

# Sabadell

## 2Q15 Results

July 24th, 2015

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# 1. Quarterly highlights

2. 2Q15 Results
3. Commercial activity
4. Liquidity and ALCO portfolio
5. Capital and risk management
6. Update on TSB

## Quarterly highlights

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- On 30 June 2015, the PRA approved the acquisition of TSB. Consolidated accounts include full balance sheet but 0 days of P&L
- NII grows by 2.0% since March driven by lower cost of funding
- Solid performance in net fee income, +1.1% QoQ
- Strong gains from financial operations in a volatile quarter
- Recurrent costs are unchanged from the first quarter
- The closing date of TSB generates a €207M negative goodwill adjustment which impacts positively the group's P&L
- Extraordinary gains from financial operations and the negative goodwill, grossed up, are neutralised by additional impairments, resulting in increased coverage of NPLs to 52.8% (53.7% including TSB)
- Loan volume is stable in the quarter while the stock of total deposits is up slightly
- NPLs continue to show a favourable evolution with a €0.9bn reduction; NPL ratio now stands at 11% (9% including TSB)



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## June 2015 results

	Jun. 14 comp. basis	Jun. 15	% var 15/14
<b>Net Interest Income</b>	<b>1,076.0</b>	<b>1,299.0</b>	<b>20.7%</b>
Equity Method & Dividends	8.5	27.3	---
Commissions	414.5	454.0	9.5%
Trading Income & Forex	1,171.2	1,196.6	2.2%
Other Operating Results	12.3*	-16.9	---
<b>Gross Operating Income</b>	<b>2,682.4</b>	<b>2,960.0</b>	<b>10.3%</b>
Personnel Costs	-609.7	-615.5	1.0%
Administrative Costs	-293.4	-292.5	-0.3%
Depreciations	-135.9	-143.5	5.5%
<b>Pre-provisions Income</b>	<b>1,643.4</b>	<b>1,908.6</b>	<b>16.1%</b>
Total Provisions & Impairments	-1,415.3	-1,749.1	23.6%
Gains on sale of assets	82.1	-3.3	---
Negative goodwill	0.0	207.4	---
<b>Profit before taxes</b>	<b>310.2</b>	<b>363.5</b>	<b>17.2%</b>
Taxes and others	-83.4	-11.3	---
<b>Attributable Net Profit</b>	<b>226.8</b>	<b>352.2</b>	<b>55.3%</b>

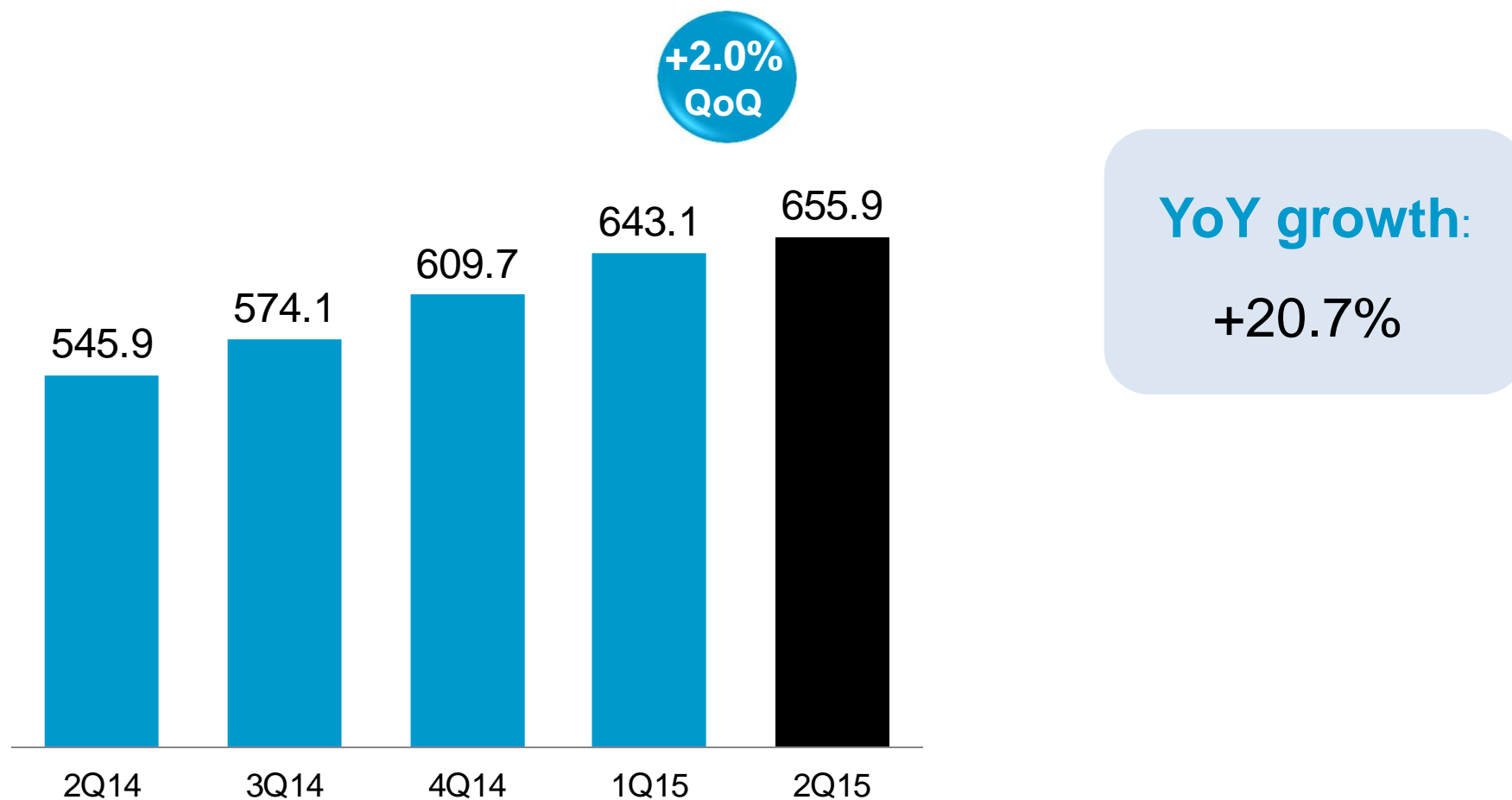
\* June 2014 numbers are on a comparable basis, as if the payments related to the DGF would not have been accrued.

Note: June 2014 reported net profit was €167.7 million, accruing the payments related to the DGF.

# NII grows in the quarter driven by lower cost of funding

## Net interest income evolution

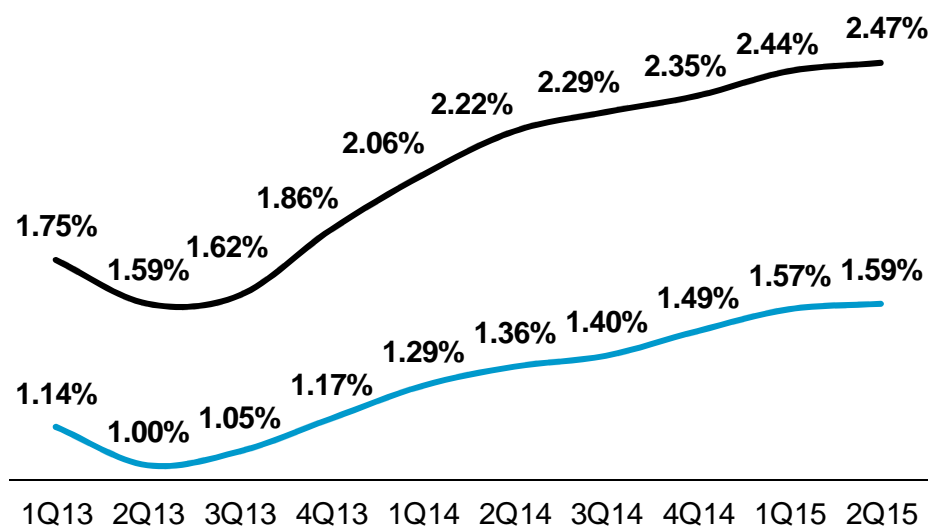
Euros in million



# Customer spread is up while loan yield is reduced as a result of lower interest rates

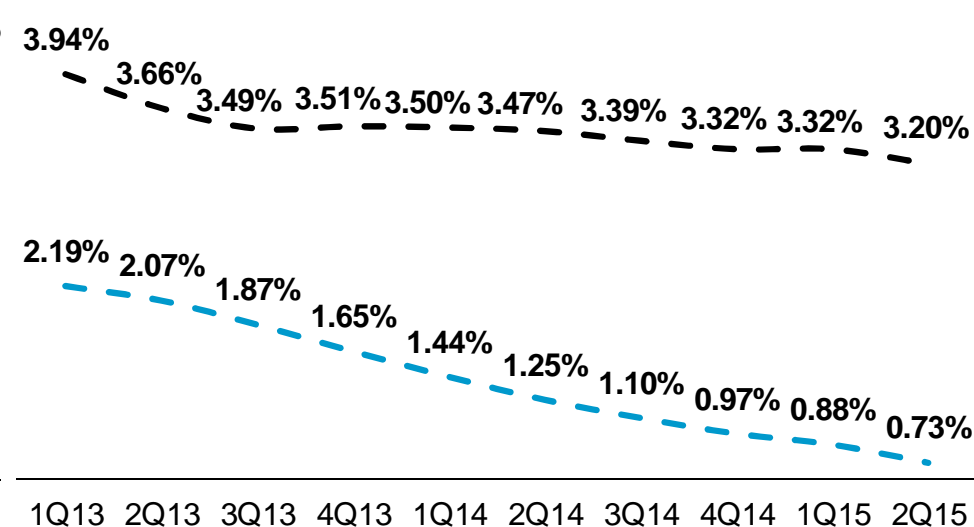
## Margin evolution

In percentage



## Customer loan yield and cost of customer funds

In percentage



- Customer spread
- Net interest margin as a % of ATA

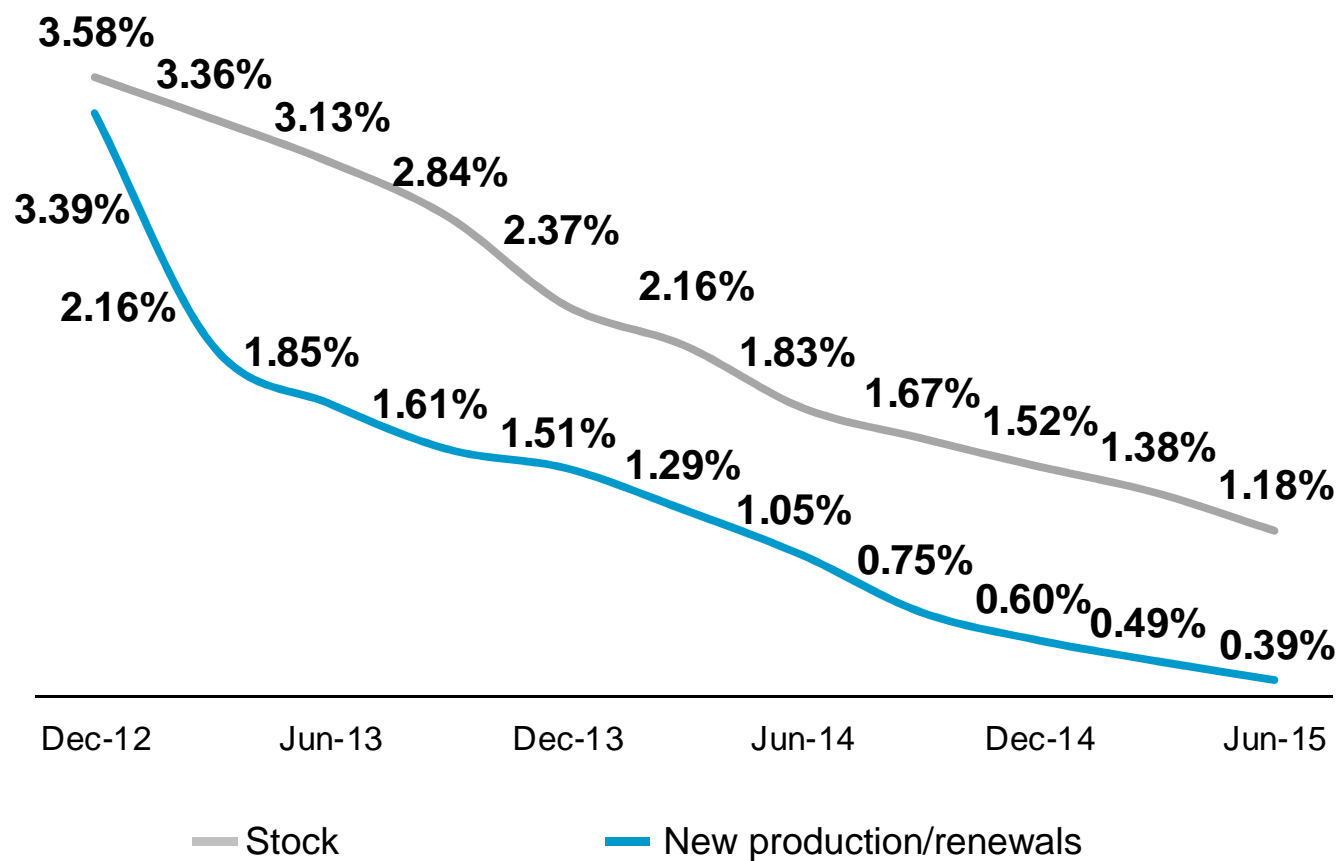
- - - Customer loan yield
- - - Cost of customer funds



# The cost of term deposits continues to be reduced ...

## Contractual rates on term deposits

In percentage

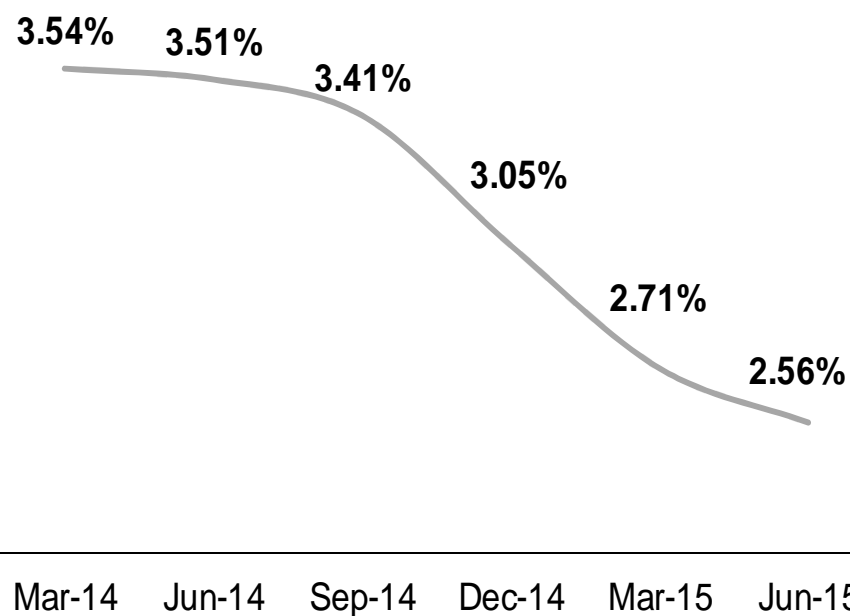


**New term deposits at 0.39%**

## ... and wholesale funding is being renewed at lower rates

### Wholesale funding cost evolution

In percentage



### Recent wholesale issuances

Euros in million

Instrument	Amount	Coupon	Issue date
Covered bond	1,250	0.875%	Nov-14
Covered bond	750	0.375%	Jun-15

### Recent wholesale maturities

Euros in million

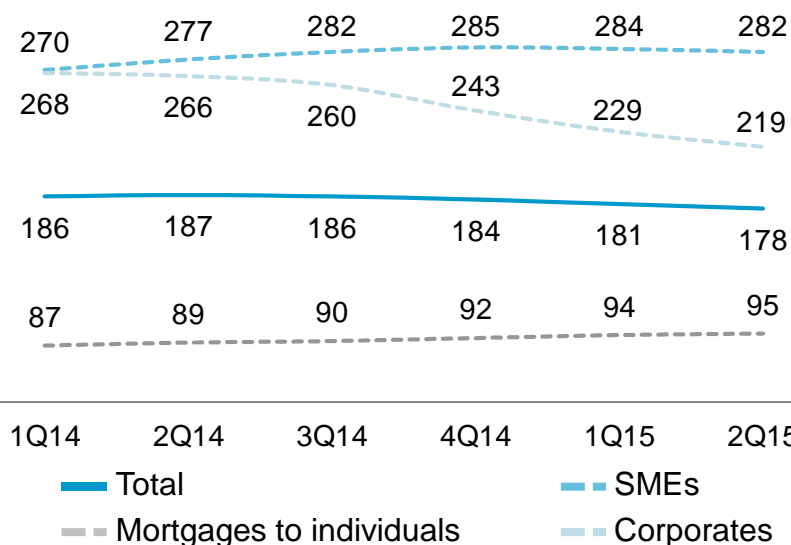
Instrument	Amount	Coupon	Maturity date
Covered bond	1,000	3.375%	Oct-14
GGB	1,065	3.000%	Nov-14
Covered bond	1,200	3.625%	Feb-15
Covered bond	1,500	3.250%	Jun-15

# Credit spreads are gradually being reduced in a low interest rate environment

**Our strong SME franchise allows Sabadell to partially cushion the impact of lower spreads**

## Back book loan spreads by segment

In basis points



## Evolution of loan spreads by segment

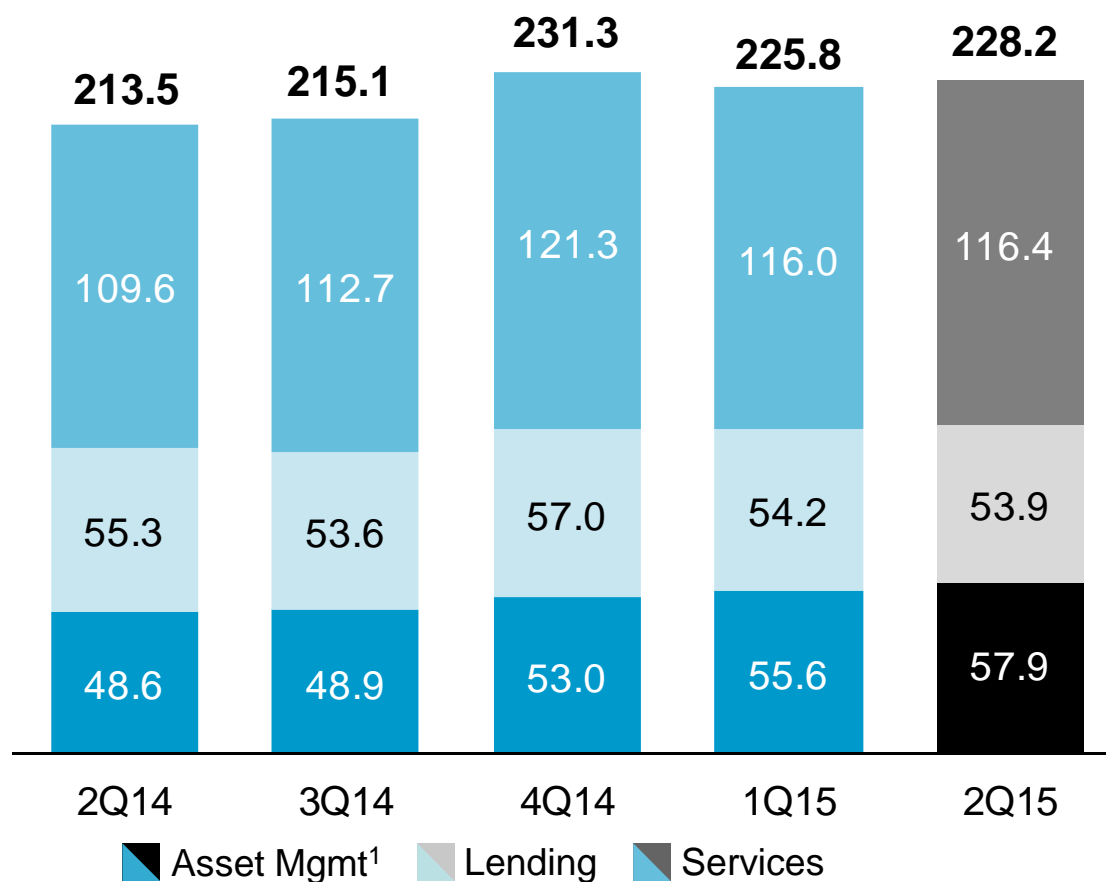
In percentage

	1Q14		2Q14		3Q14		4Q14		1Q15		2Q15	
	Back book	Front book	Back book	Front book	Back book	Front book	Back book	Front book	Back book	Front book	Back book	Front book
Mortgages to individuals	87	227	89	214	90	209	92	201	94	187	95	173
SME	270	500	277	492	282	494	285	445	284	459	282	417
Corporates	268	327	266	302	260	297	243	265	229	233	219	233

# Growth in commission income remains high at 9.5% YoY

## Commission income evolution

Euros in million



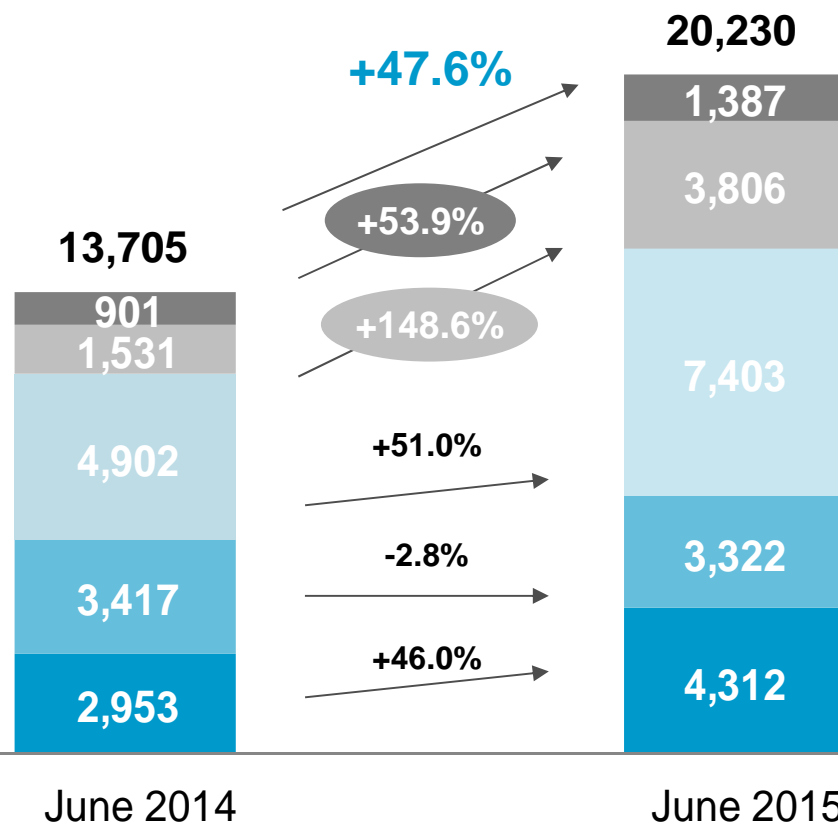
**YoY growth:**  
**+9.5%**

<sup>1</sup> Includes mutual funds commissions and pension funds and insurance brokerage.

# Mutual funds are performing well

## Volume evolution YoY, by type of fund

Euros in million



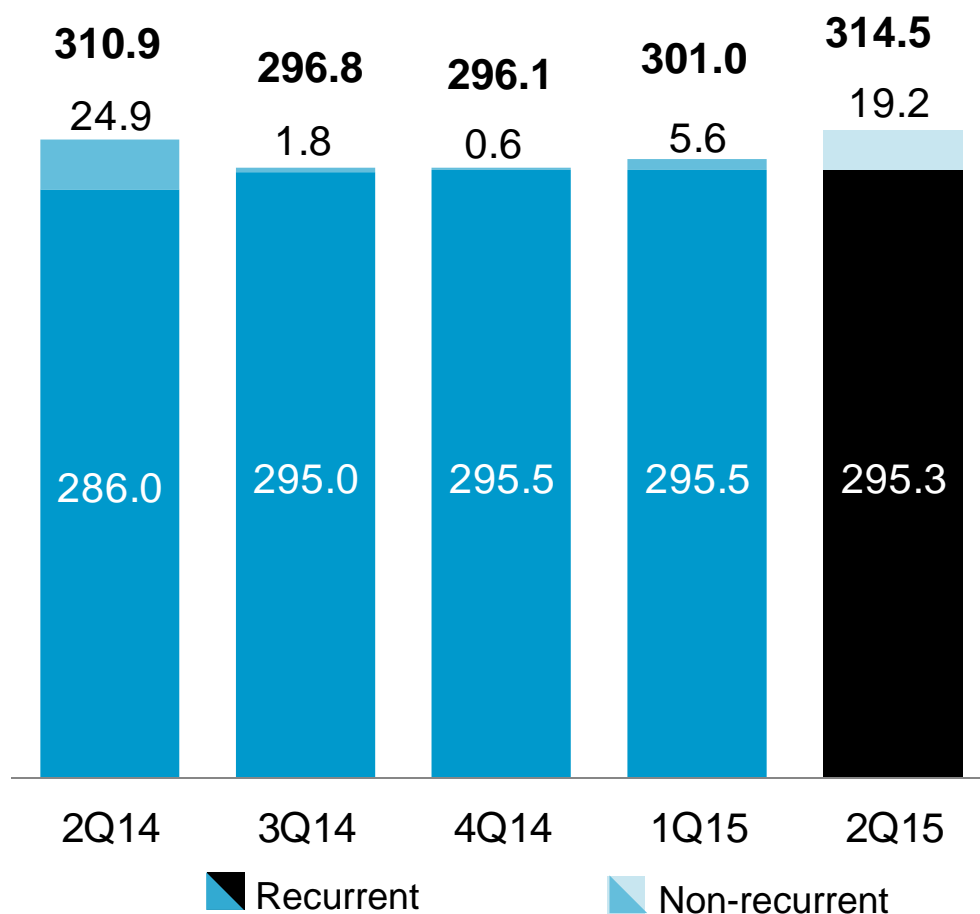
- An increase of 47.6% in funds under management
- Higher margin products growing at a faster pace

■ Fixed income funds    ■ Guaranteed funds  
■ SICAV, External funds and Others  
■ Balanced funds        ■ Equity funds

## Recurrent personnel costs are stable ...

### Personnel expenses evolution

Euros in million



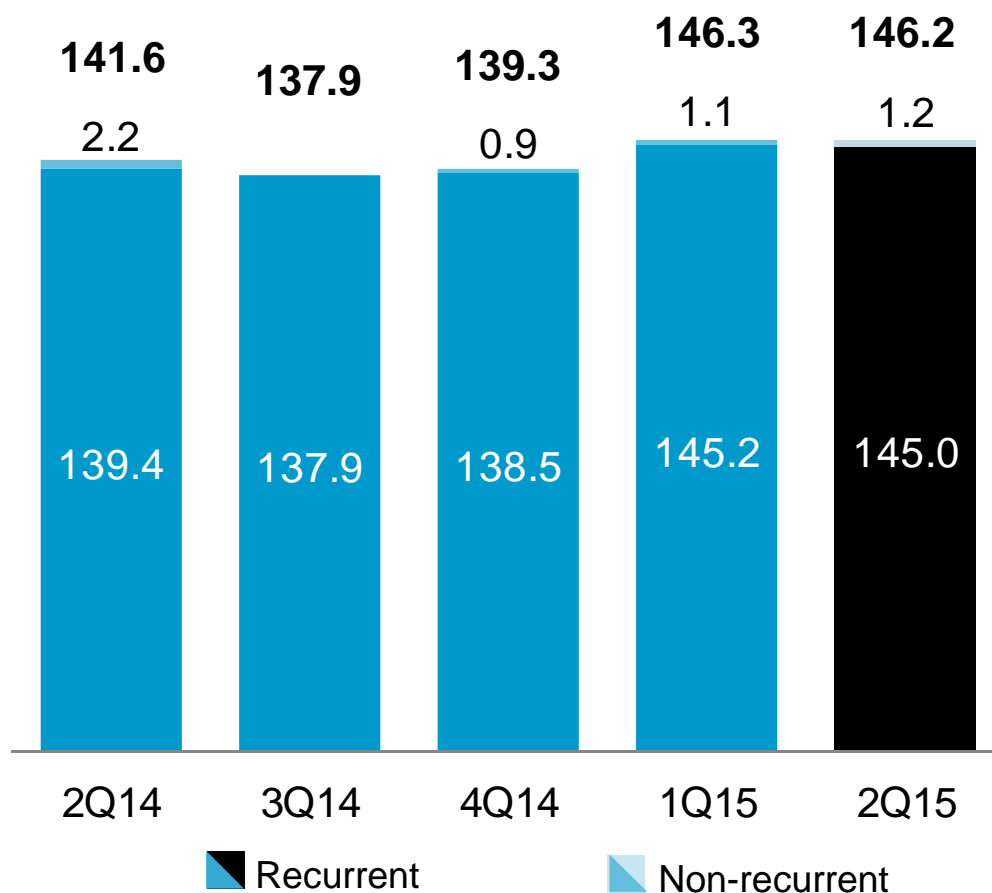
**Recurrent  
personnel expenses:**

-0.1% QoQ

## ... and so are general expenses

### General expenses evolution

Euros in million



**Recurrent  
general expenses:**

-0.2% QoQ



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# Loan book is stable and total stock of deposits continue to grow

## Customer funds and loans evolution

Euros in million

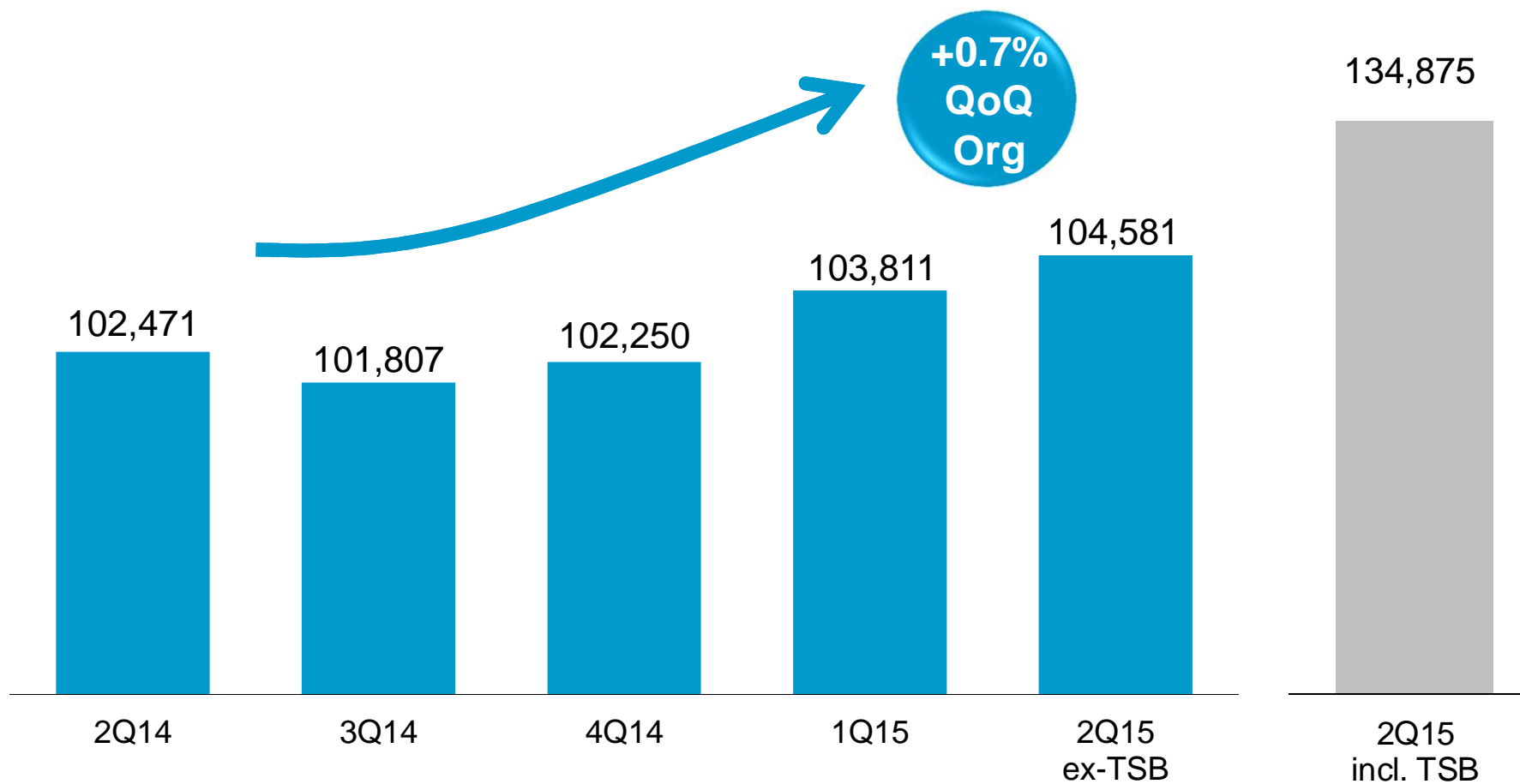
	Jun-14	Mar-15	Jun-15 ex-TSB	Jun-15	% Var. YoY ex-TSB	% Var.QoQ ex-TSB
<b>Total assets</b>	<b>161,557</b>	<b>167,480</b>	<b>164,247</b>	<b>203,959</b>	<b>1.7%</b>	<b>-1.9%</b>
Of which:						
Gross loans to customers ex repos	119,507	118,527	118,416	148,963	-0.9%	-0.1%
Fixed income portfolio	21,858	27,259	24,323	25,741	11.3%	-10.8%
<b>Total liabilities</b>	<b>150,719</b>	<b>155,901</b>	<b>154,769</b>	<b>191,883</b>	<b>2.7%</b>	<b>-0.7%</b>
Of which:						
On-balance sheet customer funds	95,043	94,899	95,345	130,370	0.3%	0.5%
Term funds <sup>1</sup>	55,625	49,419	45,305	49,584	-18.6%	-8.3%
Savings accounts	11,471	12,680	13,495	32,688	17.6%	6.4%
Current accounts	27,947	32,800	36,545	48,098	30.8%	11.4%
Wholesale funding	24,369	22,340	21,786	22,361	-10.6%	-2.5%
ECB Funding	5,500	8,900	11,000	11,000	100.0%	23.6%
<b>Off-balance sheet funds</b>	<b>28,597</b>	<b>34,215</b>	<b>35,410</b>	<b>35,410</b>	<b>23.8%</b>	<b>3.5%</b>
Of which:						
Mutual funds	13,705	18,674	20,230	20,230	47.6%	8.3%
Pension funds	4,375	4,529	4,362	4,362	-0.3%	-3.7%
Third party insurance products	7,916	7,220	7,083	7,083	-10.5%	-1.9%

<sup>1</sup> Term funds include term deposits and other funds placed in the retail network. Exclude repos.

## Positive growth in total performing loans

### Performing loans evolution

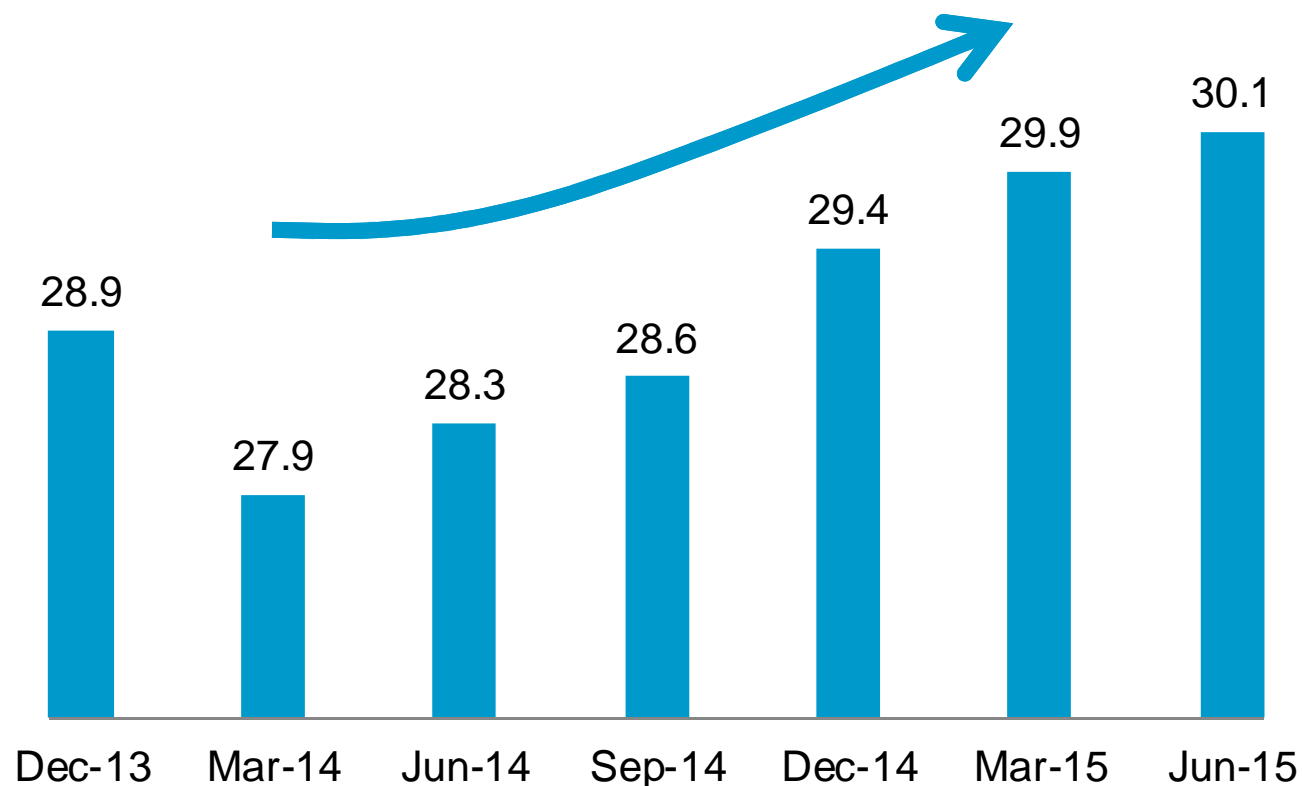
Euros in million



# SME loan book growth shows positive momentum albeit slow

## SME and company loans evolution, ex-TSB

Euros in billion



## SME and company loan demand in positive territory

Note: SME and company loans include loans to SMEs, corporates and public sector and exclude NPLs.

## Improving market shares in companies

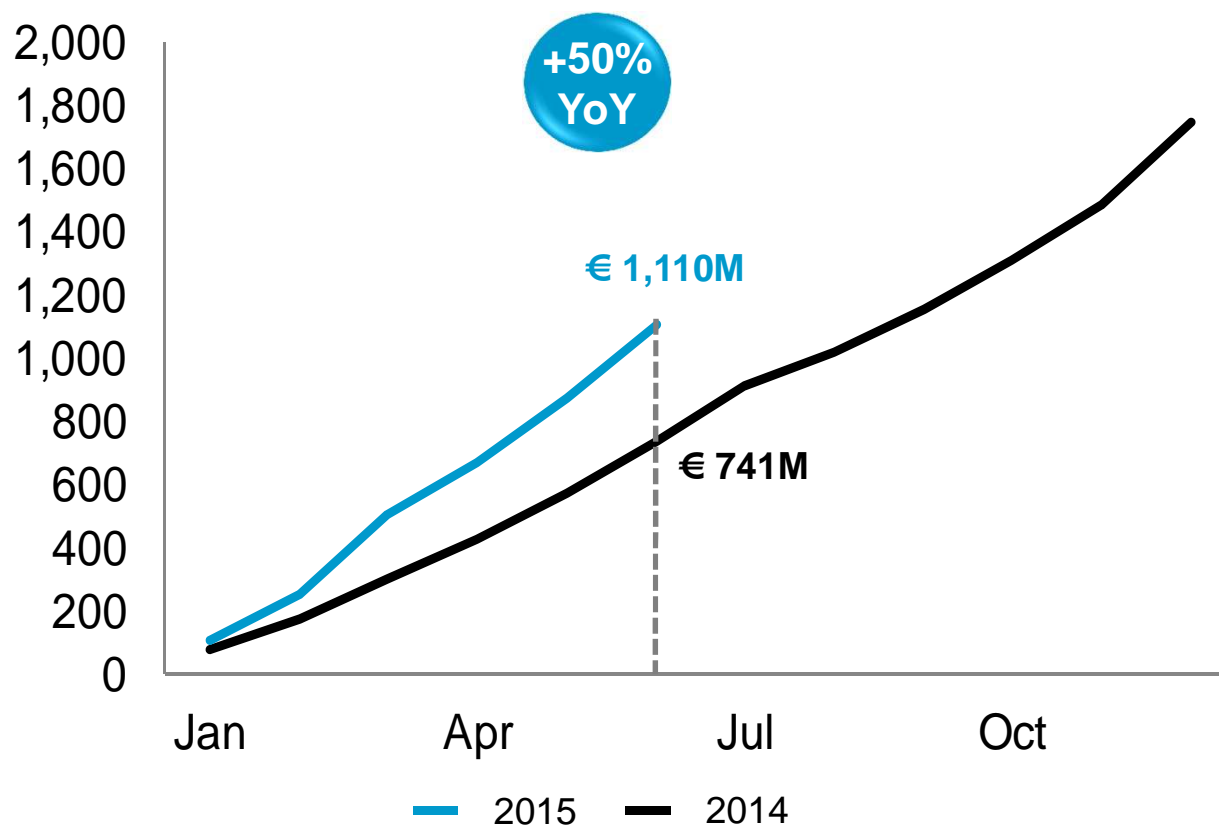
### Market shares by products

		Loans	Export docum. credit	PoS turnover
<b>Companies</b>	<b>Dec.14</b>	10.56%	29.79%	14.54%
	<b>2015</b>	10.74%	31.48%	15.88%

# New mortgage production showing a steady growth

## Cumulative monthly residential mortgage production, ex-TSB

Euros in million



**New residential mortgage production 50% above 2014 level**

## Improving market shares in individuals

### Market shares by products

		Investment funds	Credit card turnover	Life Insurance	Household deposits
<b>Individuals</b>	Dec.14	5.11%	7.64%	4.17%	5.31%
	2015	5.72% <sup>1</sup>	7.89%	4.90% <sup>2</sup>	5.49%

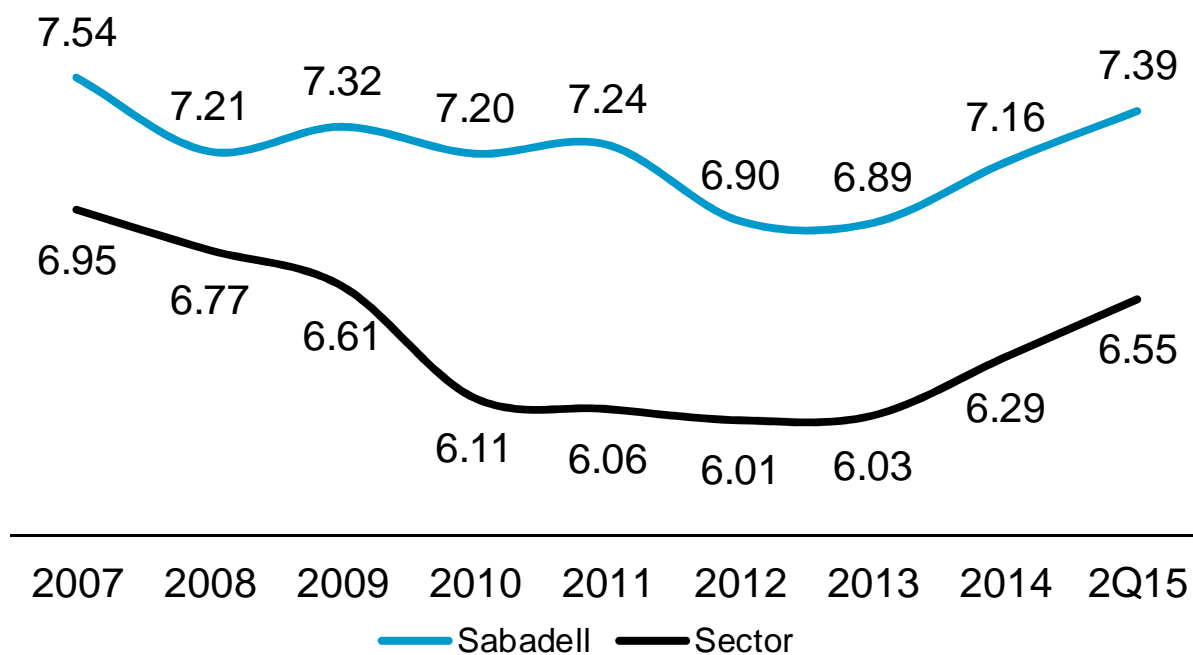
Note: 2015 data as of June 2015 or last month available.

<sup>1</sup> According to Inverco. <sup>2</sup> Insurance calculated per number of contracts.

# With the highest standards in quality of service

## Level of service quality

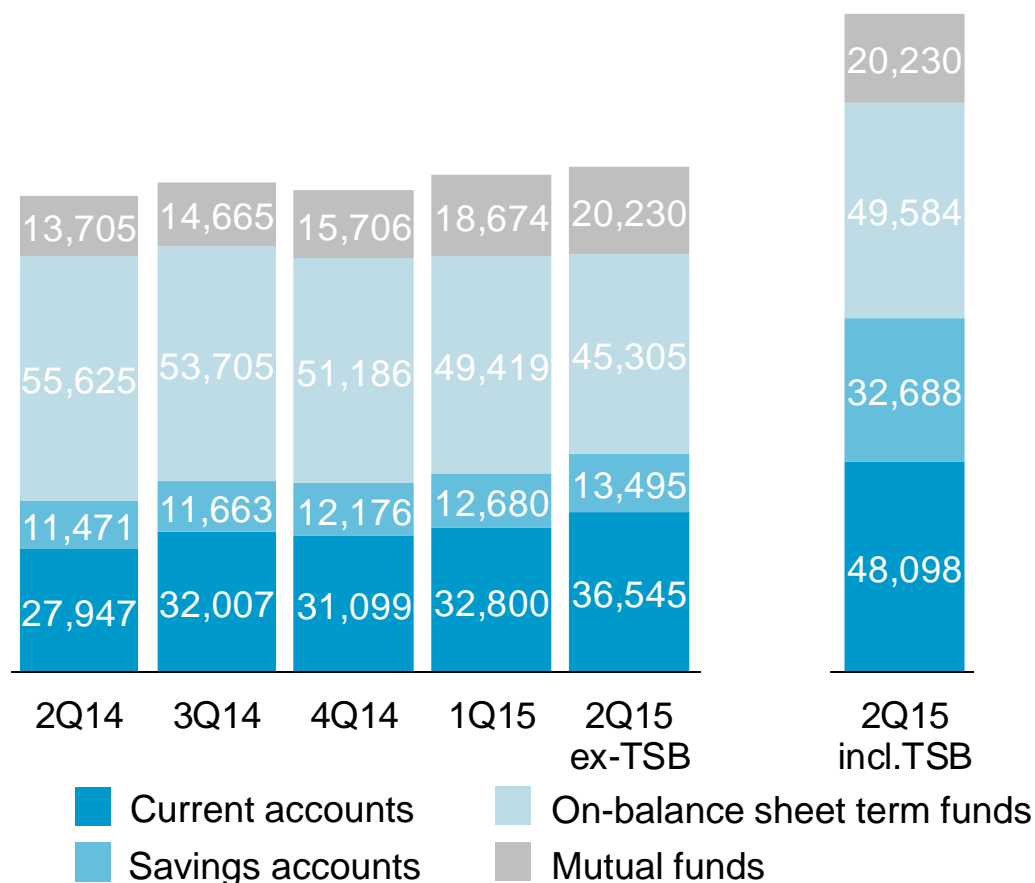
Evolution of Sabadell quality index vs sector



## Sabadell stays well above the rest of the sector

# Improving overall position in on-balance sheet customer funds

## Evolution of customer funds and mutual funds Euros in million



## Sabadell's flagship product

**“Cuenta Expansión”**  
is driving growth in current accounts

**Stock of current accounts (ex-TSB):**

**+11.4% QoQ**  
**+30.8% YoY**

Note: On-balance sheet term funds include term deposits and other funds placed in the retail network (preference shares, mandatory convertible bonds, senior debt, commercial paper and other). Exclude repos.

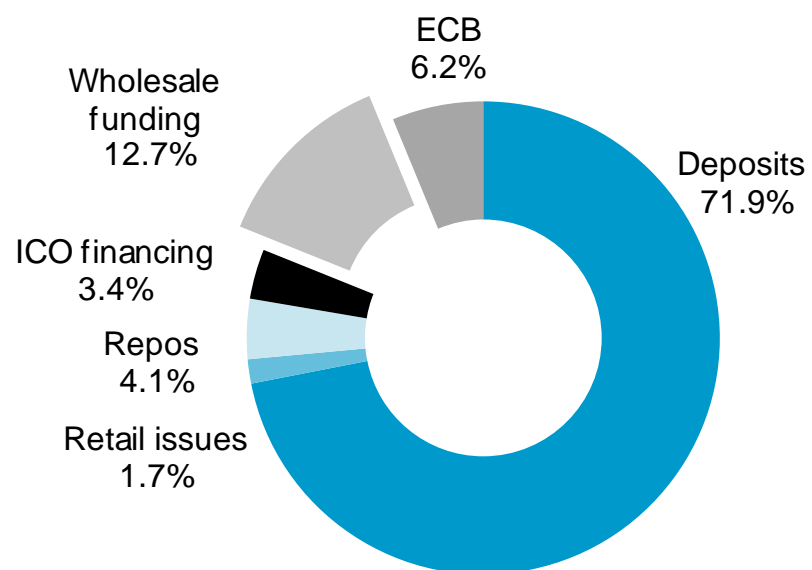




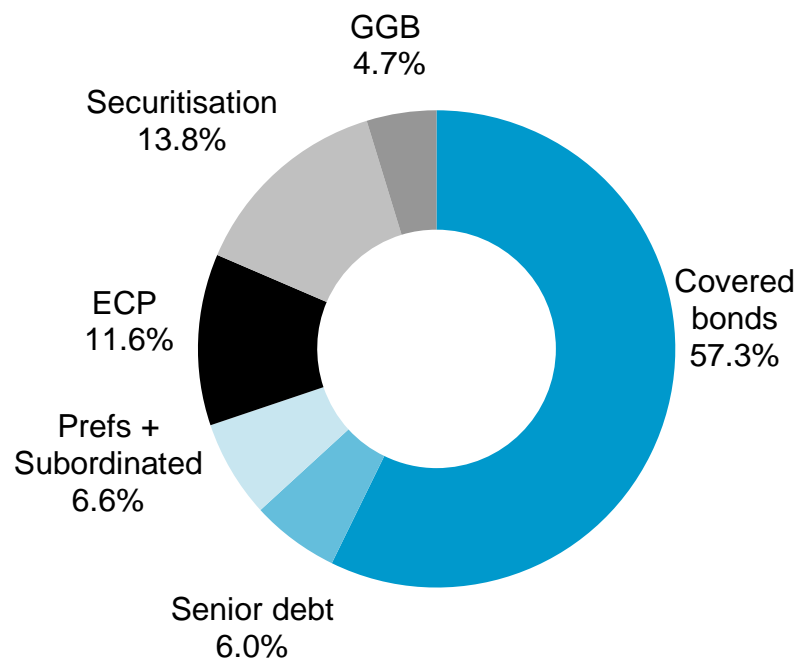
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# Maintaining a balanced funding structure

## Funding structure



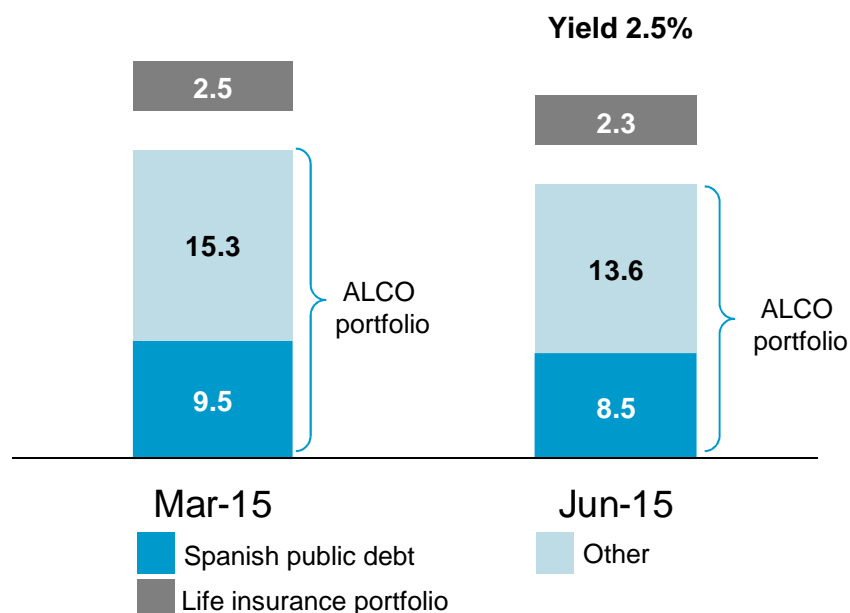
## Wholesale funding breakdown



# Actively managing ALCO portfolio in a volatile market and a steepening yield curve

## Fixed income portfolio evolution (ex-TSB)

Euros in billion



## ALCO portfolio (ex-TSB)

Euros in billion and in percentage

	Mar-15	Jun-15
ALCO portfolio	24.8	22.0
% of total assets (ex-TSB)	14.8%	13.4%
Duration (in years)	5.2	3.6
ECB liquidity position	8.9	11.0

**We actively gauge the exposure range**

## Evolution of ALCO portfolio in run-off scenario (ex-TSB)

Euros in billion, yield in %

	2015e	2016e	2017e	2018e
Amount (€bn)	21.1	19.3	18.3	17.8
Yield (%)	2.4%	2.3%	2.4%	2.5%

## Fixed income portfolio maintains its geographical diversification

### ALCO portfolio composition evolution (ex-TSB)

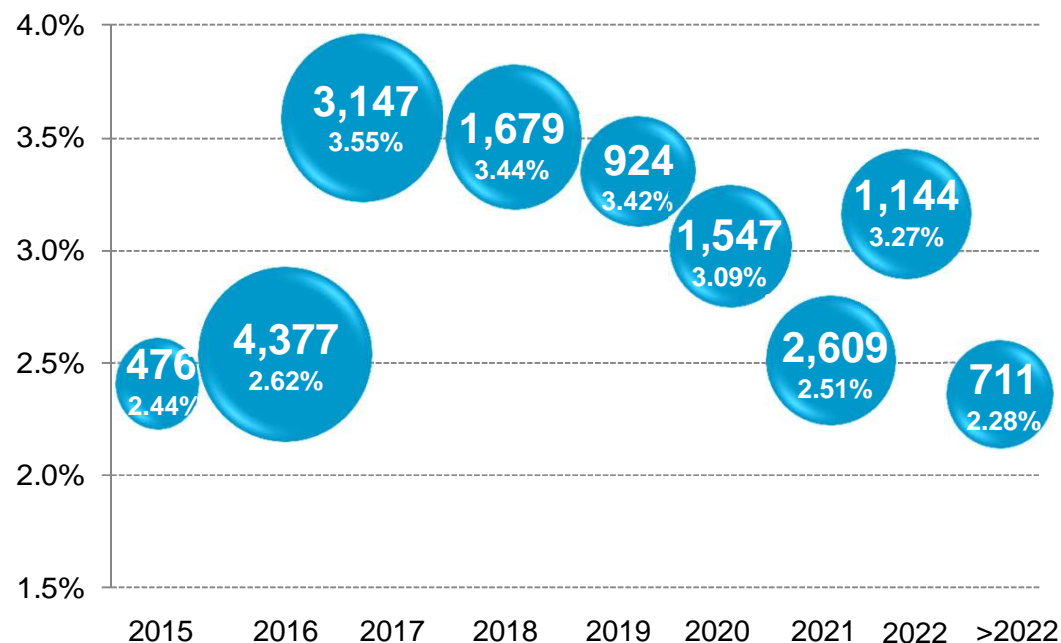
Euros in billion

	Sep-14	Dec-14	Mar-15	Jun-15
Spanish Government	12.1	8.6	9.5	8.5
Italian Government	3.8	4.7	6.0	5.4
US Government	-	1.5	2.8	2.6
Other Government	1.3	1.5	1.6	1.5
of which:				
Portuguese Government	0.8	0.7	0.8	0.8
Mexican Government	0.3	0.6	0.6	0.6
Netherlands Government	0.1	0.1	0.1	0.1
Agencies	1.5	1.5	1.6	1.5
Covered Bonds	1.5	1.5	1.5	0.7
Corporates & Fin	1.5	1.6	1.8	1.9
<b>TOTAL</b>	<b>21.7</b>	<b>21.0</b>	<b>24.8</b>	<b>22.0</b>

# Managing liquidity efficiently

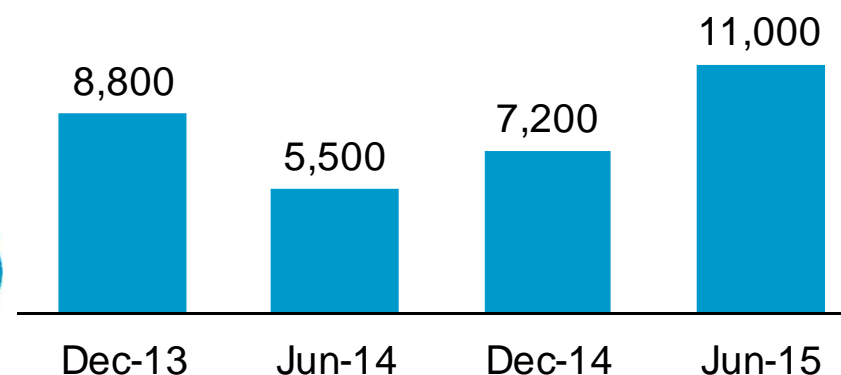
## Wholesale funding maturities

Euros in million



## ECB liquidity position

Euros in million



## Maturity by product type

Euros in million

	4Q15	2016	2017	2018	2019	2020	2021	2022	>2022	Outst. Amount
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>

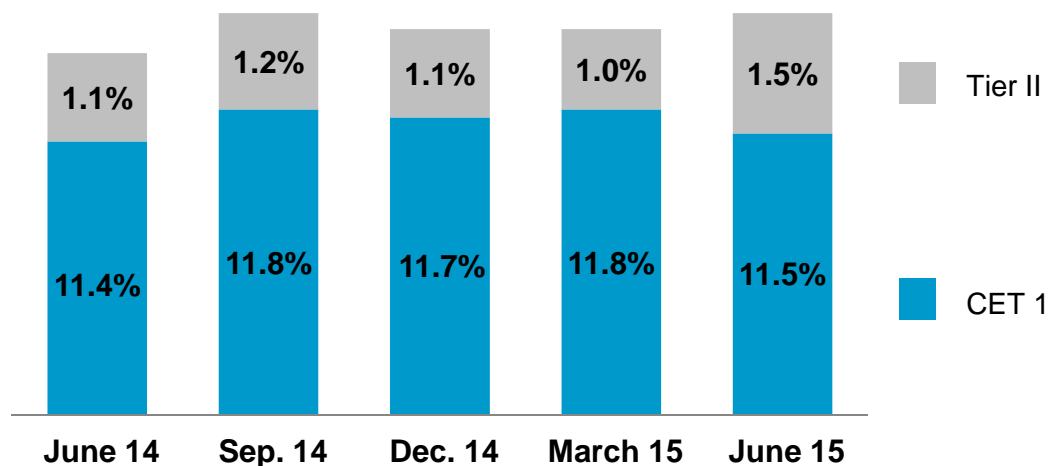
Note: Including TSB



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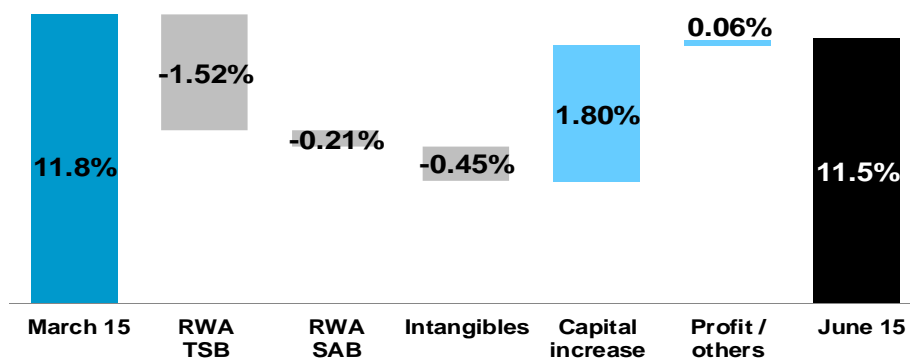
# TSB transaction is capital neutral as announced

## Common Equity Tier 1 and Tier II evolution



**CET1 fully loaded at 11.2%**

## CET1 quarterly change

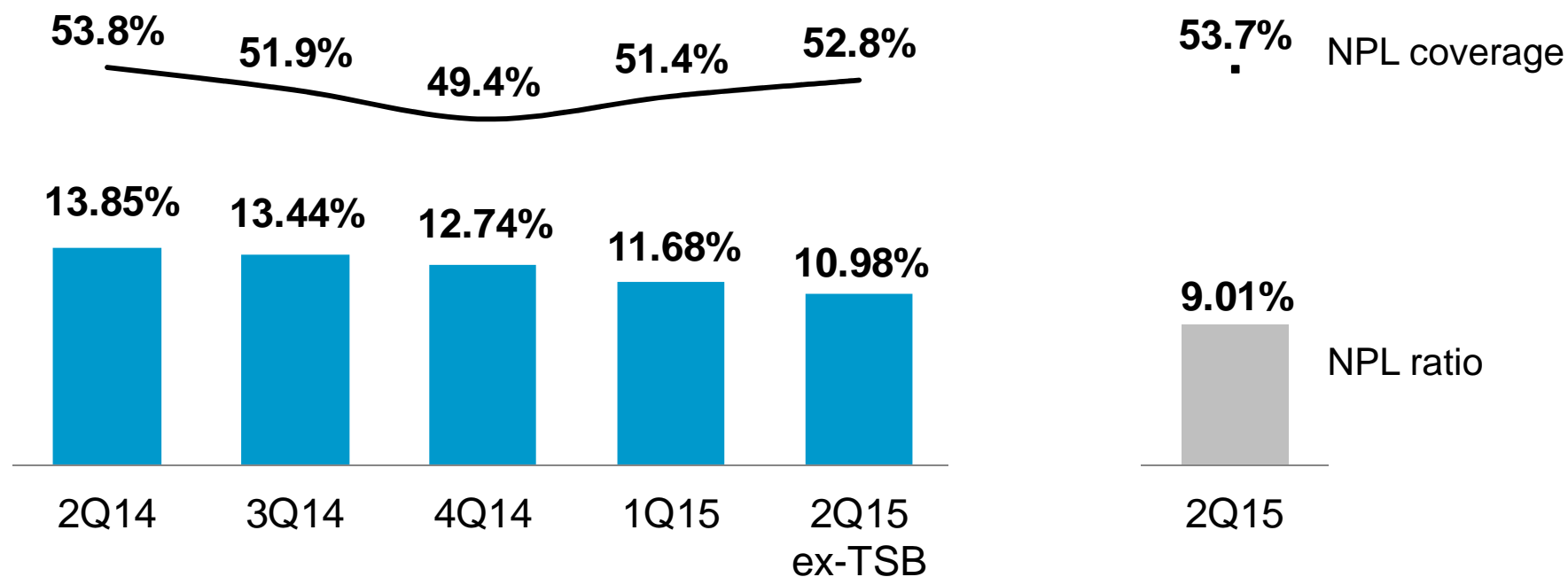


	Mar 15	June 15
RWA	74,945	87,810
CET 1	8,847	10,082
TIER I	8,847	10,082
TIER II	777	1,363
CET 1	11.8%	11.5%
TIER I	11.8%	11.5%
TIER II	1.0%	1.5%
Ratio BIS	12.8%	13.0%

# NPL ratio has been reduced significantly from peak levels ...

## Evolution of NPL ratio and coverage of NPLs

In percentage



**TSB takes the group back to single digit NPL ratio**

**Coverage of NPLs ex-TSB: 52.8%**

Note: NPL ratio is calculated including contingent risk and 20% of the APS.



## ... with improvement across all segments

### Evolution of NPL ratios by segment ex-TSB

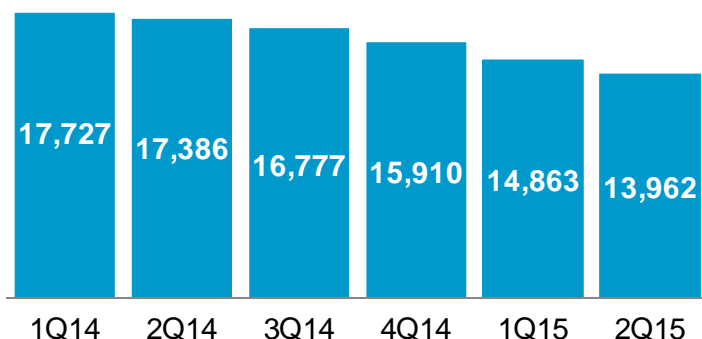
In percentage

	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 stock of NPLs continues the downward trend ...

## NPL ex-TSB evolution ex-TSB

Data include 20% of APS. Euros in million

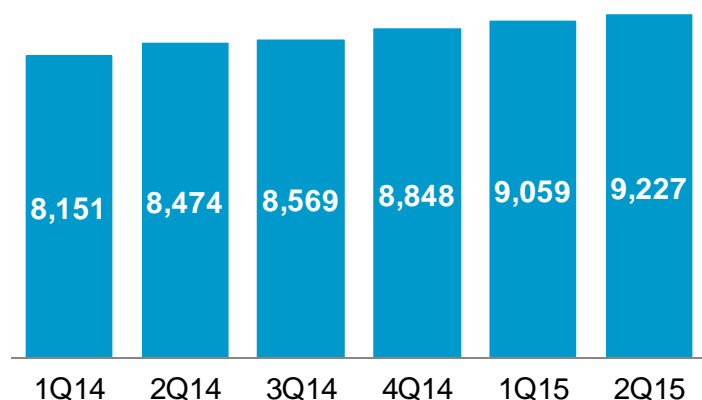


€0.9bn further reduction of NPLs during 2Q15

The decline in total problematic assets continues

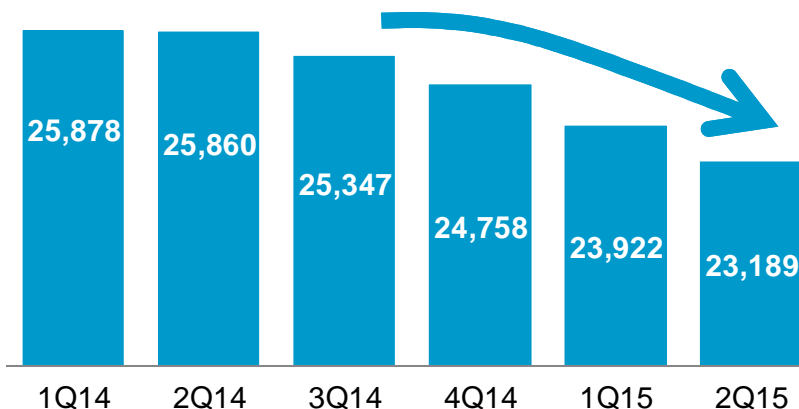
## On-balance sheet RE assets evolution ex-TSB

Data include 20% of APS. Euros in million



## Total problematic assets ex-TSB

Data include 20% of APS. Euros in million



Note: NPLs include contingent risk.

## ... with improved dynamics in the last quarters

### Evolution of NPLs and RE assets, ex-TSB

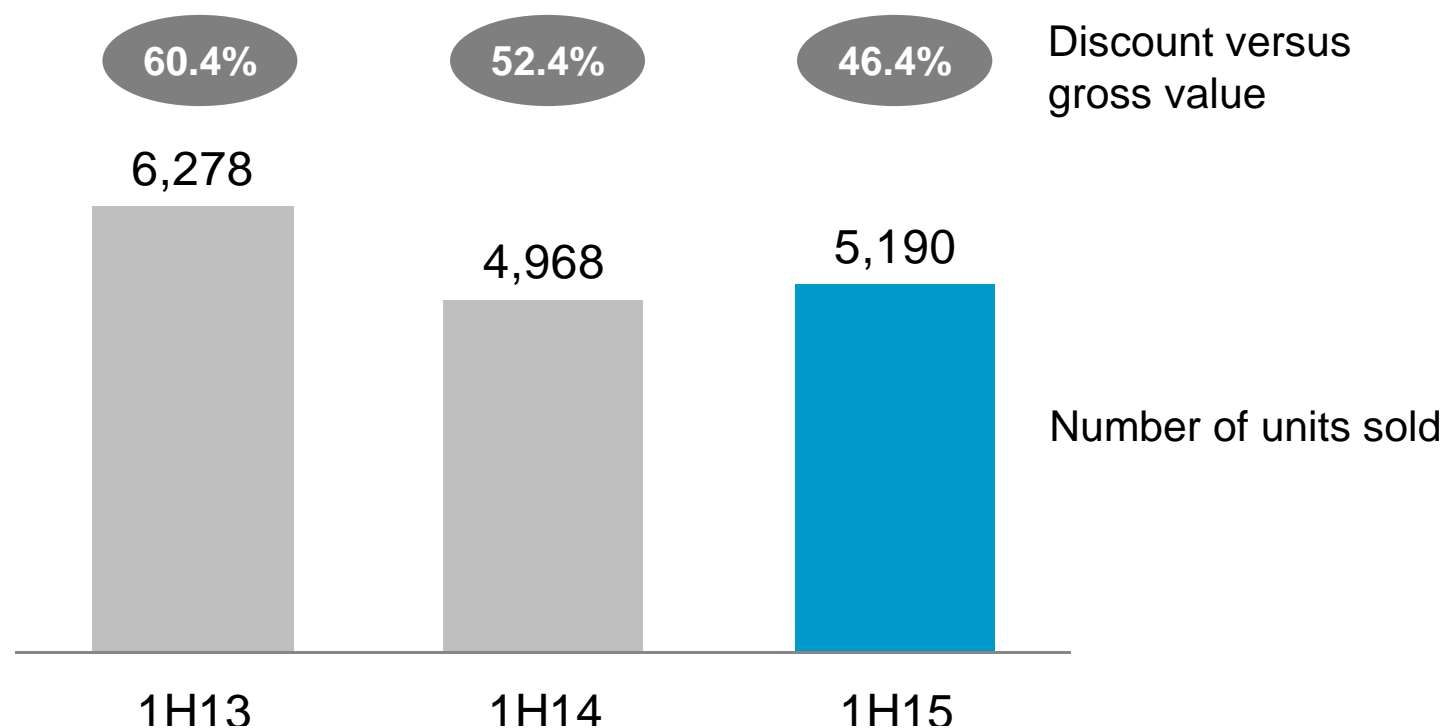
Data include 20% of APS. Euros in million

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Ordinary net entries	25	-244	-385	-569	-802	-731
Change in RE assets	77	323	96	279	211	167
<b>Net entries + Change in RE assets</b>	<b>102</b>	<b>79</b>	<b>-289</b>	<b>-290</b>	<b>-591</b>	<b>-563</b>
Write-offs	265	97	224	298	245	170
Re assets and NPL quarterly change	-163	-18	-513	-588	-836	-733

**Total problematic assets are reduced by €733M**

## Maintaining good real estate sales results

### Number of foreclosed assets sold and discount versus gross value



**Sabadell continues to liquidate RE assets at a high pace, reducing the discount to gross value**



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## 6. Update on TSB

## Update on the TSB takeover

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- On 30 June 2015 Sabadell received approval from the PRA regarding the change of control of TSB and consequently the offer became wholly unconditional in all respects. This date also reflects the date of consolidation of TSB accounts
- On 8 July 2015 the acceptance level exceeded 90% and as a result Sabadell initiated the “squeeze out” process
- Sabadell expects to delist TSB on 28 July
- The TSB takeover results in €207M of negative goodwill adjustment with a positive impact in the group P&L

## Update on the TSB 1H business & financials

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- 1.3% growth QoQ in lending driven by strong entry in the mortgage intermediary market and launch of buy-to-let
- GBP1,900M of mortgage applications in 1H 2015, on track to meet full year target of GBP4,000M
- Improved market share in PCAs with total deposits up by 0.8% in the second quarter
- Share of current account gross flow at 6.7%, above current market share
- Costs negatively affected by extraordinary items related to the costs of Sabadell's transaction

## Sabadell near term focus for TSB

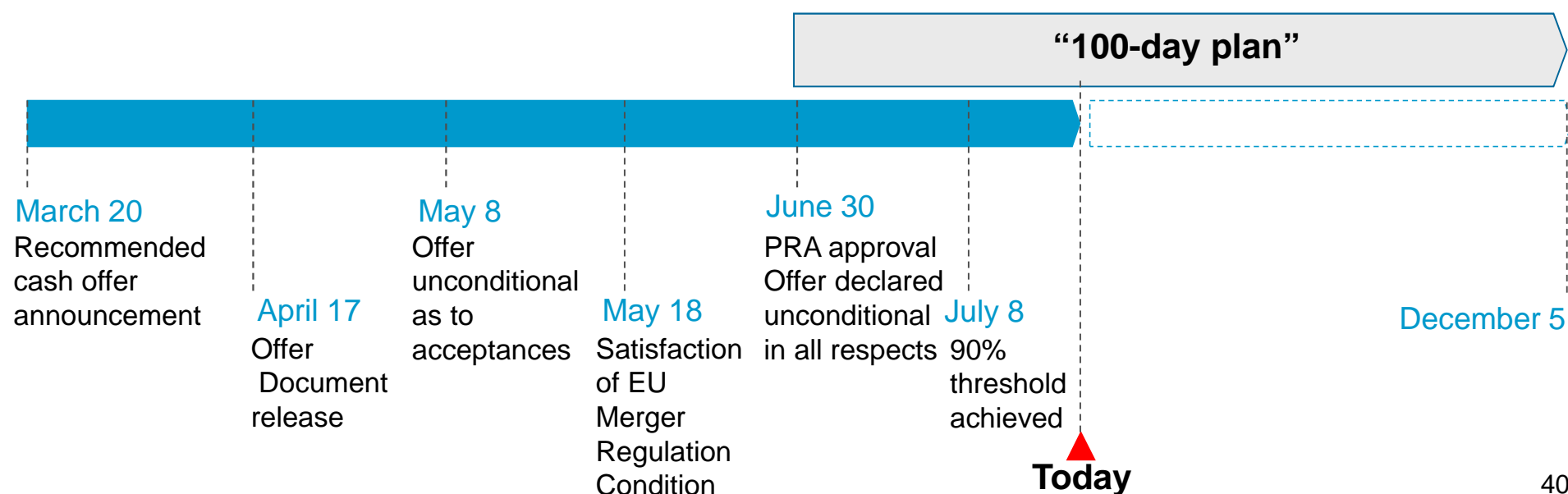
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- TSB is delivering on its business plan, with a commitment to growing further still as part of the Sabadell group
- The IT platform will be ready at the end of 2016 with integration expected to be completed in 4Q 2017
- The new IT platform will have SME capacity built into it, preparing TSB for a new growth opportunity within the UK SME segment
- Pre-tax synergy target of c.GBP160M per year from IT optimisation in 2018 is maintained
- GBP450M contribution by Lloyds to TSB more than offsets implementation costs of IT migration
- Focus on productivity enhancement



## Steps since completion

- New corporate governance structure in place
- Project Management Office has been deployed in London
- IT protocol has been set up
- Joint workstreams have been kicked-off
- 100-day plan in motion



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



**Investor Relations**

**[investorrelations@bancsabadell.com](mailto:investorrelations@bancsabadell.com)**

**+34 93 728 12 00**