

Banco Sabadell

2Q14 Results



July 24th, 2014

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- 1. Quarterly highlights**

2. 2Q14 Results

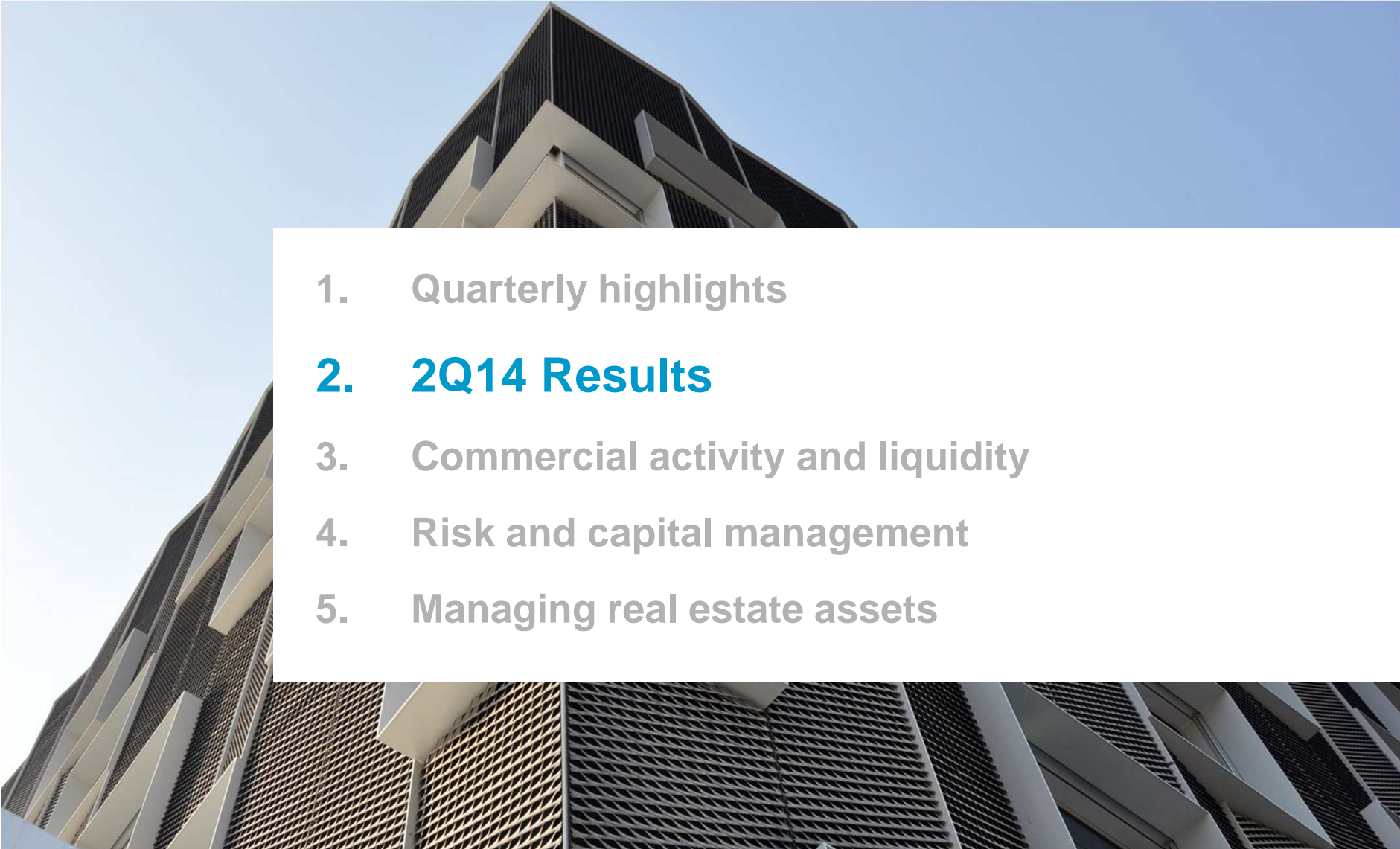
3. Commercial activity and liquidity

4. Risk and capital management

5. Managing real estate assets

Quarterly highlights

- ✓ Recovery in credit demand with a noticeable pick up in SME and companies. Net loan growth at the closing of the quarter
- ✓ Further increase in net interest income and continued reduction in the cost of funding
- ✓ Current balance sheet structure allows for further growth in NII in a low interest rate environment
- ✓ Proactive asset and liability management has continued to contribute positively to the P&L
- ✓ Significant improvement in commission income driven by strong growth in banking services and off-balance sheet funds
- ✓ Third sequential decline in the stock of NPLs. Reduction in the NPL ratio and lower stock of non performing assets
- ✓ Solvia is consolidating its position as a leader in the real estate market, boosting asset sales

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1. Quarterly highlights
 - 2. 2Q14 Results**
 3. Commercial activity and liquidity
 4. Risk and capital management
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2Q14 results

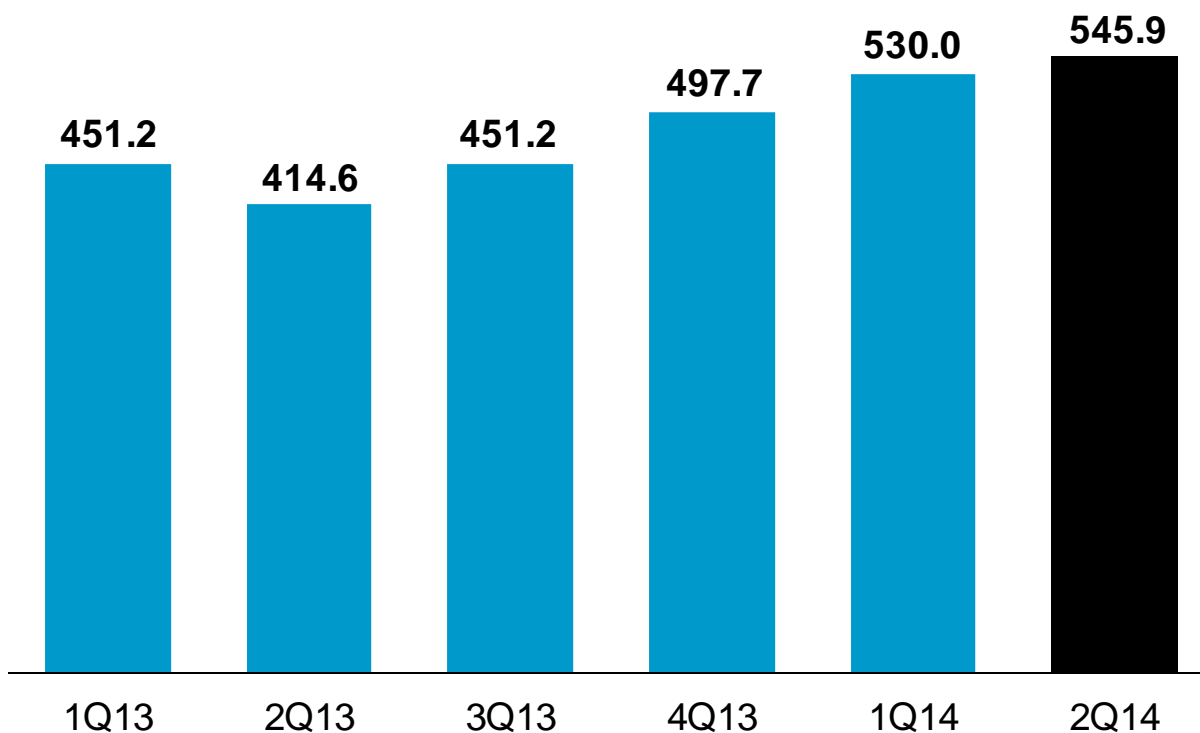
	Jun. 13	Jun. 14	% var 14/13
Net Interest Income	865.8	1,076.0	24.3%
Equity Method & Dividends	3.4	8.5	153.3%
Commissions	356.6	414.5	16.2%
Trading Income & Forex	1,046.3	1,171.2	11.9%
Other Operating Results	-74.9	-72.1	-3.7%
Gross Operating Income	2,197.2	2,598.1	18.2%
Personnel Costs	-524.9	-609.7	16.2%
Administrative Costs	-285.2	-293.4	2.9%
Depreciations	-105.5	-135.9	28.9%
Pre-provisions Income	1,281.6	1,559.0	21.6%
Total Provisions & Impairments	-1,073.3	-1,415.3	31.9%
Gains on sale of assets	-6.2	82.1	---
Profit before taxes	202.2	225.8	11.7%
Taxes and others	-78.8	-58.1	-26.3%
Attributable Net Profit	123.4	167.7	35.9%

Note: 2014 includes BMN-Penedés network, Lloyds Spain and Banco Gallego, and 2013 includes 1 month of BMN-Penedés
Euros in million

Further increase in net interest income ...

Net interest income evolution

Euros in million



Net interest income 1H14:
+24.3% YoY

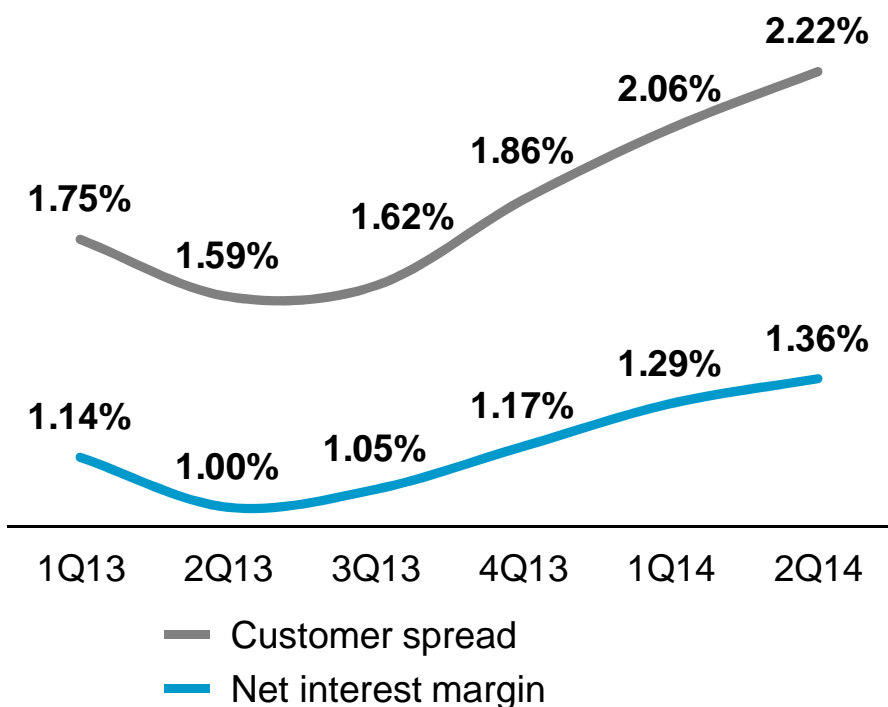
Net interest income 1H14
like-for-like*:
+17.9% YoY

* Excludes BMN-Penedés network, Lloyds Spain and Banco Gallego

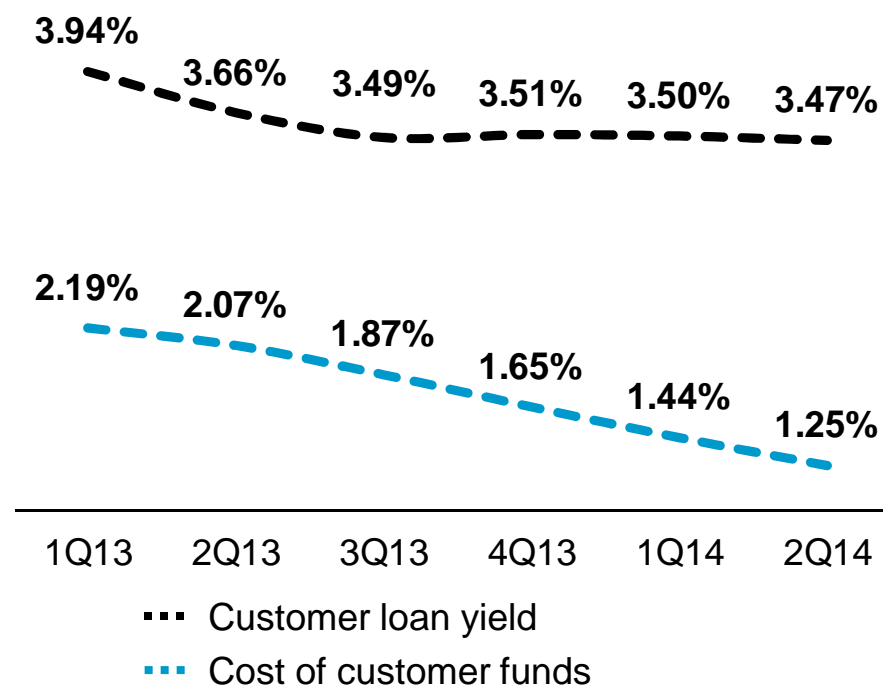
... with continued improvement in customer spreads and lower cost of funding

Margin evolution

In percentage



Customer loan yield and cost of customer funds in percentage

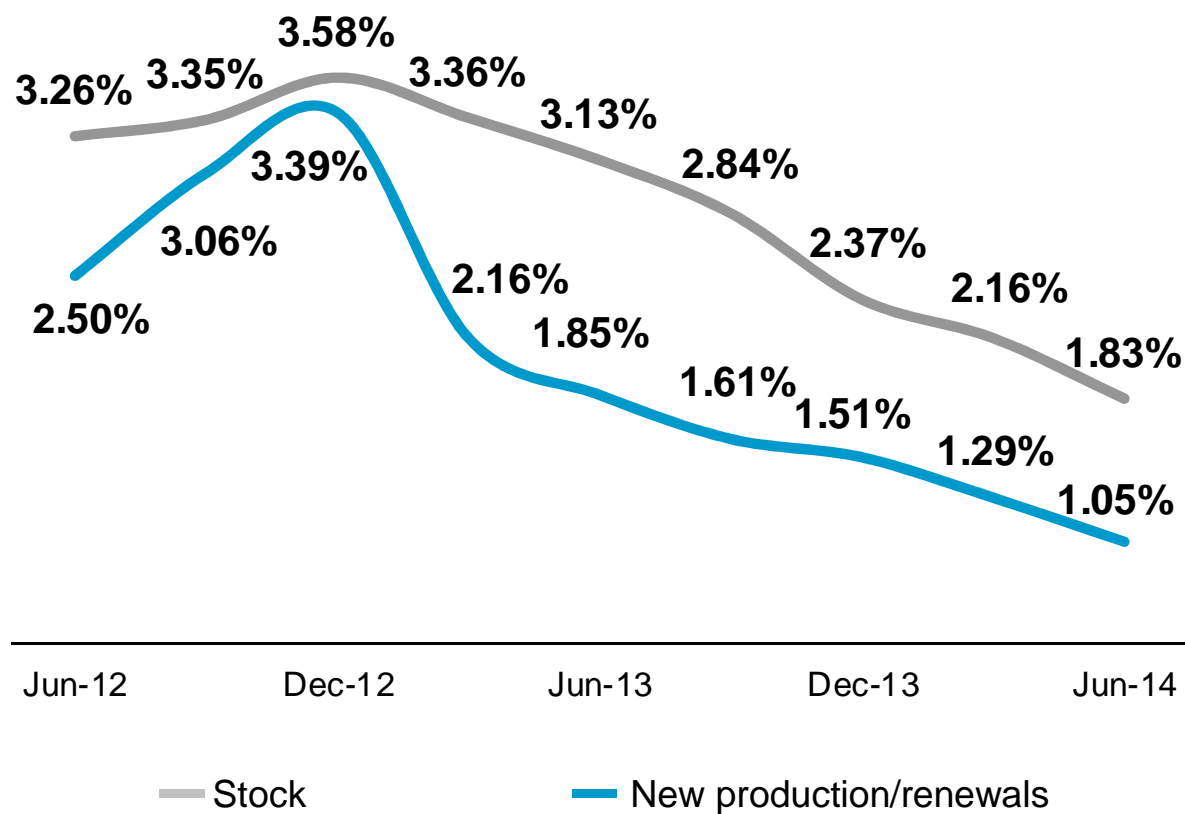


Net interest margin ex-APS: 1.96%

Continued repricing of term deposits drives down the cost of the back book ...

Contractual rates on term deposits

In percentage

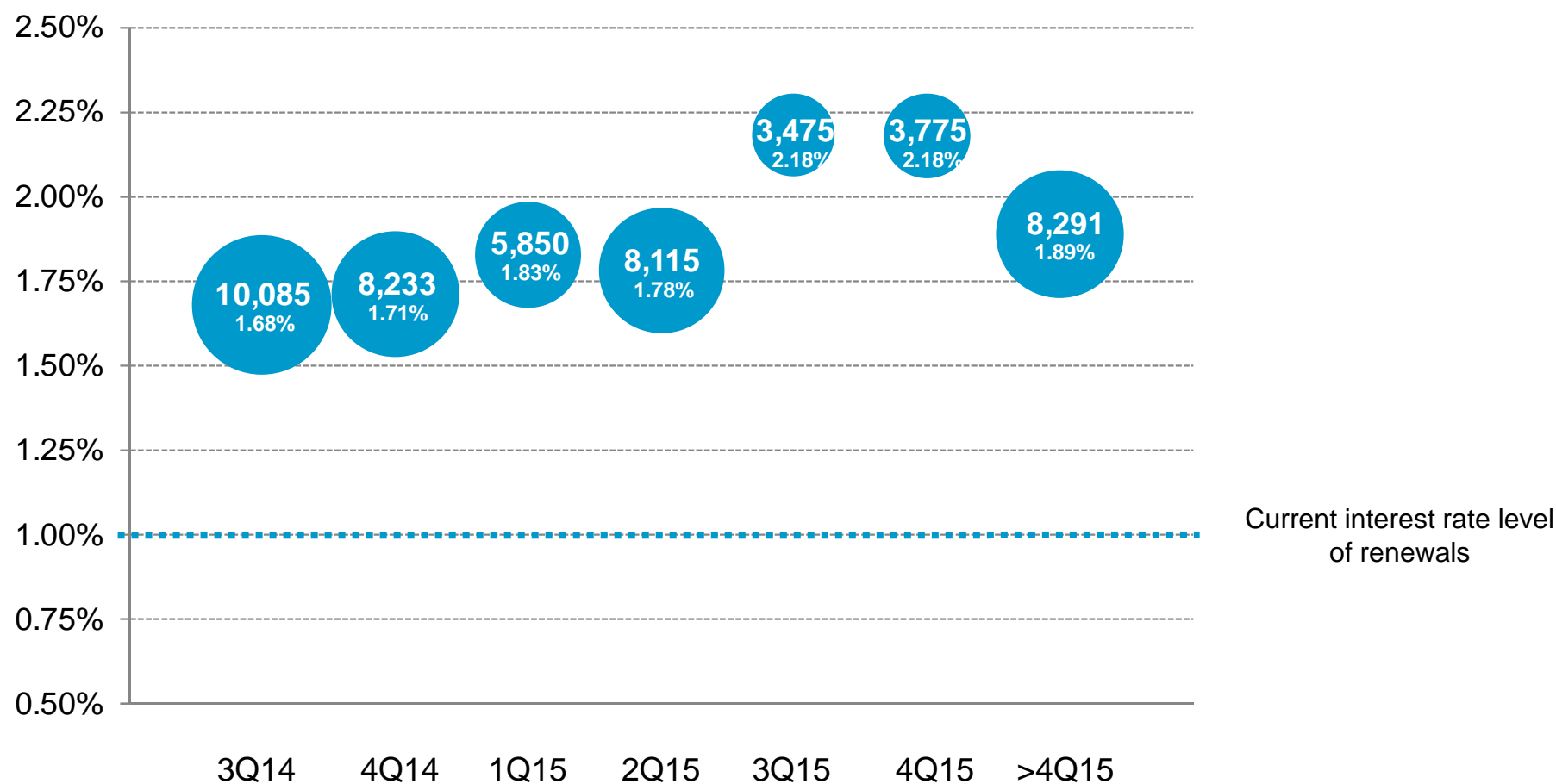


New term deposits at 1%

... with a €300M positive contribution to NII over the next 12 months

Maturities of term deposits: volume and average interest rate cost

Euros in million and percentage



■ The size represents the volume of term deposits maturing every quarter. The percentage number is the current average interest rate paid on the term deposits

Limited downward pressure on the loan yield

Evolution of loan spreads by segment

In percentage

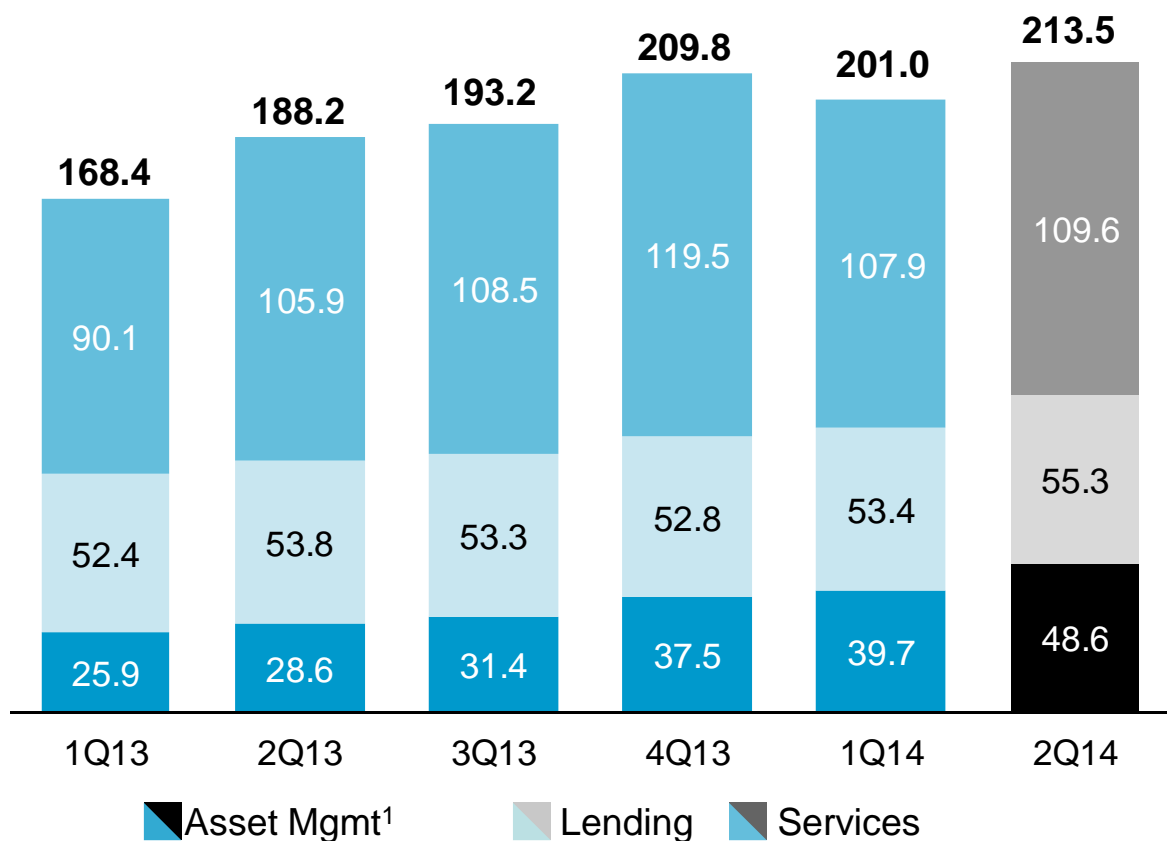
	4Q13		1Q14		2Q14	
	Back book	Front book	Back book	Front book	Back book	Front book
Mortgages to individuals	88	229	87	227	89	214
SME	269	526	270	500	277	492
Corporates	268	342	268	327	266	302

Spreads on new loan production reflecting the lower cost of funding

Commission income is growing ...

Commission income evolution

Euros in million



Commission income 1H14
+16.2% YoY

Commission income 1H14
like-for-like*:
+8.3% YoY

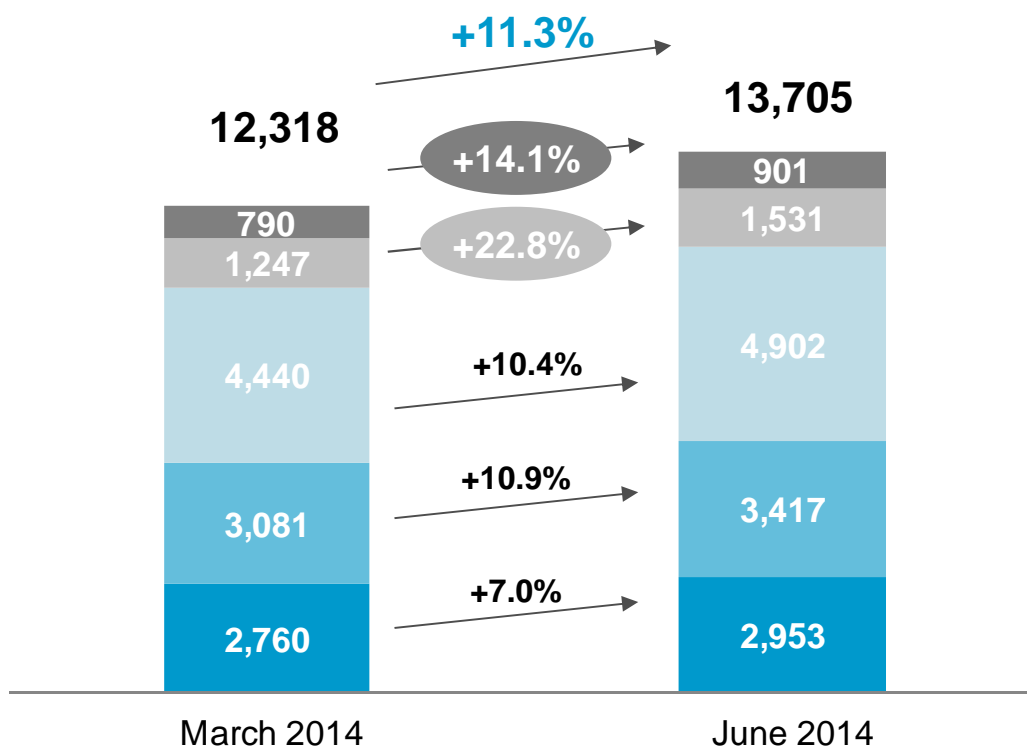
¹ Including mutual funds commissions and pension funds and non-life insurance brokerage

* Excluding BMN-Penedés network, Lloyds Spain and Banco Gallego

... driven by strong performance in mutual funds

Evolution by type of investment fund

Euros in million



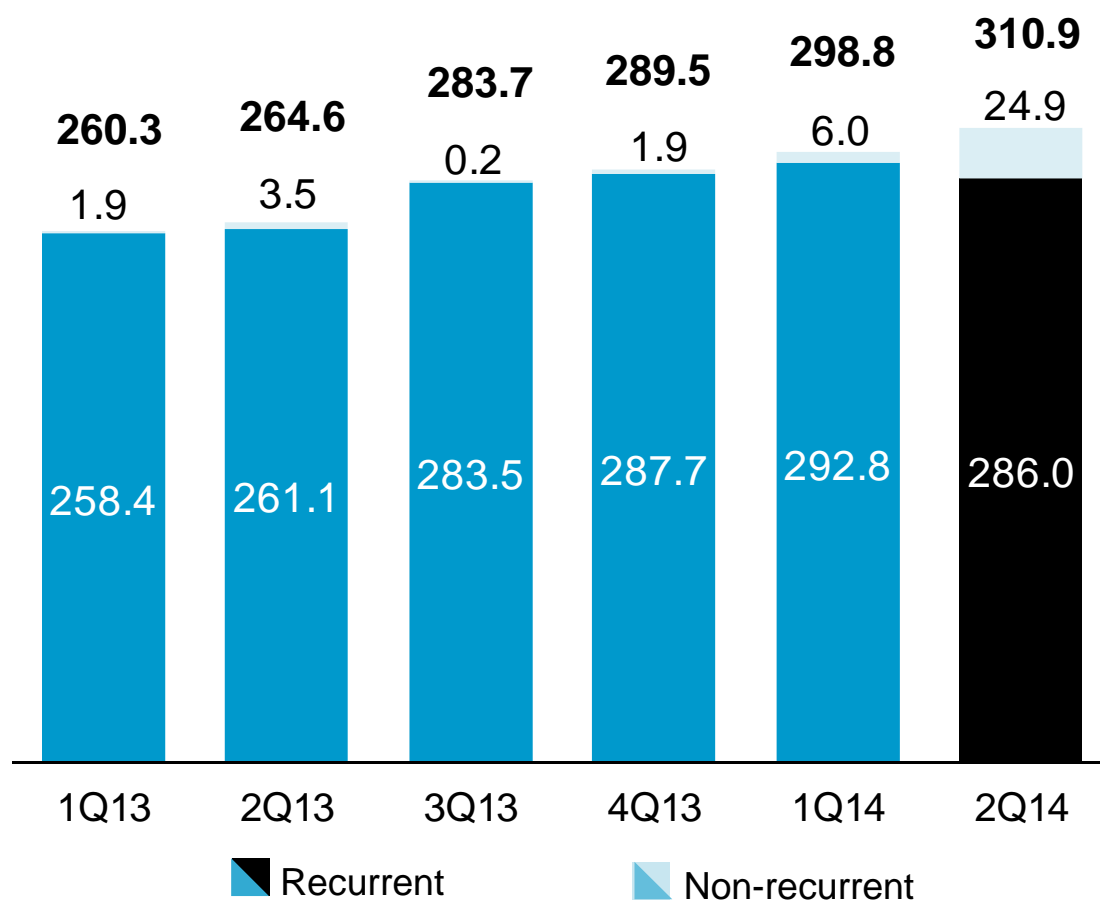
- Fixed income funds ■ Guaranteed funds
- SICAV, External funds and Others
- Balanced funds ■ Equity funds

- ✓ Bias towards higher margin products
- ✓ Annualised growth rate of 53% in funds under management

Personnel costs are being reduced ...

Personnel expenses evolution

Euros in million



Personnel expenses 1H14:
+16.2% YoY

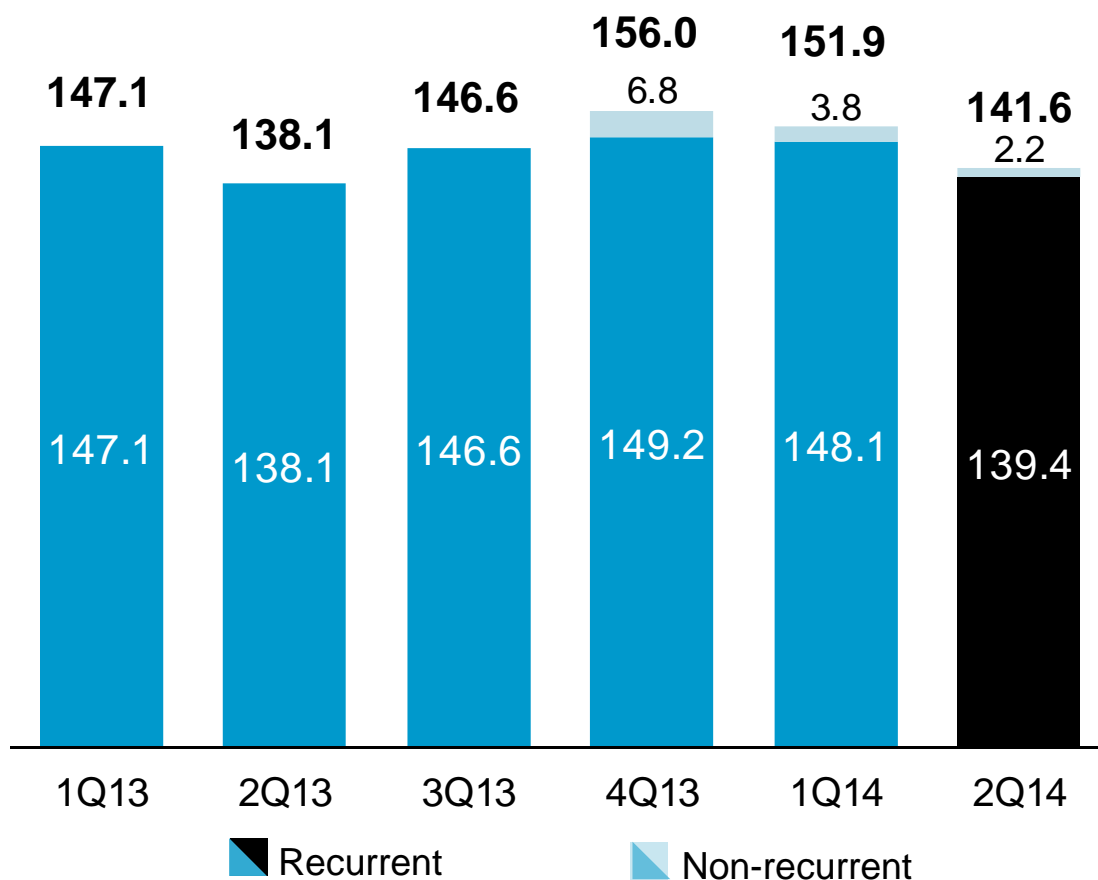
Personnel expenses 1H14 on
a like-for-like basis*:
-2.6% YoY

* Including BMN-Penedés network, Lloyds Spain and Banco Gallego in 2013 and excluding non-recurrent costs.

... and so are general expenses

General expenses evolution

Euros in million



General expenses 1H14:

+2.9% YoY

General expenses 1H14 on a like-for-like basis*:

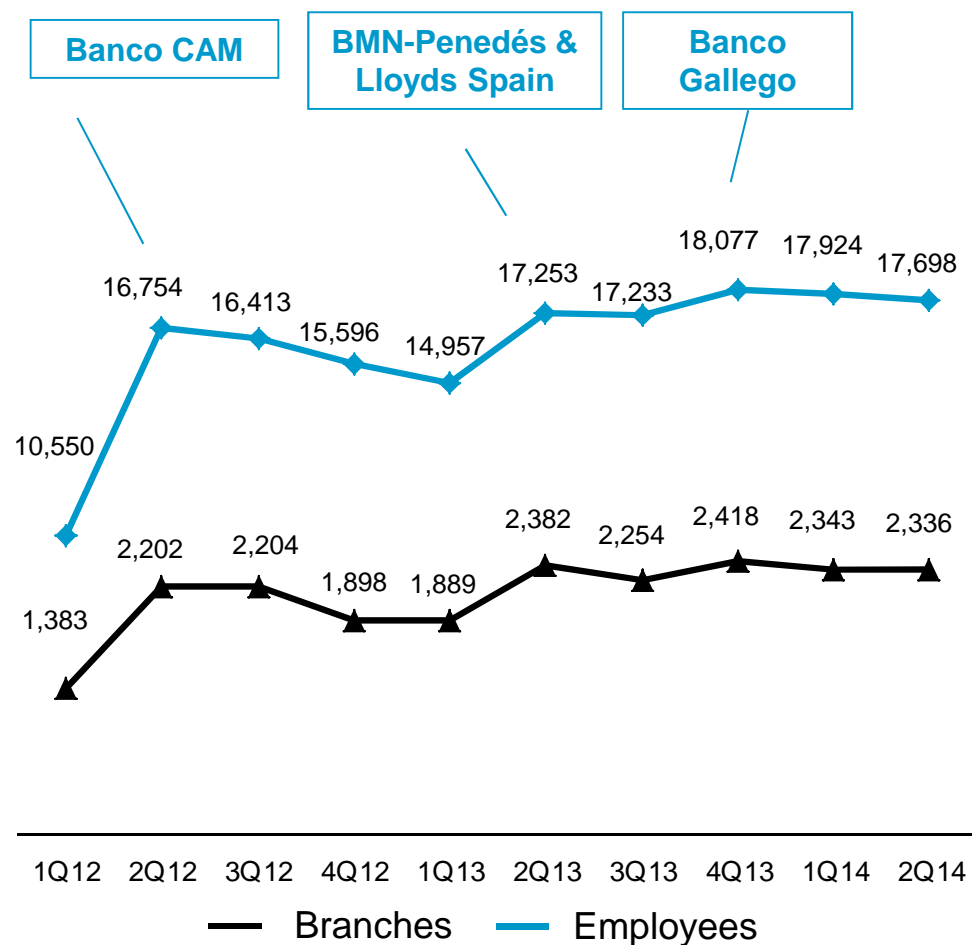
-11.0% YoY

* Including BMN-Penedés network, Lloyds Spain and Banco Gallego in 2013 and excluding non-recurrent costs.

The cost to income ratio is improving: in line with the Triple business plan

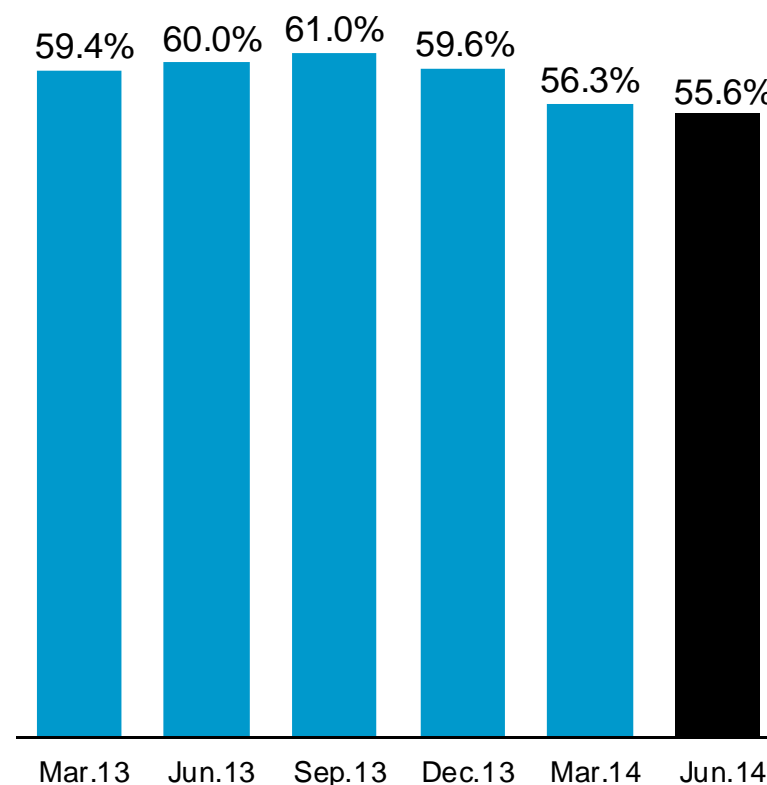
Employee and branch evolution

In number

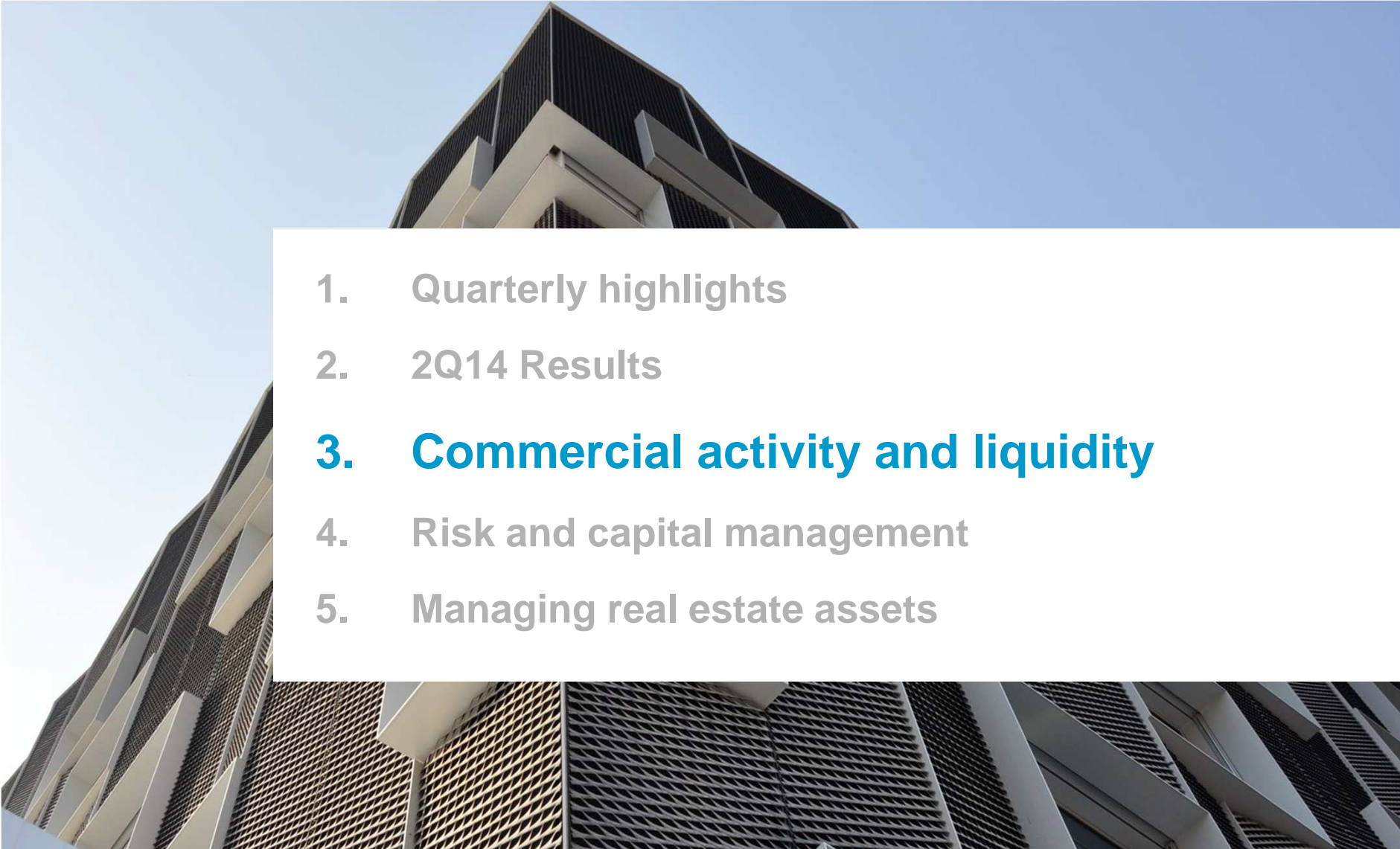


Cost income evolution*

In percentage



*Adjusting operating income for non-recurrent trading income. Same criteria applies for all quarters.

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Improving balance sheet dynamics

Customer funds and loans evolution

Euros in million

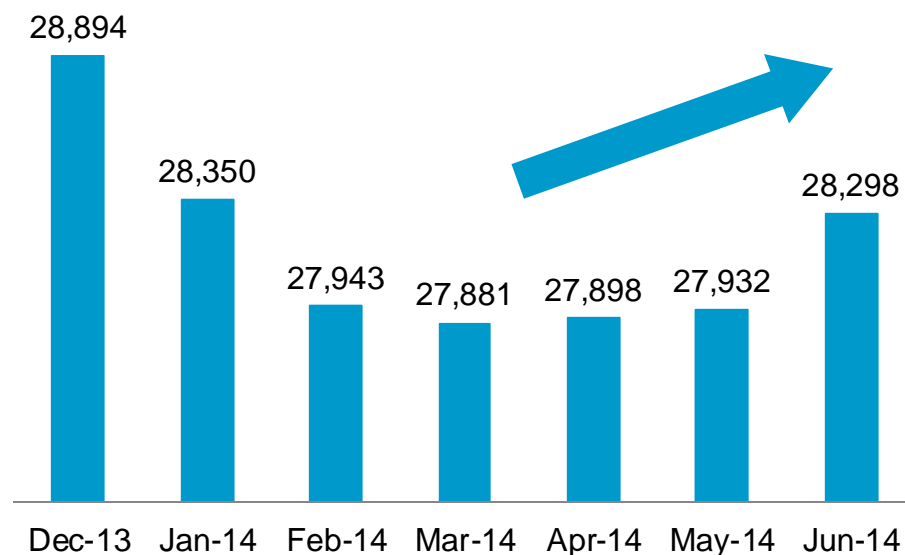
	Jun-13	Mar-14	Jun-14	% Var. YoY	% Org. YoY	% Var. QoQ
Total assets	170,751	161,094	161,557	-5.4%	-7.2%	0.3%
Of which:						
Gross loans to customers ex repos	125,893	123,510	122,838	-2.4%	-4.0%	-0.5%
ALCO Portfolio	28,952	20,623	21,858	-24.5%	-24.5%	6.0%
Total liabilities	161,560	150,529	150,719	-6.7%	-8.6%	0.1%
Of which:						
On-balance sheet customer funds	92,951	94,690	95,043	2.3%	-0.1%	0.4%
Other on-balance sheet term funds ¹	58,408	57,608	55,625	-4.8%	-7.2%	-3.4%
Sight deposits	34,543	37,082	39,418	14.1%	11.9%	6.3%
Wholesale funding	25,460	24,701	24,364	-4.3%	-4.3%	-1.4%
ECB Funding	18,000	5,500	5,500	-69.4%	-69.4%	0.0%
Off-balance sheet funds	22,090	26,866	28,597	29.5%	26.9%	6.4%
Of which:						
Mutual funds	9,693	12,318	13,705	41.4%	35.5%	11.3%
Pension funds	3,716	4,314	4,375	17.7%	17.7%	1.4%
Third party insurance products	7,289	7,973	7,916	8.6%	8.6%	-0.7%

¹ Other on-balance sheet term funds include term deposits and other funds placed in the retail network. Exclude repos
Note Organic variation excludes Banco Gallego.

Loan growth is being reactivated

SME and company loans evolution

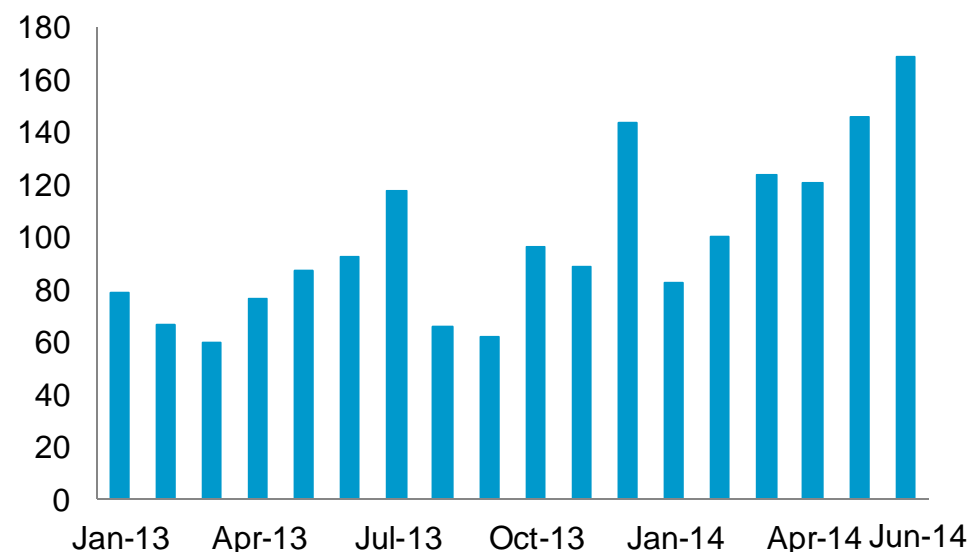
Euros in million



During the month of June the SME and company loans book grew by €366M; +1.5% QoQ

Monthly residential mortgage production

Euros in million



In 1H14 the number of new mortgages increased by 54% YoY with volume growth of 61% YoY

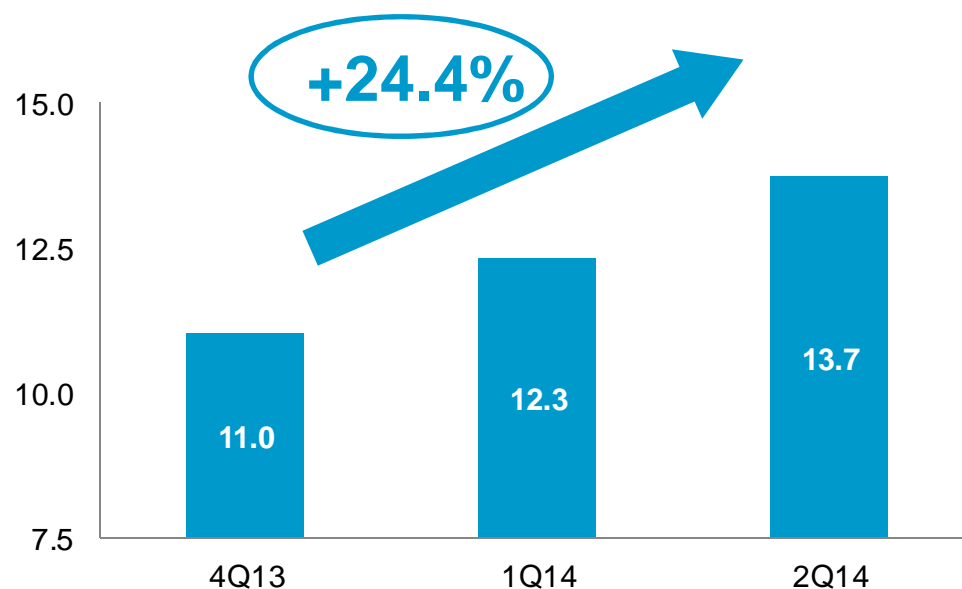
(43% and 50% like-for-like*)

Note: SME and company loans includes loans to SMEs, corporates and public sector
 * Excludes BMN-Penedés network, Lloyds Spain and Banco Gallego in 2014

Strong growth in investment funds ...

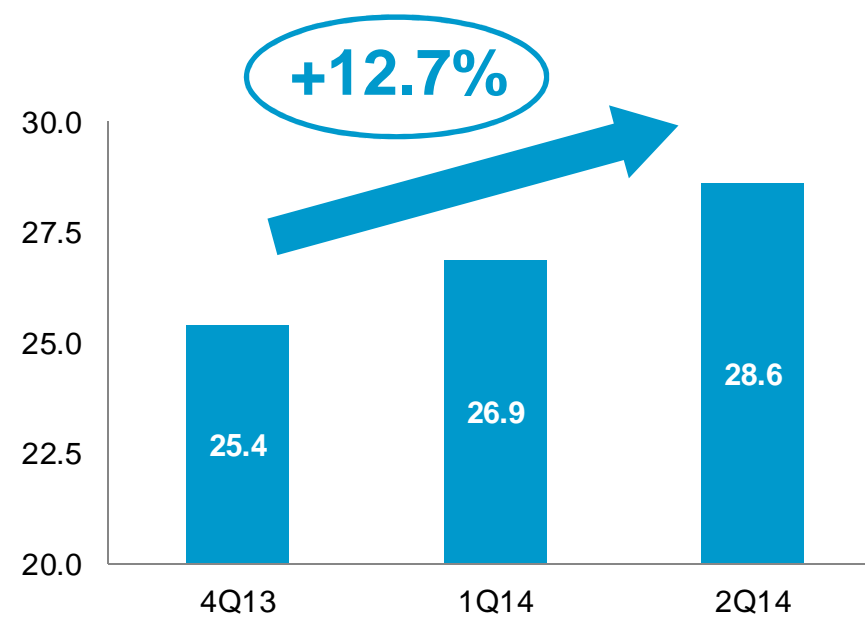
Investment funds

Euros in billion



Off-balance sheet funds

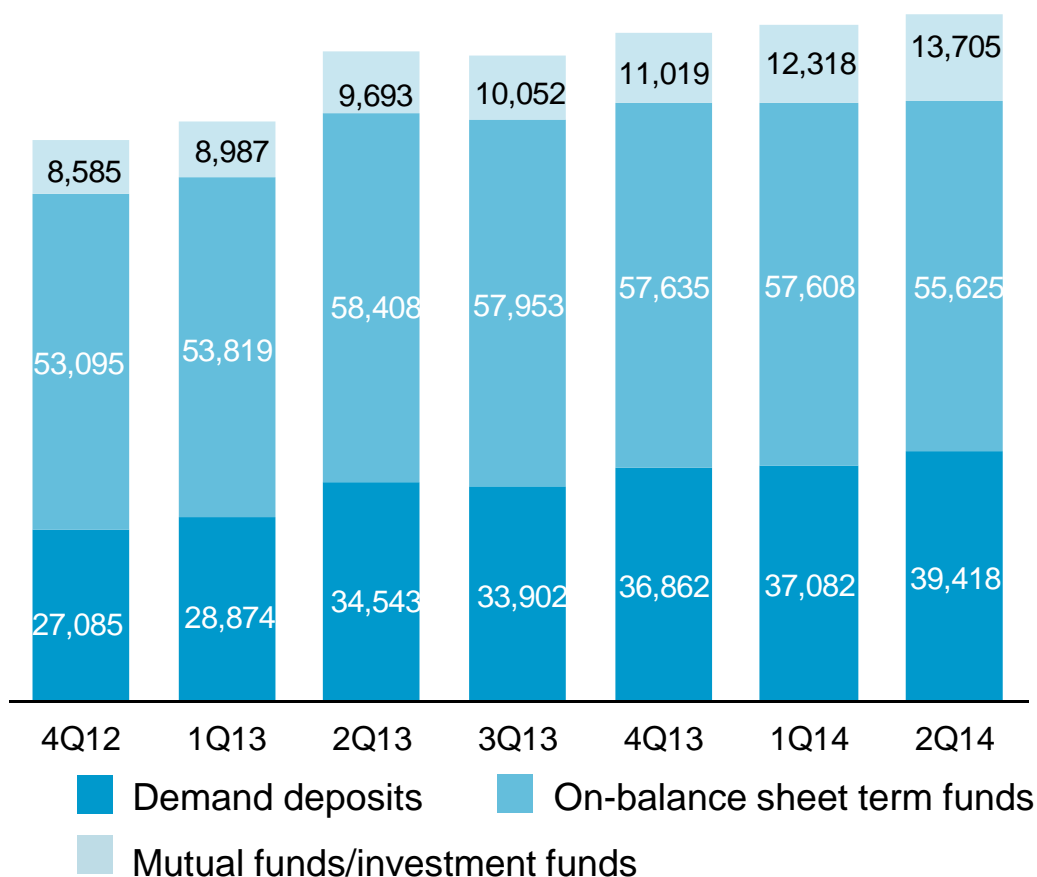
Euros in billion



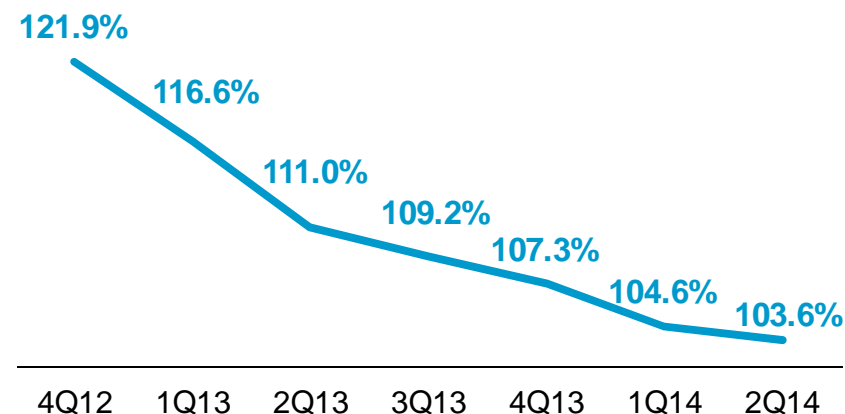
Commercial focus in the network to attract off-balance sheet funds

... contributing to the increase in customer funds

Evolution of customer funds and off-balance sheet funds Euros in million



Loan to deposit ratio
In percentage



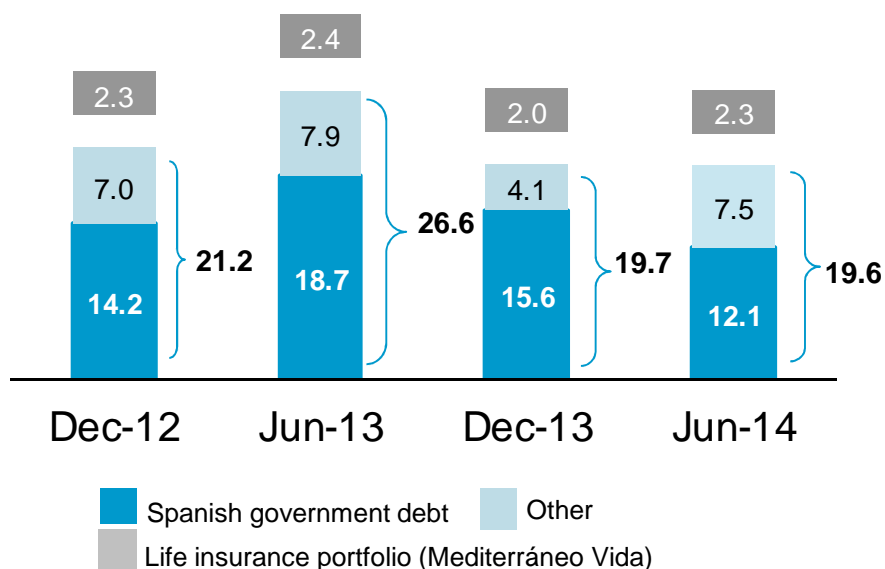
Continued increase in customer funds

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.
Loan to deposit ratio excludes provisions and third party loans

Fixed income portfolio remains unchanged

Fixed income portfolio evolution

Euros in million



ALCO portfolio

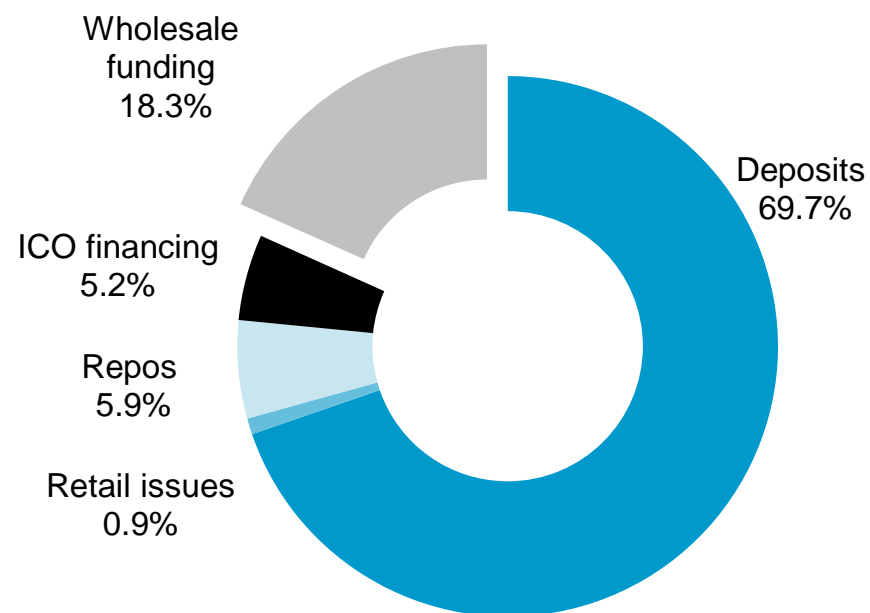
Euros in billion and in percentage

	Jun-13	Dec-13	Jun-14
ALCO portfolio	26.6	19.7	19.6
% of total assets	15.6%	12.1%	12.1%
Duration (in years)	3.8	4.9	5.0
Yield	3.3%	3.9%	3.5%
ECB liquidity position	18.0	8.8	5.5

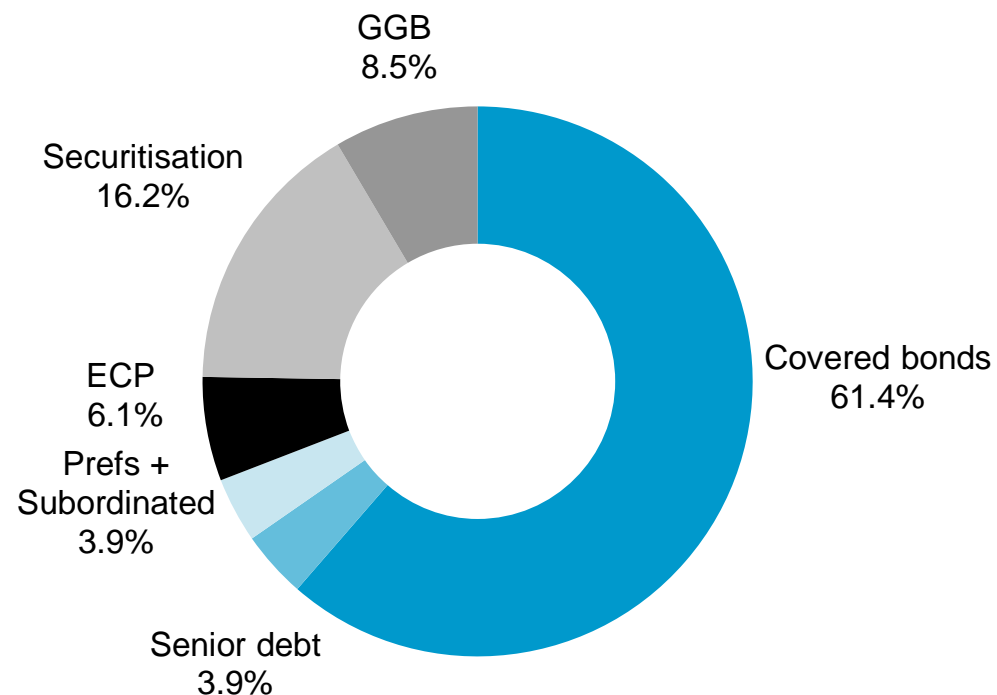
The ALCO portfolio contribution is stable

Maintaining a balanced funding structure ...

Group funding structure



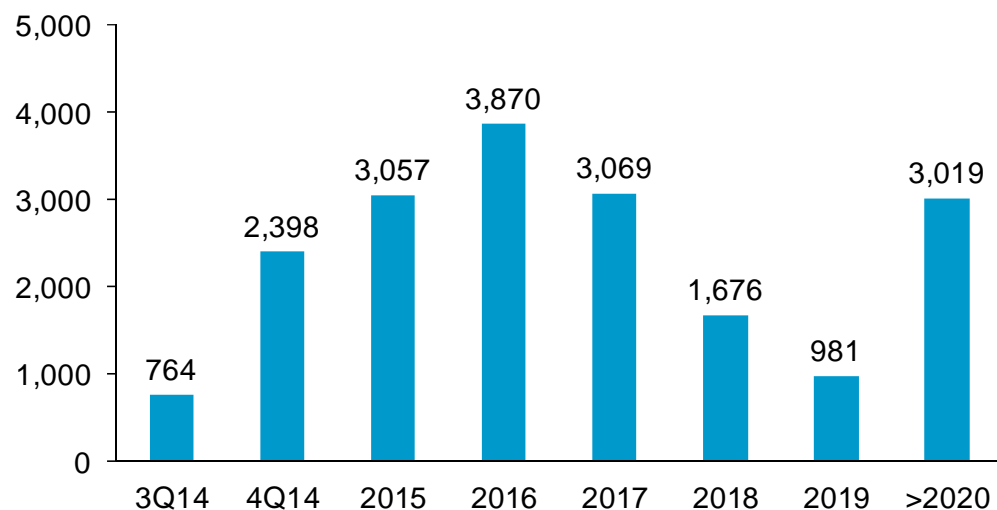
Group wholesale funding breakdown



... and efficiently managing liquidity ...

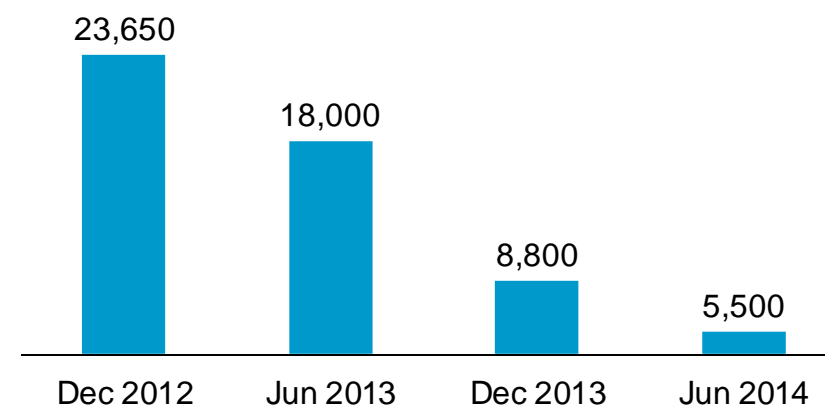
Group wholesale funding maturities

Euros in million



ECB liquidity position

Euros in million



Maturity by product type

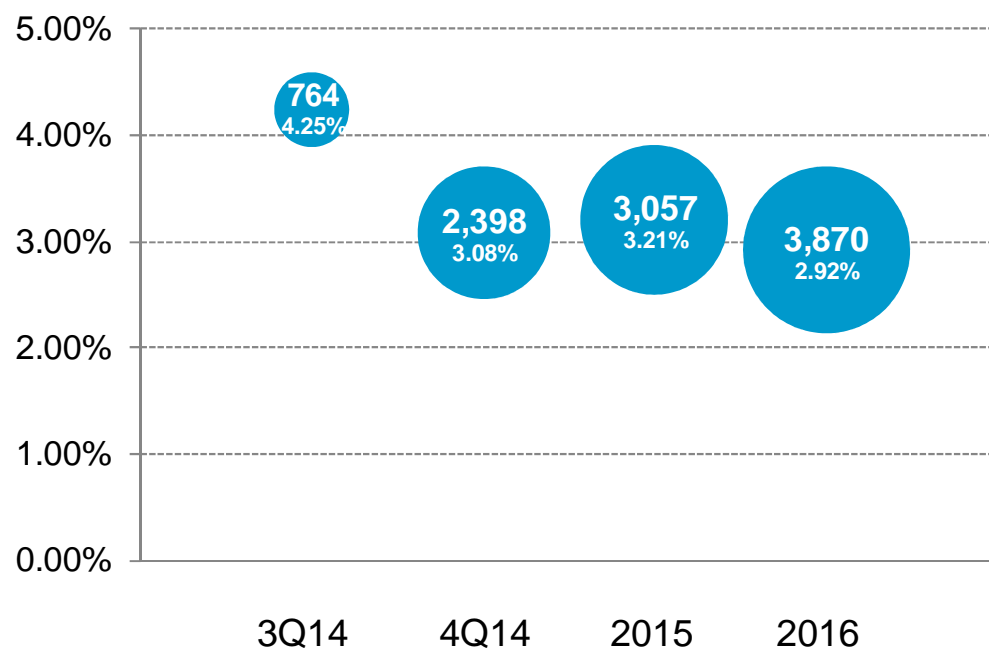
Euros in million

	3Q14	4Q14	2015	2016	2017	2018	2019	>2020	Outst. Amount
Covered Bonds (CH)	764	1,323	3,057	2,870	1,937	1,558	924	2,497	14,929
GGB	0	1,005	0	0	1,066	0	0	0	2,071
Senior Debt	0	0	0	682	0	100	57	25	864
Preferred Shares and Subordinated Debt	0	0	0	318	66	0	0	480	864
Other mid- and long-term financial instruments	0	70	0	0	0	18	0	18	105
Total	764	2,398	3,057	3,870	3,069	1,676	981	3,019	18,833

... allowing for lower cost of wholesale funding going forward

Current cost of whole sale funding maturities: average coupon and size

Euros in million and in percentage

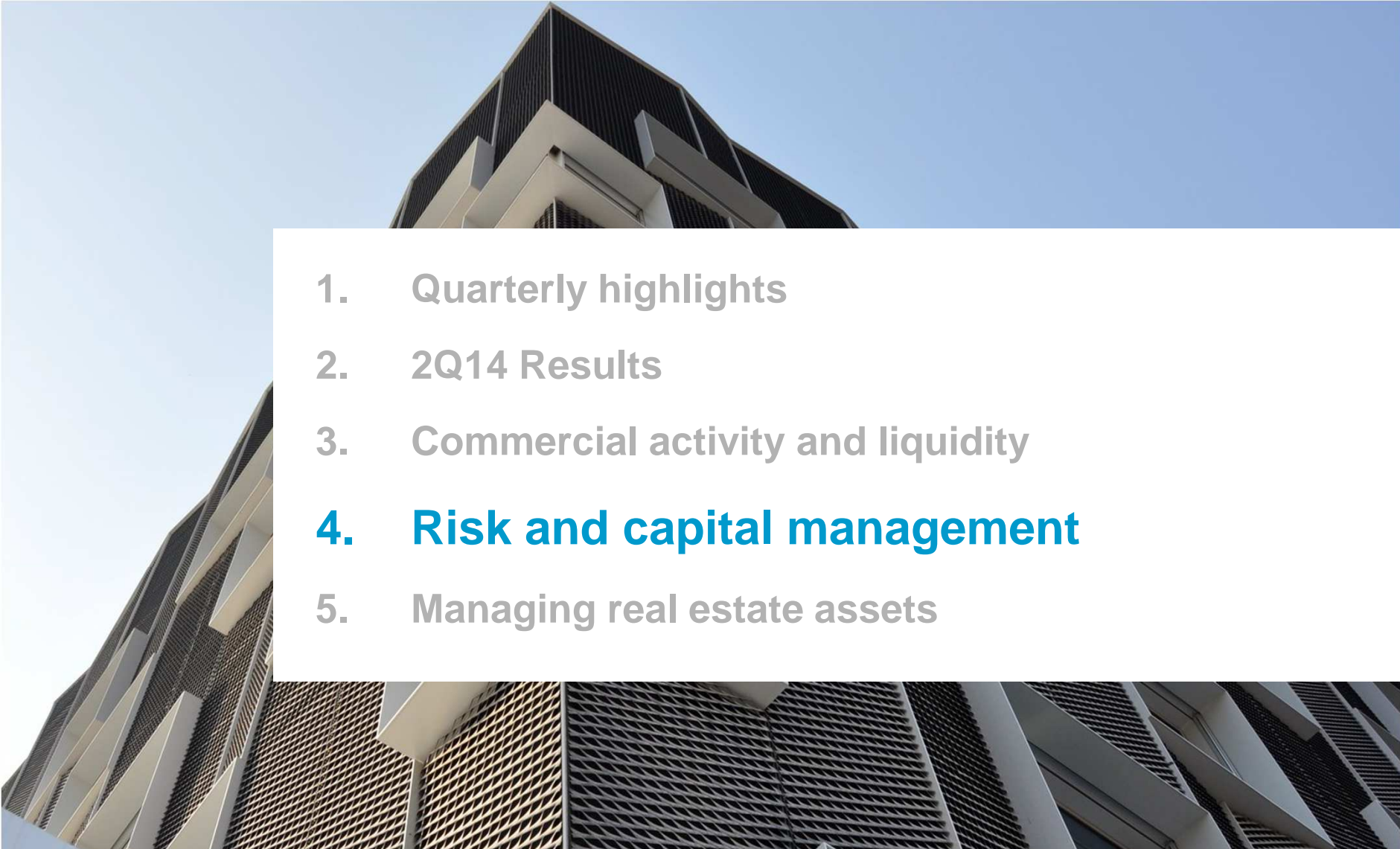


■ The size represents the volume of wholesale funding maturing every quarter. The percentage number is the current average coupon cost

Potential new issues pricing

Instrument	Maturity	Indicative price
Covered bonds	3-10 years	1% -2 .4%
Senior debt	3-5 years	1.45%-1.9%

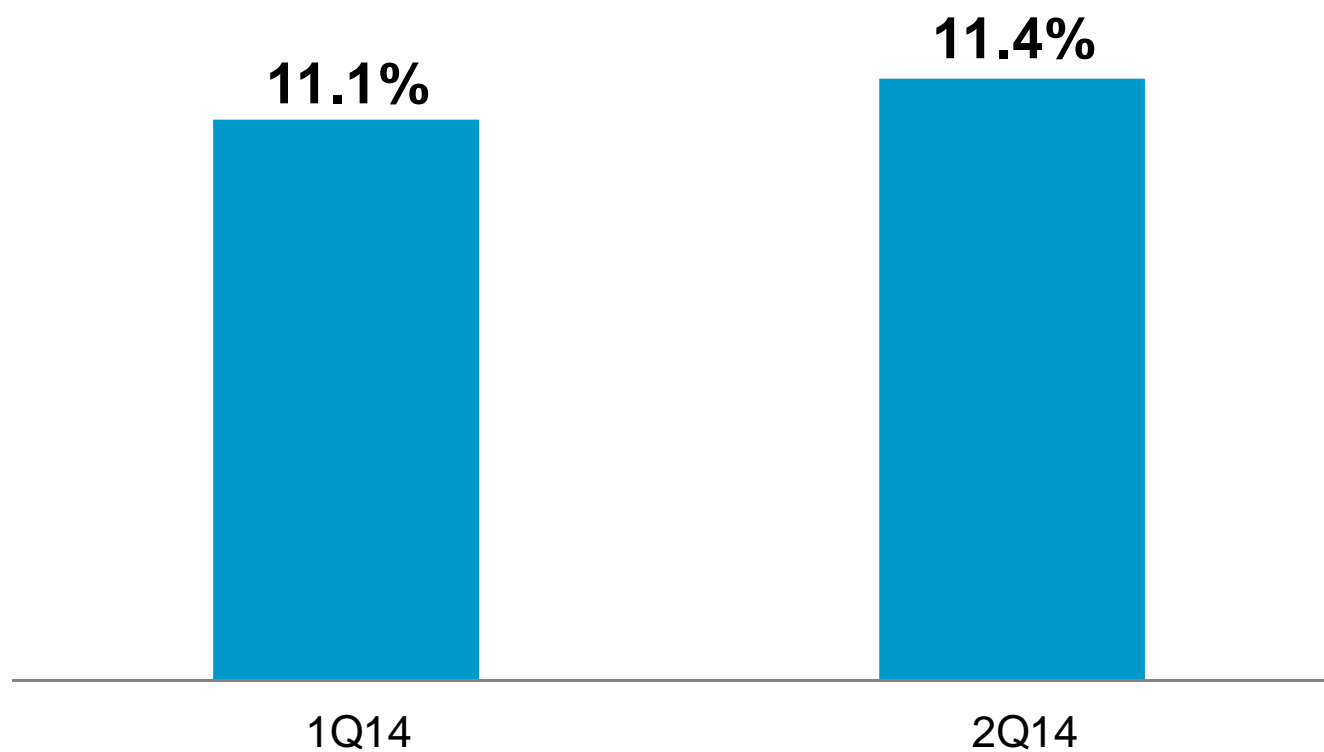
Lower levels when issuing in capital markets allow for a reduction in wholesale funding cost over time

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Strong capital levels

Capital ratios. Core capital Basel III *phase-in*

In percentage

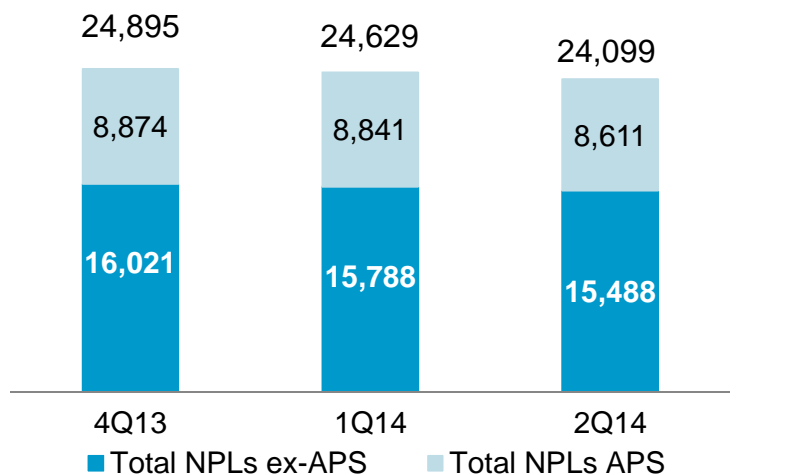


Note: According to the pending change to "circular 2/2014"

The stock of NPLs continues the downward trend ...

NPL evolution

Euros in million

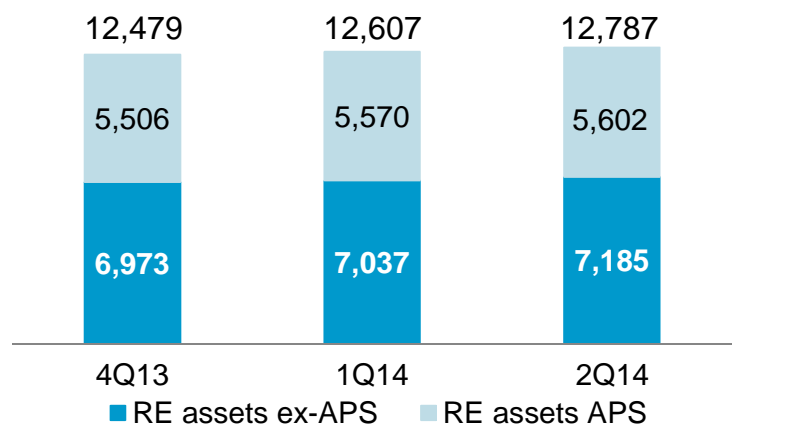


€300M further reduction of NPLs, ex-APS, during 2Q14

Second consecutive quarter showing a decline in total problematic assets, ex-APS

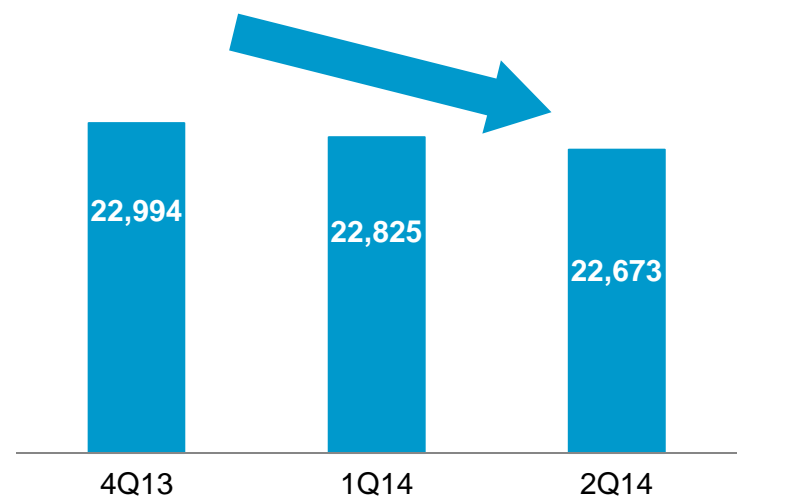
On-balance sheet RE assets evolution

Euros in million



Total problematic assets, ex-APS

Euros in million



Note: NPLs include contingent risk

... with improved dynamics in the last quarters, like-for-like

Evolution of NPLs and RE assets. (Excluding reclassified loans and acquisitions until 1Q14)

Sabadell ex-APS. Euros in million

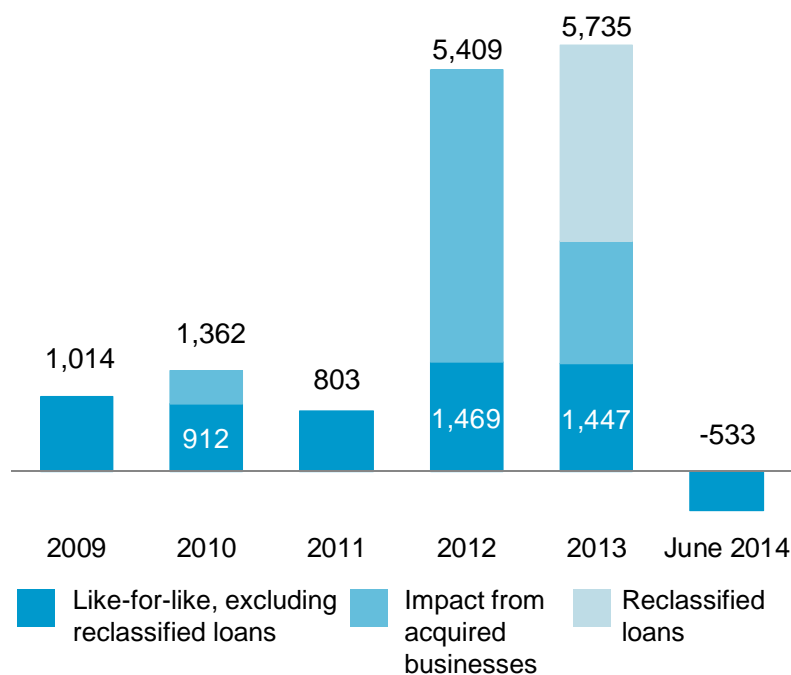
	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Ordinary net entries	388	760	365	-12	-83	-203
Change in RE assets	394	1	218	400	64	148
Net entries + Change in RE assets	782	761	583	388	-19	-55
Write-offs	247	305	105	51	265	97
Re assets and NPL quarterly change	535	456	478	337	-284	-152

Total problematic assets ex-APS are reduced by €152M

Provision requirements remain affordable

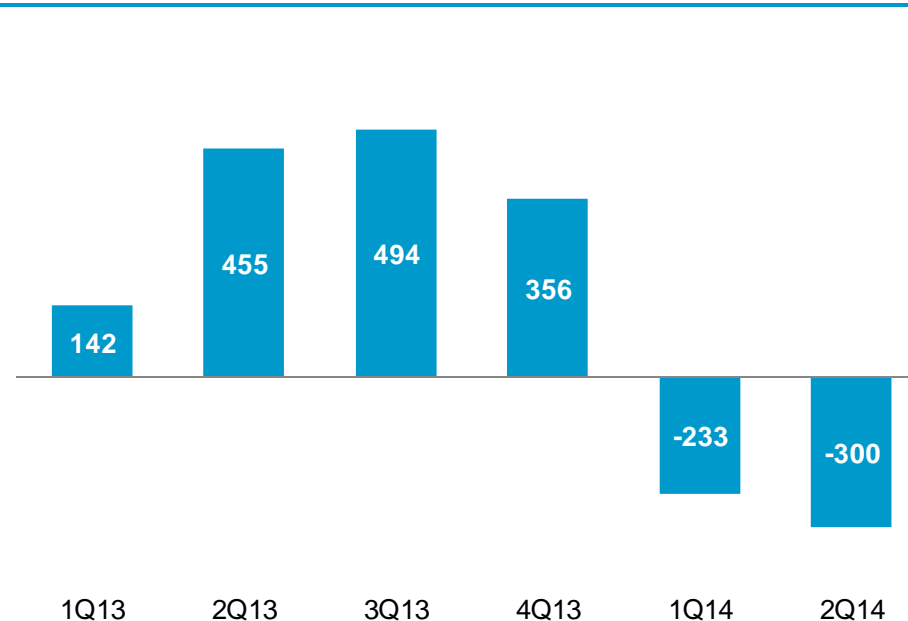
Evolution of new NPLs, ex-APS

Euros in million



Net new NPLs, ex APS, like-for-like and excluding reclassified loans

Euros in million



NPLs must be fully provided for after 12 months

NPL ratio improving at a higher pace ...

Evolution of NPL ratios by segment, ex-APS

In percentage

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Real Estate development and/or construction purposes	38.38%	42.99%	55.73%	62.98%	63.12%	62.19%
Construction purposes non-related to real estate dev.	5.96%	7.94%	9.84%	8.26%	8.32%	8.25%
Large corporates	7.40%	7.48%	8.91%	6.05%	6.02%	6.01%
SME and small retailers and self-employed	8.98%	9.81%	10.93%	13.33%	13.31%	13.31%
Individuals with 1st mortgage guarantee assets	8.07%	8.17%	8.78%	9.86%	9.84%	9.73%
NPL ratio	9.69%	10.62%	12.61%	13.63%	13.57%	13.35%

Second consecutive fall in the NPL ratio, with improvement across all loan categories

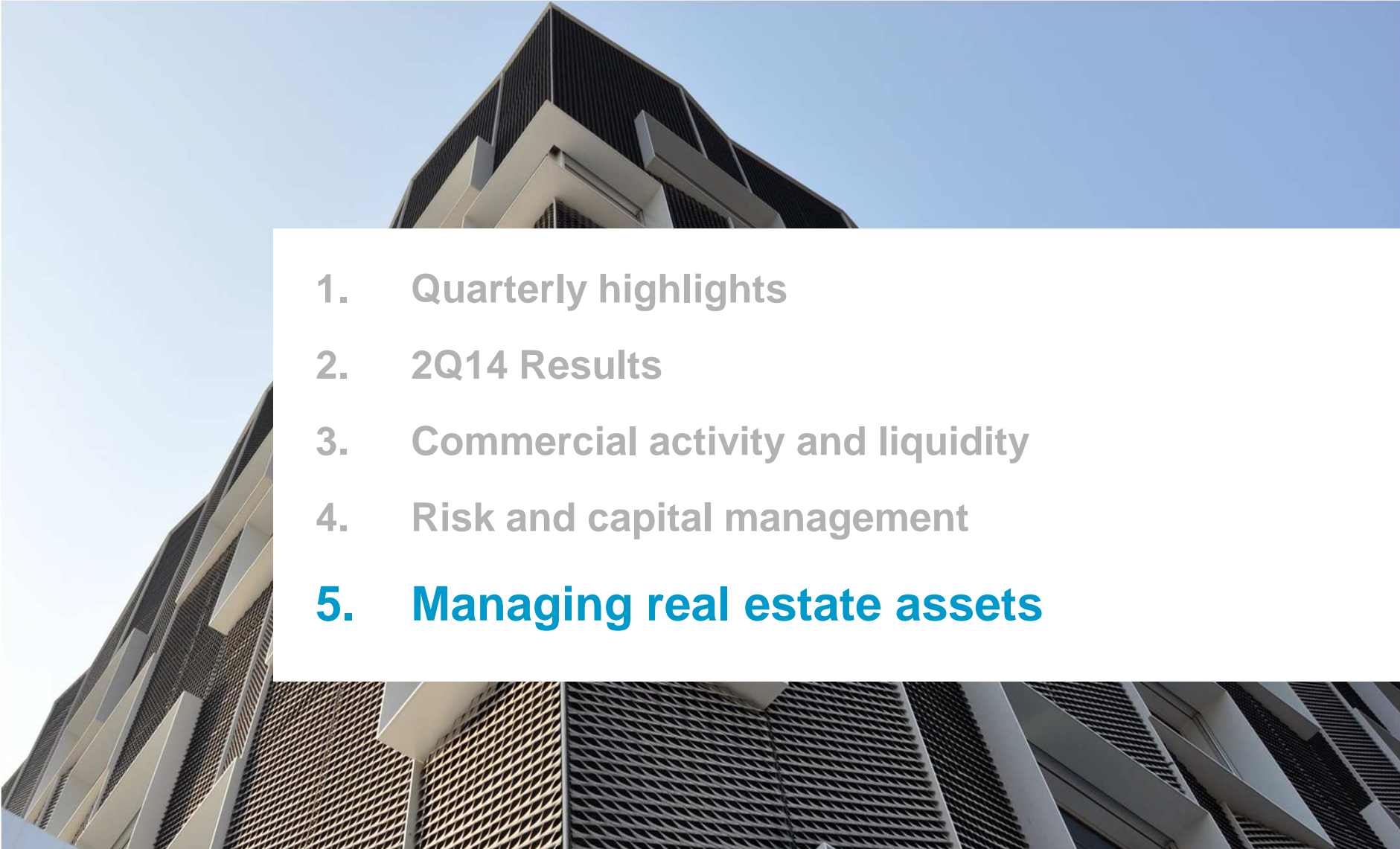
... maintaining high coverage levels

Coverage by loan segment and real estate assets

Split between asset protection scheme and rest

2Q14	BS ex-APS	APS	Total	
Real estate assets	40.5%	50.8%	45.0%	13.8% Global coverage of total loans and RE assets
Real estate development loans	33.8%	47.4%	40.1%	
Total real estate exposure	37.0%	48.9%	42.3%	
Construction	12.2%	5.3%	10.3%	9.7% Global coverage of total loans and RE assets, ex-APS
Large Corporates	6.5%	46.5%	8.2%	
SME and small retailers and self-employed	8.5%	20.6%	9.6%	
Individuals	3.8%	12.6%	4.2%	
Rest of loan book	5.6%	20.2%	6.4%	
Total	9.7%	39.5%	13.8%	

Comfortable coverage levels relative to expected loss levels

- 
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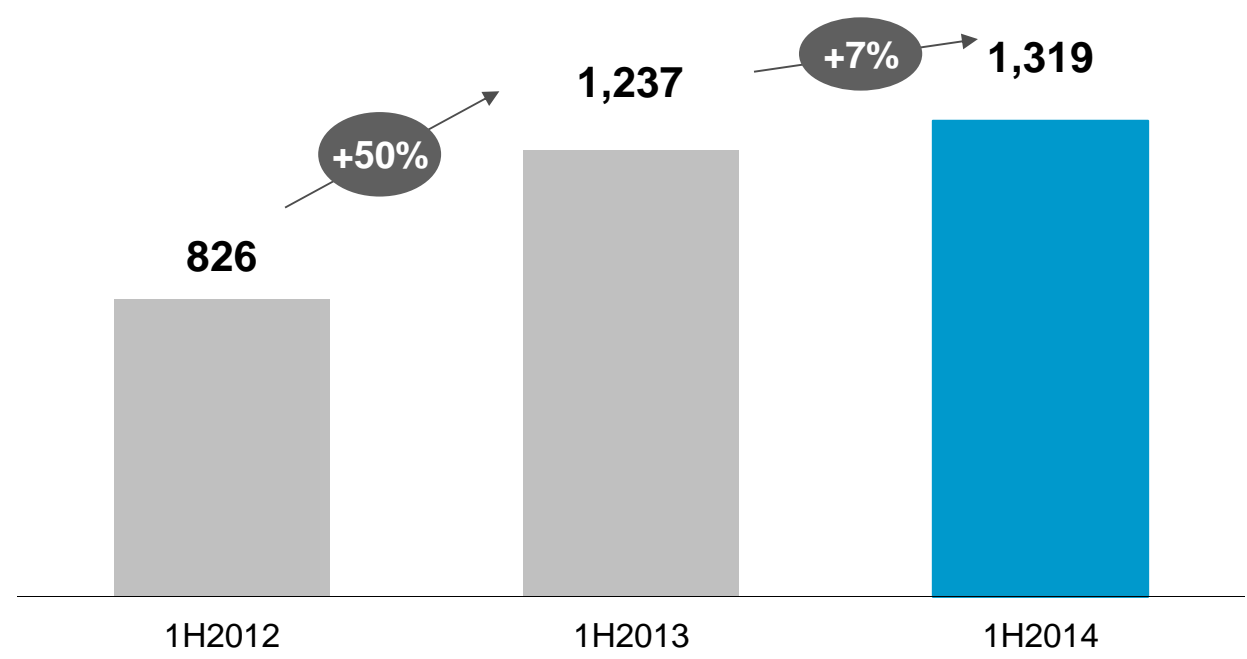
Real estate assets management highlights

- ✓ Maintaining good results in real estate asset disposals. Sales volume in 1H 2014 has increased by 7%, YoY, while reducing discount levels
- ✓ The Spanish real estate market is changing
 - ✓ There are fewer real estate assets with a selling price below €100,000
 - ✓ Increase in number of transactions with mortgage funding
 - ✓ Price increases in some developments
- ✓ New commercial initiatives:
 - ✓ Launch of house rentals targeting the retail market
 - ✓ Solvia Innova initiates modular housing concept

Maintaining good sales results

Sales evolution

Euros in million



Solvía has a 12% market share in Spanish property sales

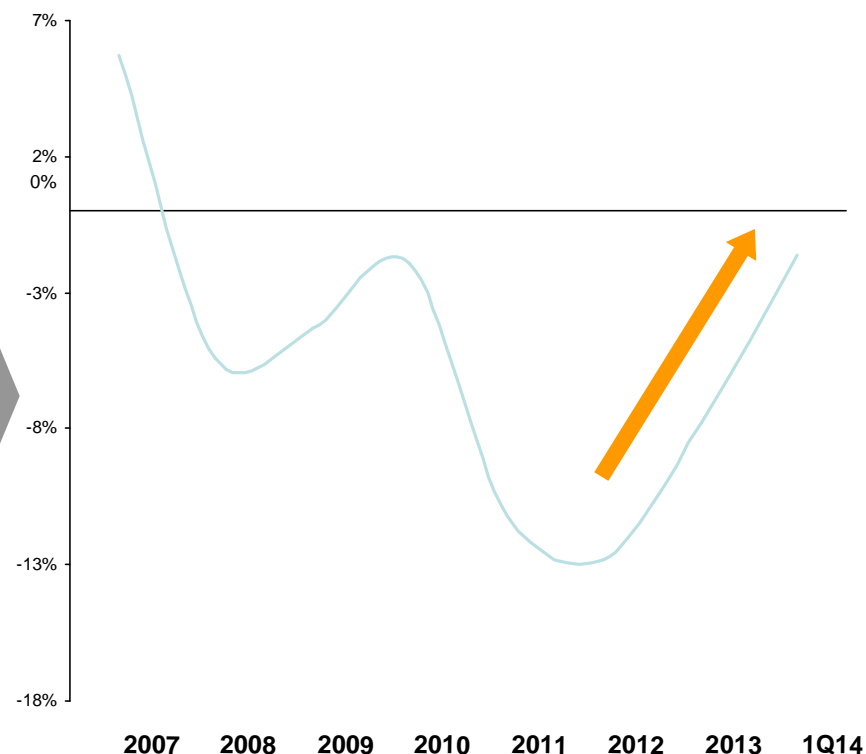
Increase in sales in 1H14

Real estate market turning signs

- ✓ **Pick-up in transactions in 2014**
(INE, Public works Ministry)
- ✓ **Price increase in 4 regions**
(Madrid, Cantabria, Basque Country, Balearic Islands) **in 1Q14**
(INE)
- ✓ **House price expectations are improving**
 - ✓ The proportion of people expecting house price declines has changed from over 50% in 2012 to below 25% in 2014
(Social research centre)
- ✓ **Rental yields are improving** (BoS)



House price evolution



Solvia has become a leader real estate company increasing its brand recognition

Real Estate Business

Commercialisation and servicing

Transformation
(land transformation and development capabilities)

Asset Management

Institutional Sales

Real estate as an investment product

- ✓ Launch of house rentals initiatives
- ✓ Third party servicing
- ✓ Institutional and retail sales

Solvia brand recognition is improving and growing significantly among potential house buyers

One of the largest sales platform in Spain



Casas, casas y más casas.
Y de repente, la tuya.

Solvía.es

Consulta a uno de nuestros
asesores personales.

Solvía **B** **S**