

# Banco Sabadell

## 2013 Results



January 23rd, 2014

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1. Macroeconomic update and strategic positioning

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  2. 2013 Results

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  3. Commercial activity and liquidity

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  4. Risk and capital management

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  5. Managing real estate assets

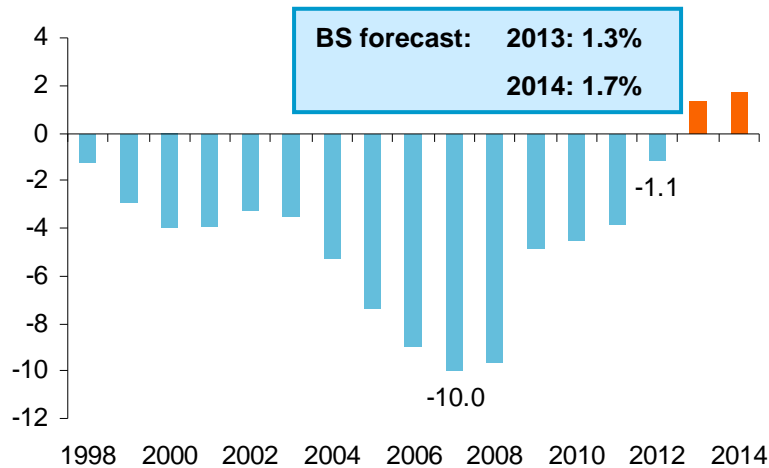
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  6. Summary and outlook

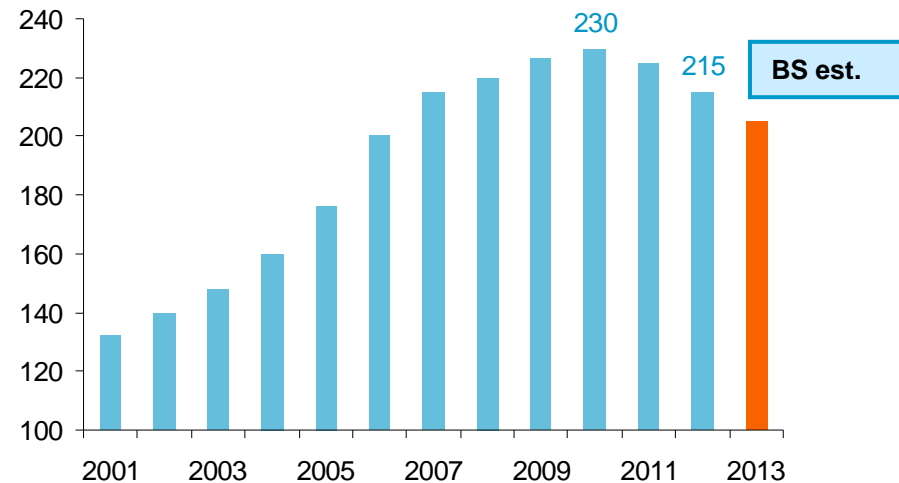
# 1. Macroeconomic update and strategic positioning

# The acute phase of correcting imbalances in Spain is largely over ...

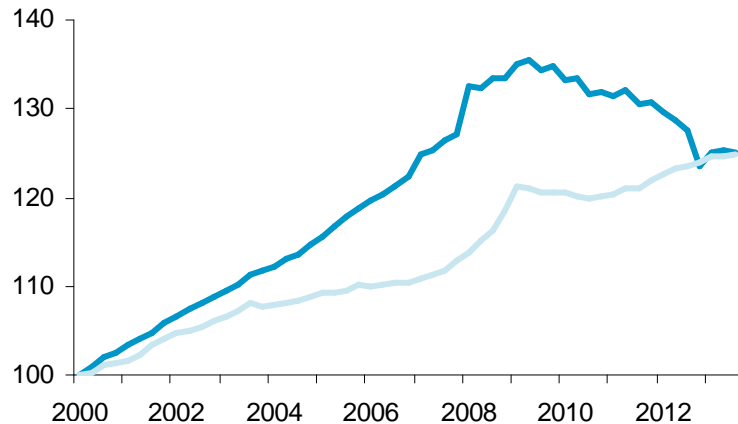
**Current account balance** (% of GDP)



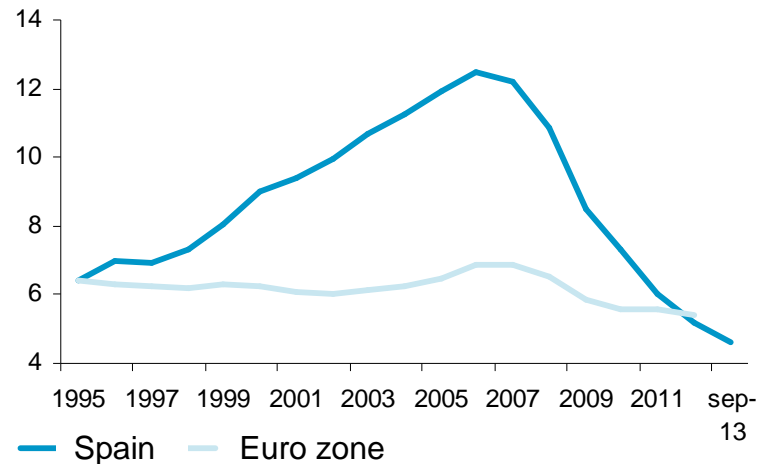
**Private sector debt** (% of GDP)



**Unit labour cost** (2000 = 100)



**Investment in housing** (% of GDP)



Sources: Bank of Spain, ECB, AMECO and INE.

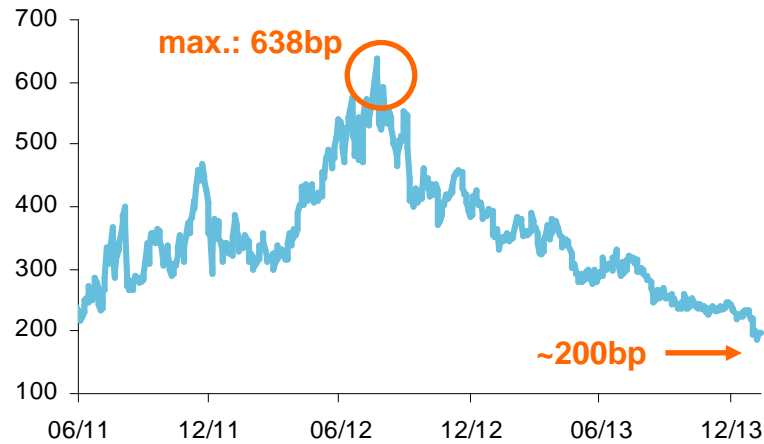
## ... and recent data is confirming the improvement of the Spanish economy

	Last published data		December 2012	Top range since...
Cement consumption (yoy %)	-6.4	↑ Nov-13	-34.6	Feb-11
Consumer confidence (index)	-17.1	↑ Dec-13	-40	Dec-11
Electricity consumption (yoy %)	1.2	↑ Dec-13	-2.4	Feb-11
Foreign tourist inflows (yoy %)	15.3	↑ Dec-13	-0.8	Jan-96
Industrial production (yoy %)	2.7	↑ Nov-13	-8.1	Feb-11
Industry employment expectations (index)	-5.9	↑ Dec-13	-13	Apr-11
Passenger automobile registrations (yoy %)	19.6	↑ Dec-13	-22.2	May-10
PMI manufacturing (index)	50.8	↑ Dec-13	44.6	Mar-11
PMI services (index)	54.2	↑ Dec-13	44.3	Jul-07
Retail sales (yoy %)	2.0	↑ Nov-13	-11.4	Mar-10
Truck registrations (yoy %)	10.4	↑ Nov-13	-35.8	Aug-11

Sources: INE, Bank of Spain, *Ministerio de Economía* and Bloomberg.

# Market appetite for Spanish assets continues to grow ...

**Spanish ten year government bond spread** (bp)



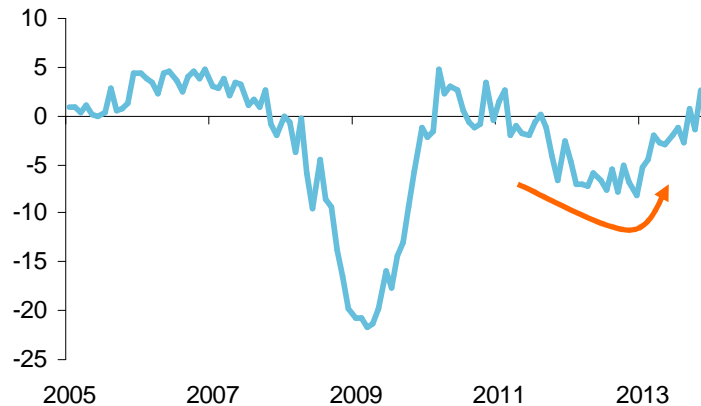
**Spanish equity market** (Ibex-35)



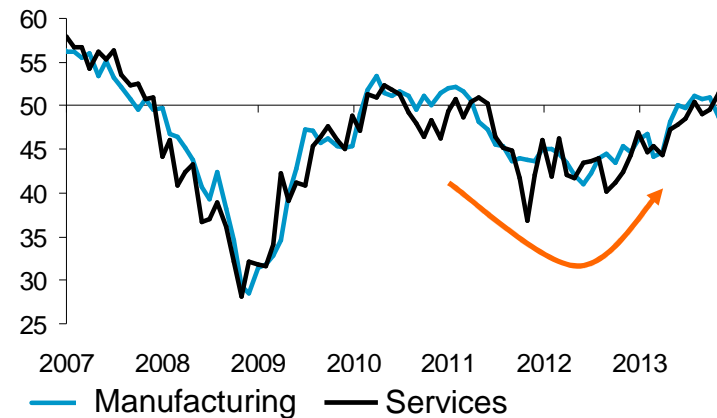
**Credit and equity markets are aware of the improved economic outlook**

# ... and the improvement of the economy is expected to continue in 2014

**Industrial production**  
(YoY change, %)



**Confidence indicators**  
(level)



**Economic forecast**  
(in %)

	2012	2013	2014e
<b>GDP</b>	-1.6	-1.3*	1.0
<b>Unemployment rate</b>	25.1	26.4*	25.4
<b>CPI</b>	2.4	1.5	1.1

**The market has a more positive outlook for the Spanish economy**

\*BS Estimates  
Sources: Bloomberg and INE.



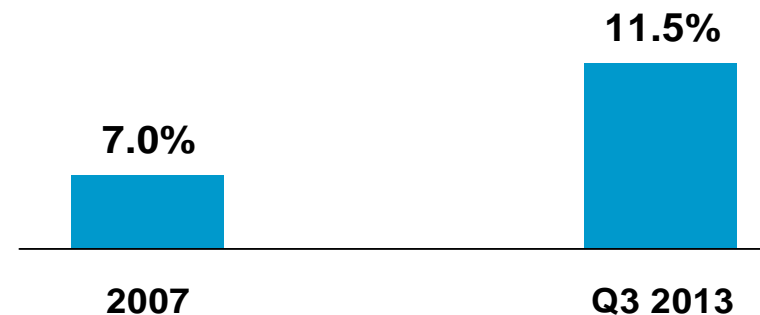
# The restructuring of the financial system is virtually concluded ...

Jun 2009	<b>Establishment of the FROB</b> Manage the restructuring of the sector
Feb-May 2012	<b>Royal decrees “De Guindos I &amp; II”</b> Provisioning requirements
Jul 2012	<b>Signing of the MoU</b> Financial support from Europe of up to € 100bn
Jan 2014	<b>End of financial rescue program for the Spanish banking sector</b>
Nov 2014	<b>European financial supervisor</b> The ECB takes on the role as single financial supervisor

## Weight of the 6 largest financial institutions in assets



## Evolution of the core capital of the main Spanish banks



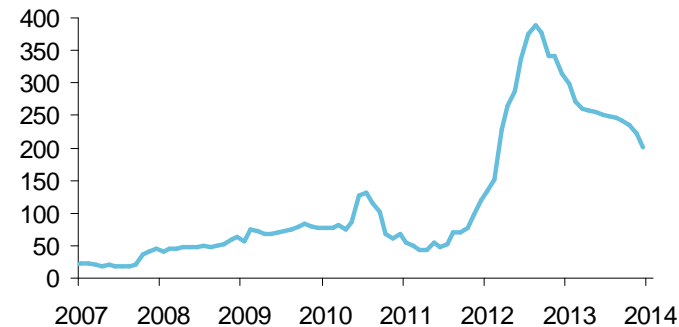
Sources: Banco de España and Spanish banks' annual accounts

The restructuring has materially increased the concentration and solvency of the banking sector

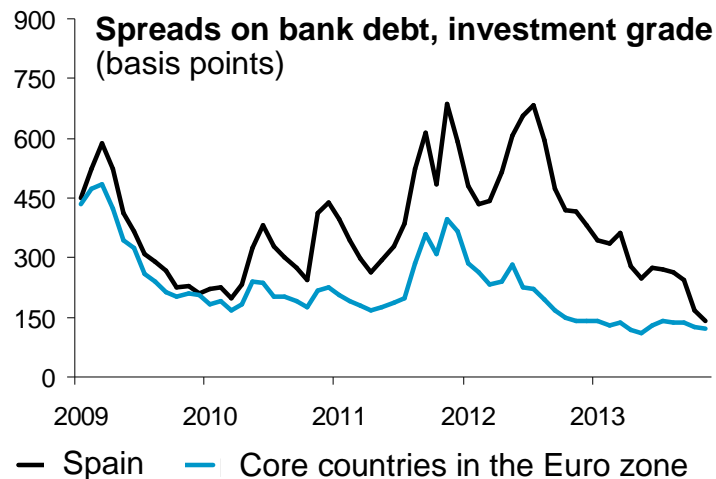
# ... and the financial rescue program for Spain has come to an end

- ✓ The international rescue program for the Spanish financial sector has concluded following the positive evaluation by the *troika*

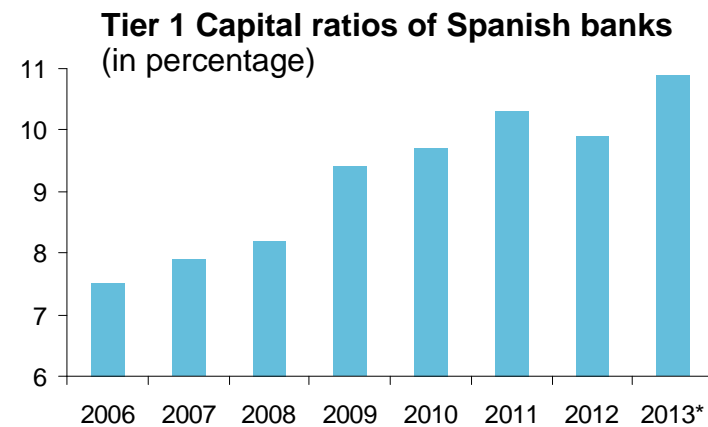
## Spanish bank usage of the BCE liquidity operations (Euros in billion)



## Favourable liquidity position



## Stronger solvency levels



Sources: Bank of Spain, IMF and BoAML

\* Figures reported by the IMF in its November 2013 progress report about the Spanish financial sector.

# Banco Sabadell has made a quantum leap in the last 5 years ...

<i>(Euros in million)</i>	<b>2007</b>	<b>2010</b>	<b>2013</b>	<b>2013/07</b>
Assets	76,776	97,099	163,441	<b>x 2.1</b>
Loans <sup>1</sup>	63,165	73,058	124,615	<b>x 2.0</b>
Deposits <sup>2</sup>	34,717	49,374	94,497	<b>x 2.7</b>
Branches	1,225	1,428	2,247 <sup>3</sup>	<b>x 1.8</b>
Employees	10,234	10,777	16,900 <sup>4</sup>	<b>x 1.6</b>

## ... improving liquidity and solvency ratios ...

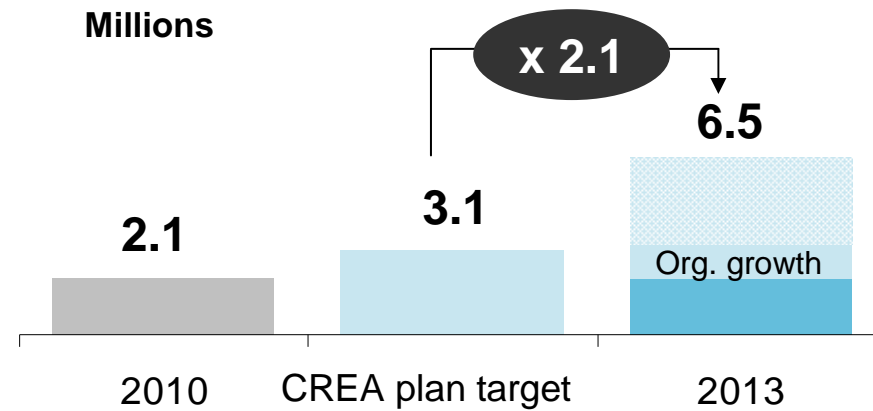
Core Capital	6.0%	8.2%	12.0%	<b>x 2.0</b>
Loan to deposit	197%	135%	107%	<b>x 0.5</b>

1. Gross loans to customers excluding repos. 2. On-balance sheet customer funds. 3. 2014 forecast. 4. 2015 forecast  
 Note: Loan to deposit ratios is net of provisions and intermediary funding.

# ... exceeding our business plan commercial targets

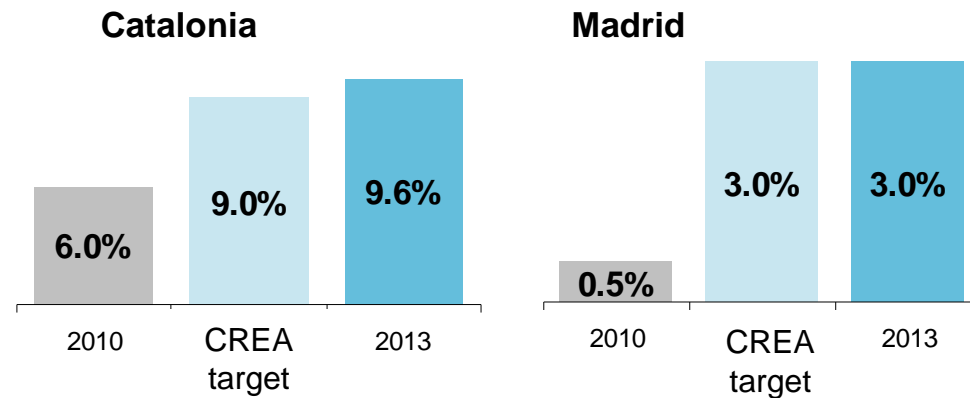
- ✓ Exponential growth rate in the number of customers

Number of customers



- ✓ Consolidating the **Sabadell** brand

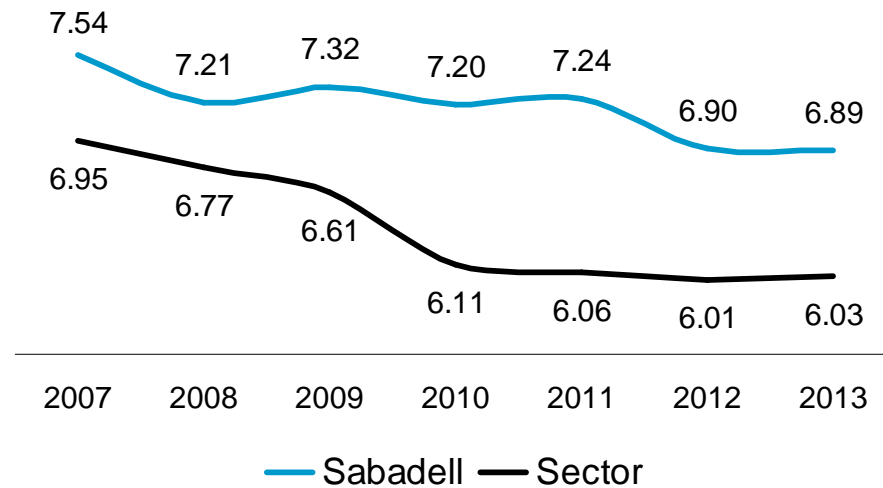
Brand recognition "top of mind"



# Maintaining a high level of service quality

- ✓ Consolidating a high level of service quality following the integration of new businesses

Level of service quality (Index)



## 4Q13 in summary

- 
- ✓ Quarterly net interest income points towards exceeding the 2012 levels in a low interest rates and economic recovery environment. Active price management is neutralising the impact from the reduction of the ALCO bond portfolio
  - ✓ Continued improvement in fee income is driven by increased commercial effort and focus on profitability, cross selling and the closing of the profitability gap between the historical Sabadell and the newly acquired franchises
  - ✓ Trading income continued to perform well driven by an active A&L management
  - ✓ Initial visible signs of a turning point in the stock of NPLs while we have now four consecutive quarters in decelerating problematic assets
  - ✓ Additional strengthening of the coverage level of loans and real estate assets, reaching now 13.6%
  - ✓ Real estate assets sold in 2013 in excess of €3bn
  - ✓ Ample Core Capital at 12.0% and Core Tier 1 Basel III *fully loaded* at 10.1%

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## 2. 2013 Results

# 2013 Results

	2012	2013	% var 13/12
<b>Net Interest Income</b>	<b>1.868,0</b>	<b>1.814,7</b>	<b>-2,9%</b>
Equity Method & Dividends	-1,9	18,4	--
Commissions	628,7	759,7	20,8%
Trading Income & Forex	606,1	1.547,1	155,2%
Other Operating Results	-142,5	-163,1	14,4%
<b>Gross Operating Income</b>	<b>2.958,4</b>	<b>3.976,8</b>	<b>34,4%</b>
Personnel Costs	-996,5	-1.098,2	10,2%
Administrative Costs	-515,1	-587,9	14,1%
Depreciations	-156,9	-228,4	45,6%
<b>Pre-provisions Income</b>	<b>1.289,9</b>	<b>2.062,3</b>	<b>59,9%</b>
Total Provisions & Impairments	-2.540,6	-1.763,6	-30,6%
Gains on sale of assets	15,4	43,9	184,9%
Badwill	933,3	0,6	--
<b>Profit before taxes</b>	<b>-302,0</b>	<b>343,2</b>	<b>--</b>
Taxes and others	383,9	-95,4	--
<b>Attributable Net Profit</b>	<b>81,9</b>	<b>247,8</b>	<b>202,6%</b>

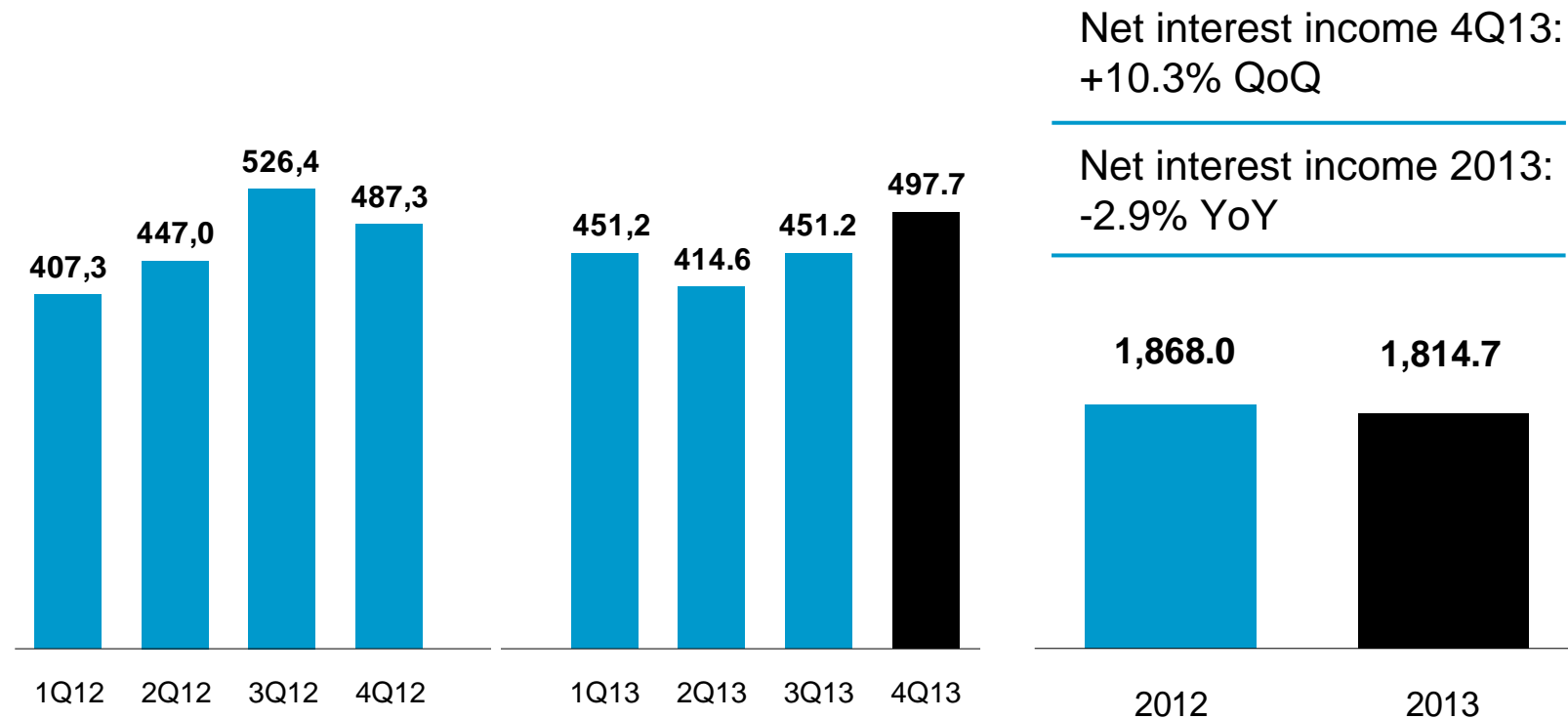
Note: 2013 includes seven months of the BMN-Penedés network, six months of Lloyds Spain and two months of Banco Gallego.  
Euros in million



# Upward trend confirmed in net interest income

## Net interest income evolution

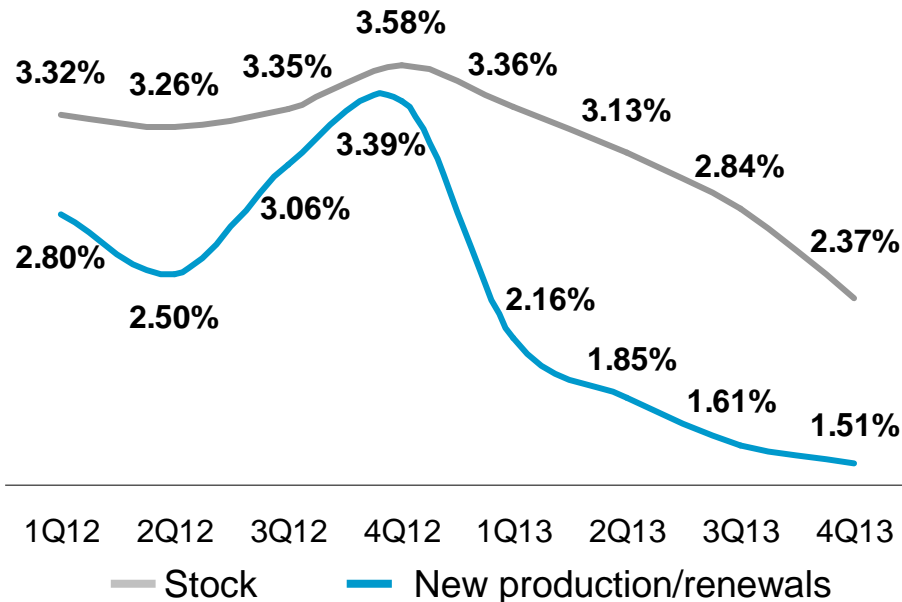
Euros in million



# Reduction in the cost of customer funds ...

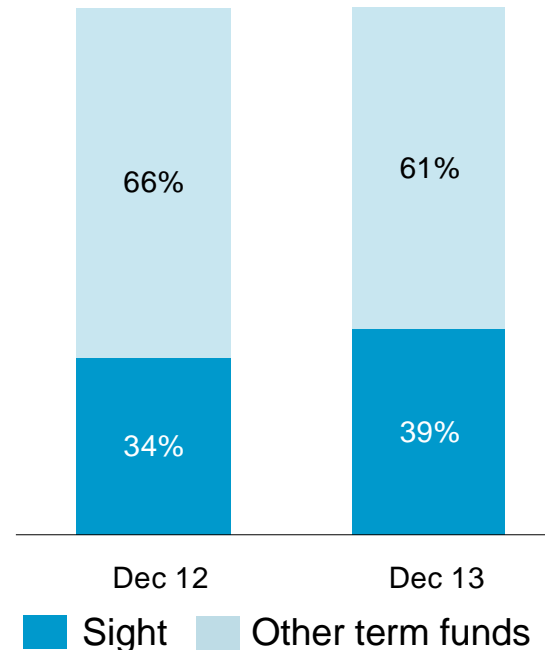
## Contractual rates on term deposits

In percentage



## Share of sight deposits out of total customer funds

In percentage



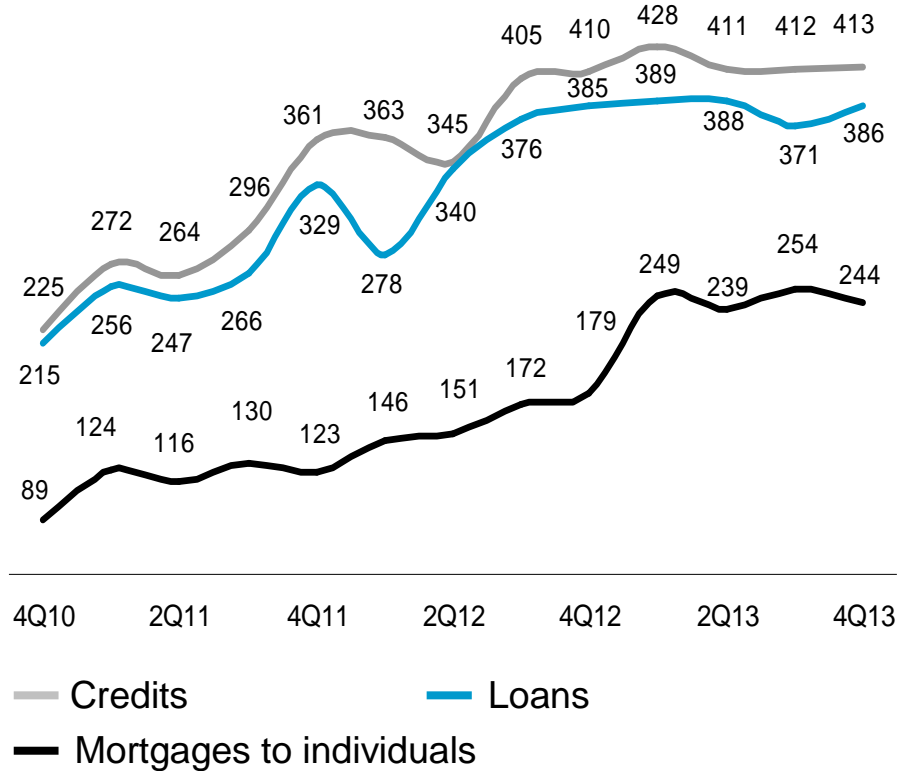
**The cost of the stock of term deposits is falling and approaching the level of new deposit production**

Note: Contractual rates on term deposits do not include Lloyds Spain nor Banco Gallego.

# ... and active asset price management ...

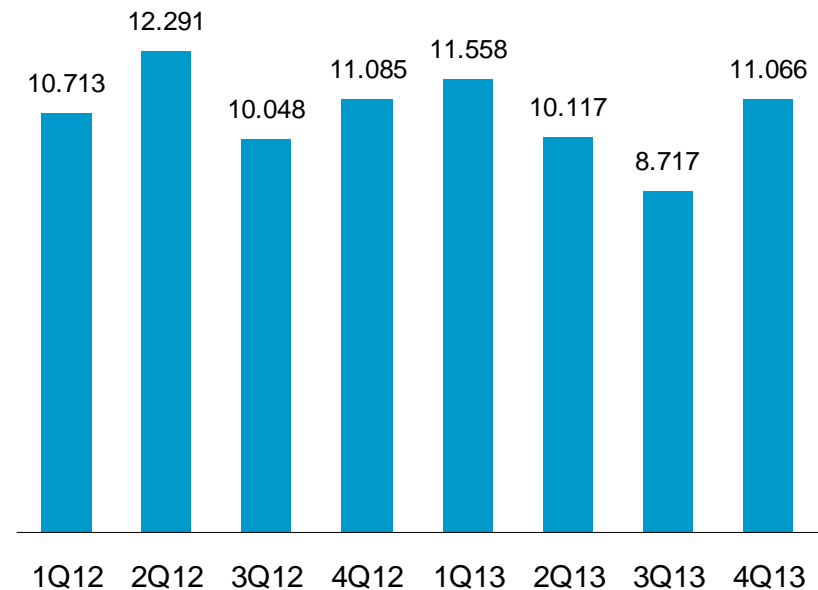
## Loan book spreads, new production/renewals

Basis points



## Re-priced loans, quarterly evolution

Euros in million

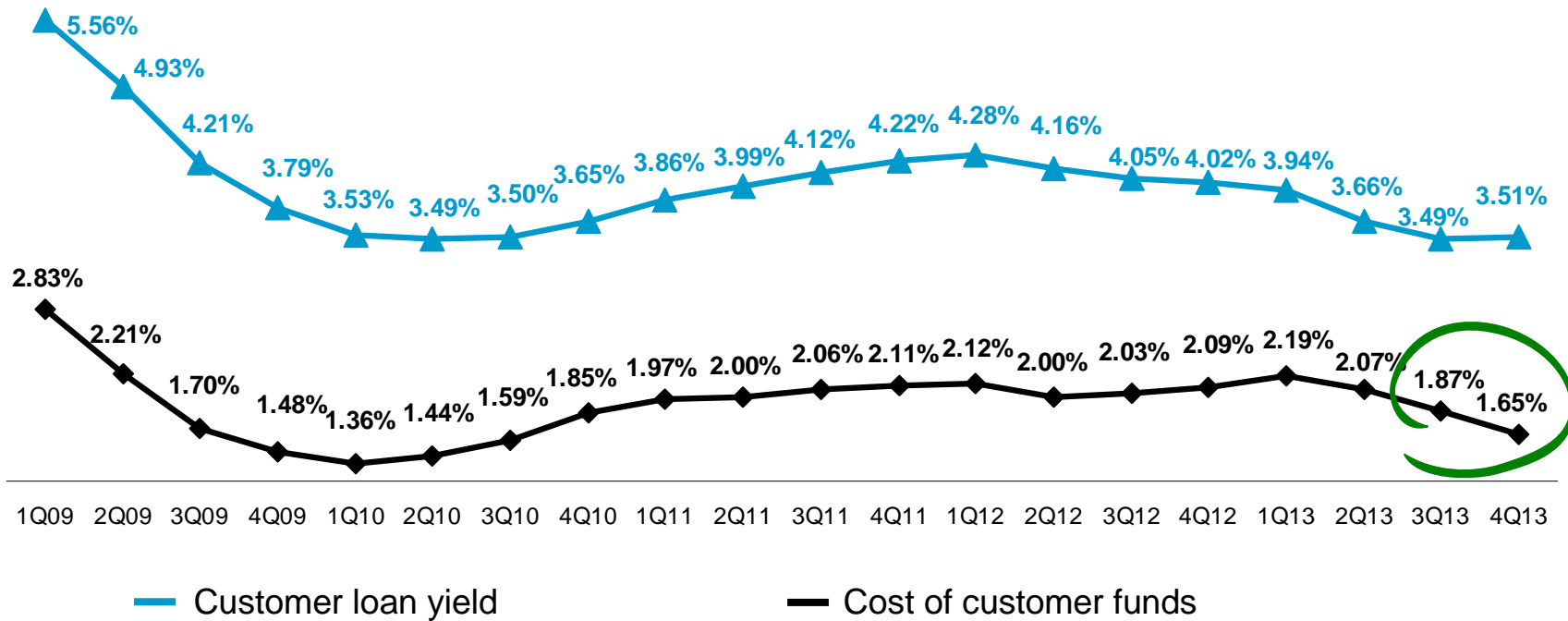


Note: The front book spreads are weighted averages in the quarter. Re-priced loans do not include Lloyds Spain nor Banco Gallego.

# ... drives the improvement of net interest margin ...

## Customer loan yield and cost of customer funds

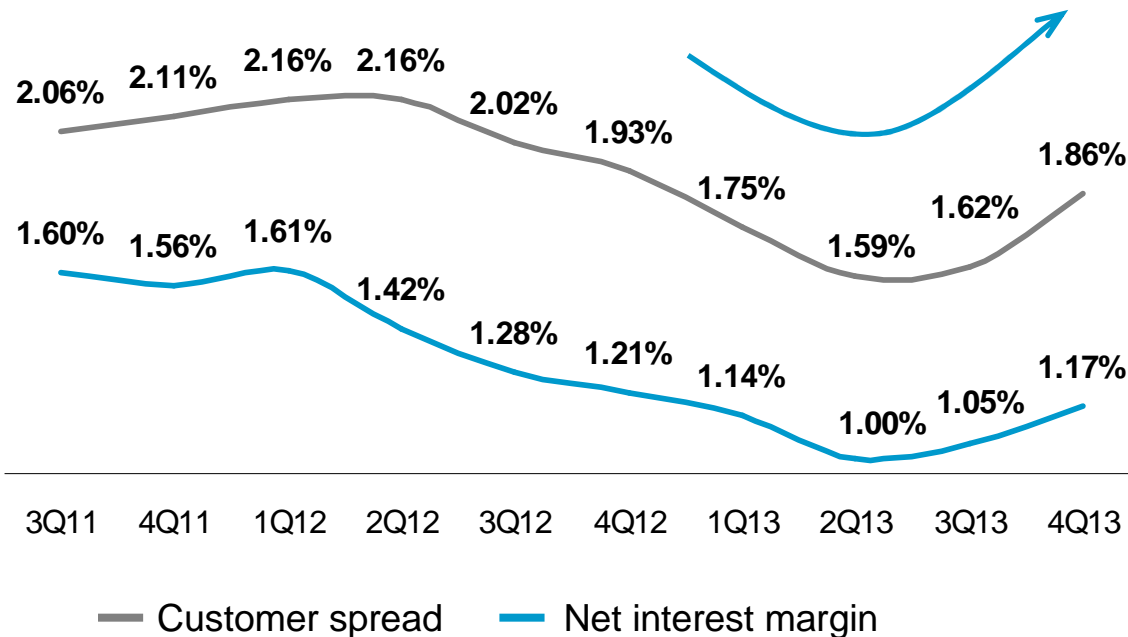
In percentage



# ... with now two quarters in a recovery trend

## Margin evolution

In percentage

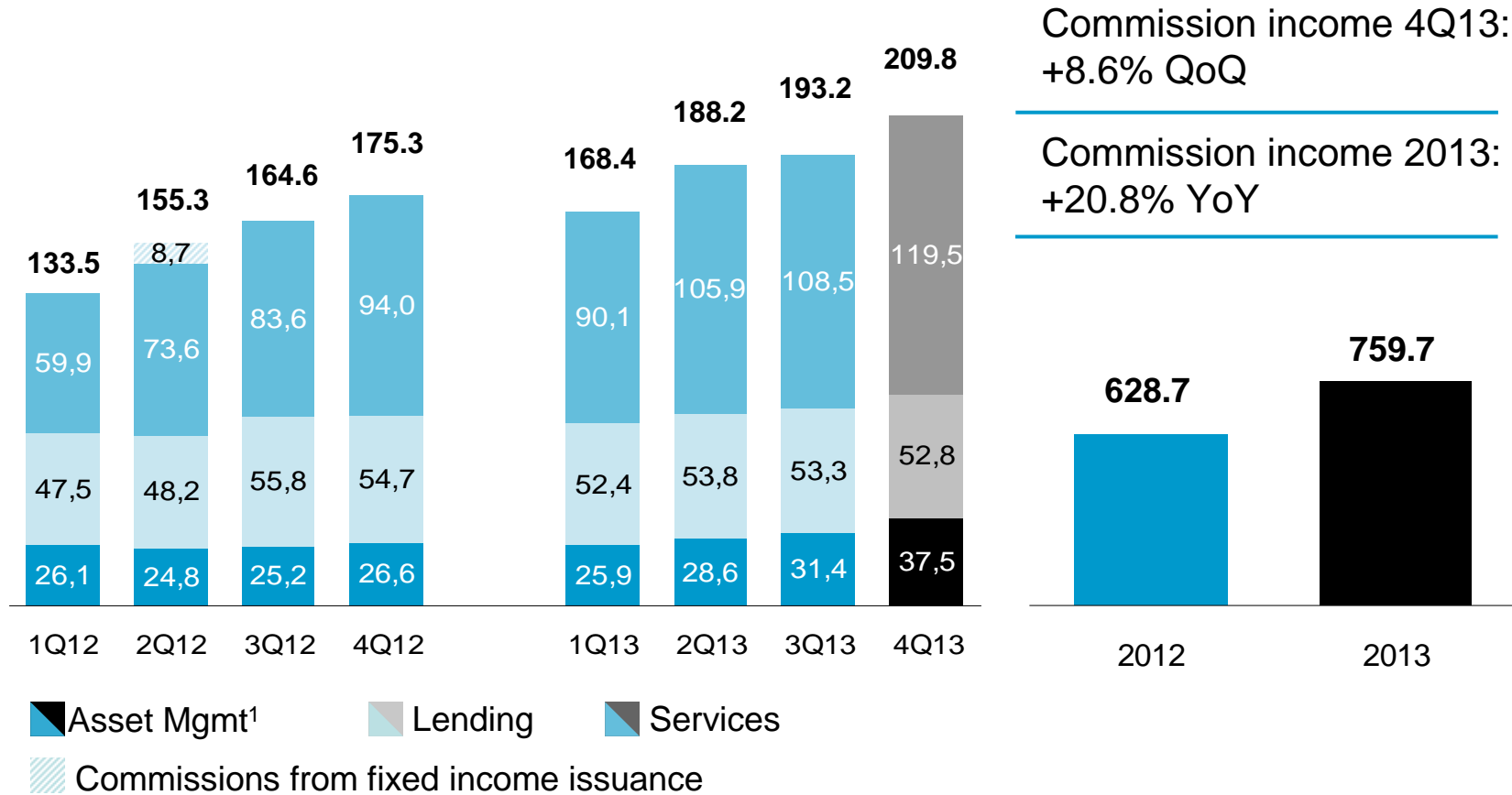


**Net interest margin ex-APS: 1.72%**

# Continued improvement in commission income

## Commission income evolution

Euros in million



Commission income 4Q13:  
+8.6% QoQ

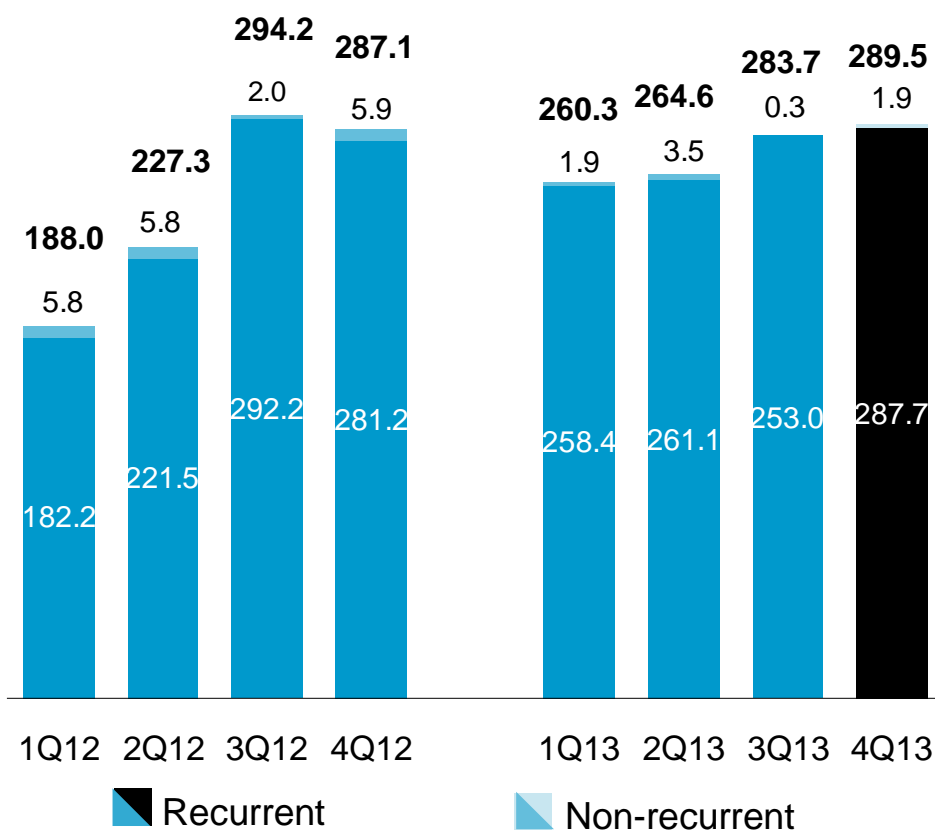
Commission income 2013:  
+20.8% YoY

<sup>1</sup> Including mutual funds commissions and pension funds and non-life insurance brokerage

# Personnel expenses are kept under control ...

## Personnel expenses evolution

Euros in million



Personnel expenses 2013:

+10.2% YoY

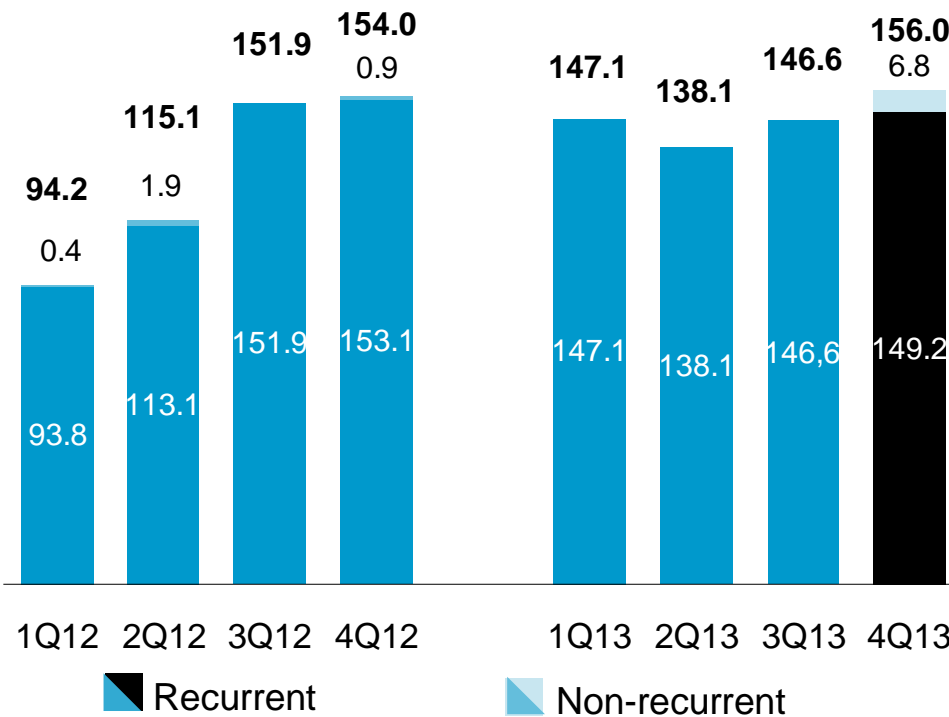
Personnel expenses on a like-for-like basis\* 2013:

-13.2% YoY

\* Including Banco CAM, BMN-Penedés and Lloyds Spain in 2012 and excluding non-recurrent expenses.

## General expenses evolution

Euros in million



General expenses 2013:  
+14.1% YoY

General expenses on a like-for-like basis\* 2013:

**-11.4% YoY**

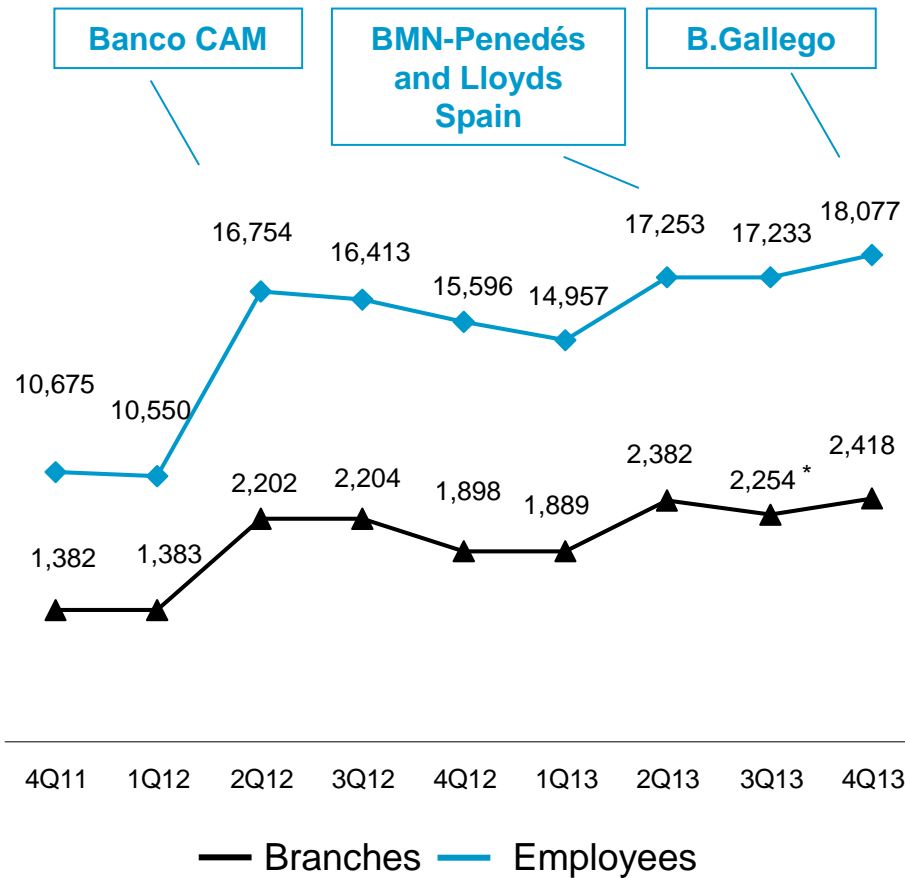
\* Including Banco CAM, BMN-Penedés and Lloyds Spain in 2012 and excluding non-recurrent expenses.



# Optimising the network

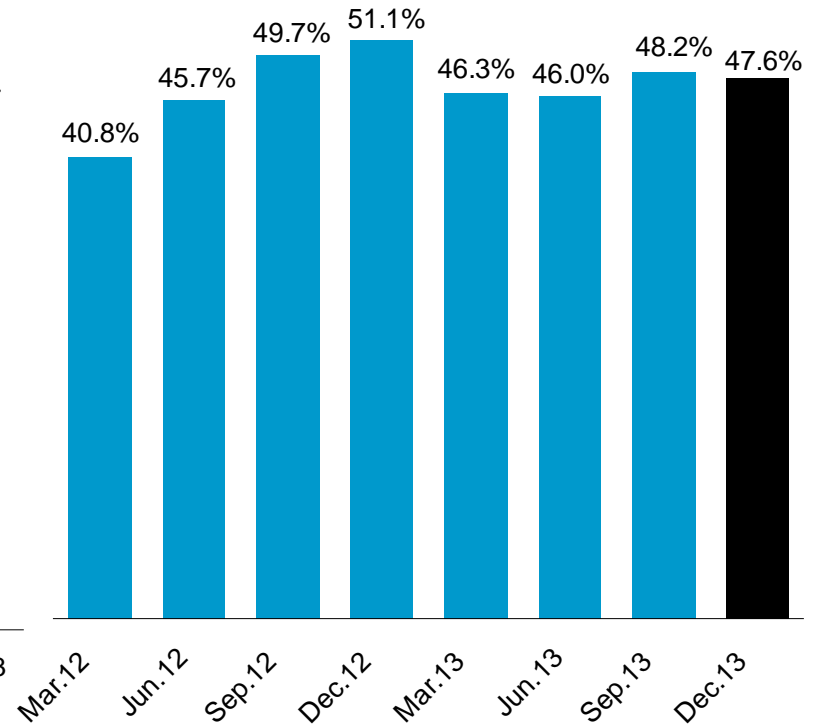
## Employee and branch evolution

In number



## Cost income evolution

In %



\* Following the closure of 128 branches related to the integration of BMN-Penedés, which took place in October 2013.

4Q13 numbers include BS Andorra and Banco Gallego

Note: Cost income ratios are adjusted for non-recurrent trading income

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# 3. Commercial activity and liquidity

# Continued high level of commercial gap: €10,123M

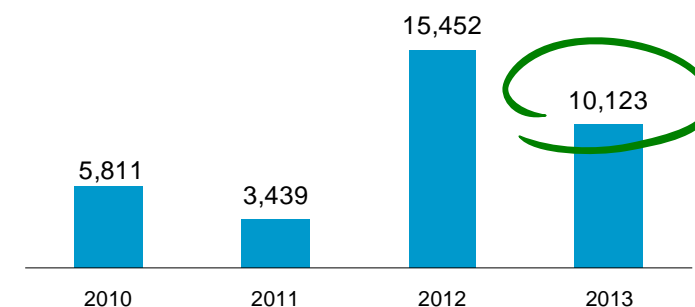
## Customer funds and loans evolution

Euros in million

	Dec-12	Dec-13	% Var. YoY
<b>Total assets</b>	<b>161,547</b>	<b>163,441</b>	<b>1.2%</b>
Gross loans to customers ex repos	119,638	124,615	4.2%
ALM Portfolio	23,536	21,743	-7.6%
<b>Total liabilities</b>	<b>152,286</b>	<b>153,036</b>	<b>0.5%</b>
On-balance sheet customer funds	80,179	94,497	17.9%
Other on-balance sheet term funds <sup>1</sup>	53,095	57,635	8.6%
Sight deposits	27,085	36,862	36.1%
Capital Markets	25,326	21,167	-16.4%
ECB Funding	23,650	8,800	-62.8%
Off-balance sheet funds	20,659	25,370	22.8%
Mutual funds	8,585	11,019	28.4%
Pension funds	3,709	4,356	17.4%
Third party insurance products	7,313	8,067	10.3%

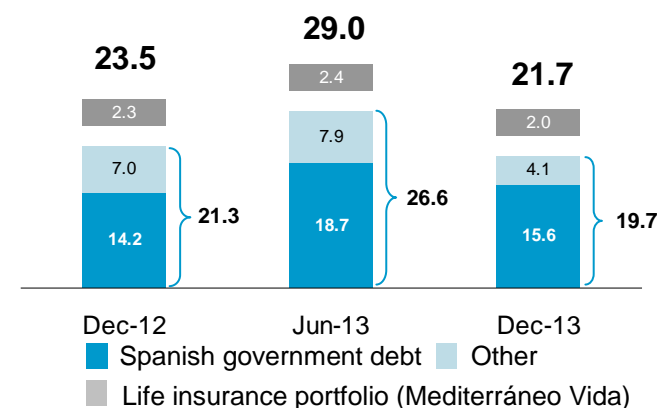
## Change in commercial gap

Euros in million



## Evolution of fixed income portfolio

Euros in billion

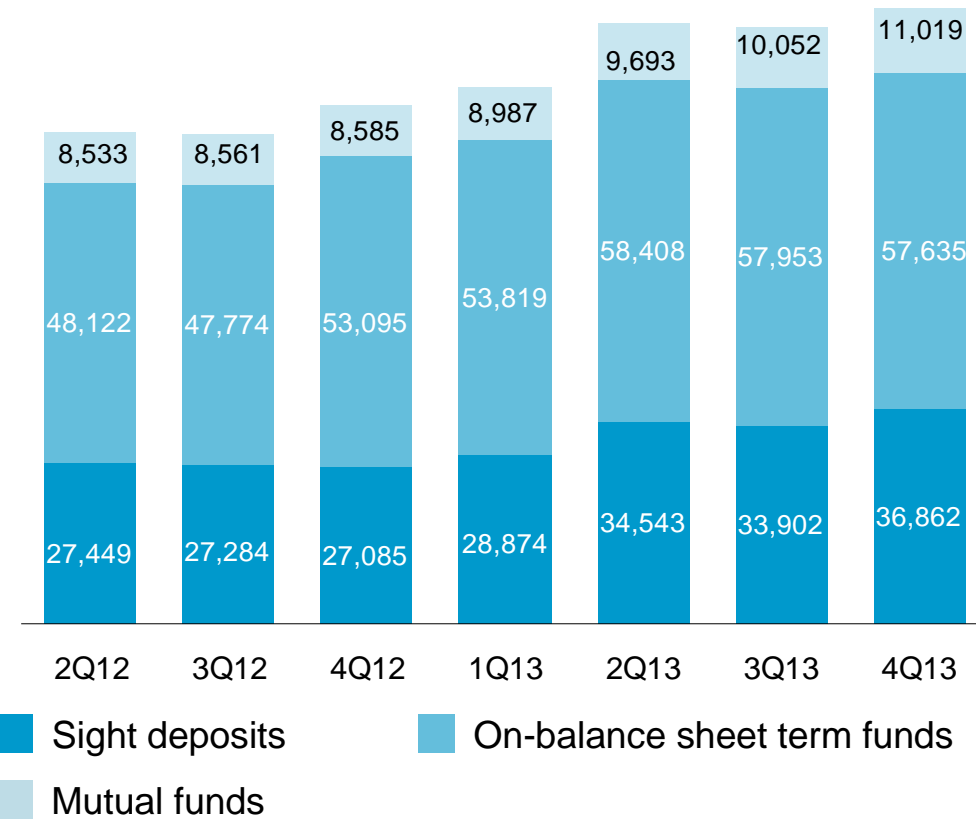


<sup>1</sup> Other on-balance sheet term funds include term deposits and other funds placed in the retail network: preference shares, mandatory convertible bonds, senior debt, commercial paper and other. Excludes repos.

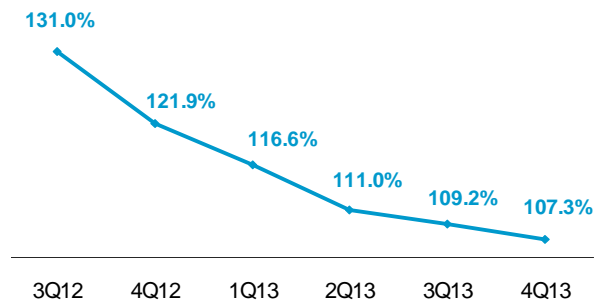
Loan to deposit ratio is adjusted for provisions and intermediary loans such as ICO loans (government subsidy loans)

# Strong growth in customer funds

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



## Loan to deposit ratio In percentage



**Acceleration in the growth of AuM and current accounts**

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. Excludes repos.

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**The group now has 6.5 million customers**  
(including BMN-Penedés, Lloyds España and Banco Gallego)

## Remarkable success in customer gathering

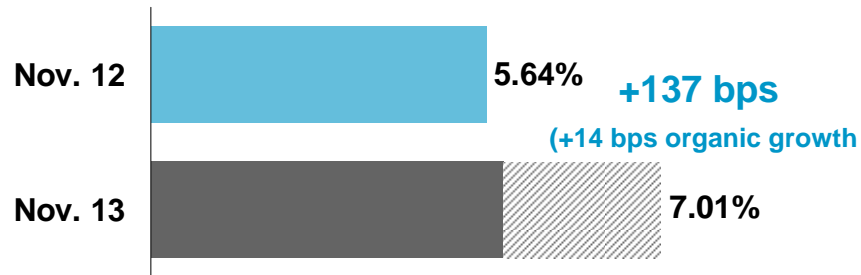
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	Oct. 13	Nov. 13	Dec. 13	4Q13
Individuals	37,519	31,068	25,208	93,795
Companies	8,738	8,150	6,166	23,054

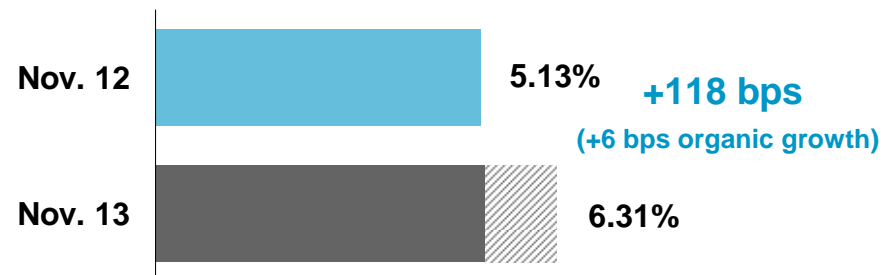
**8,900 new  
customers every  
week**

# ... and gaining market share both in individuals ...

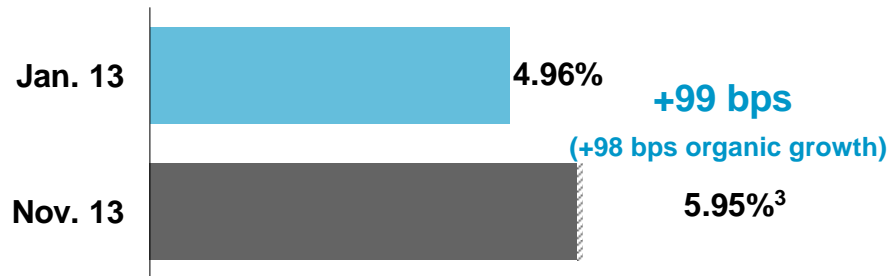
## Household deposits<sup>1</sup>



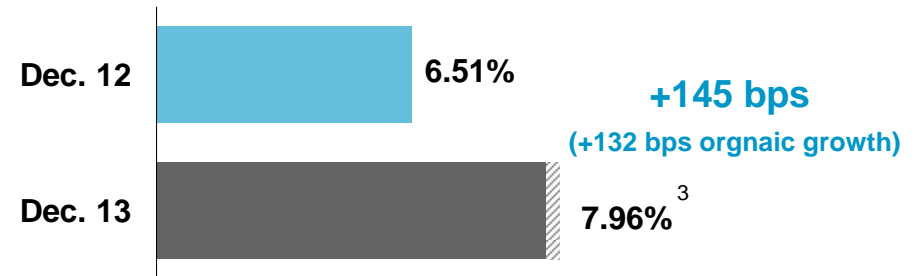
## Household loans



## Payroll accounts



## Transactionality<sup>2</sup>



▨ Contribution BMN-Penedés, Lloyds as of June 2013 and B. Gallego as of November 2013

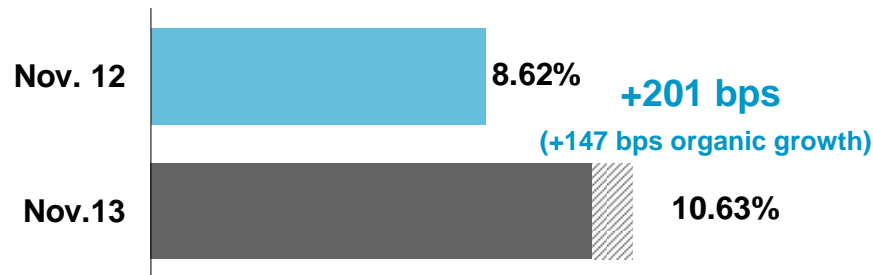
<sup>1</sup> Including term and sight deposits and repos

<sup>2</sup> Including cheques, transfers, SEPA transfers, receivables and promissory notes

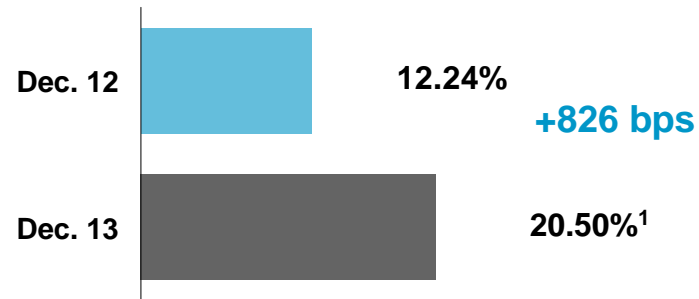
<sup>3</sup> Payroll accounts and transactionality include estimated market shares for Banco Gallego.Penedés and Lloyds Spain market shares are included in organic growth number

# ... as well as in companies

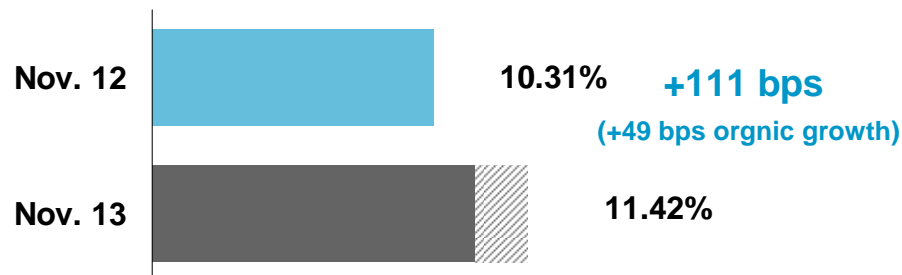
## Corporate credit



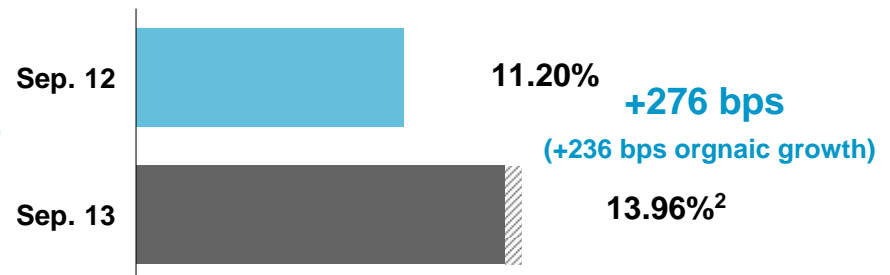
## ICO loans (publicly subsidised)



## Sight deposits companies



## Volume at BS card PoS



▨ Contribution BMN-Penedés, Lloyds as of June 2013 and B. Gallego as of November 2013

## Sabadell continues to provide credit to SMEs and corporates

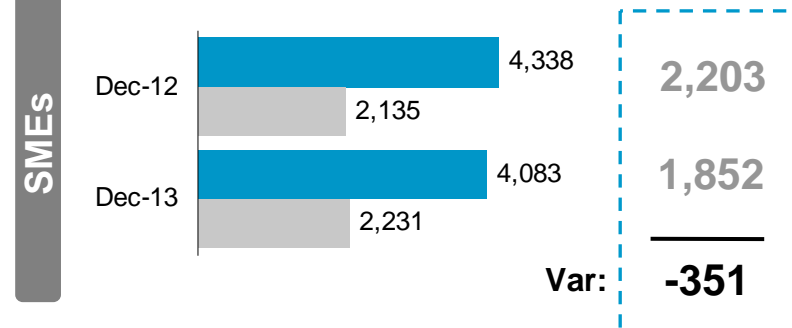
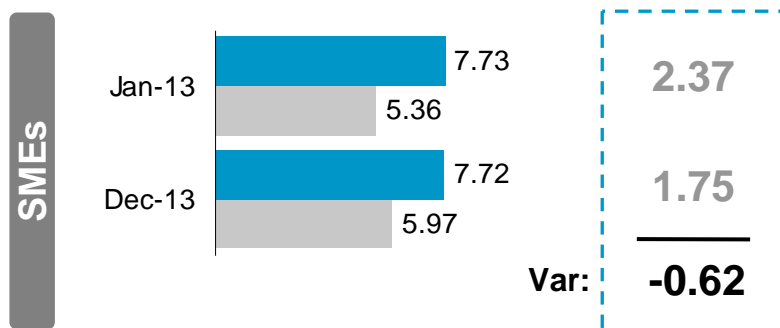
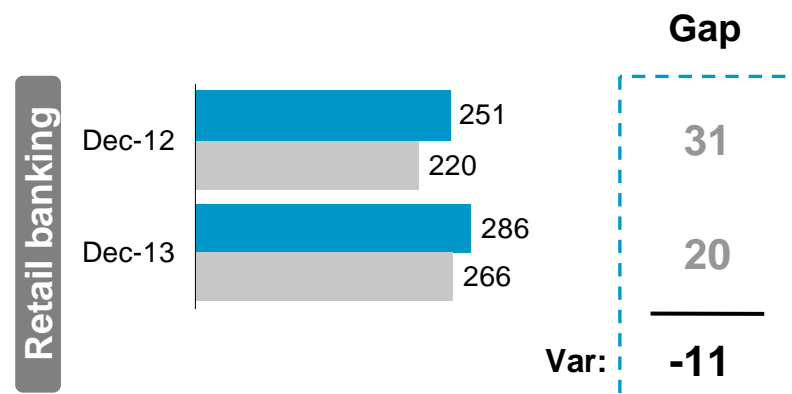
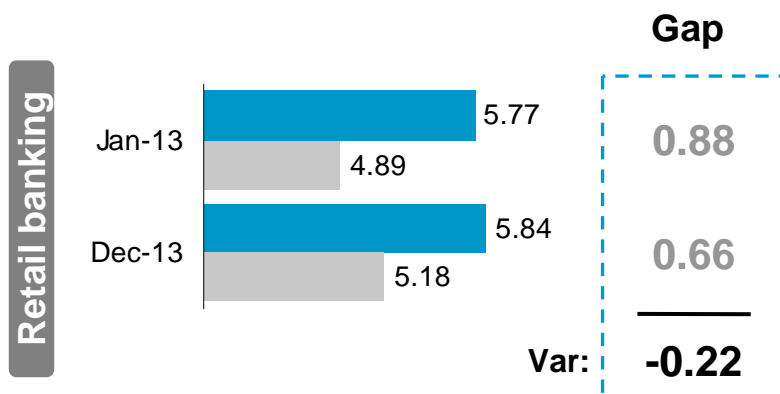
1.ICO do not include Lloyds Spain nor B.Gallego. Penedés is included in organic growth numbers.

2.Transactionality includes estimated market share for Banco Gallego.Penedés and Lloyds Spain market shares are included in organic growth number

# Closing the income gap with the newly <sup>B</sup>Sabadell integrated businesses and Sabadell

## Products per customer\*

## Customer income generation (Euros)



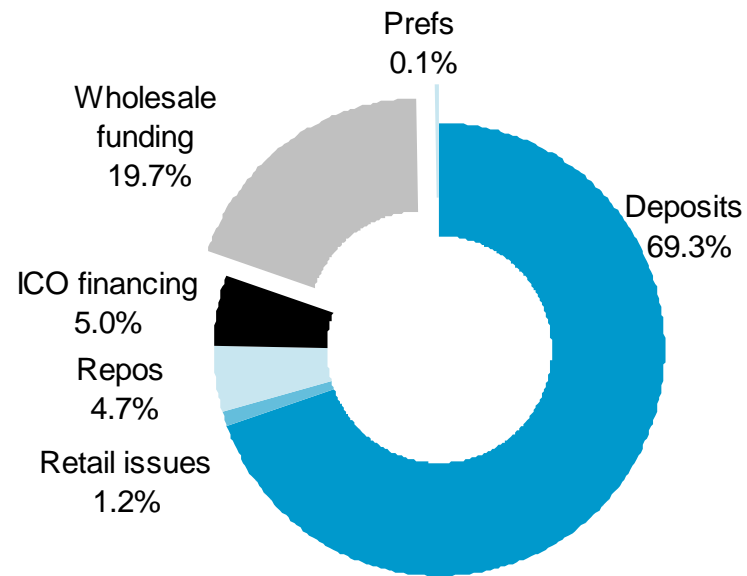
■ BS ■ B.CAM

\* Average number of contracts per principal account holder

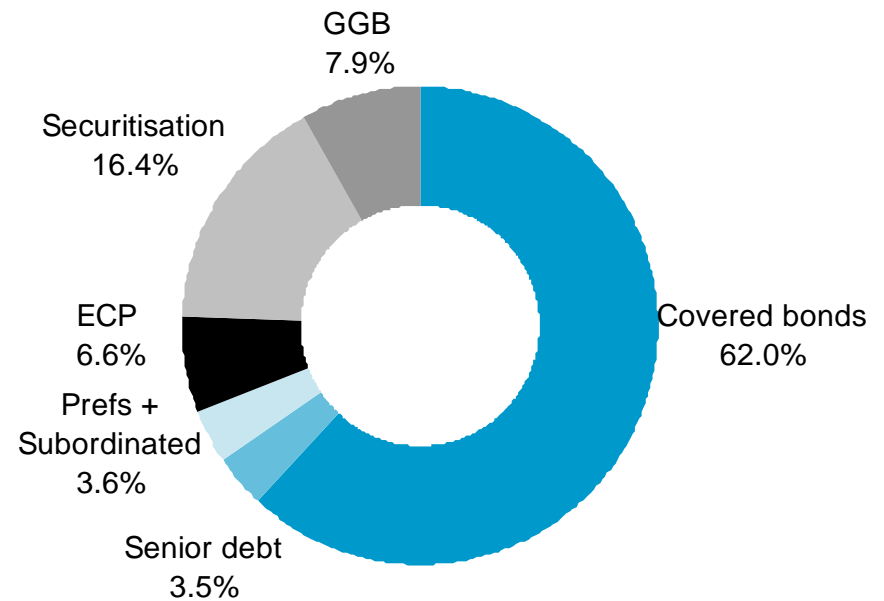


# Maintaining a balanced funding structure ...

## Group funding structure



## Group wholesale funding breakdown

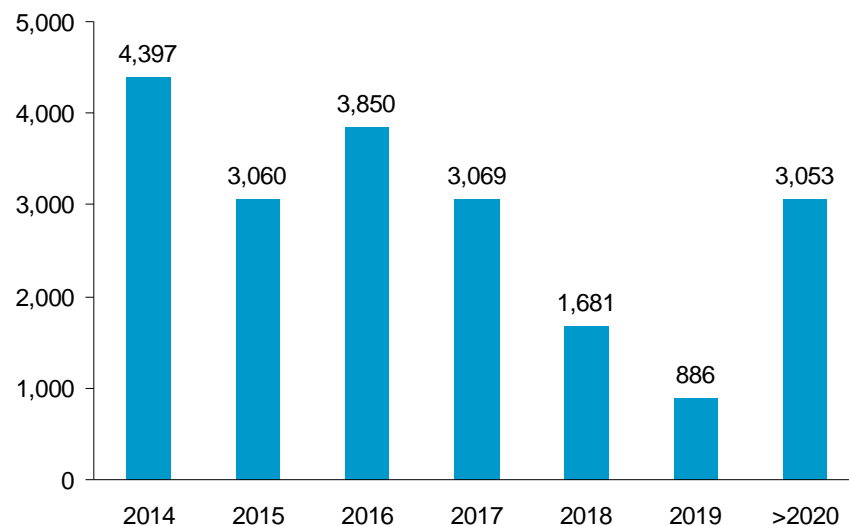


# ... and efficiently managing liquidity



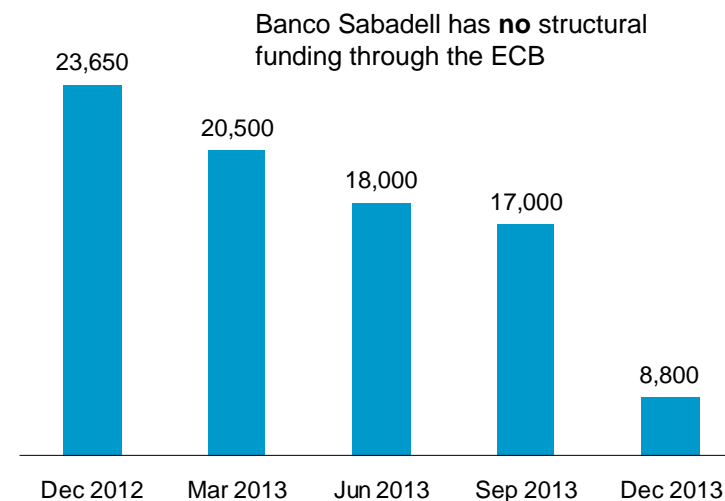
## Group wholesale funding maturities

Euros in million



## ECB liquidity position

Euros in million



## Maturity by product type

Euros in million

	2014	2015	2016	2017	2018	2019	>2020	Outst. Amount
Covered Bonds (CH)	3.322	3.060	2.870	1.937	1.563	886	2.512	16.149
GGB	1.005	0	0	1.066	0	0	0	2.071
Senior Debt	0	0	681	0	100	0	25	806
Preferred Shares and Subordinated Debt	0	0	299	66	0	0	498	864
Other mid- and long-term financial instruments	70	0	0	0	18	0	18	105
<b>Total</b>	<b>4.397</b>	<b>3.060</b>	<b>3.850</b>	<b>3.069</b>	<b>1.681</b>	<b>886</b>	<b>3.053</b>	<b>19.995</b>

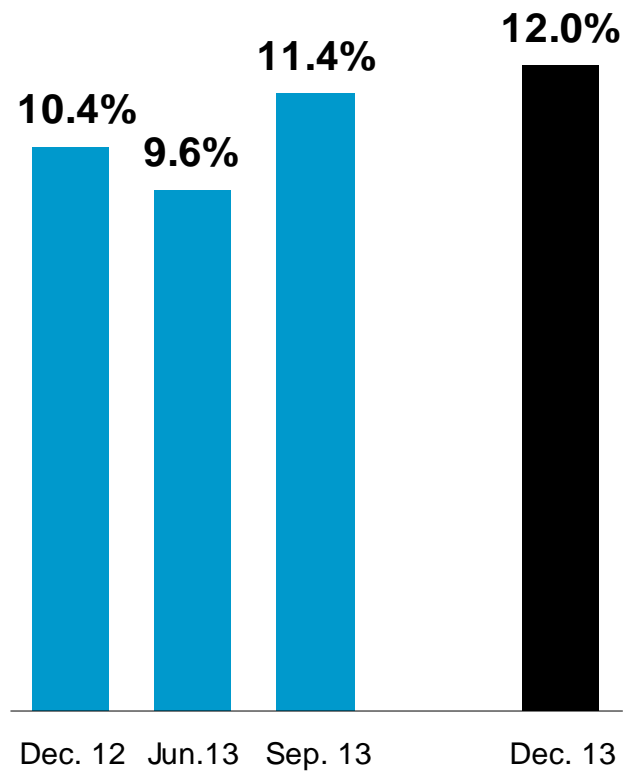
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# 4. Risk and capital management

# Strong core capital level

## Core capital evolution

In %



**Core Tier 1 Basel III**  
*fully loaded at*  
**10.1%**

# Increased coverage levels and stabilisation of problematic assets ...

## NPLs and RE assets as of Dec 2013

Sabadell ex-APS. Euros in million

<b>Total NPLs ex-APS</b>	<b>16,021</b>
Of which:	
Ex-APS constant perimeter no sin reclassifications	11,079
New perimeter	2,309
Reclassified	2,632
<b>Re assets ex-APS</b>	<b>6,939</b>
<b>Total problematic assets ex-APS, constant perimeter</b>	<b>18,018</b>
<b>Total problematic assets ex-APS</b>	<b>22,994</b>

## Coverage levels

Global coverage of total loans en RE assets	<b>13.6%</b> (3Q13: 13.3%)
Existing coverage of NPLs, excluding reclassified loans	<b>50.1%</b>
Existing coverage of reclassified loans	<b>25%</b>

## NPL ratios ex-APS

Including reclassified loans	<b>13.63%</b>
Excluding reclassified loans	<b>11.13%</b>

**Stock of NPLs decreases by €64M**

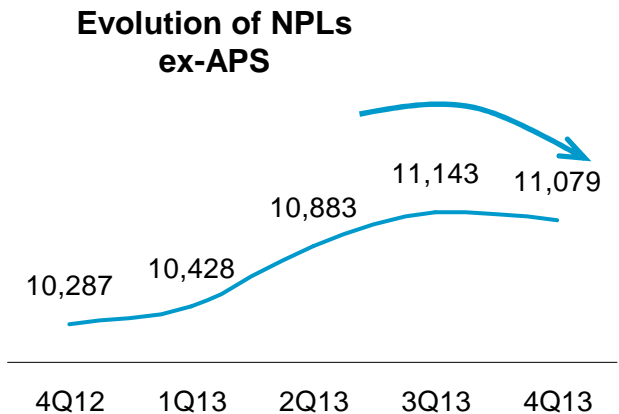
**Fourth consecutive quarter showing a deceleration in problematic assets**

# .... and the first signs of a turning point in the stock of NPLs...

## Evolution like-for-like of NPLs and RE assets, excluding reclassified loans

Sabadell ex-APS. Euros in million

	4Q12	1Q13	2Q13	3Q13	4Q13
Ordinary net entries	1,094	388	760	365	-12
Change in RE assets	234	394	1	218	400
<b>Net entries + Change in RE assets</b>	<b>1,328</b>	<b>782</b>	<b>761</b>	<b>583</b>	<b>388</b>
Write-offs	387	247	305	105	51
Re assets and NPL quarterly change	940	535	456	478	337
	4Q12	1Q13	2Q13	3Q13	4Q13
<b>Total NPLs ex-APS</b>	<b>10,287</b>	<b>10,428</b>	<b>10,883</b>	<b>11,143</b>	<b>11,079</b>
<b>NPL change ex-APS</b>		<b>141</b>	<b>455</b>	<b>260</b>	<b>-64</b>
Re assets ex-APS	5,926	6,320	6,321	6,539	6,939
Total NPLs and re assets ex-APS	16,213	16,748	17,204	17,682	18,018



The stock of NPLs was reduced by 64 million euros in the fourth quarter

# ... reflected in the NPL ratios

## Evolution of NPL ratios by segment, ex-APS

In percentage

	Proforma like for like basis Q2 13	Change Q4 vs Q2 per:		NPL rate comparable Q4 vs Q2	Group NPLQ4 13	Change Q4 vs Q2 per:		Change per NPL stock		
		Perimeter change and reclassified as NPLs	Reclassified 2003/61/EC			NPL	Stock	Credit	Q3	Q4
Real Estate development and/or construction purposes	<b>40.72%</b>	17.29%	0.00%	<b>4.97%</b>	<b>62.98%</b>	<b>-0.44%</b>	<b>5.41%</b>	<b>-0.25%</b>	<b>-0.19%</b>	
Construction purposes non-related to real estate dev.	<b>5.92%</b>	2.38%	0.00%	<b>-0.04%</b>	<b>8.26%</b>	<b>-0.66%</b>	<b>0.62%</b>	<b>-0.55%</b>	<b>-0.11%</b>	
Large corporates	<b>5.84%</b>	1.60%	-3.05%	<b>1.66%</b>	<b>6.05%</b>	<b>1.40%</b>	<b>0.26%</b>	<b>1.78%</b>	<b>-0.38%</b>	
SME and small retailers and self-employed	<b>9.12%</b>	3.38%	1.21%	<b>-0.38%</b>	<b>13.33%</b>	<b>-0.49%</b>	<b>0.11%</b>	<b>-0.19%</b>	<b>-0.30%</b>	
Individuals with 1st mortgage guarantee assets	<b>8.30%</b>	1.33%	0.00%	<b>0.23%</b>	<b>9.86%</b>	<b>0.15%</b>	<b>0.08%</b>	<b>-0.14%</b>	<b>0.29%</b>	
<b>NPL ratio</b>	<b>10.17%</b>	<b>3.04%</b>	<b>0.00%</b>	<b>0.42%</b>	<b>13.63%</b>	<b>0.16%</b>	<b>0.26%</b>	<b>0.22%</b>	<b>-0.06%</b>	

**Most segments show a sequential decline in the NPL ratio on a like-for-like basis**

Note: NPL ratio is calculated including contingent risk.

# Maintaining high coverage levels of credit and real estate exposure

## Coverage by loan segment and real estate

Split between asset protection scheme and rest

4Q13	Coverage		
	BS ex-APS	APS	Total
Real estate assets	39.6%	49.7%	44.0%
Real estate development loans	36.4%	45.9%	40.6%
<b>Total real estate exposure</b>	<b>37.8%</b>	<b>47.6%</b>	<b>42.1%</b>
Construction	9.7%	28.7%	10.7%
Large Corporates	5.1%	40.8%	6.7%
SME and small retailers and self-employed	7.5%	18.8%	8.6%
Individuals	4.3%	10.8%	4.6%
<b>Rest of loan book</b>	<b>5.3%</b>	<b>16.2%</b>	<b>5.9%</b>
<b>Total</b>	<b>9.8%</b>	<b>37.3%</b>	<b>13.6%</b>

13.6% coverage of total loans and real estate assets

9.8% coverage of total loans and real estate assets, ex-APS



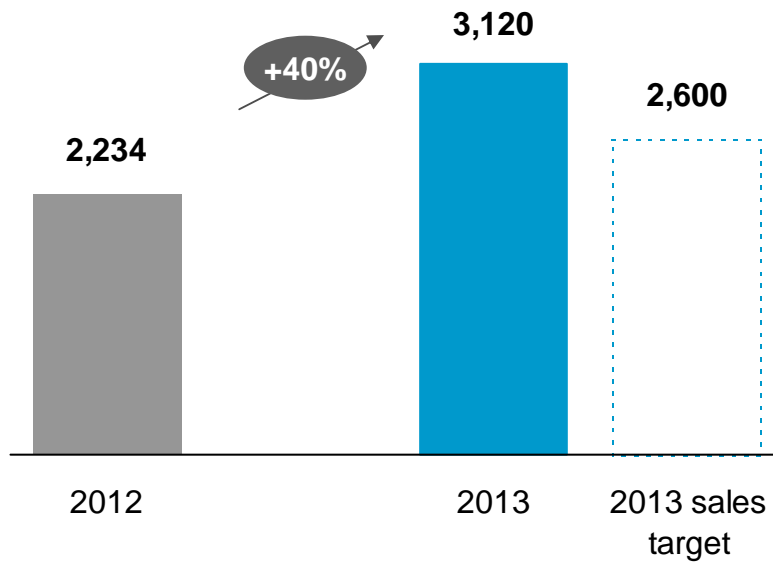
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# 5. Managing real estate assets

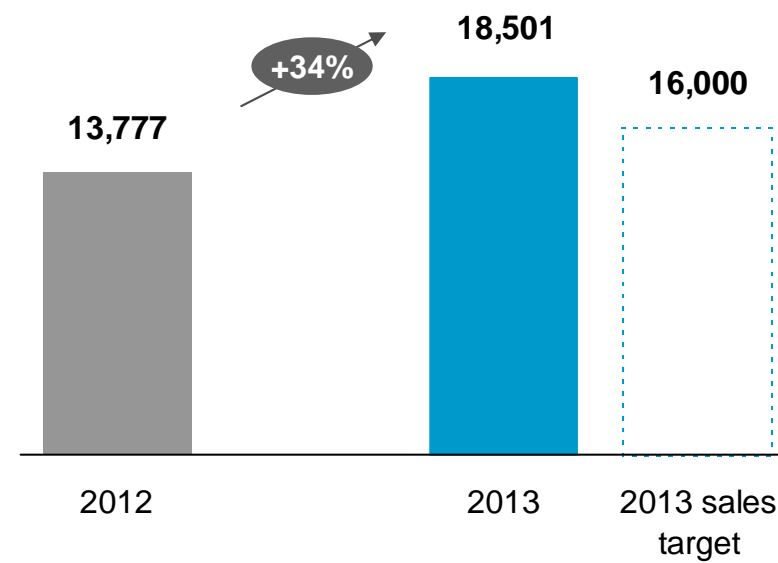
# Beating 2013 targets ...

## Sales evolution

Euros in million



Number of units



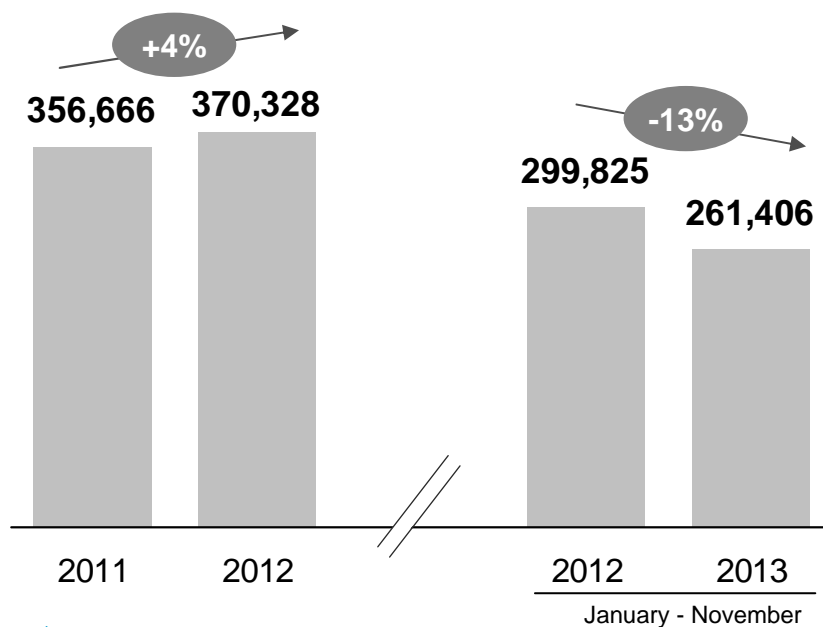
- ✓ Banco Sabadell beats its own sales target for 2013
- ✓ Selling at a higher average price per unit

## ... and overall market trends

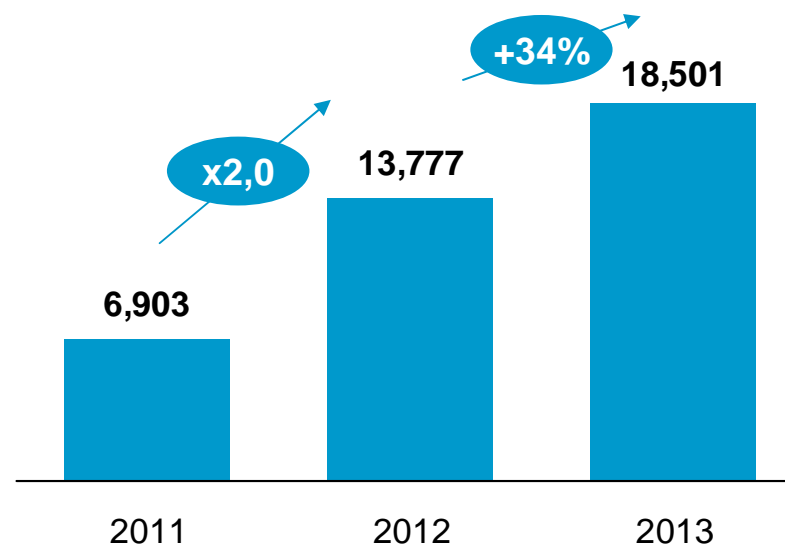
### Number of transactions

Units

#### Market



#### Banco Sabadell



- ✓ Commercial efficiency
  - ✓ Improvement in sales conversion rate
  - ✓ Increase in brand recognition
  - ✓ New selling channels

Source: Consejo General del Notariado

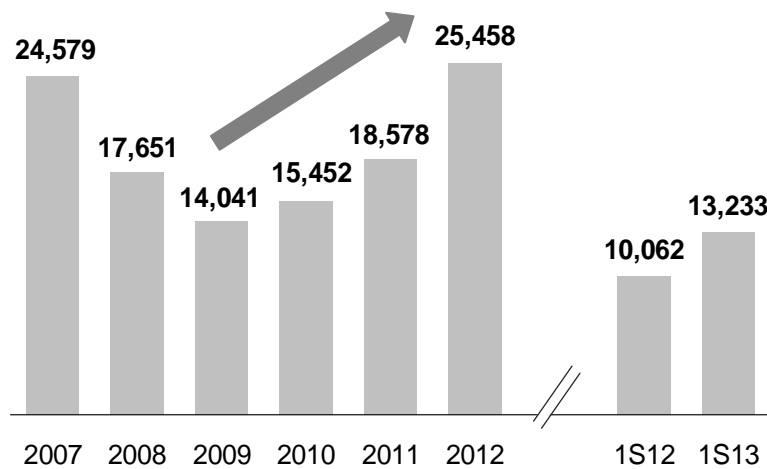
Note: Market data refers to last available published numbers from January to November

# Taking advantage of the demand drivers

- ✓ Increasing importance of foreign buyers

## Market

*Number of transactions by foreign buyers*



## Banco Sabadell

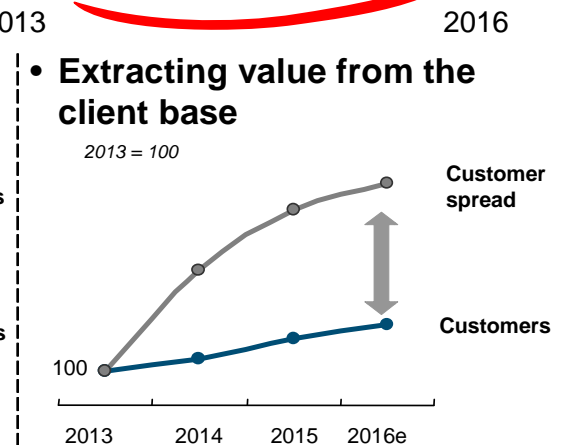
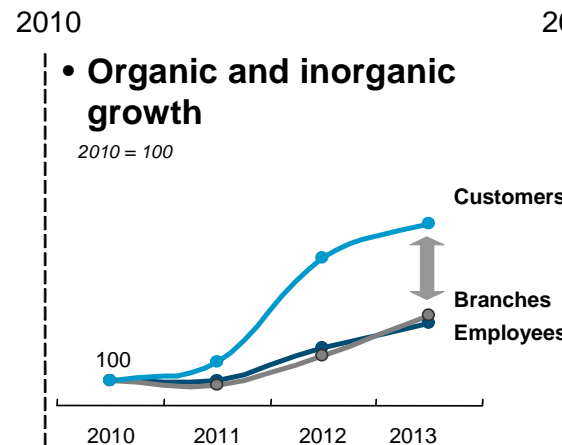
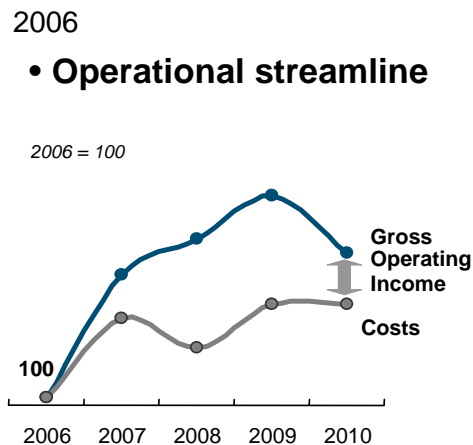
- **Launching international sales channels**
  - Selling agencies in United Kingdom and Russia
  - Web page in Russian
- **1,872 units sold to foreign buyers (+145% vs 2012)**

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# 6. Summary and outlook

# Ready to implement the new business plan ...

The main target of the new business plan is profitability: extract value from the customer base, the achieved size and the developed skills



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Following the execution of the last strategic business plan, Banco Sabadell has completed a commercial transformation

- ✓ Multiplying the number of customers by three
- ✓ Increasing our market shares
- ✓ Operational streamlining

**Banco Sabadell is ready to take advantage of the improvement of the Spanish economy:**

**2013 results take the first step for the execution of the new business plan**

# Triple

**2016** Transformación, Rentabilidad,  
Internacionalización

## Transformation

- Commercial transformation
- Production model transformation
- Balance sheet transformation

## Profitability

## Internationalisation

- Setting the grounds for the internationalisation of Banco Sabadell (structure, teams, etc.)
- Entering new markets



# Financial targets of the new business strategic plan

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✓ The new business plan of Banco Sabadell takes advantage of the bank potential, with **coverage** above the sector, one of the best **capital** ratios and **strongest balance sheet**

## Medium term financial targets

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Cost income ratio	40%
Loan-to-deposit ratio	100%
ROE	Double-digit
Core Tier I, Basel III	>10%

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**An achievable plan even with a moderate improvement of the Spanish economy**

# Presentation of the new strategic business plan

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INVITATION

 Sabadell

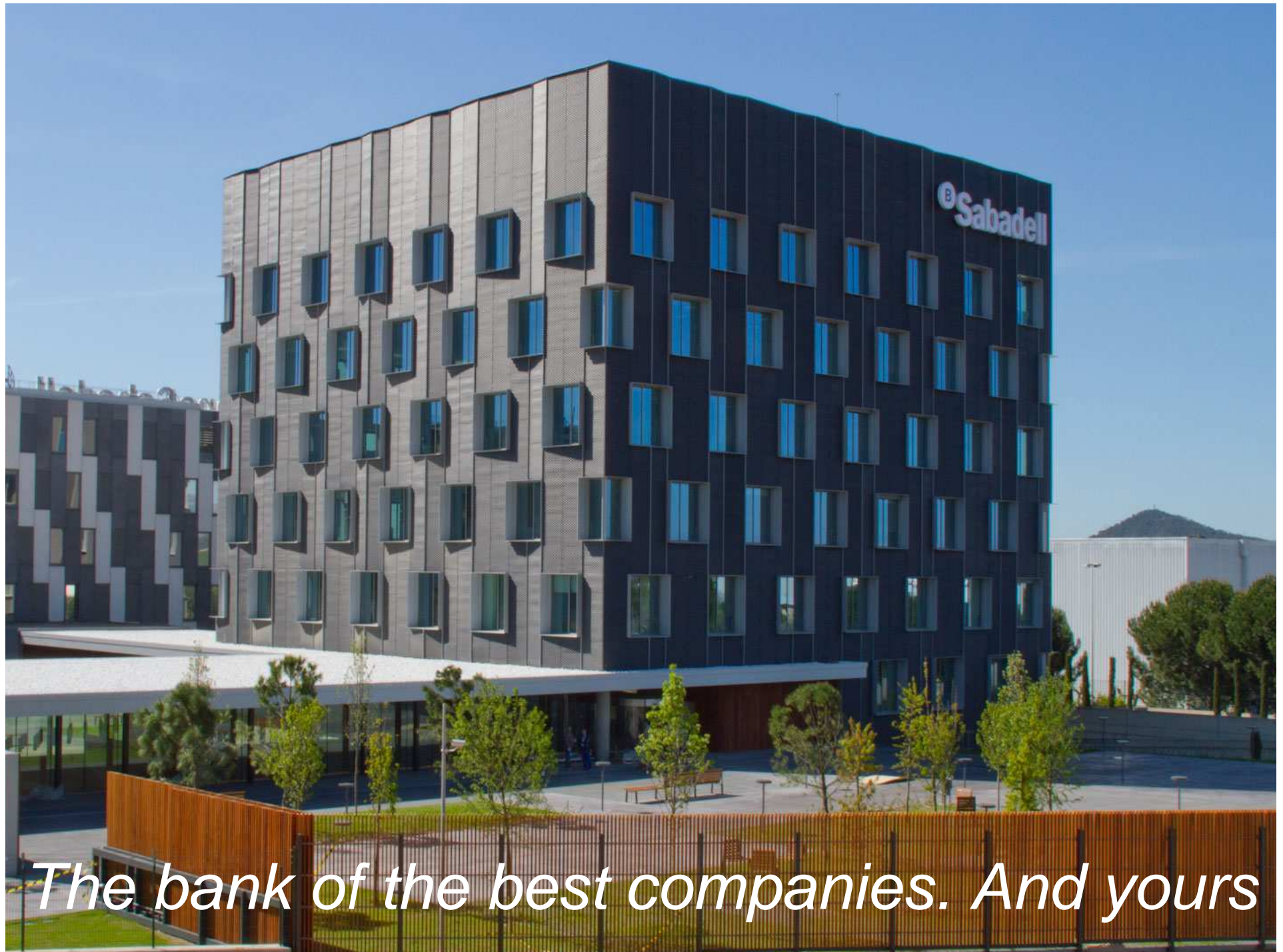
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## Banco Sabadell Investor's Day

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11 February 2014  
London

For more information and to register please send an email to:  
[Investorrelations@bancsabadell.com](mailto:Investorrelations@bancsabadell.com)



*The bank of the best companies. And yours*