Provisions for loan losses and other impairments** (mainly real estate and financial assets) amounted to €1,749.1 million in the first half of 2015, compared with €1,415.4 million in the same period of 2014, reflecting in

both periods the additional provisions recognized as a result of the higher trading income obtained from the ALCO portfolio and including, in the first half of 2015, the additional provisions arising from the negative goodwill disclosed in the acquisition of TSB.

Net losses on asset disposals amounted to -€3.3 million, comparing with €82.1 million in the first half of 2014. In the first half of 2015, this item included mainly -€12.7 million from the sale of real estate assets used by the Group. In the first half of 2014, capital gains on asset disposals included extraordinary income of €80 million (net of arrangement expenses) from signing a reinsurance contract with SCOR Global Life for Mediterráneo Vida's individual death benefit insurance portfolio.

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The negative goodwill disclosed in the first half of 2015 relates entirely to the badwill (net of taxes) disclosed as a result of the TSB acquisition. That extraordinary result was neutralised by additional impairments. As part of the preliminary PPA exercise, the expected loss on the customer loan book was estimated in order to adjust it to its estimated fair value, and intangible assets were estimated at a value that reflects the value of the contractual rights arising from relations with TSB customers for core deposits.

After deducting income tax and minority interests, net income attributed to the group amounted to €352.2 million as of 30 June 2015, i.e. 55.3% higher than in the same period of 2014 (€226.8 million). Accruing the Deposit Gurantee Fund contribution in both years, net income attributed to the group would have been €287.3 million in the first half of 2015, compared with €167.7 million in the same period of 2014, i.e. a 71.3% increase year-on-year.

## Balance sheet

### Balance sheet

(€000)	30.06.14	31.12.14	31.03.15	30.06.15	(4) Change (%)	
					YoY	QoQ
Cash and balance with Central Banks	1,668,807	1,189,787	1,606,401	7,227,177	333.1	349.9
Trading and derivatives portfolios and other financial assets	2,801,142	3,253,356	3,785,270	3,060,039	9.2	-19.2
Available-for-sale financial assets	18,701,745	21,095,619	24,426,914	23,570,418	26.0	-3.5
Loans and advances	118,738,871	117,895,179	117,789,267	148,417,967	25.0	26.0
Balances with financial institutions	(1) 4,599,495	4,623,197	4,237,050	4,414,148	-4.0	4.2
Loans to customers (net)	111,062,398	110,835,723	111,116,500	141,890,377	27.8	27.7
Debt securities	3,076,978	2,436,259	2,435,717	2,113,442	-31.3	-13.2
Investments in associated companies	494,348	513,227	767,641	595,550	20.5	-22.4
Property, plant and equipment	3,798,923	3,982,866	3,975,703	4,155,856	9.4	4.5
Intangible assets	1,512,404	1,591,296	1,599,937	2,010,976	33.0	25.7
Other assets	13,840,878	13,824,343	13,528,830	14,921,455	7.8	10.3
<b>Total assets</b>	<b>161,557,118</b>	<b>163,345,673</b>	<b>167,479,963</b>	<b>203,959,438</b>	<b>26.2</b>	<b>21.8</b>
Trading and derivatives portfolios	1,956,979	2,254,459	2,619,466	2,292,514	17.1	-12.5
Financial liabilities at amortised cost	144,602,210	145,580,114	148,860,370	185,201,924	28.1	24.4
Central banks	5,543,772	7,201,546	8,904,883	11,008,029	98.6	23.6
Credit institutions	(2) 13,574,731	16,288,193	17,694,575	14,566,803	7.3	-17.7
Customer deposits	101,476,823	98,208,370	98,176,249	132,330,144	30.4	34.8
Capital markets	19,714,883	20,196,329	20,378,168	20,102,923	2.0	-1.4
Subordinated liabilities	1,071,443	1,012,362	945,838	1,489,873	39.1	57.5
Other financial liabilities	3,220,558	2,673,314	2,760,657	5,704,152	77.1	106.6
Liabilities under insurance contracts	2,328,084	2,389,571	2,413,485	2,266,196	-2.7	-6.1
Provisions	518,524	395,215	362,054	401,763	-22.5	11.0
Other liabilities	1,313,414	1,510,362	1,645,155	1,720,154	31.0	4.6
<b>Subtotal liabilities</b>	<b>150,719,211</b>	<b>152,129,721</b>	<b>155,900,530</b>	<b>191,882,551</b>	<b>27.3</b>	<b>23.1</b>
Shareholders' equity	(3) 10,231,035	10,223,743	10,408,746	12,062,061	17.9	15.9
Valuation adjustments	536,819	937,416	1,115,919	-22,137	--	--
Minority interest	70,053	54,793	54,768	36,963	-47.2	-32.5
<b>Equity</b>	<b>10,837,907</b>	<b>11,215,952</b>	<b>11,579,433</b>	<b>12,076,887</b>	<b>11.4</b>	<b>4.3</b>
<b>Total liabilities and equity</b>	<b>161,557,118</b>	<b>163,345,673</b>	<b>167,479,963</b>	<b>203,959,438</b>	<b>26.2</b>	<b>21.8</b>

(1) Balances with financial institutions include the following amounts of repos: €1,109 million as of 30.06.14, €1,420 million as of 31.12.14 and €900 million as of 30.06.15.

(2) Deposits with central banks and credit institutions include the following amounts of repos: €4,885 million as of 30.06.14, €7,429 million as of 31.12.14 and €5,616 million as of 30.06.15.

(3) Includes other capital instruments (€736 million as of 30.06.15, €734 million as of 31.12.14 and €732 million as of 30.06.14), mainly mandatory convertible bonds.

(4) For variations in the main aggregates excluding TSB, see the Key Figures section.

As of 30 June 2015, Banco Sabadell Group's total assets amounted to €203,959.4 million, i.e. a 26.2% increase year-on-year, or a 1.7% increase excluding TSB (totalling €164,246.9 million).

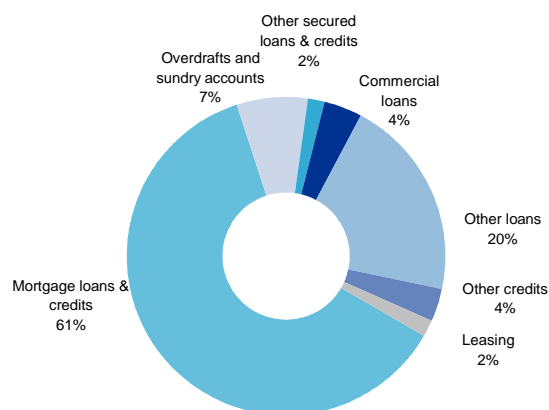
**Gross loans to customers** (excluding repos) accounted for 73% of the group's total consolidated assets and amounted to €148,962.6 million as of 30 June 2015. This

item increased by 24.6% year-on-year, primarily due to the acquisition of TSB. Excluding TSB, gross loans to customers (excluding repos) amounted to €118,415.9 million as of 30 June 2015, a 0.9% decrease year-on-year terms. In particular, performing gross loans excluding repos increased by 29.9% with respect to the first quarter of 2015 (0.7% without TSB). Lending to SMEs and new mortgage production also accelerated, and market shares improved.

## Loans to customers

(€000)	30.06.14	31.12.14	31.03.15	30.06.15	Change (%)	
					YoY	QoQ
Mortgage loans & credits	58,807,226	57,112,332	56,948,114	83,197,676	41.5	46.1
Other secured loans & credits	2,053,105	2,155,279	2,157,355	2,247,132	9.5	4.2
Commercial loans	4,429,593	4,867,272	4,763,188	5,244,522	18.4	10.1
Other loans	23,181,023	24,194,643	25,539,018	27,889,397	20.3	9.2
Other credits	3,717,326	4,188,075	4,427,126	4,739,163	27.5	7.0
Leasing	2,148,339	2,124,317	2,092,196	2,070,326	-3.6	-1.0
Overdrafts and sundry accounts	8,191,890	7,738,268	8,036,423	9,696,209	18.4	20.7
<b>Performing gross loans to customers (excluding repos and accrual adjustments)</b>	<b>102,528,502</b>	<b>102,380,186</b>	<b>103,963,420</b>	<b>135,084,425</b>	<b>31.8</b>	<b>29.9</b>
Pro memoria: excluding TSB				104,797,707	2.2	0.8
Non-performing loans	17,035,312	15,714,213	14,715,970	14,087,414	-17.3	-4.3
Accruals	-57,236	-130,446	-152,568	-209,240	265.6	37.1
<b>Gross loans to customers, excluding repos</b>	<b>119,506,578</b>	<b>117,963,953</b>	<b>118,526,822</b>	<b>148,962,599</b>	<b>24.6</b>	<b>25.7</b>
Pro memoria: excluding TSB				118,415,873	-0.9	-0.1
Reverse repos	476,805	587,597	65,891	409,748	-14.1	--
<b>Gross loans to customers</b>	<b>119,983,383</b>	<b>118,551,550</b>	<b>118,592,713</b>	<b>149,372,347</b>	<b>24.5</b>	<b>26.0</b>
Pro memoria: excluding TSB				118,825,621	-1.0	0.2
NPL and country-risk provisions	-8,920,985	-7,715,827	-7,476,213	-7,481,970	-16.1	0.1
<b>Loans to customers (net)</b>	<b>111,062,398</b>	<b>110,835,723</b>	<b>111,116,500</b>	<b>141,890,377</b>	<b>27.8</b>	<b>27.7</b>
Pro memoria: excluding TSB				111,605,332	0.5	0.4

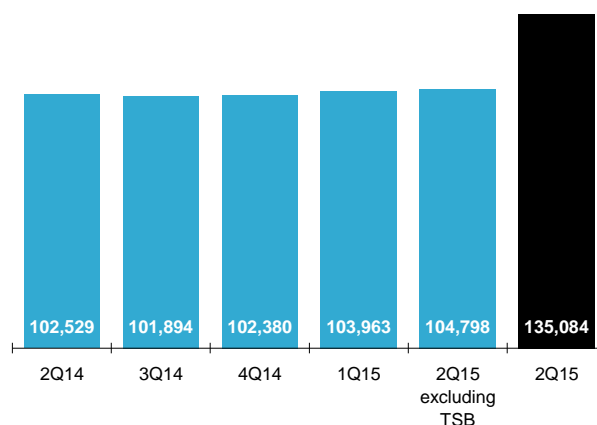
Loans to customers as of 30 June 2015 (%) (\*)



(\*) Excluding doubtful assets and accrual adjustments.

At the end of the first half of 2015, **on-balance sheet customer funds** amounted to €130,369.6 million, a 37.2% increase year-on-year. Excluding the acquisition of TSB, the increase would be 0.3%. Sight accounts amounted to €80,786.0 million, a 104.9% increase year-on-year (26.9% excluding TSB) and term deposits amounted to €45,879.8 million, 14.1% less than in the same period of 2014 (22.1% less if TSB is excluded), in line with the decline in interest rates in the financial markets, which resulted in savers seeking other investment vehicles with the prospect of higher returns.

Performing gross loans to customers (excluding repos and accrual adjustments) (€mn)



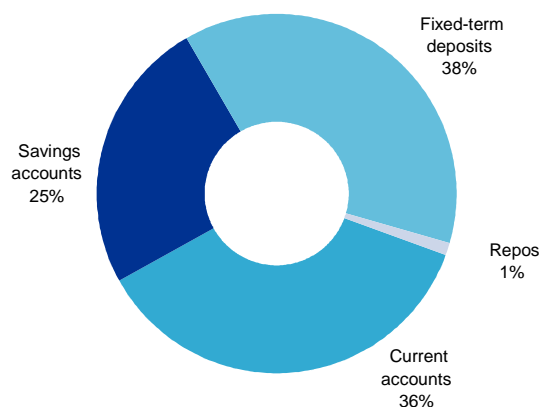
**Off-balance sheet customer funds** amounted to €35,409.6 million, a 23.8% increase year-on-year. Within this item, assets in collective investment institutions amounted to €20,230.2 million as of 30 June 2015, i.e. a 47.6% increase year-on-year and 28.8% higher than at 2014 year-end. Assets under management also increased significantly, to €3,734.7 million (+43.6% y/y).

## Customer funds

(€000)	30.06.14	31.12.14	31.03.15	30.06.15	Change (%)	
					YoY	QoQ
<b>On-balance sheet customer funds</b>	(1) <b>95,043,236</b>	<b>94,460,668</b>	<b>94,899,036</b>	<b>130,369,596</b>	<b>37.2</b>	<b>37.4</b>
Pro memoria: excluding TSB				95,344,513	0.3	0.5
Customer deposits	101,476,823	98,208,370	98,176,249	132,330,144	30.4	34.8
Current accounts	27,946,918	31,098,746	32,800,259	48,097,577	72.1	46.6
Savings accounts	11,471,223	12,176,217	12,679,534	32,688,448	185.0	157.8
Fixed-term deposits	58,903,321	53,395,928	50,560,555	49,789,180	-15.5	-1.5
Repos	2,911,676	1,291,799	1,902,605	1,594,213	-45.2	-16.2
Accruals	484,701	447,697	419,050	357,071	-26.3	-14.8
Derivative hedging adjustments	-241,016	-202,017	-185,754	-196,345	-18.5	5.7
Debt and other tradable securities	19,714,883	20,196,329	20,378,168	20,102,923	2.0	-1.4
Subordinated liabilities	1,071,443	1,012,362	945,838	1,489,873	39.1	57.5
Liabilities under insurance contracts	2,328,084	2,389,571	2,413,485	2,266,196	-2.7	-6.1
<b>On-balance sheet funds</b>	<b>124,591,233</b>	<b>121,806,632</b>	<b>121,913,740</b>	<b>156,189,136</b>	<b>25.4</b>	<b>28.1</b>
Mutual funds	13,704,818	15,705,612	18,673,572	20,230,218	47.6	8.3
Equity funds	901,101	953,518	1,215,123	1,386,774	53.9	14.1
Balanced funds	1,531,059	1,695,488	2,859,706	3,806,424	148.6	33.1
Fixed-income funds	2,953,297	3,829,651	4,104,617	4,311,645	46.0	5.0
Guaranteed return funds	3,417,133	3,793,940	3,673,169	3,322,071	-2.8	-9.6
Real estate funds	9,254	9,225	15,670	15,870	71.5	1.3
Dedicated investment companies	1,681,138	1,725,078	1,890,406	1,898,305	12.9	0.4
Third-party funds	3,211,836	3,698,712	4,914,881	5,489,129	70.9	11.7
Managed accounts	2,600,552	2,918,071	3,791,345	3,734,653	43.6	-1.5
Pension funds	4,375,142	4,334,615	4,529,315	4,361,581	-0.3	-3.7
Individual	2,866,262	2,861,552	2,988,946	2,857,868	-0.3	-4.4
Company	1,489,029	1,456,994	1,523,845	1,487,581	-0.1	-2.4
Group	19,851	16,069	16,524	16,132	-18.7	-2.4
Third-party insurance products	7,916,232	7,420,511	7,220,404	7,083,197	-10.5	-1.9
<b>Funds under management</b>	<b>153,187,977</b>	<b>152,185,441</b>	<b>156,128,376</b>	<b>191,598,785</b>	<b>25.1</b>	<b>22.7</b>

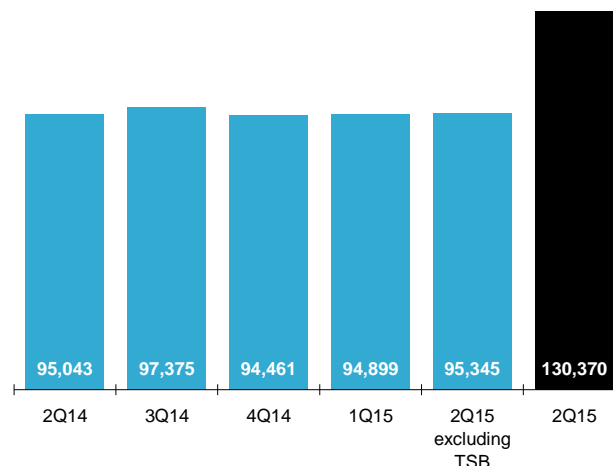
(1) Includes customer deposits (ex-repos) and other liabilities placed through the branch network: mandatory convertible bonds, non-convertible bonds issued by Banco Sabadell, commercial paper and others.

Customer deposits, 30.06.15 (%) (\*)



(\*) Excluding adjustments to accruals and hedging derivatives.

On-balance sheet customer funds (€mn)



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**Debt and other tradable securities** amounted to €20,102.9 million as of 30 June 2015, compared with €19,714.9 million as of 30 June 2014. Growth in commercial paper and bonds offsets the reduction in ABSs and mortgage covered bonds.

Total **funds under management** amounted to €191,598.8 million as of 30 June 2015, i.e. 25.1% more than €153,188.0 million as of 30 June 2014.

As of 30 June 2015, **net equity** amounted to €12,076.9 million.



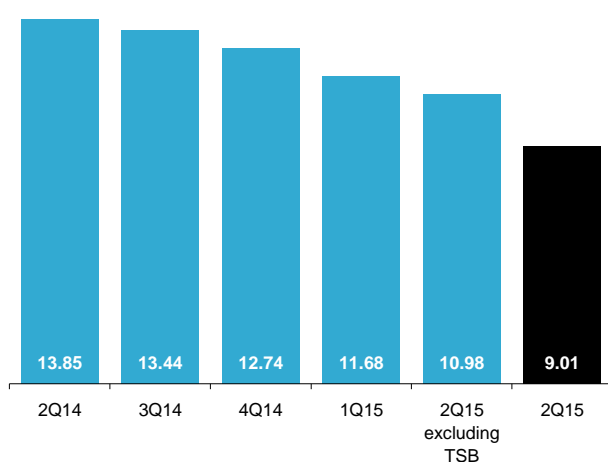
## Risk and capital management

As of 30 June 2015, Banco Sabadell Group had €13,962.2 million in NPLs (excluding TSB), i.e. a sequential decline of €901 million (similar to the reduction in the preceding quarter). As of 30 June 2015, the non-performing loans (NPLs) ratio had continued to decline, to 10.98% (9.01% including TSB), compared with 11.68% at the end of the

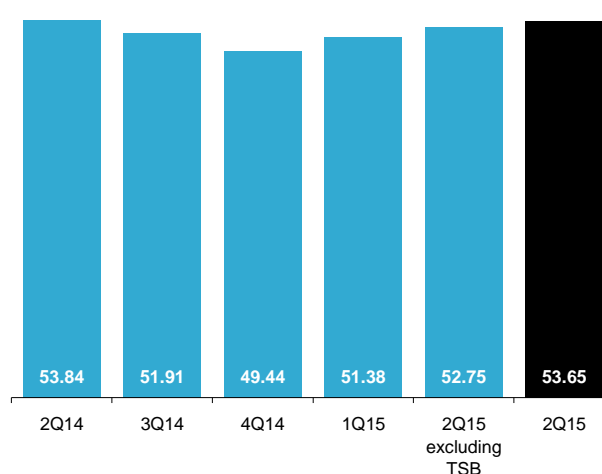
preceding quarter (-70bp) and 12.74% as of 31 December 2014 (-176bp).

The group's NPL ratio continued to decline in the quarter due to the sharp reduction in NPLs, while the provisions for problematic assets increased to comfortable levels.

NPL ratio (%)



NPL coverage ratio (%)



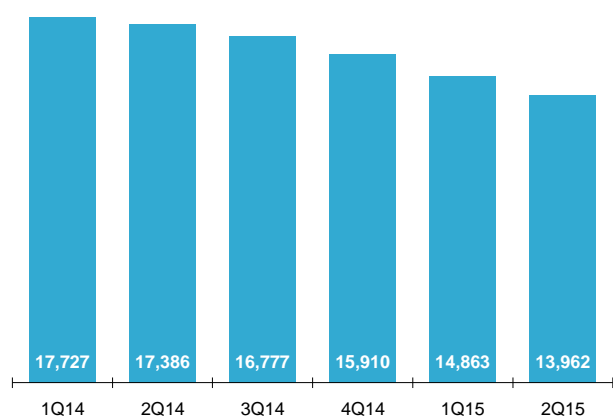
(€ million)	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Real estate development and/or construction purposes	52.56%	52.11%	51.47%	52.17%	49.21%	47.21%
Construction purposes non-related to real estate dev.	8.38%	7.41%	7.35%	8.08%	9.03%	8.74%
Large corporates	6.19%	6.13%	6.30%	6.46%	6.55%	6.14%
SME and small retailers and self-employed	13.08%	13.08%	13.11%	12.60%	12.20%	11.96%
Individuals with 1st mortgage guarantee assets	9.85%	9.75%	9.23%	9.25%	9.12%	8.76%
<b>NPL ratio</b>	<b>13.94%</b>	<b>13.85%</b>	<b>13.44%</b>	<b>12.74%</b>	<b>11.68%</b>	<b>10.98%</b>

The table below shows the performance of the Group's problematic assets, whose decline has accelerated in recent quarters.

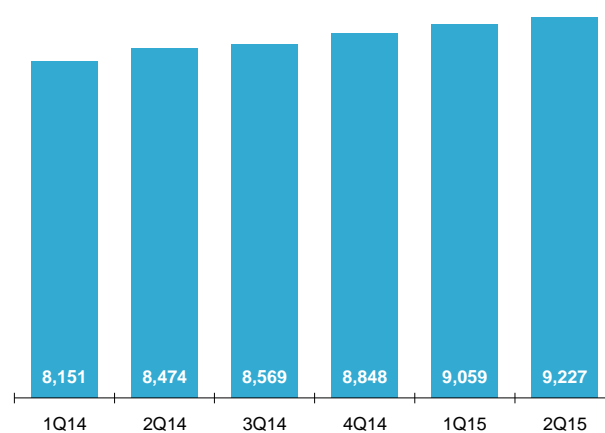
### Trend in NPL exposures and real estate assets

(€ million)	2Q14	3Q14	4Q14	1Q15	2Q15
Ordinary net entries	-244	-385	-569	-802	-730
Change in real estate assets	323	96	279	211	167
<b>Net entries plus change in real estate assets</b>	<b>79</b>	<b>-289</b>	<b>-290</b>	<b>-591</b>	<b>-563</b>
Write-offs	97	224	298	245	170
<b>Real estate assets and NPL quarterly change</b>	<b>-18</b>	<b>-513</b>	<b>-588</b>	<b>-836</b>	<b>-733</b>

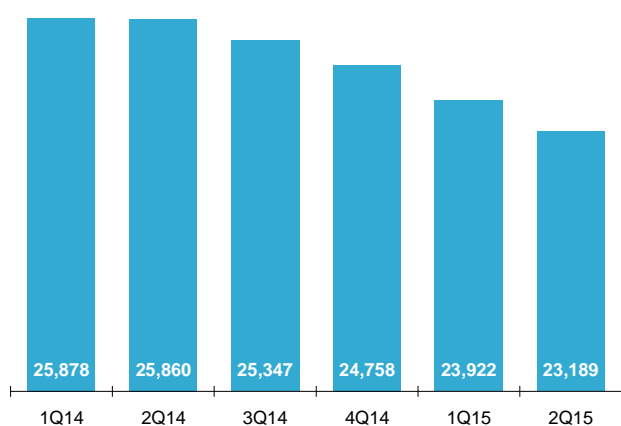
NPL exposures — Group ex. TSB (€mn)



Real estate assets — Group ex. TSB (€mn)



Problematic assets — Group ex. TSB (€mn)



The volume of problematic assets declined by €733 million in the quarter. This item was reduced by €2,671 million in the last year.

### Shareholder's equity

(€000)	30.06.14	31.12.14	31.03.15	30.06.15	Change (%)	
					YoY	QoQ
Shareholders' equity	10,290,108	10,223,743	10,408,746	12,062,061	17.2	15.9
Issued capital	501,533	503,058	503,112	648,420	29.3	28.9
Reserves	8,894,248	8,702,253	9,072,669	10,400,072	16.9	14.6
Other equity instruments	(1) 731,863	734,131	739,165	735,671	0.5	-0.5
Less: treasury shares	-64,295	-87,376	-80,838	-74,348	15.6	-8.0
Attributable net profit	226,759	371,677	174,638	352,246	55.3	101.7
Less: dividends and payments	0	0	0	0	--	--
Valuation adjustments	536,819	937,416	1,115,919	-22,137	--	--
Minority interest	70,053	54,793	54,768	36,963	-47.2	-32.5
<b>Equity</b>	<b>10,896,980</b>	<b>11,215,952</b>	<b>11,579,433</b>	<b>12,076,887</b>	<b>10.8</b>	<b>4.3</b>

(1) Relates mainly to the issuance of mandatory convertible bonds.

## Capital ratios

(€'000)	30.06.14	31.12.14	31.03.15	30.06.15
Issued capital	501,533	503,058	503,112	648,420
Reserves	8,901,619	8,855,717	8,993,007	10,539,682
Mandatory convertible bonds	0	0	0	0
Minority interest	43,427	28,919	23,613	24,241
Deductions	-591,419	-684,483	-673,099	-1,130,547
<b>Common Equity Tier 1</b>	<b>8,855,160</b>	<b>8,703,211</b>	<b>8,846,633</b>	<b>10,081,796</b>
<b>Common Equity Tier 1</b>	<b>11.4%</b>	<b>11.7%</b>	<b>11.8%</b>	<b>11.5%</b>
<b>Primary capital</b>	<b>8,855,160</b>	<b>8,703,211</b>	<b>8,846,633</b>	<b>10,081,796</b>
<b>Tier I</b>	<b>11.4%</b>	<b>11.7%</b>	<b>11.8%</b>	<b>11.5%</b>
<b>Secondary capital</b>	<b>844,443</b>	<b>838,681</b>	<b>777,228</b>	<b>1,363,040</b>
<b>Tier II</b>	<b>1.1%</b>	<b>1.1%</b>	<b>1.0%</b>	<b>1.5%</b>
Total capital	9,699,603	9,541,892	9,623,861	11,444,836
Minimum capital requirement	6,238,428	5,953,425	5,995,609	7,024,822
Capital surplus	3,461,175	3,588,467	3,628,252	4,420,014
<b>Total capital ratio</b>	<b>12.4%</b>	<b>12.8%</b>	<b>12.8%</b>	<b>13.0%</b>
<b>Risk weighted assets (RWA)</b>	<b>77,980,350</b>	<b>74,417,813</b>	<b>74,945,113</b>	<b>87,810,275</b>

Banco Sabadell had a phase-in Common Equity Tier 1 (CET1) ratio of 11.5% as of 30 June 2015. The main changes versus the first quarter of 2015 are detailed below. The rights issue completed in April increased CET1 by €1,607 million, i.e. 1.8%. A total of 1,085,510,925 new shares were issued at an effective price of €1.48 per share (par value and issuance premium). This quarter's figures include the issuance of 76,543,124 new shares as a result of the scrip dividend paid out of reserves in order to make shareholder remuneration more flexible, without any impact on the capital ratio.

Other effects on capital include the increase in risk-weighted assets (RWA) by €11,280 million due to inclusion of TSB (i.e. 1.5% reduction in the capital ratio). Additionally, the inclusion of TSB generated an intangible asset with a 0.5% impact. Additionally, the slight increase in Banco Sabadell's RWA resulted in a -0.2% reduction in the ratio.

The fully loaded Common Equity Tier 1 ratio was 11.2% at the end of the quarter.

## Credit ratings

Agency	Date	Long term	Short term	Outlook
DBRS	20.05.2015	A (low)	R-1 (low)	URN*
Standard & Poor's <sup>(1)</sup>	27.04.2015	BB+	B	Negative
Moody's	17.06.2015	Ba1	NP	Stable

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\*Under Review Negative.

On 17 June 2015, Moody's Investor Service concluded the ratings review it initiated on 17 March 2015 as a result of the publication of its new methodology and the revision of government support considerations. The rating agency upgraded Banco Sabadell's long-term deposit rating by two notches to Baa3 (from Ba2) and its senior unsecured debt ratings by one notch to Ba1 (from Ba2). The short-term deposit ratings were upgraded to P3 (from Not-Prime) and the short-term senior debt ratings were affirmed at Not-Prime. The outlook is now stable.

On 18 June 2015, Moody's Investor Service also concluded the review of the mortgage covered bonds that started on

17 March 2015. The result was a 4-notch upgrade for the mortgage covered bonds to Aa2 (from A3).

On 20 May 2015, DBRS Ratings Limited put Banco Sabadell's long-term rating, currently A(low), under review for a downgrade to reflect the lower probability of government support. The agency started a process to remove the notching for government support currently incorporated into its ratings for European banks in order to reflect the new bank resolution framework. The review is expected to conclude in September.

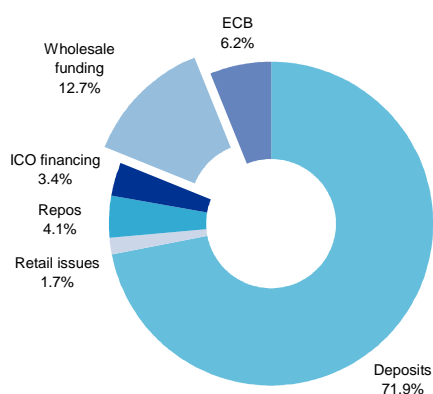
## Liquidity management

(€ million)	30.06.14	30.09.14	31.12.14	31.03.15	30.06.15
Gross loans to customers, excluding repos	119,507	118,361	117,964	118,527	148,963
NPL and country-risk provisions	-8,921	-8,399	-7,716	-7,476	-7,482
Brokered loans	-7,827	-7,939	-7,869	-7,546	-6,624
<b>Adjusted net loans and advances</b>	<b>102,758</b>	<b>102,024</b>	<b>102,380</b>	<b>103,505</b>	<b>134,857</b>
On-balance sheet customer funds	95,043	97,375	94,461	94,899	130,370
<b>Adjusted loan-to-deposits ratio (%)</b>	<b>108.1</b>	<b>104.8</b>	<b>108.4</b>	<b>109.1</b>	<b>103.4</b>

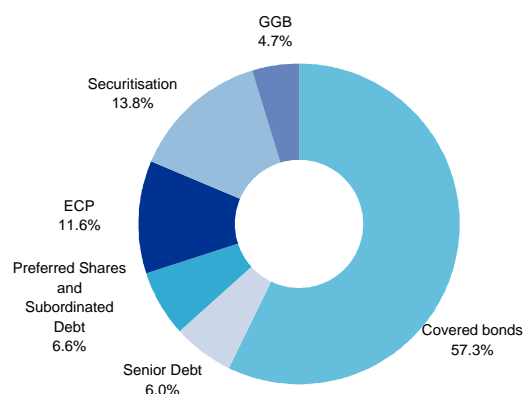
Sabadell maintains a balanced retail funding structure, with an adjusted loan-to-deposits ratio of 103.4% as of 30 June 2015 (109.7% excluding TSB, which is stable compared with previous quarters).

The group's funding structure, wholesale funding breakdown and maturity calendar are detailed below.

Funding structure, 30.06.15



Wholesale funding breakdown, 30.06.15



## Maturity calendar

(€ million)	4T15	2016	2017	2018	2019	2020	2021	2022	Outstanding >2022	balance
Covered bonds (CH)	476	2,876	2,022	1,561	924	1,122	2,018	1,119	689	12,807
GGB	0	0	1,059	0	0	0	0	0	0	1,059
Senior Debt	0	1,183	0	100	0	0	0	25	0	1,308
Preferred Shares and Subordinated Debt	0	318	66	0	0	425	581	0	15	1,405
Other mid- and long-term financial instruments	0	0	0	18	0	0	10	0	7	35
<b>Total</b>	<b>476</b>	<b>4,377</b>	<b>3,147</b>	<b>1,679</b>	<b>924</b>	<b>1,547</b>	<b>2,609</b>	<b>1,144</b>	<b>711</b>	<b>16,614</b>

The Liquidity Coverage Ratio (LCR) was above 100% as of 30 June 2015.

## Results by business units

The tables below summarise earnings and other indicators of the group's business units.

The information presented here is based on the separate financial statements of each Group company, on consolidation eliminations and adjustments, and on analytical accounting of revenues and expenses in cases in which a business is spread over more than one legal entity, to enable customer revenues and costs to be assigned to specific units.

Each business unit is treated as an independent business and transactions between them for product distribution or

the provision of services and systems are priced on an arm's-length basis. The aggregate impact on the Group profit and loss account is zero.

Each business bears its own direct costs, on the basis of general and analytical accounting, as well as the indirect costs of the corporate units.

Moreover, capital is assigned such that each business has capital equivalent to the regulatory amount required to reach the Group's target ratios on the basis of its risk assets.

30.06.2014	Gross operating income (€'000)	Profit before tax (€'000)	ROE	Cost / income ratio	Employees	Domestic branches
Commercial banking	1,203,418	232,256	10.7%	57.1%	12,612	2,274
Corporate banking	105,486	40,835	8.3%	12.5%	111	2
Private Banking	27,541	8,829	37.7%	67.9%	274	12
Investment management	19,796	9,288	52.6%	53.1%	149	--
Asset Transformation	-11,023	-270,849	-24.4%	--	754	--
<b>Total</b>		<b>20,359 (*)</b>				

30.06.2015 (excluding TSB)	Gross operating income (€'000)	Profit before tax (€'000)	ROE	Cost / income ratio	Employees	Domestic branches
Commercial banking	1,429,780	275,486	12.5%	49.4%	12,484	2,221
Corporate banking	129,043	60,609	11.9%	11.8%	116	2
Private Banking	41,793	10,307	38.5%	50.9%	311	12
Investment management	21,511	10,935	77.3%	49.2%	148	--
Asset Transformation	-9,181	-345,490	-65.2%	--	666	--
<b>Total</b>		<b>11,847 (*)</b>				

(\*) The reconciliation with total group results must include amounts not assigned to the business units shown and the tax effect.

## Share price performance

	30.06.14	31.12.14	30.06.15	Change (%) YoY
<b>Shareholders and trading</b>				
Number of shareholders	232,799	231,481	260,549	11.9
Number of shares	4,012,262,708	4,024,460,614	5,187,356,283	29.3
Average daily trading volume (number of shares)	29,128,154	27,272,221	33,768,117	15.9
<b>Share price (€)</b> (1)				
Opening session (of the year)	1.896	1.896	2.205	
High (of the year)	2.713	2.713	2.499	
Low (of the year)	1.820	1.820	2.053	
Closing session (end of quarter)	2.492	2.205	2.165	
Market capitalisation (€ '000)	9,998,559	8,873,936	11,230,626	
<b>Stock market multiples</b>				
Earnings per share (EPS) (€)	(2) 0.08	0.09	0.11	
Book value per share (€)	2.55	2.54	2.31	
Price / Book value (times)	0.98	0.87	0.94	
Price / Earnings ratio (P/E) (times)	29.57	23.88	19.39	
Including conversion of convertible bonds:				
Fully diluted number of shares including conversion of convertible bonds	4,283,285,994	4,289,732,386	5,473,593,239	
Earnings per share (EPS) (€)	(2) 0.08	0.09	0.11	
Book value per share (€)	2.39	2.38	2.19	
Price / Book value (times)	1.04	0.93	0.99	

(1) Without adjusting historical values.

(2) Assuming linear annualisation of income to date and accrual of the contributions to the Deposit Guarantee Fund.

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## Other key developments in the quarter

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### *Acquisition of TSB Banking Group*

On 30 June 2015, within the framework of the takeover bid for all the shares of TSB Banking Group PLC (TSB) announced on 20 March 2015, Banco Sabadell disclosed that it had obtained approval from the Prudential Regulatory Authority and, therefore, all conditions to which the bid was subject having being fulfilled, the bid was made unconditional to all intents and purposes.

It is Banco Sabadell's intention for TSB to apply for delisting from the London Stock Exchange and the Official List of the Financial Conduct Authority.

On 8 July 2015, having attained acceptance of more than 90% of the shares of TSB to which the bid was addressed, Banco Sabadell resolved to exercise the squeeze out regarding those shares of TSB whose owners have not accepted the bid, under the same conditions in accordance with English company law, thereby acquiring 100% of the shares of TSB.

### *Scrip dividend and supplementary shareholder remuneration*

On 28 May 2015, the Board of Directors of Banco de Sabadell resolved to execute a capital increase (the increase) in order to pay a scrip dividend to shareholders.

The Board of Directors of Banco Sabadell resolved to pay a supplementary dividend of €0.01 per share approved by the Ordinary General Meeting under item three on the agenda to shareholders of Banco Sabadell in the accounting records of IBERCLEAR at 23:59 hours on 5 June 2015; and was paid on 15 June 2015.

The period for trading the rights concluded on 17 June 2015. The holders of 88.36% of the rights chose to receive new shares. The holders of the other 10.62% of the rights accepted Banco Sabadell's irrevocable commitment to buy the rights.

## Investor Relations

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