

# Sabadell

## 3Q15 Results

October 23rd, 2015

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# 1. Quarterly highlights

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

## Quarterly highlights

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- NII grows by 2.8% since June, on a comparable basis, due to the lower cost of funding
- Fees have performed well in a seasonally weak quarter mainly driven by asset management business
- Activity is picking up, both in businesses and in individuals, and should translate into higher loan growth going forward
- Asset quality continues to improve. Group NPL ratio stands at 8.51%. Ex-TSB, NPL ratio stands at 10.38%
- Lower level of cost of risk, taking advantage of the strong provisions taken in the first half of the year
- Good evolution in volumes in TSB, in both mortgages and deposits, and cost control; IT quick wins will preempt migration next year



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## September 2015 results

	Sep. 14 comp. basis	Sabadell group		Ex-TSB	
		Sep. 15	% var 15/14	Sep. 15 ex-TSB	% var 15/14
<b>Net Interest Income</b>	<b>1,650.0</b>	<b>2,240.3</b>	<b>35.8%</b>	<b>1,973.1</b>	<b>19.6%</b>
Equity Method & Dividends	-0.3	40.5	---	40.5	---
Commissions	629.6	728.2	15.7%	687.0	9.1%
Trading Income & Forex	1,389.5	1,254.8	-9.7%	1,256.6	-9.6%
Other Operating Results	7.8*	-5.0	---	-4.0	---
<b>Gross Operating Income</b>	<b>3,676.6</b>	<b>4,258.8</b>	<b>15.8%</b>	<b>3,953.2</b>	<b>7.5%</b>
Personnel Costs	-906.5	-1,032.3	13.9%	-919.5	1.4%
Administrative Costs	-431.4	-557.7	29.3%	-437.3	1.4%
Depreciations	-206.0	-234.6	13.9%	-216.1	4.9%
<b>Pre-provisions Income</b>	<b>2,132.7</b>	<b>2,434.2</b>	<b>14.1%</b>	<b>2,380.3</b>	<b>11.6%</b>
Total Provisions & Impairments	-1,725.0	-1,955.2	13.3%	-1,955.2	13.3%
Gains on sale of assets	85.3	-17.5	---	-17.5	---
Negative goodwill	0.0	207.4	---	207.4	---
<b>Profit before taxes</b>	<b>493.0</b>	<b>668.8</b>	<b>35.7%</b>	<b>614.9</b>	<b>24.7%</b>
Taxes and others	-129.2	-89.0	---	-74.7	---
<b>Attributable Net Profit</b>	<b>363.8</b>	<b>579.8</b>	<b>59.4%</b>	<b>540.2</b>	<b>48.5%</b>

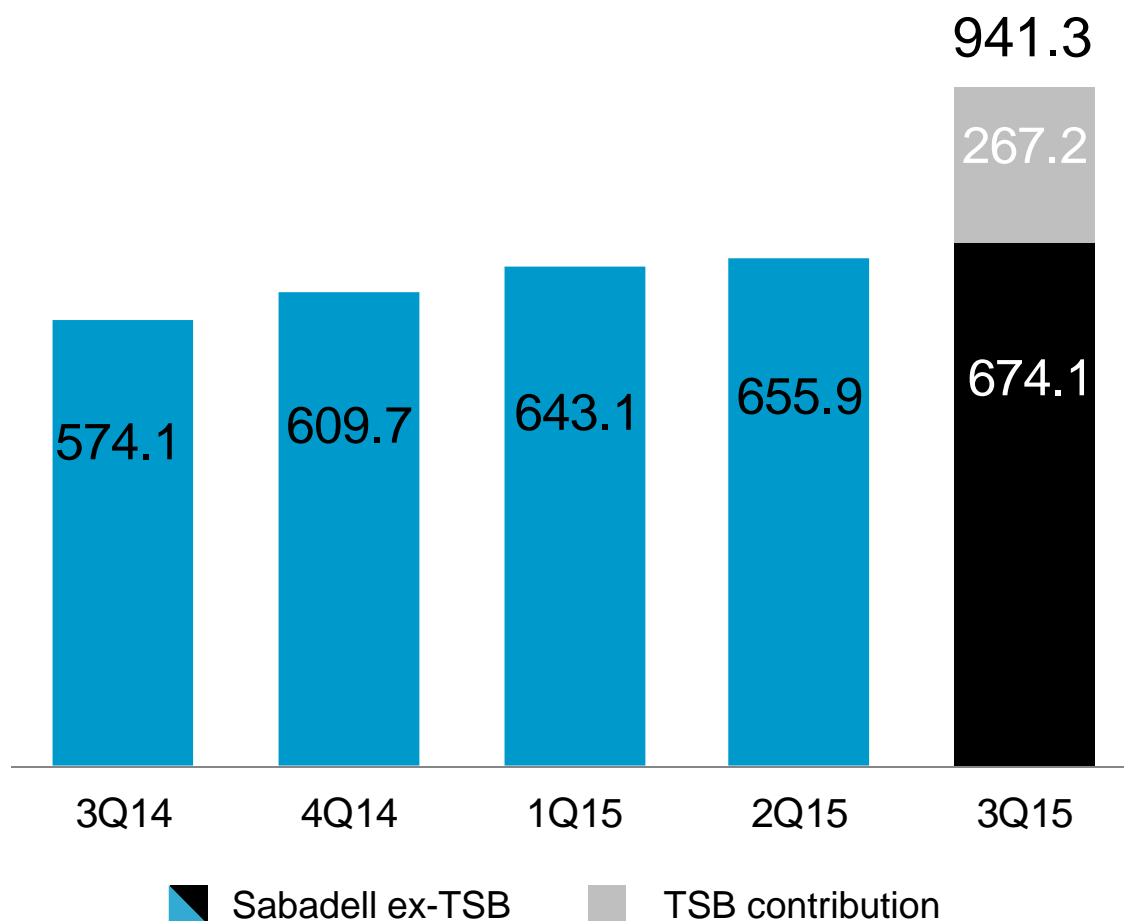
\*September 2014 numbers are on a comparable basis, as if the payments related to the DGF would not have been accrued. September 2014 reported net profit was €265.3 million, accruing the payments related to the DGF.

Note: Exchange rate EURGBP for P&L data of 0.7234 (3Q15 average).

# Net interest income maintains its positive trend

## Net interest income evolution

Euros in million



**YoY growth:**

**+35.8%**

**Sabadell ex-TSB:**

**+19.6% YoY**

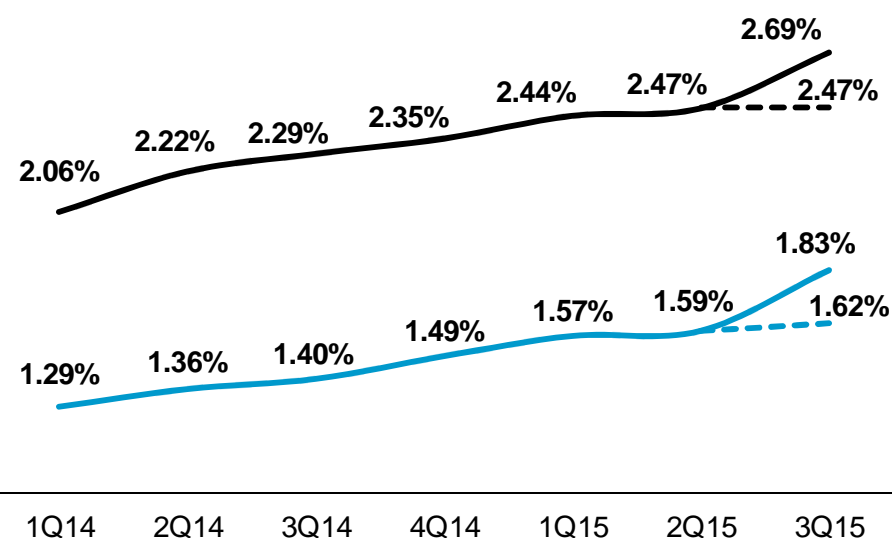
**+2.8% QoQ**

Note: Exchange rate EURGBP for P&L data of 0.7234 (3Q15 average).

# Customer spread supported by lower cost of funding

## Margin evolution

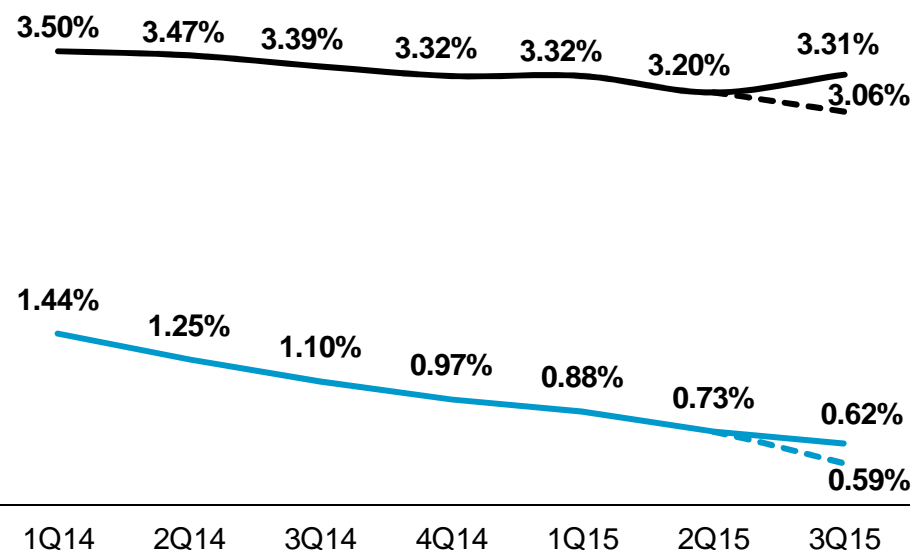
In percentage



- Customer spread
- Net interest margin as a % of ATA
- ... Customer spread, ex-TSB
- ... Net interest margin as a % of ATA, ex-TSB

## Customer loan yield and cost of customer funds

In percentage



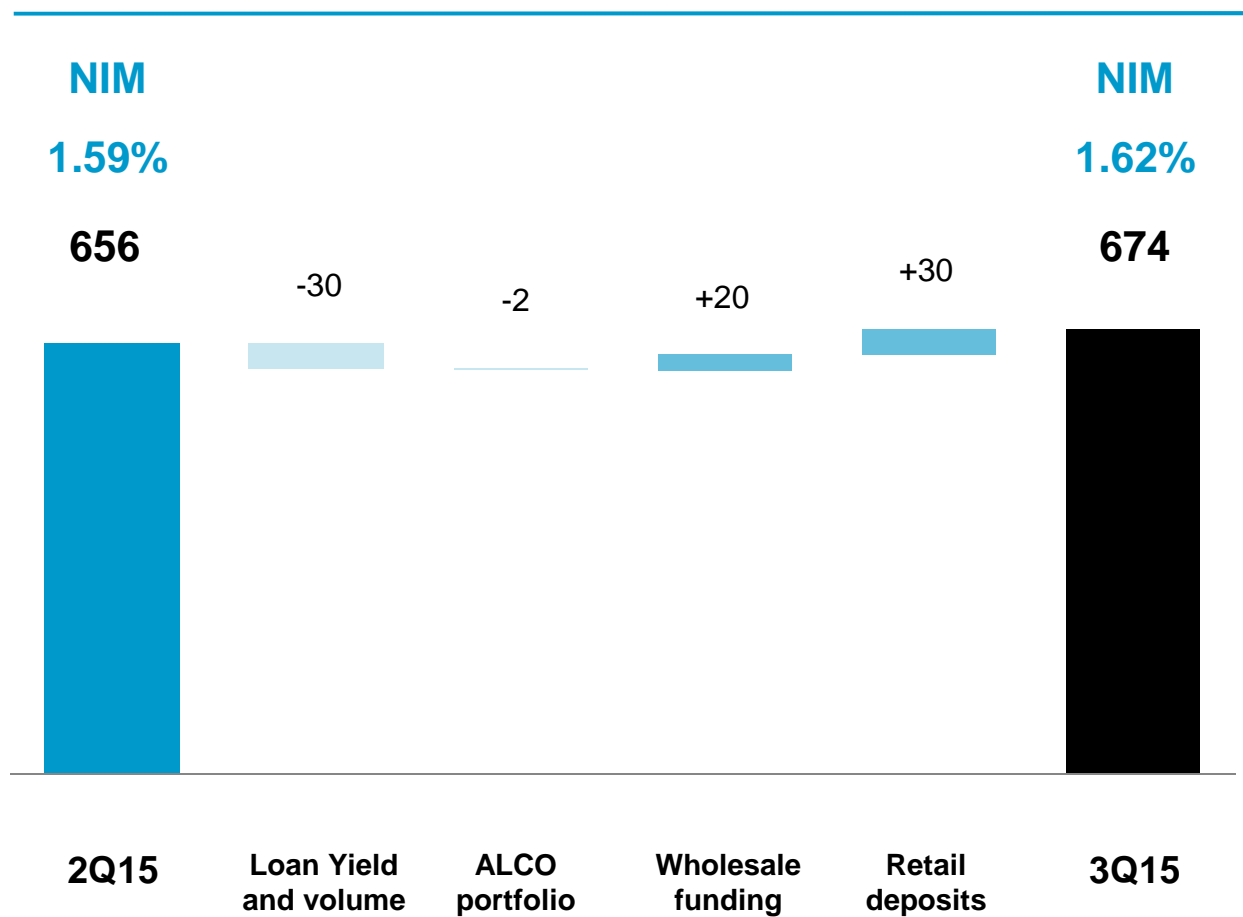
- Customer loan yield
- Cost of customer funds
- ... Customer loan yield, ex-TSB
- ... Cost of customer funds, ex-TSB



# Resilient NIM in a low interest rate environment

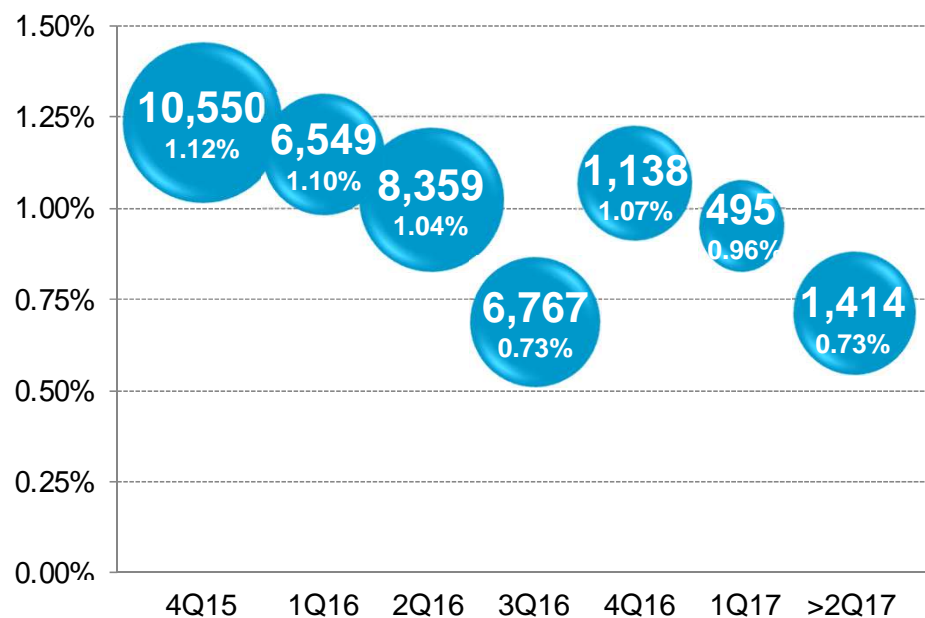
## NII 3Q cause of change analysis, ex-TSB

Euros in million



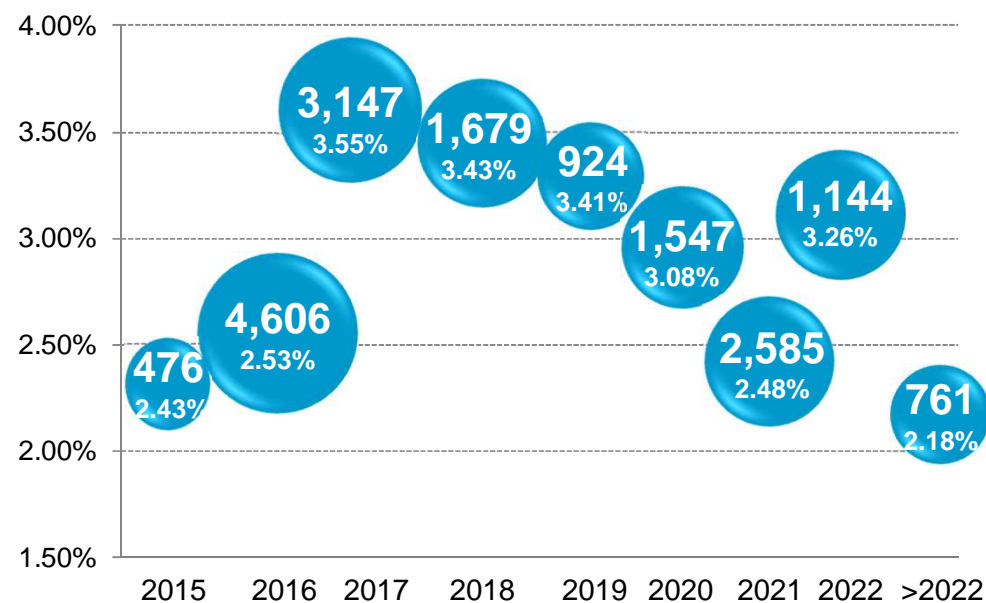
# Liability repricing will continue in coming years

**Maturities of term deposits: volume and average interest rate cost** Euros in million



- Remaining delta to feed into NII from deposit repricing: c.€330M

**Wholesale funding maturities** Euros in million



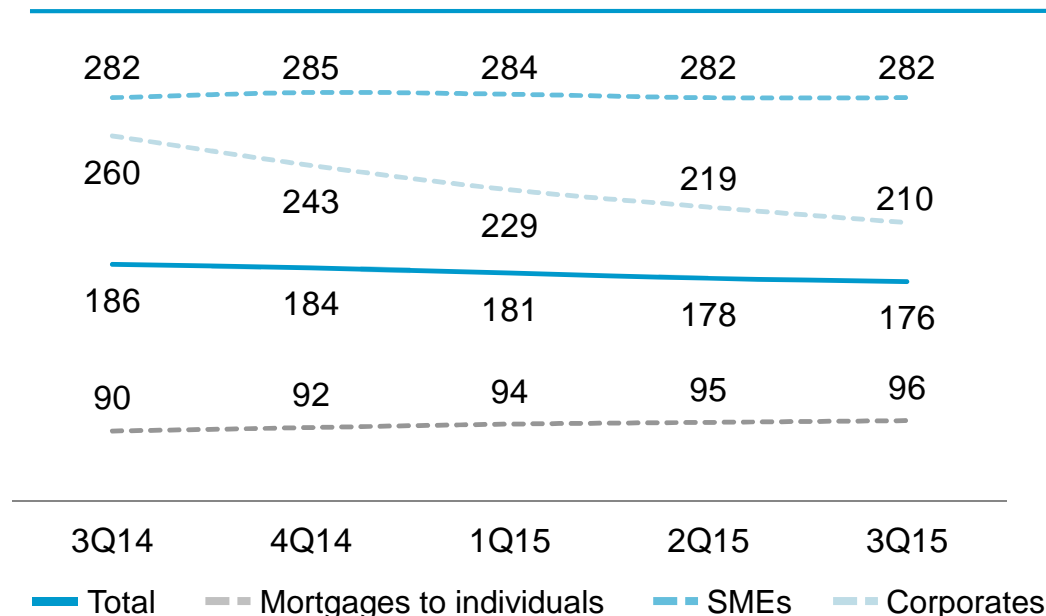
- Remaining delta to feed into NII from wholesale funding: c.€220M

# Credit spreads are beginning to stabilise

Our expertise and capabilities allow us to maintain spread levels

## Back book loan spreads by segment, ex-TSB

In basis points



## Evolution of loan spreads by segment, ex-TSB

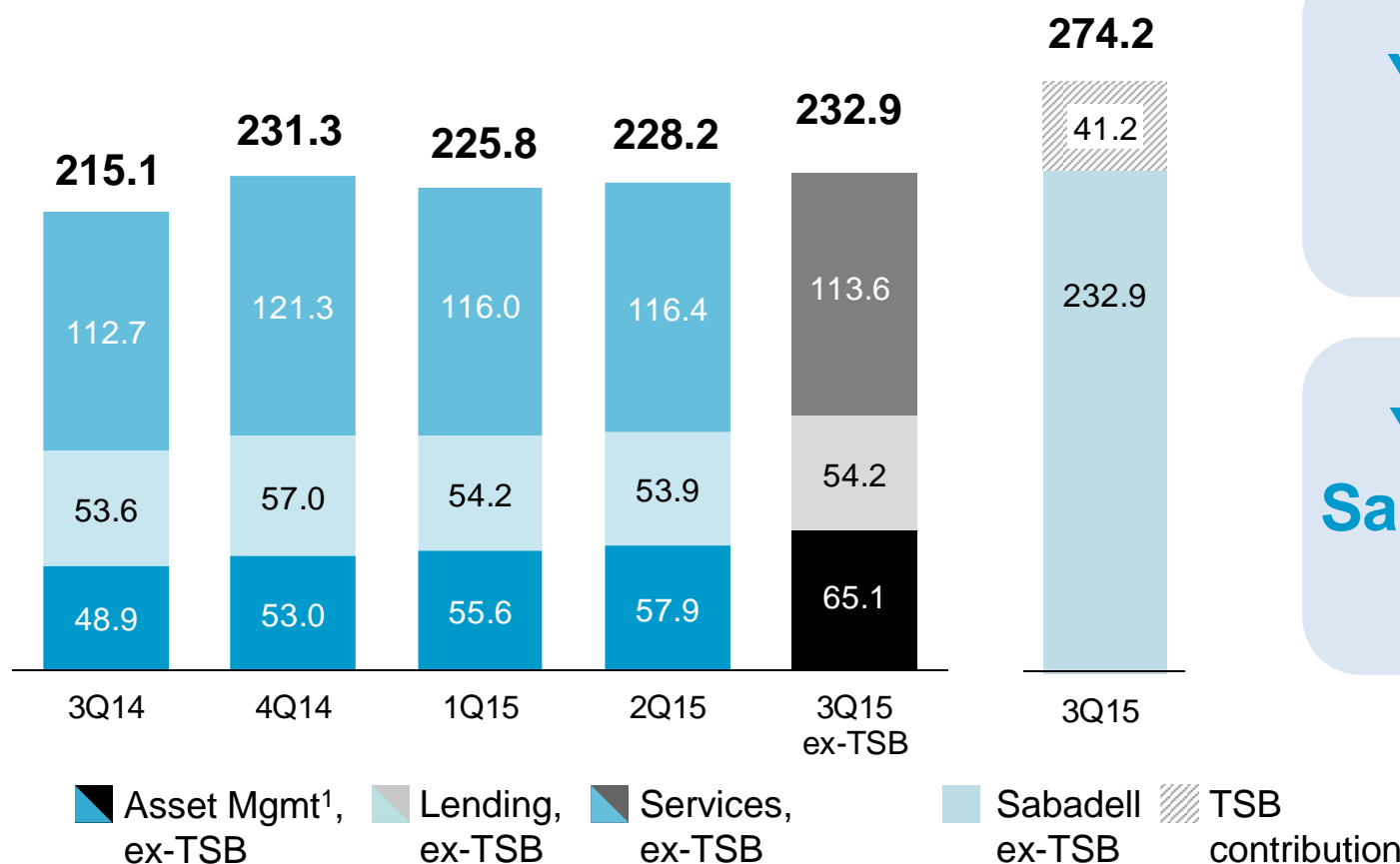
In percentage

	3Q14		4Q14		1Q15		2Q15		3Q15	
	Back book	Front book	Back book	Front book	Back book	Front book	Back book	Front book	Back book	Front book
Mortgages to individuals	90	209	92	201	94	187	95	173	96	175
SME	282	494	285	445	284	459	282	417	282	414
Corporates	260	297	243	265	229	233	219	233	210	225

# Commission income grows in a seasonally weak quarter

## Commission income evolution

Euros in million



YoY growth:

+15.7%

YoY growth, Sabadell ex-TSB:

+9.1%

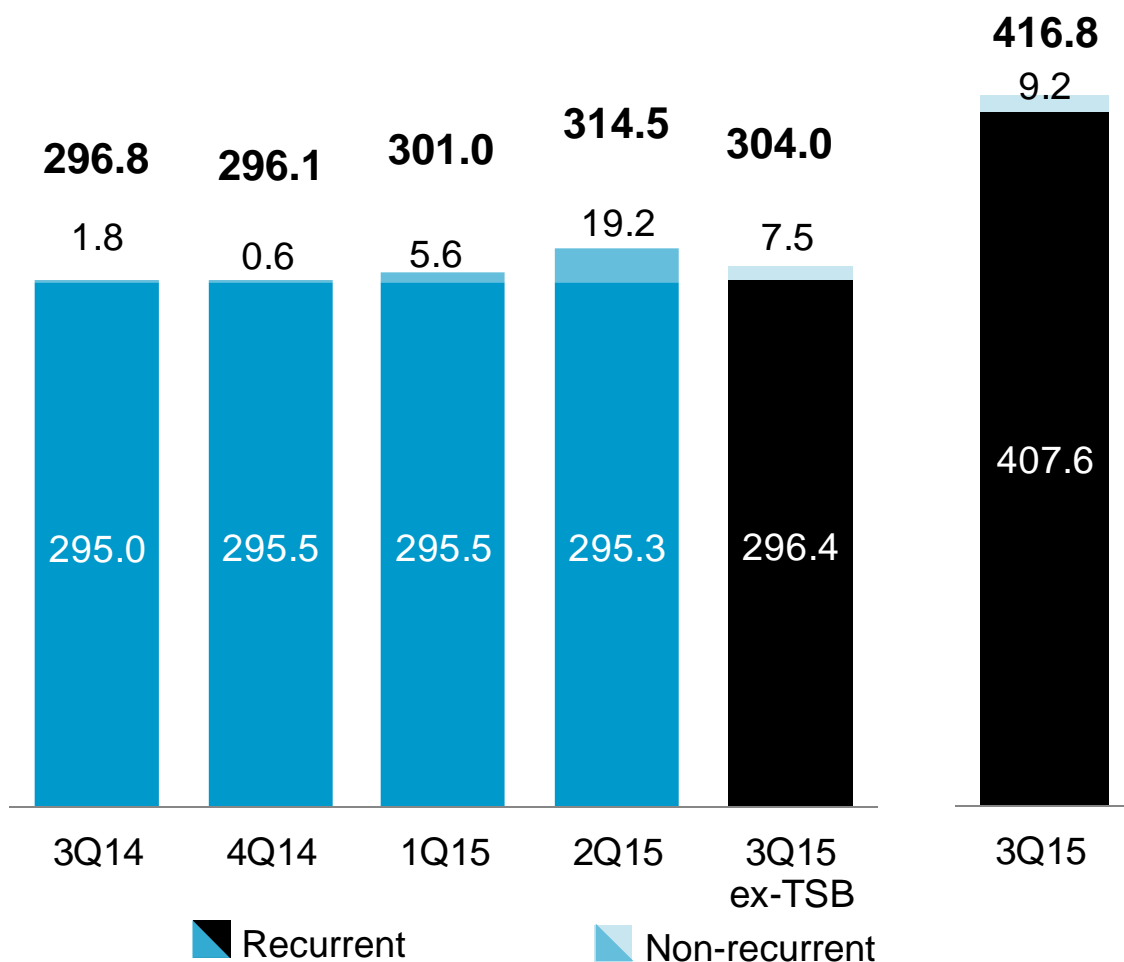
<sup>1</sup>Includes mutual funds commissions and pension funds and insurance brokerage.

Note: Exchange rate EURGBP for P&L data of 0.7234 (3Q15 average).

# Personnel costs are contained on a comparable basis ...

## Personnel expenses evolution

Euros in million



**Personnel expenses YoY growth:**  
+13.9%

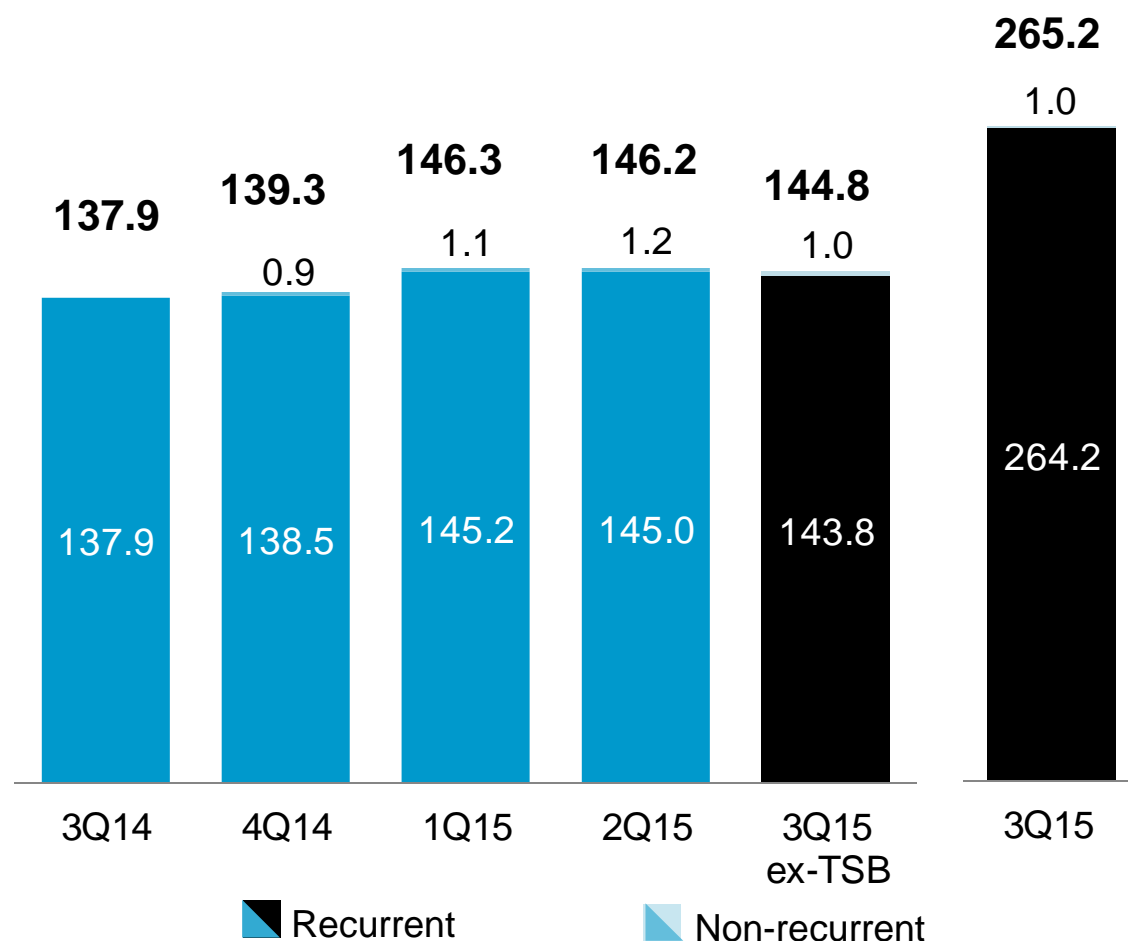
**Recurrent personnel expenses, ex-TSB:**  
+1.5% YoY  
+0.4% QoQ

Note: Exchange rate EURGBP for P&L data of 0.7234 (3Q15 average).

## ... and so are general expenses

### General expenses evolution

Euros in million



**General expenses  
YoY growth:**

**+29.3%**

**Recurrent general  
expenses, ex-TSB:**

**+2.0% YoY**

**-0.8% QoQ**

Note: Exchange rate EURGBP for P&L data of 0.7234 (3Q15 average).



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## Loan book is stable

### Customer funds and loans evolution

Euros in million

	Sabadell group					Ex-TSB			
	Sep-14	Jun-15	Sep-15	% Var. YoY	% Var.QoQ	Jun-15 ex-TSB	Sep-15 ex-TSB	% Var. YoY	% Var.QoQ
<b>Total assets</b>	<b>162,785</b>	<b>203,959</b>	<b>205,141</b>	<b>26.0%</b>	<b>0.6%</b>	<b>164,247</b>	<b>165,928</b>	<b>1.9%</b>	<b>1.0%</b>
Of which:									
Gross loans to customers ex repos	118,361	148,963	148,095	25.1%	-0.6%	118,416	117,768	-0.5%	-0.5%
Fixed income portfolio	23,993	25,741	28,256	17.8%	9.8%	24,323	26,771	11.6%	10.1%
<b>Total liabilities</b>	<b>151,455</b>	<b>191,883</b>	<b>192,775</b>	<b>27.3%</b>	<b>0.5%</b>	<b>154,769</b>	<b>156,107</b>	<b>3.1%</b>	<b>0.9%</b>
Of which:									
On-balance sheet customer funds	97,375	130,370	129,957	33.5%	-0.3%	95,345	95,576	-1.8%	0.2%
Term funds <sup>1</sup>	53,705	49,584	47,231	-12.1%	-4.7%	45,305	42,831	-20.2%	-5.5%
Savings accounts	11,663	32,688	32,405	177.8%	-0.9%	13,495	13,644	17.0%	1.1%
Current accounts	32,007	48,098	50,321	57.2%	4.6%	36,545	39,101	22.2%	7.0%
Wholesale funding	23,972	22,361	22,169	-7.5%	-0.9%	21,786	21,599	-9.9%	-0.9%
ECB Funding	4,000	11,000	11,450	186.3%	4.1%	11,000	11,450	186.3%	4.1%
<b>Off-balance sheet funds</b>	<b>29,664</b>	<b>35,410</b>	<b>35,716</b>	<b>20.4%</b>	<b>0.9%</b>	<b>35,410</b>	<b>35,716</b>	<b>20.4%</b>	<b>0.9%</b>
Of which:									
Mutual funds	14,665	20,230	20,390	39.0%	0.8%	20,230	20,390	39.0%	0.8%
Pension funds	4,367	4,362	4,242	-2.9%	-2.8%	4,362	4,242	-2.9%	-2.8%
Third party insurance products	7,824	7,083	7,314	-6.5%	3.3%	7,083	7,314	-6.5%	3.3%

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

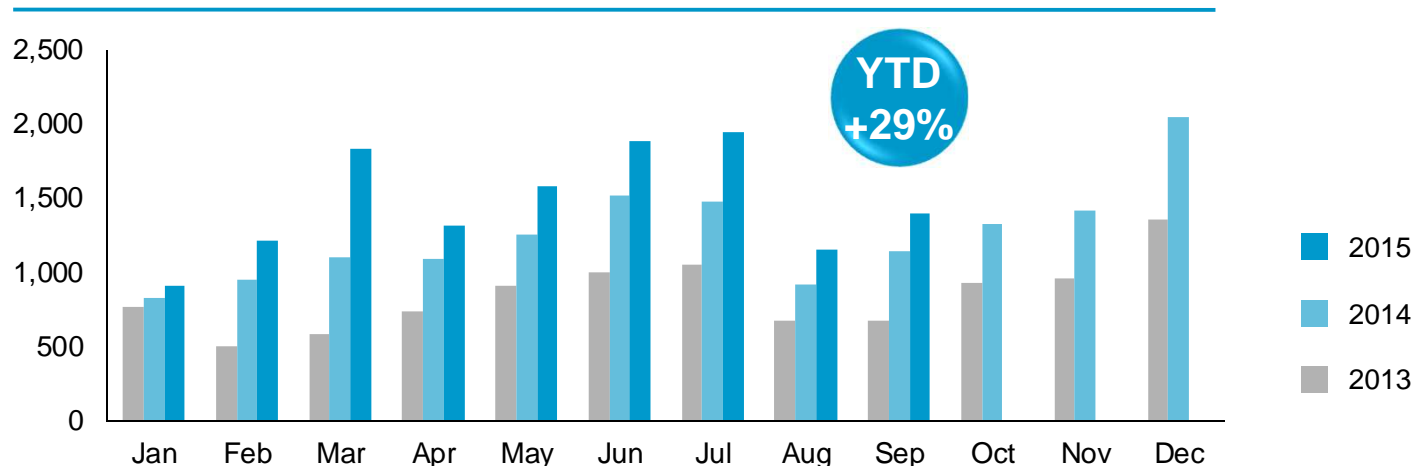
Note: Exchange rate EURGBP for Balance Sheet data of 0.7385 (as of 30-Sept-15).



# Increased customer activity reflects the stronger economy ...

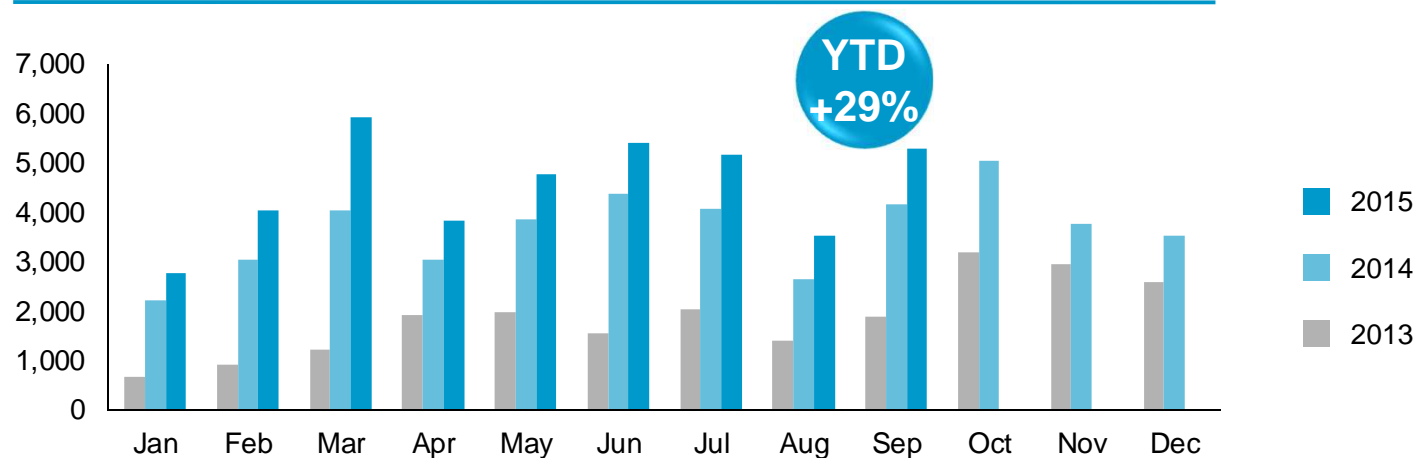
## New residential mortgages to individuals

Number of contracts



## New consumer loans

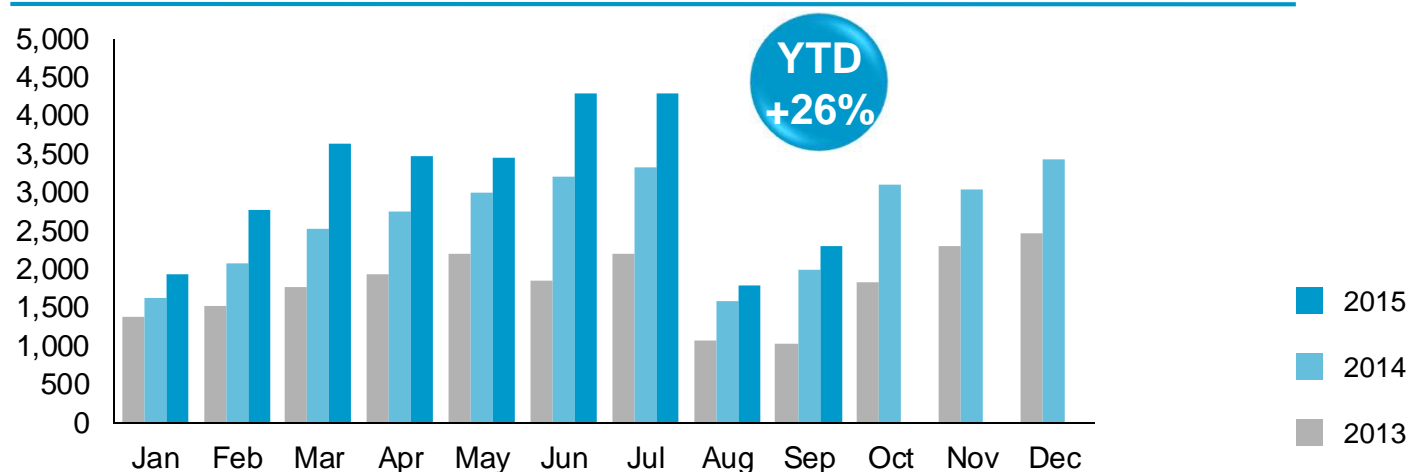
Number of contracts



# ... with growth across most segments

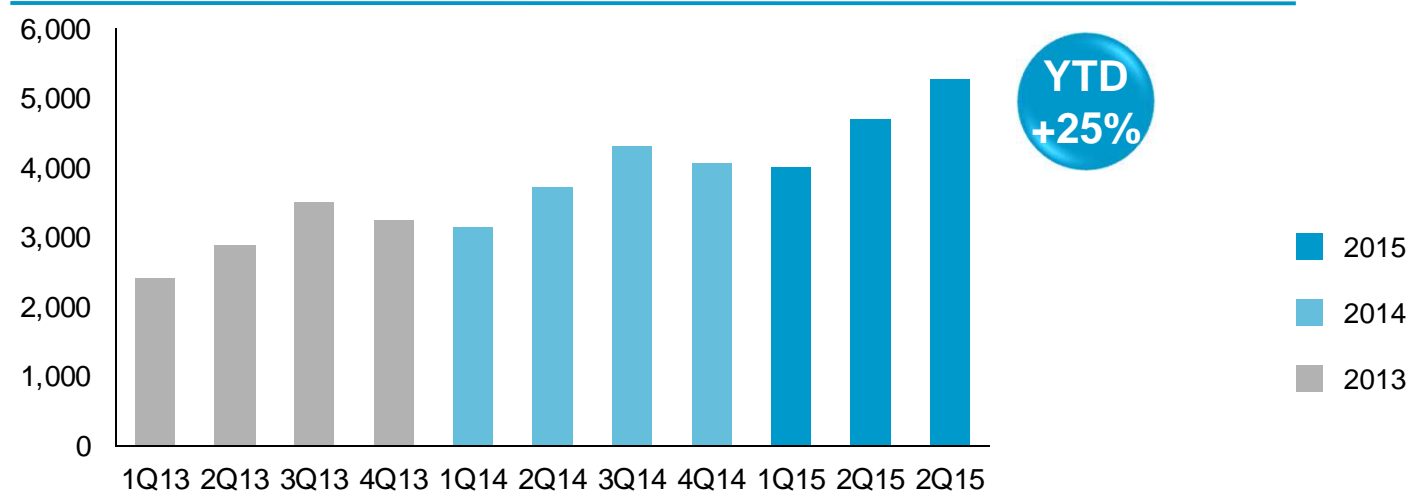
## New SME loans

Number of contracts



## Point of Sales turnover

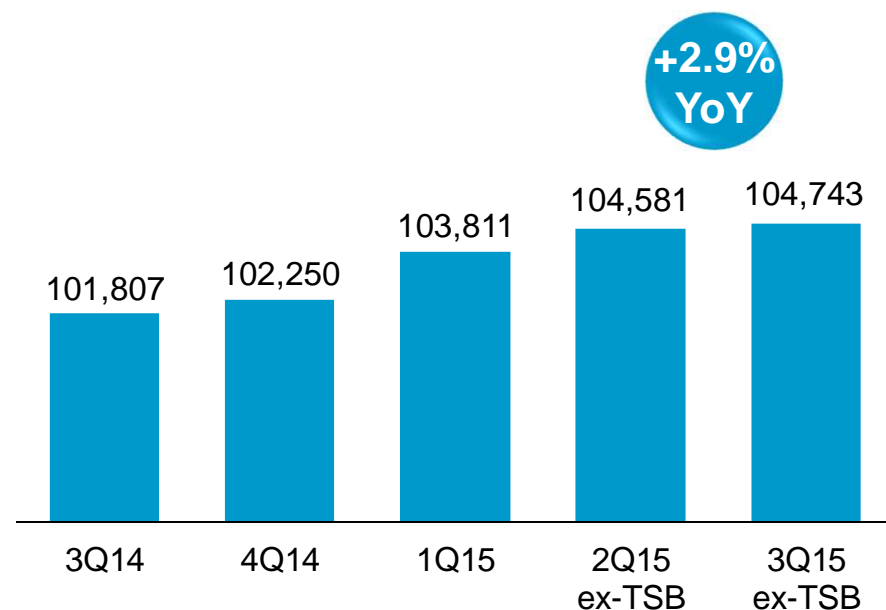
Euros in million



# We expect the performing loan book to continue to grow

## Evolution of performing loans, ex-TSB

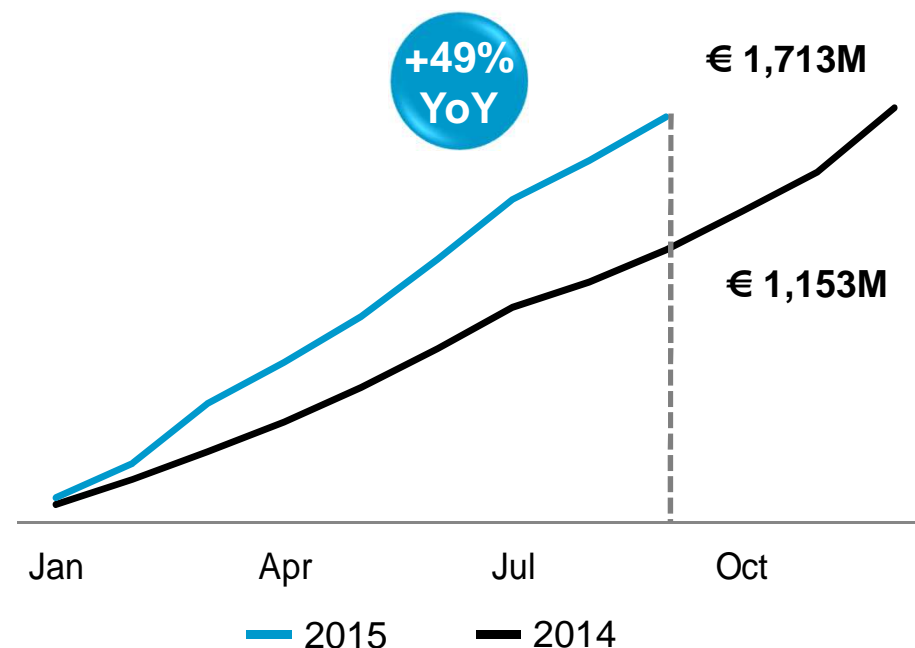
Euros in million



- Annual growth rate of 2.9% driven by SMEs
- Slow down in third quarter due to seasonality and price discipline

## Cumulative monthly residential mortgage production, ex-TSB

Euros in million

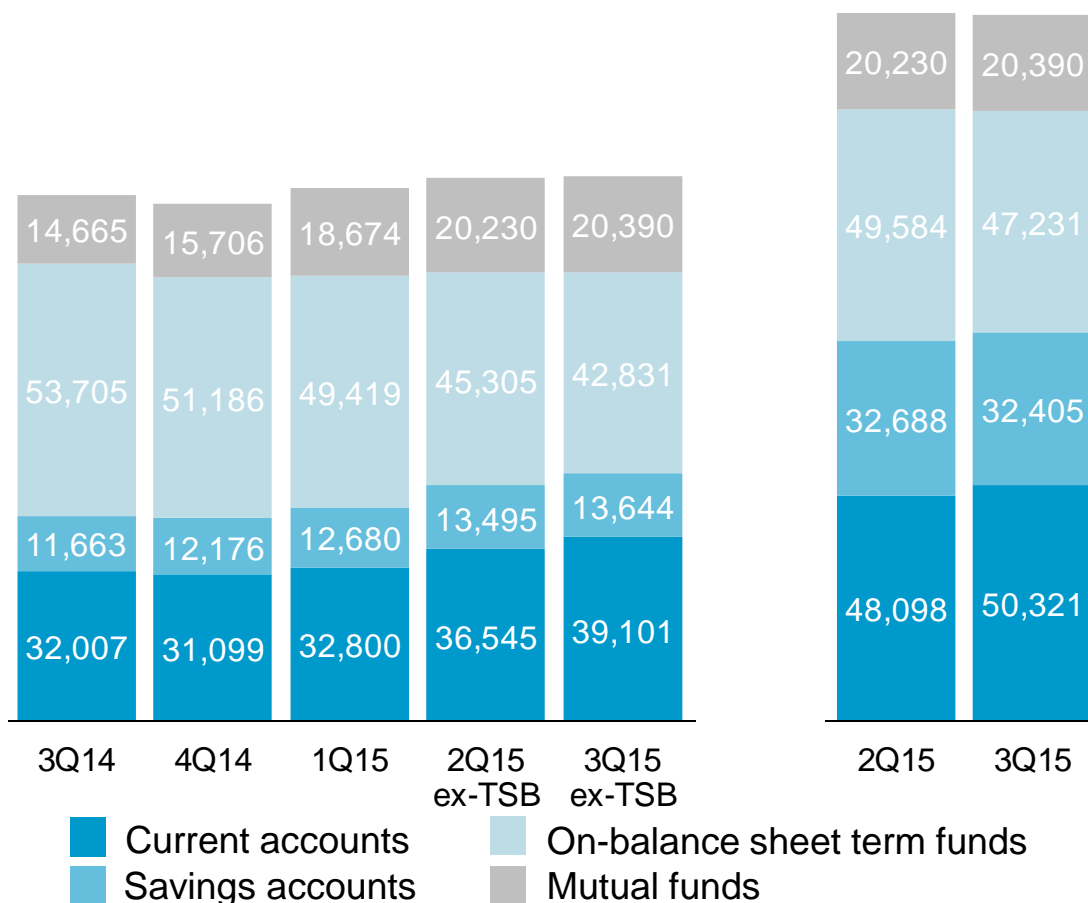


- New mortgages showing good momentum
- Mortgage book should start to grow in 2016

# Improving overall position in on-balance sheet customer funds

## Evolution of customer funds and mutual funds

Euros in million



Stock of current accounts:

**+4.6% QoQ**

Stock of current accounts (ex-TSB):

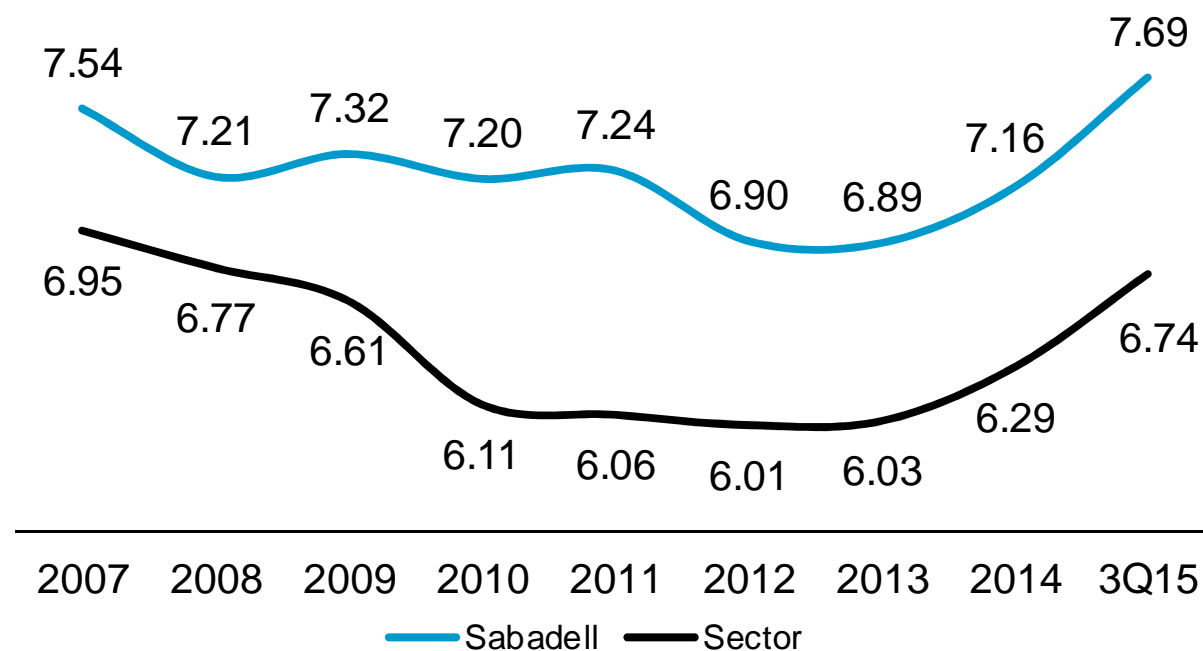
**+7.0% QoQ**

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 and deposits from institutional clients. Exchange rate EURGBP for Balance sheet data of 0.7385 (as of 30-Sept-15).

# With the highest standards in quality of service

## Level of service quality

Evolution of Sabadell quality index vs sector



## Increasing the quality gap versus the rest of the sector

## Improving market shares in companies

### Market shares by products

		Loans	Export docum. credit	PoS turnover
<b>Companies</b>	<b>Dec.14</b>	<b>10.56%</b>	<b>29.79%</b>	<b>14.54%</b>
	<b>2015</b>	<b>11.23%</b>	<b>31.07%</b>	<b>16.90%</b>

## Improving market shares in individuals

### Market shares by products

		Investment funds	Credit card turnover	Life Insurance	Household deposits
<b>Individuals</b>	<b>Dec.14</b>	5.11%	7.64%	4.17%	5.31%
	<b>2015</b>	5.86% <sup>1</sup>	8.00%	4.90% <sup>2</sup>	5.56%

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

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

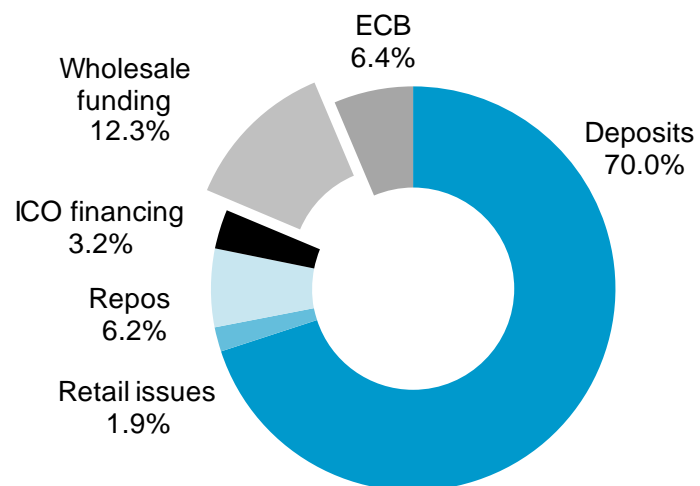


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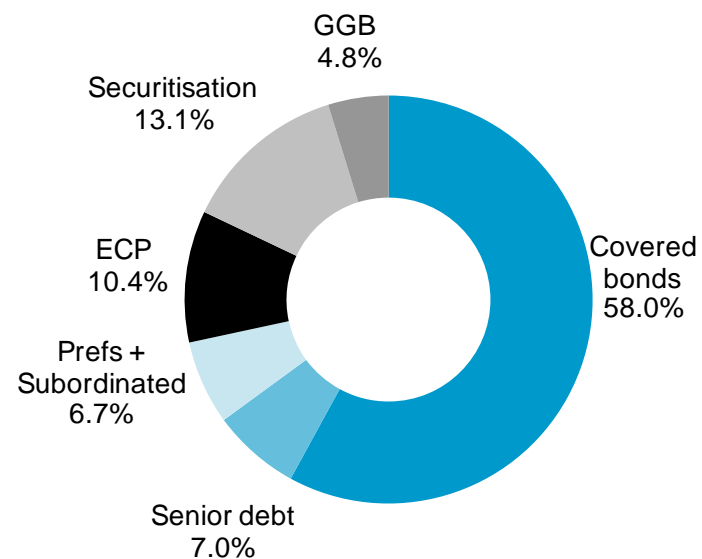


# Maintaining a balanced funding structure

## Funding structure



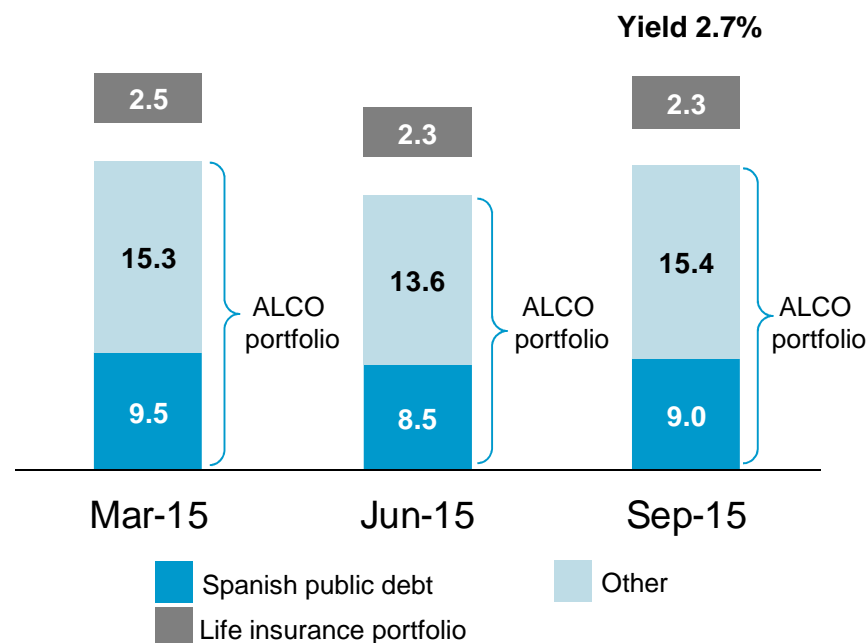
## Wholesale funding breakdown



# ALCO portfolio is actively managed ...

## Fixed income portfolio evolution, ex-TSB

Euros in billion



## ALCO portfolio, ex-TSB

Euros in billion and in percentage

	Mar-15	Jun-15	Sep-15
ALCO portfolio	24.8	22.0	24.4
% of total assets (ex-TSB)	14.8%	13.4%	14.7%
Duration (in years)	5.2	3.6	3.9
ECB liquidity position	8.9	11.0	11.5

**Customer NII resilience removes pressure from the ALCO portfolio but we continue to actively manage the exposure**

**We feel comfortable with the current size of the portfolio**

## ... and maintains its geographical diversification

### ALCO portfolio composition evolution, ex-TSB

Euros in billion

	Mar-15	Jun-15	Sep-15
Spanish Government	9.5	8.5	9.0
Italian Government	6.0	5.4	7.2
US Government	2.8	2.6	2.6
Other Government	1.6	1.5	1.7
of which:			
Portuguese Government	0.8	0.8	0.9
Mexican Government	0.6	0.6	0.6
Netherlands Government	0.1	0.1	0.1
Agencies	1.6	1.5	1.4
Covered Bonds	1.5	0.7	0.7
Corporates & Fin	1.8	1.9	1.9
<b>TOTAL</b>	<b>24.8</b>	<b>22.0</b>	<b>24.4</b>



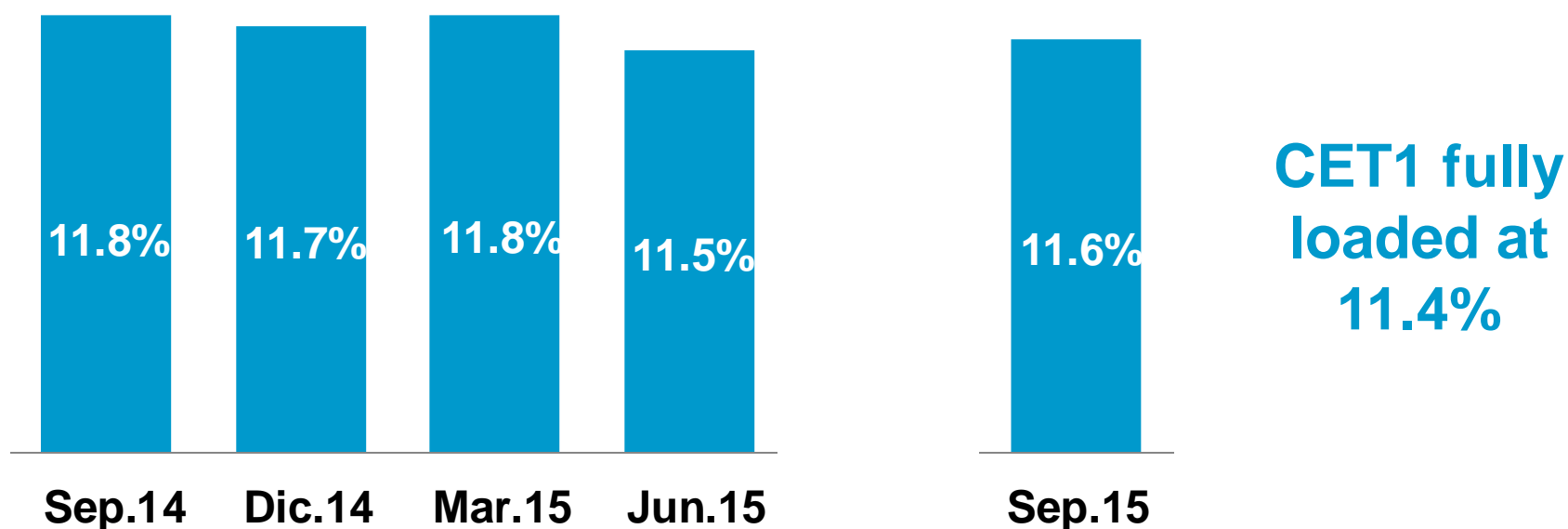
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## Comfortable capital position

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### Common Equity Tier 1 evolution

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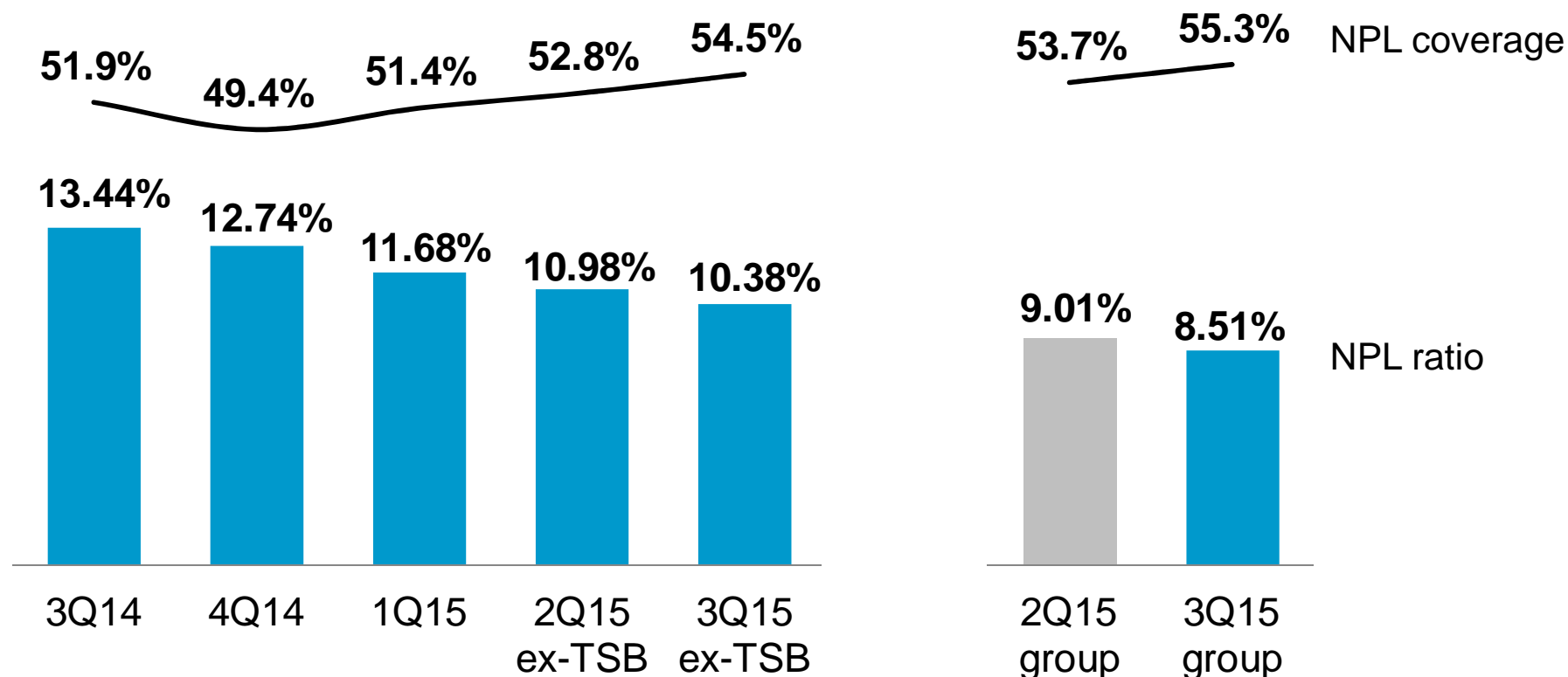


**Certainty about DTC treatment, a positive versus market expectations**

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

## Evolution of NPL ratio and NPL coverage

In percentage



**Group NPL ratio expected to be c.8% by year end (single digit ex-TSB)**

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

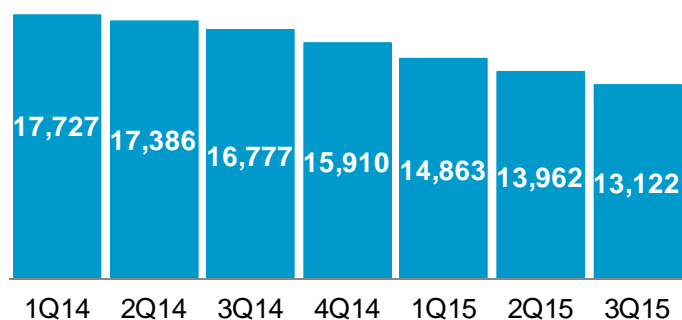
In percentage

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
Real Estate development and/or construction purposes	52.56%	52.11%	51.47%	52.17%	49.21%	47.21%	47.84%
Construction purposes non-related to real estate dev.	8.38%	7.41%	7.35%	8.08%	9.03%	8.74%	8.58%
Large corporates	6.19%	6.13%	6.30%	6.46%	6.55%	6.14%	5.41%
SME and small retailers and self-employed	13.08%	13.08%	13.11%	12.60%	12.20%	11.96%	11.38%
Individuals with 1st mortgage guarantee assets	9.85%	9.75%	9.23%	9.25%	9.12%	8.76%	8.27%
<b>NPL ratio ex-TSB</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>	<b>10.38%</b>

# The stock of NPLs continues the downward trend ...

## NPL evolution, ex-TSB

Data include 20% of APS. Euros in million

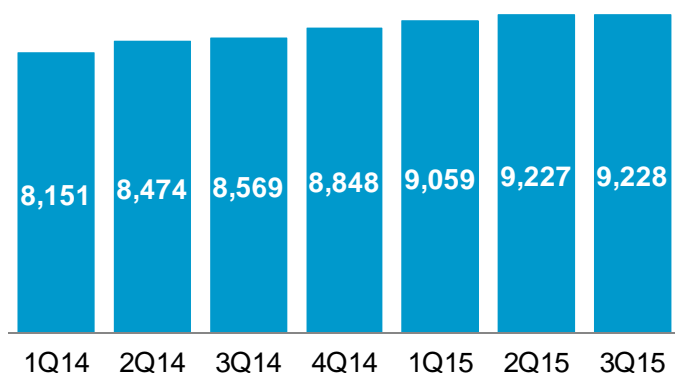


€0.8bn further reduction of NPLs during 3Q15

On track with the business plan targets

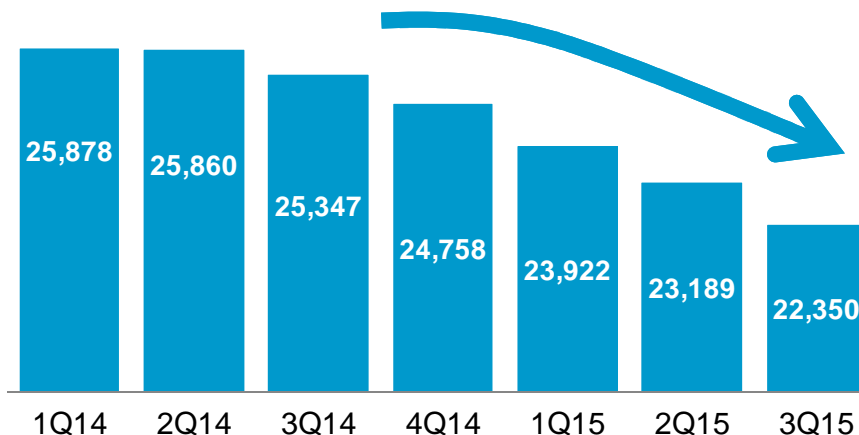
## On-balance sheet RE assets evolution, ex-TSB

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	3Q15
Ordinary net entries	25	-244	-385	-569	-802	-731	-540
Change in RE assets	77	323	96	279	211	167	1
<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>	<b>-539</b>
Write-offs	265	97	224	298	245	170	300
Re assets and NPL quarterly change	-163	-18	-513	-588	-836	-733	-839

The improvement in problematic assets continues

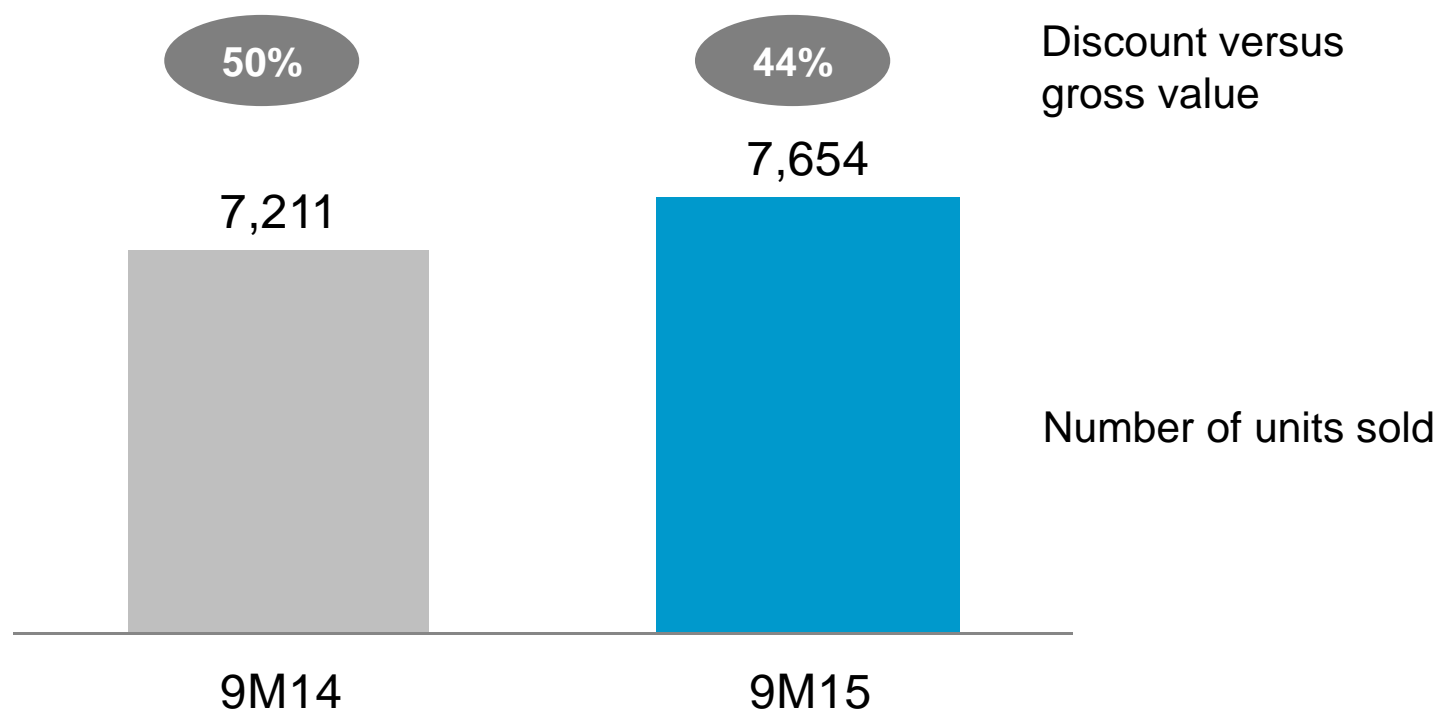
NPAs are reduced by €839M in the quarter

## Improving real estate sales results

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

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**We are selling more assets at a lower discount**



1. Quarterly highlights
2. 3Q15 Results
3. Commercial activity
4. Liquidity and ALCO portfolio
5. Capital and risk management

## **6. TSB 3Q results**

## Key Highlights

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# Local banking for Britain



- Continued positive progress delivered in 3Q
- Mortgage Intermediary growth a standout success
- Ongoing recognition of TSB service quality
- Sabadell integration progressing smoothly (migration assessment underway)
- Interest rate environment remains challenging

## Further Strategic Progress Delivered

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Provide great banking to more people

- Share of current account gross flow 6.5%<sup>(1)</sup> in latest quarter
- Gross flow above 6% target for 7<sup>th</sup> consecutive quarter

Help more People to borrow well

- Strong progress in mortgage broker channel; applications of around GBP3.7bn in the 3 quarters to September 2015, GBP1.8bn in Q3
- Franchise growth of GBP2bn in 2015 vs. GBP1.5bn guidance

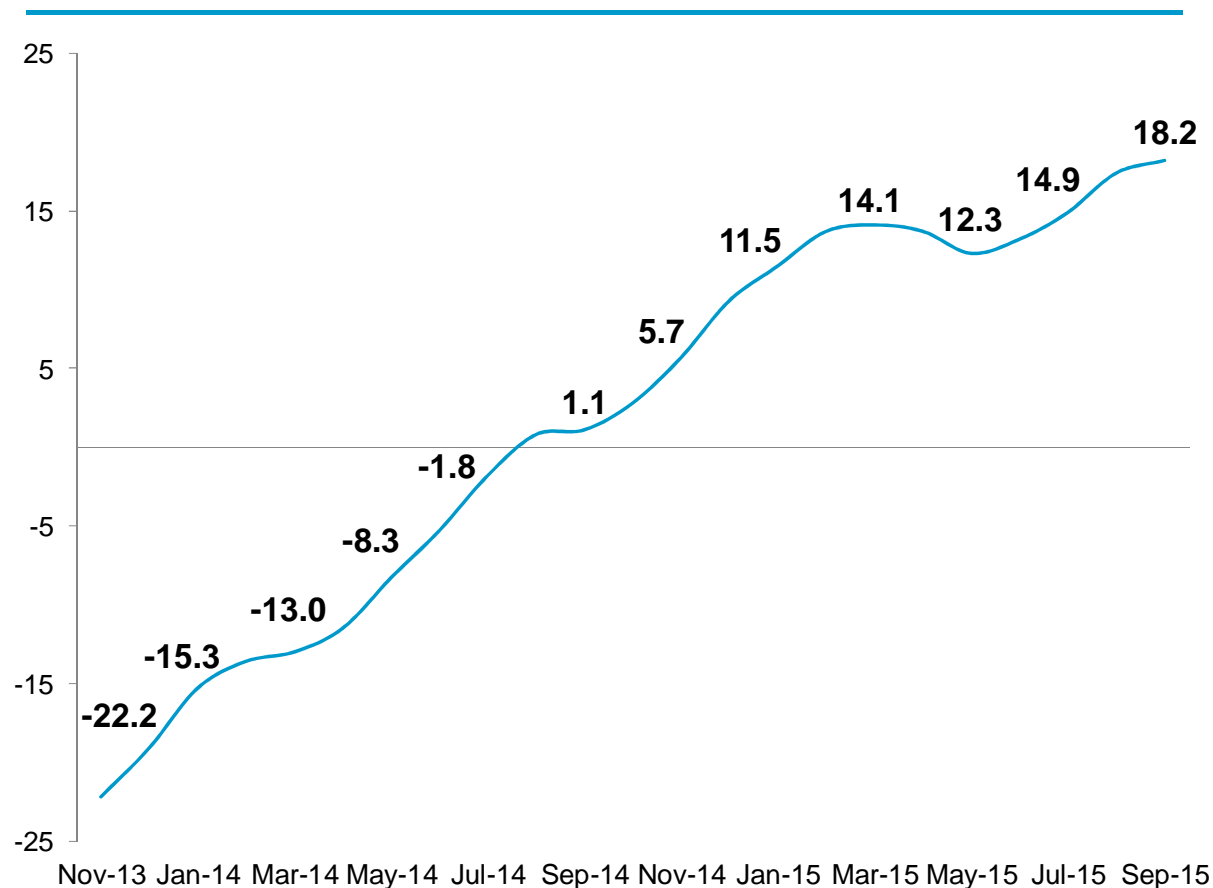
Provide the kind of banking people want and deserve

- Bank NPS improved by 5 points from Q2 to 18<sup>(2)</sup>
- 'Which', Best Branch Based Customer Service Brand (2nd year running)
- Continued progress on cost efficiency

(1) Source: CACI Current and Savings Account Market Database (CSDB) which includes current, packaged, youth, student and basic bank accounts, and new account openings excluding account upgrades. Data presented on a 2 month lag. (2) NPS is based on the question "On a scale of 0-10, where 0 is not at all likely and 10 is extremely likely, how likely is it that you would recommend TSB to a friend or colleague?" NPS is the percentage of TSB customers who score 9-10 after subtracting the percentage who score 0-6.

# NPS Progress encouraging

## NPS evolution



**3Q 15 NPS improves to 18, an increase of 5**

**Return to improving trend after blip in 2Q caused by takeover uncertainty**

## Update on the TSB 3Q business & financials

### Customer funds and loans evolution

GBP in billion

	3Q15	% YoY	% QoQ
<b>Customer deposits</b>	<b>25.4</b>	<b>5.0%</b>	<b>2.0%</b>
<b>Customer lending</b>	<b>22.3</b>	<b>1.4%</b>	<b>2.8%</b>
Of which:			
Mortgage enhancement	2.4	-17.2%	-7.7%
<b>CET1 Capital Ratio (pro forma)</b>	<b>20.2%</b>	<b>+1.4pp</b>	<b>+0.3pp</b>

Intermediary mortgage distribution accelerates franchise lending growth

### Main data 3Q15 results

GBP in million

	3Q15	% QoQ
<b>Franchise Net Interest Income</b>	<b>177.7</b>	<b>2.1%</b>
<b>Franchise total Income</b>	<b>210.3</b>	<b>1.6%</b>
<b>Franchise operating expenses</b>	<b>-172.5</b>	<b>-10.5%</b>
<b>Group management profit</b>	<b>32.4</b>	<b>230.6%</b>
<b>Group AQR</b>	<b>0.37%</b>	<b>-1pp</b>
<b>Franchise NIM</b>	<b>3.60%</b>	<b>-8pp</b>

TSB is executing swiftly its capacity to improve its cost to income ratio

Note: TSB data showed in individual basis and in GBP.

Pro forma excludes unaudited profit for 1Q 2015 and reflects the Credit Card and Overdraft customer lending portfolios calculated on a consistent Internal Ratings Based (IRB) basis. These portfolios have been rated on an IRB approach from 2Q 2015.

**For any additional information,  
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