

# Sabadell

## Q2 2017 Results

July 28, 2017

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TSB results

# 1

2Q17 highlights

## 2Q17 highlights

- Strong momentum in group core banking revenue which grew above +3.5% YoY, including commissions growing above +7.0%
- Capital gains from the Sabadell United Bank (“SUB”) and the BanSabadell Vida Value in-force (“VIF”) transactions will increase our NPA coverage to 54% (52% ex-floors).

This will imply no further losses in the stock of foreclosed assets going forward. As a consequence, group CoR<sup>1</sup> should fall to 60bps in 2018

- Accumulated NPA reduction increased to c.€1.2bn in the year, which is above our business plan target
- Best solvency in the sector when considering our combined capital and provisioning levels. Our CET1 FL currently stands at 12.1% (12.5% including the impact of the SUB sale<sup>2</sup>)

Note: core banking revenue refers to net interest income plus commissions. All growth rates expressed in constant FX, when relevant.

<sup>1</sup> CoR (Cost of Risk) relates to both NPL and foreclosed provisions out of total lending and foreclosed assets .

<sup>2</sup> Positive impact on CET1 FL of c.42bps due to the exclusion of SUB's RWAs and intangibles assets.

# 2

Profitability and efficiency

## 2Q17 highlights: Profitability and efficiency

- Net interest income continues to grow this quarter by +1.3%
- Customer spread increased to 2.81% from 2.77% in the previous quarter, driven by a significantly lower cost of customer funds
- Solid performance in commissions across all categories, growing +3.3% QoQ and +7.0% YoY
- Good group performance in costs partially offsets the anticipated one-off increase in TSB IT costs

# Quarterly income statement

	Sabadell group					Sabadell, ex-TSB			
	2Q16	1Q17	2Q17	%QoQ	%QoQ constant FX	2Q16	1Q17	2Q17	%QoQ
Euros in million									
<b>Net interest income</b>	<b>968.6</b>	<b>962.4</b>	<b>974.5</b>	<b>1.3%</b>	<b>1.3%</b>	<b>696.7</b>	<b>702.4</b>	<b>711.4</b>	<b>1.3%</b>
Equity method & dividends	27.3	16.4	19.7	20.3%	20.3%	27.3	16.4	19.7	20.3%
Commissions	292.4	296.7	306.3	3.2%	-3.3%	257.9	271.4	284.7	4.9%
Trading income & forex	206.5	354.1	196.2	-44.6%	-44.6%	156.3	343.0	117.8	-65.7%
Other operating results	-82.2	-29.6	-53.3	79.8%	78.3%	-65.9	-27.0	-48.9	81.2%
<b>Gross operating income</b>	<b>1,412.6</b>	<b>1,600.0</b>	<b>1,443.4</b>	<b>-9.8%</b>	<b>-9.8%</b>	<b>1,072.2</b>	<b>1,306.3</b>	<b>1,084.6</b>	<b>-17.0%</b>
Personnel recurrent costs	-401.8	-387.9	-390.2	0.6%	0.6%	-299.7	-294.6	-294.5	0.0%
Administrative recurrent costs	-242.7	-282.2	-282.1	0.0%	0.0%	-145.8	-151.0	-150.6	-0.3%
Non recurrent costs	-16.3	-17.8	-18.1	1.3%	1.1%	-7.5	-3.5	-1.7	-50.6%
Depreciation & amortisation	-96.8	-100.6	-96.8	-3.8%	-3.8%	-78.0	-83.0	-79.2	-4.6%
<b>Pre-provisions income</b>	<b>654.9</b>	<b>811.5</b>	<b>656.2</b>	<b>-19.1%</b>	<b>-19.1%</b>	<b>541.1</b>	<b>774.2</b>	<b>558.7</b>	<b>-27.8%</b>
Total provisions & impairments	-466.9	-510.6	-340.4	-33.3%	-33.3%	-466.9	-486.6	-320.0	-34.2%
Gains on sale of assets and other results	38.3	1.7	16.0	--	--	38.3	-5.8	17.0	--
<b>Profit before taxes</b>	<b>226.3</b>	<b>302.6</b>	<b>331.8</b>	<b>9.7%</b>	<b>9.9%</b>	<b>112.5</b>	<b>281.8</b>	<b>255.7</b>	<b>-9.3%</b>
Taxes	-52.2	-84.8	-97.4	15.0%	15.5%	-22.4	-76.1	-74.4	-2.2%
Minority interest	0.8	1.8	-0.2	--	--	0.8	1.8	-0.2	--
<b>Attributable net profit</b>	<b>173.3</b>	<b>216.1</b>	<b>234.5</b>	<b>8.5%</b>	<b>8.6%</b>	<b>89.3</b>	<b>203.9</b>	<b>181.4</b>	<b>-11.0%</b>

**Our core banking business remains strong with growth above +1.7% QoQ**

Note: The EURGBP exchange rate of 0.8598 used for this quarter's P&L corresponds to the daily average rate of 2Q17. Core banking revenue refers to net interest income plus commissions, growth expressed in constant FX.

# Half-yearly income statement

	Sabadell group				Sabadell, ex-TSB		
	1H16	1H17	%YoY	%YoY constant FX	1H16	1H17	%YoY
Euros in million							
<b>Net interest income</b>	<b>1,942.5</b>	<b>1,936.9</b>	<b>-0.3%</b>	<b>2.4%</b>	<b>1,392.4</b>	<b>1,413.8</b>	<b>1.5%</b>
Equity method & dividends	48.8	36.1	-26.0%	-26.1%	48.8	36.1	-26.0%
Commissions	570.2	603.0	5.7%	7.0%	503.8	556.1	10.4%
Trading income & forex	517.5	550.3	6.3%	7.4%	462.5	460.8	-0.4%
Other operating results	-98.9	-82.9	-16.2%	-14.7%	-82.1	-75.9	-7.6%
<b>Gross operating income</b>	<b>2,980.2</b>	<b>3,043.4</b>	<b>2.1%</b>	<b>4.3%</b>	<b>2,325.4</b>	<b>2,390.9</b>	<b>2.8%</b>
Personnel recurrent costs	-804.6	-778.1	-3.3%	-1.0%	-599.7	-589.1	-1.8%
Administrative recurrent costs	-490.3	-564.3	15.1%	19.6%	-292.3	-301.6	3.2%
Non recurrent costs	-30.8	-35.9	16.6%	20.2%	-14.2	-5.2	-63.5%
Depreciation & amortisation	-194.0	-197.4	1.7%	3.6%	-156.3	-162.1	3.7%
<b>Pre-provisions income</b>	<b>1,460.6</b>	<b>1,467.7</b>	<b>0.5%</b>	<b>1.9%</b>	<b>1,262.9</b>	<b>1,332.9</b>	<b>5.5%</b>
Total provisions & impairments	-901.8	-850.9	-5.6%	-5.7%	-901.8	-806.7	-10.6%
Gains on sale of assets and other results	35.3	17.6	-50.0%	-50.3%	35.3	11.3	-68.1%
<b>Profit before taxes</b>	<b>594.0</b>	<b>634.4</b>	<b>6.8%</b>	<b>10.7%</b>	<b>396.3</b>	<b>537.5</b>	<b>35.6%</b>
Taxes	-166.6	-182.2	9.4%	12.7%	-114.7	-150.6	31.3%
Minority interest	2.1	1.6	-22.9%	-22.9%	2.1	1.6	-22.9%
<b>Attributable net profit</b>	<b>425.3</b>	<b>450.6</b>	<b>5.9%</b>	<b>10.0%</b>	<b>279.6</b>	<b>385.3</b>	<b>37.8%</b>

**We are on track to meet our net profit 2017 target**

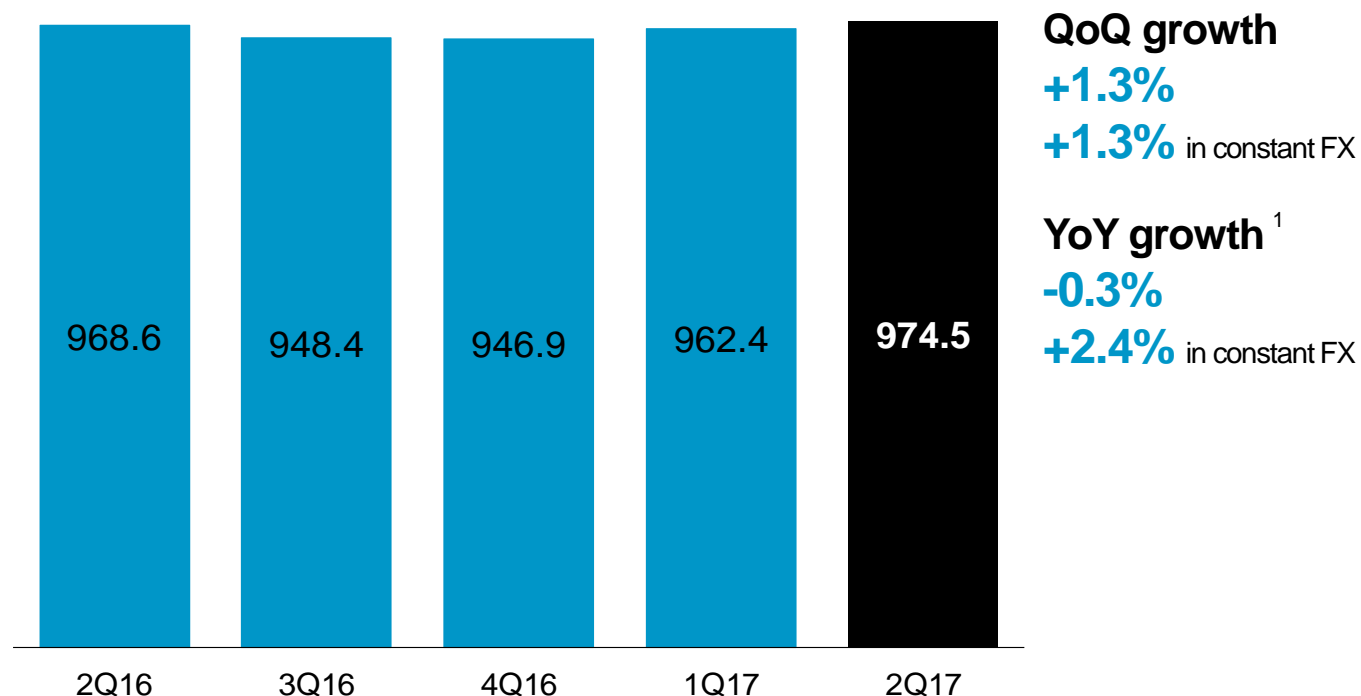
Note: The EURGBP exchange rate of 0.8598 used for this quarter's P&L corresponds to the daily average rate of 1H17.



# Net interest income continues to grow this quarter...

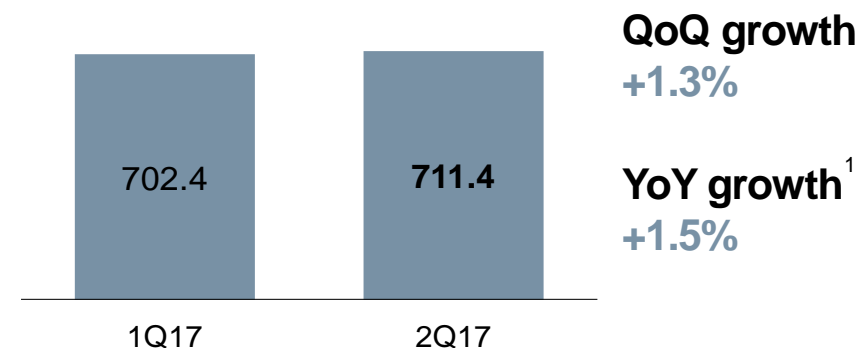
## Group net interest income evolution

Euros in million



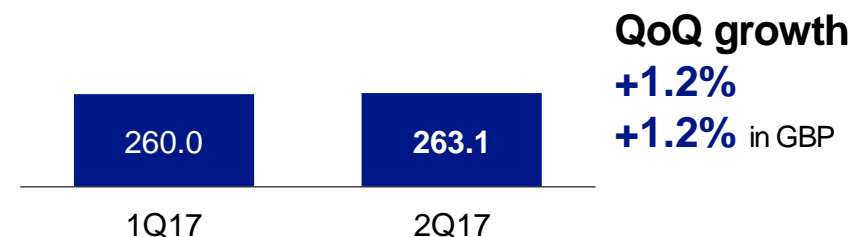
## Sabadell, ex-TSB

Euros in million



## TSB

Euros in million



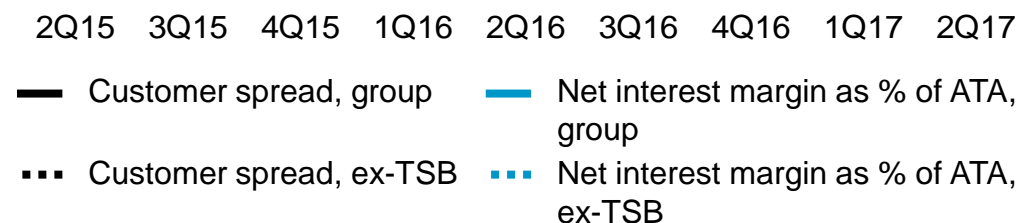
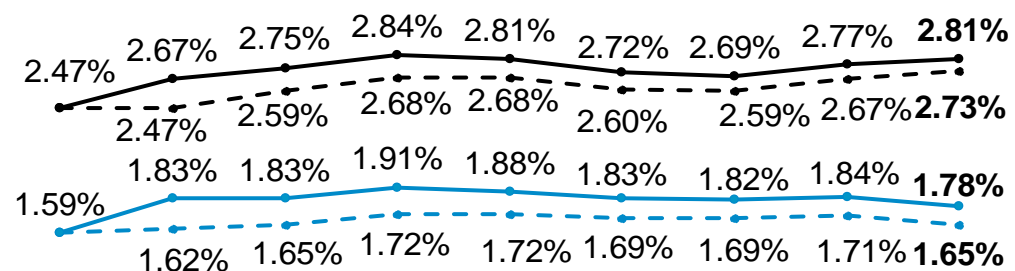
Note: The EURGBP exchange rate of 0.8598 used for this quarter's P&L corresponds to the daily average rate of 2Q17 and 1H17.

<sup>1</sup>YoY calculated as the growth rate of cumulative results to June 2017 vs. cumulative results to June 2016.

# ... with customer spread growing QoQ...

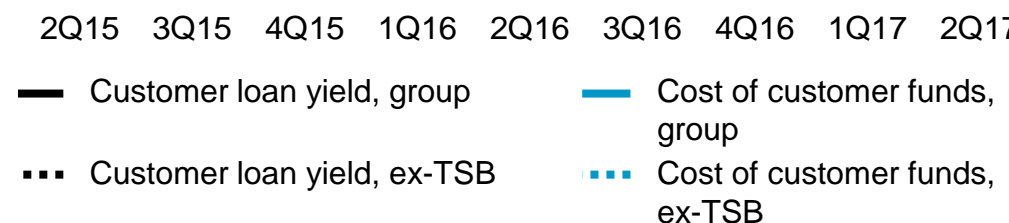
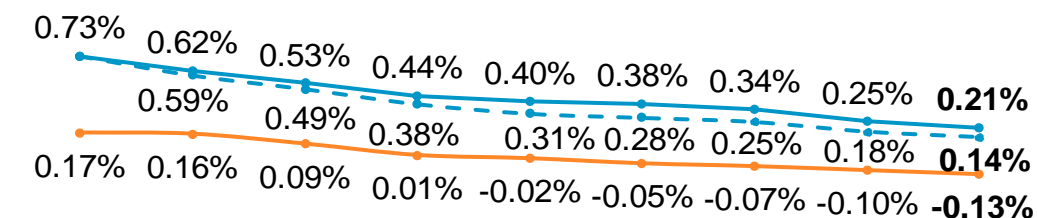
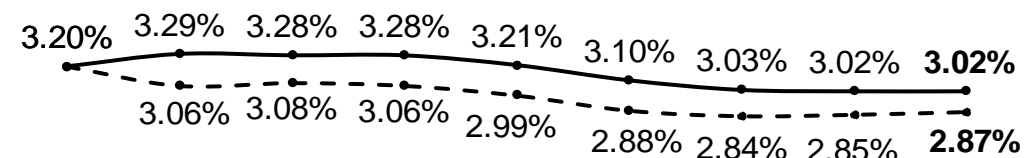
## Net interest margin evolution

In percentage



## Customer loan yield and cost of funds

In percentage



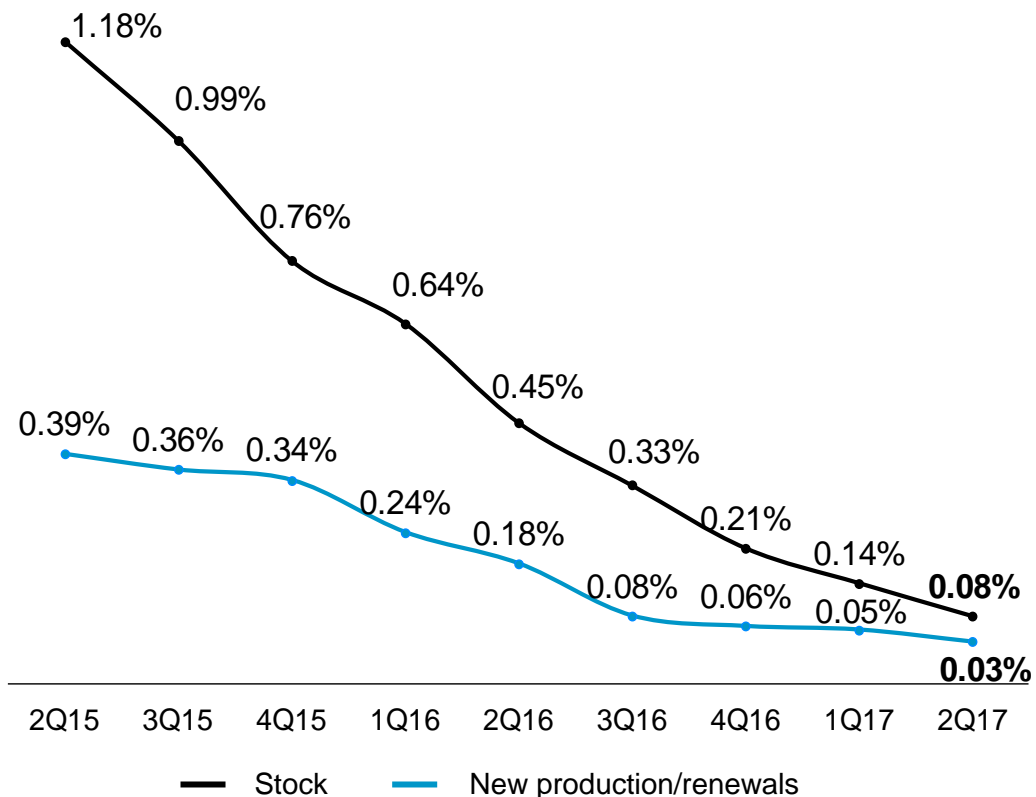
— Euribor 12M<sup>1</sup>

<sup>1</sup> Quarterly average.

# ... driven by a significantly lower cost of funding

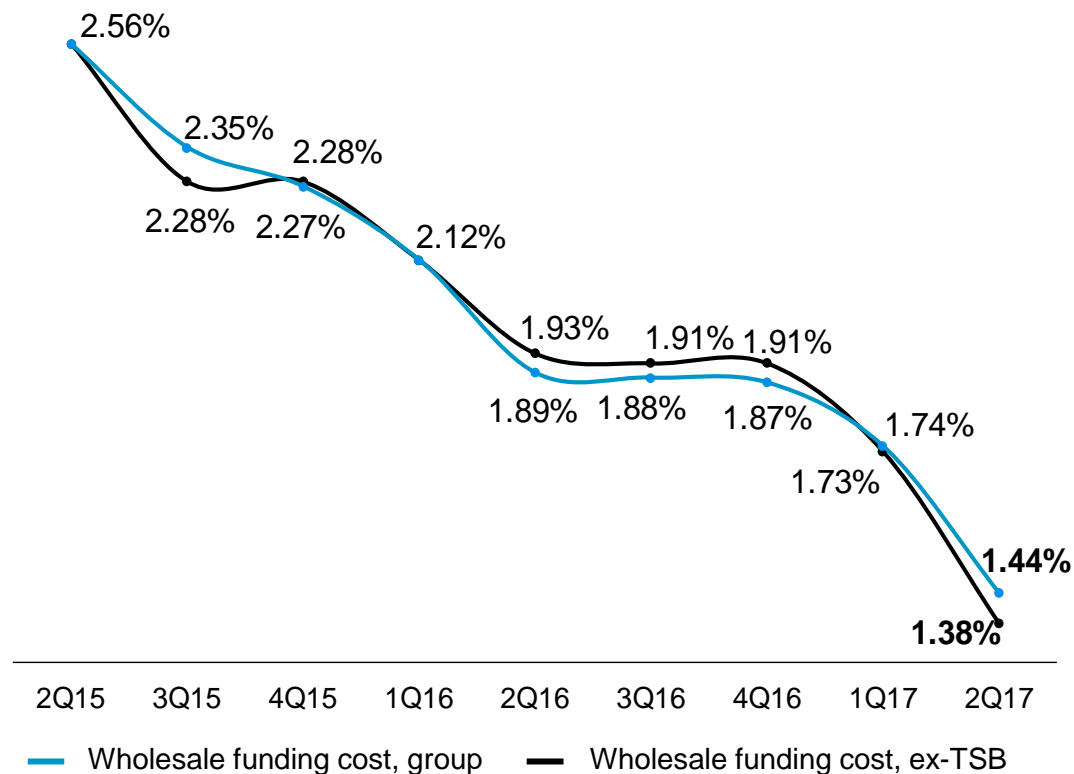
## Contractual rates on term deposits, ex-TSB

In percentage



## Wholesale funding cost evolution

In percentage



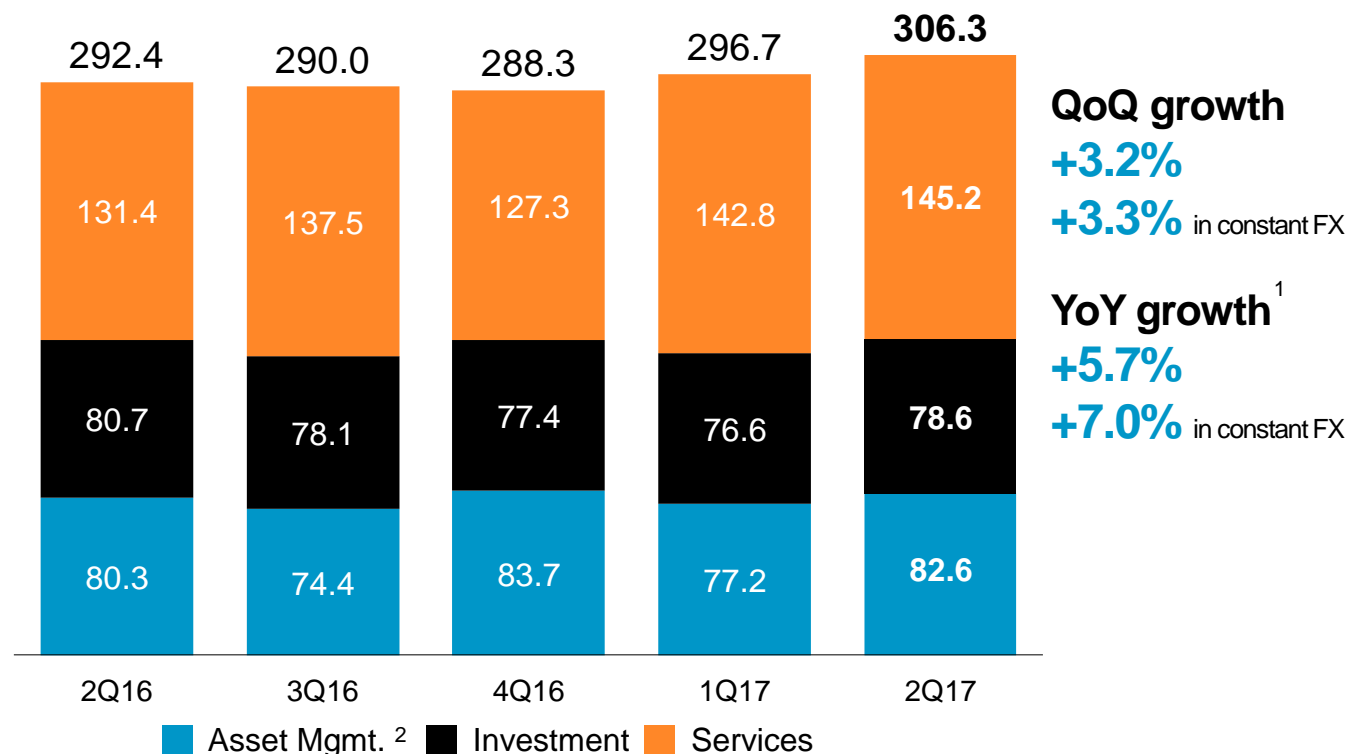
**Wholesale funding cost has benefitted in the quarter from the maturity of costly issuances late 1Q17**

Note: Contractual rates for Euro term deposits. Wholesale funding cost excludes the additional benefit from TLTROII (€20.5bn) and TFS funding (€5.2bn).

# Solid performance in commissions across all categories and growing well above our YE target

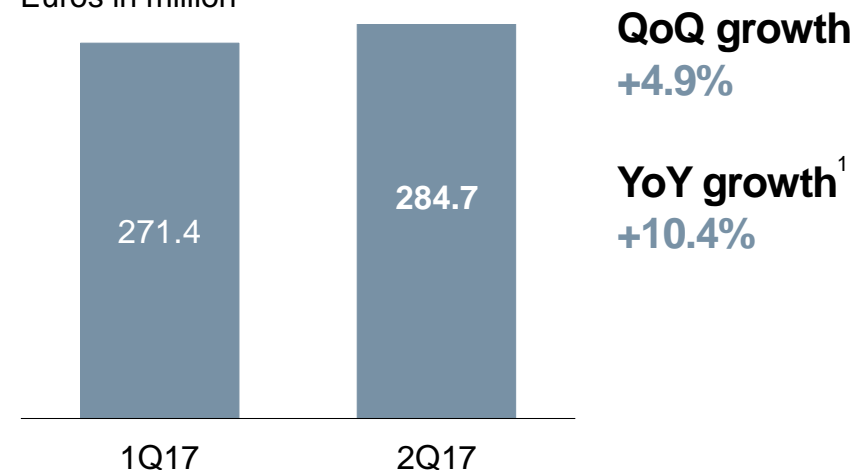
## Group commission income evolution

Euros in million



## Sabadell, ex-TSB

Euros in million



## TSB

Euros in million



Note: The EURGBP exchange rate of 0.8598 used for this quarter's P&L corresponds to the daily average rate of 2Q17 and 1H17.

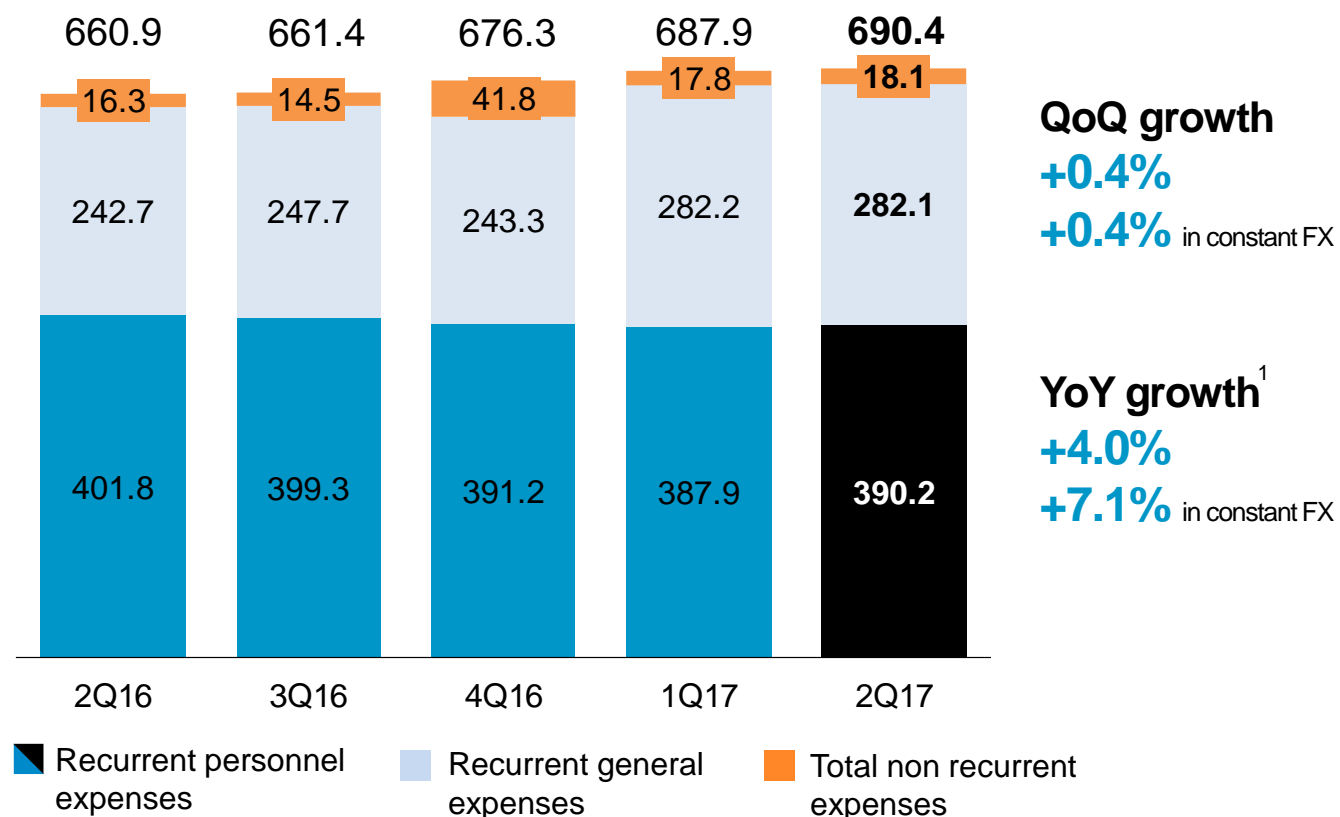
<sup>1</sup>%YoY calculated as the growth rate of cumulative results to June 2017 vs. cumulative results to June 2016.

<sup>2</sup>Includes mutual funds commissions, pension funds, insurance brokerage and wealth management.

# Good group performance in costs partially offsets the anticipated one-off increase in TSB IT costs

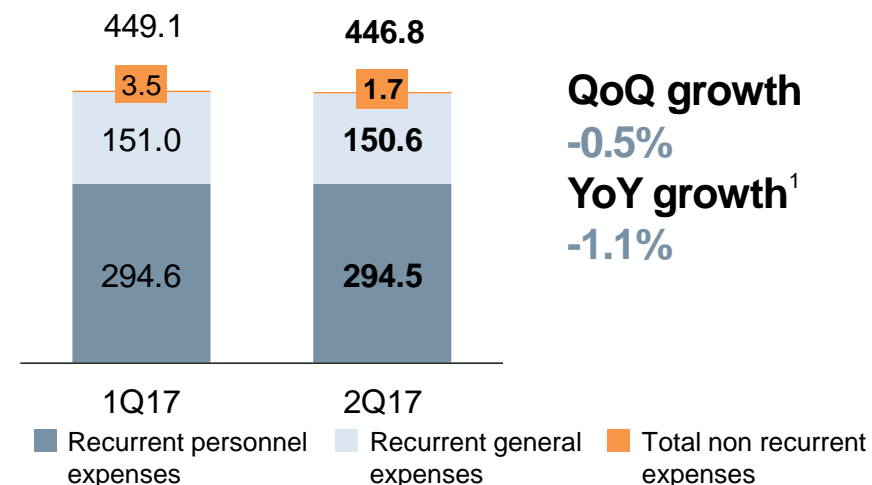
## Group personnel and general expenses

Euros in million



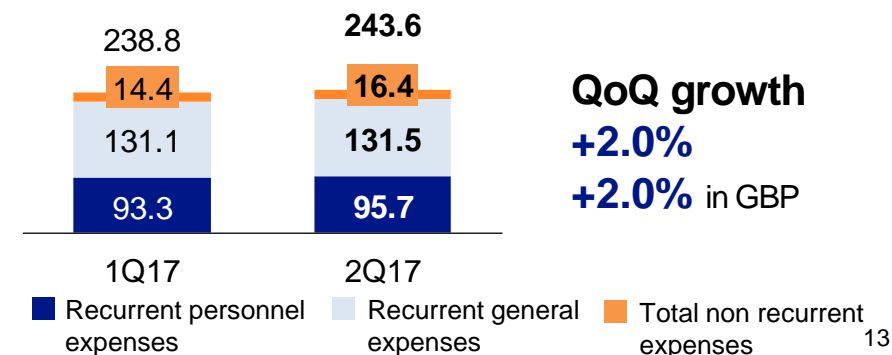
## Sabadell, ex-TSB

Euros in million



## TSB

Euros in million



Note: The EURGBP exchange rate of 0.8598 used for this quarter's P&L corresponds to the daily average rate of 2Q17 and 1H17.

<sup>1</sup>YoY calculated as the growth rate of cumulative results to June 2017 vs. cumulative results to June 2016.

# 3

Commercial activity and  
digital transformation

## 2Q17 highlights: Commercial activity and digital transformation

- Group performing loan book grew c.+2.3% QoQ and +4.5% YoY when adjusting for the early call of the Mortgage Enhancement portfolio
- Outstanding customer fund evolution, particularly in sight accounts, which grew to c.€100bn (+4.1% QoQ), and in off-balance sheet funds (+5.1% QoQ)
- Our market share grew even stronger in Spain, further consolidating our positioning
- Continued to lead NPS rankings for Corporates and SMEs
- Digital clients increased by c.+7.0% YtD to 4.2M, as a result of our firm commitment to digital transformation

# Balance sheet dynamics

## Customer funds and loans evolution

Euros in million	Sabadell group							Sabadell, ex-TSB				
	Jun-16	Mar-17	Jun-17	%QoQ	%QoQ constant FX	%YoY	%YoY constant FX	Jun-16	Mar-17	Jun-17	%QoQ	%YoY
<b>Total assets</b>	<b>207,891</b>	<b>219,093</b>	<b>217,458</b>	<b>-0.7%</b>	<b>0.0%</b>	<b>4.6%</b>	<b>6.0%</b>	<b>164,493</b>	<b>171,574</b>	<b>170,263</b>	<b>-0.8%</b>	<b>3.5%</b>
Of which:												
Gross loans to customers ex repos <sup>1</sup>	149,921	150,520	149,948	-0.4%	0.5%	0.0%	1.5%	116,043	114,338	114,524	0.2%	-1.3%
Performing loans	139,343	141,365	141,393	0.0%	0.9%	1.5%	3.0%	105,669	105,384	106,165	0.7%	0.5%
Fixed income portfolio	24,389	30,501	29,615	-2.9%	-2.4%	21.4%	22.1%	22,440	27,035	25,444	-5.9%	13.4%
<b>Total liabilities</b>	<b>195,029</b>	<b>206,149</b>	<b>204,385</b>	<b>-0.9%</b>	<b>-0.1%</b>	<b>4.8%</b>	<b>6.2%</b>	<b>154,129</b>	<b>161,125</b>	<b>159,678</b>	<b>-0.9%</b>	<b>3.6%</b>
Of which:												
On-balance sheet customer funds	134,152	133,982	135,928	1.5%	2.4%	1.3%	3.0%	100,100	99,264	101,864	2.6%	1.8%
Term funds <sup>2</sup>	45,723	37,339	36,416	-2.5%	-2.1%	-20.4%	-19.8%	40,573	32,431	31,633	-2.5%	-22.0%
Sight accounts	88,429	96,643	99,512	3.0%	4.1%	12.5%	14.9%	59,527	66,833	70,231	5.1%	18.0%
Wholesale funding	25,798	19,647	20,652	5.1%	5.3%	-19.9%	-19.1%	21,428	18,065	19,163	6.1%	-10.6%
ECB funding	10,676	21,295	20,938	-1.7%	-1.7%	96.1%	96.1%	10,676	21,295	20,938	-1.7%	96.1%
BoE funding	0	3,397	5,183	52.6%	56.8%	--	--	0	0	0	--	--
<b>Off-balance sheet funds</b>	<b>37,555</b>	<b>41,848</b>	<b>43,997</b>	<b>5.1%</b>	<b>5.1%</b>	<b>17.2%</b>	<b>17.2%</b>	<b>37,555</b>	<b>41,848</b>	<b>43,997</b>	<b>5.1%</b>	<b>17.2%</b>
Of which:												
Mutual funds	21,131	23,964	25,943	8.3%	8.3%	22.8%	22.8%	21,131	23,964	25,943	8.3%	22.8%
Pension funds	4,147	4,090	4,040	-1.2%	-1.2%	-2.6%	-2.6%	4,147	4,090	4,040	-1.2%	-2.6%
Third party insurance products	8,735	10,024	10,070	0.5%	0.5%	15.3%	15.3%	8,735	10,024	10,070	0.5%	15.3%
Managed accounts	3,542	3,771	3,943	4.6%	4.6%	11.3%	11.3%	3,542	3,771	3,943	4.6%	11.3%

**Group performing loan book grew c.+2.3% QoQ and +4.5% YoY (constant FX) when adjusting for the early call of the Mortgage Enhancement portfolio<sup>3</sup>**

Note: Sabadell United Bank data included for quarterly and yearly comparison purpose. The EURGBP exchange rate of 0.8793 used for this quarter's balance sheet is the closing exchange rate as of June 2017.

<sup>1</sup> Includes accrual adjustments.

<sup>2</sup> Term funds include term deposits and other funds placed in the retail network and exclude repos and deposits from institutional clients.

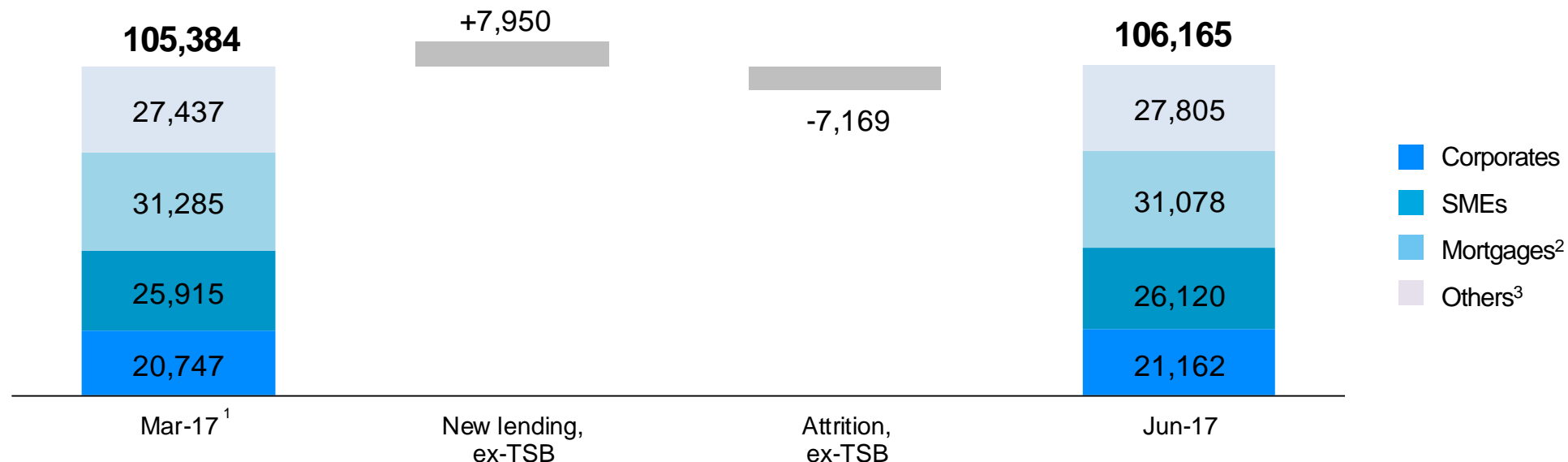
<sup>3</sup> The mortgage enhancement portfolio contributed €1,946M to the group's performing loans as of May 31, 2017.



# Performing loans ex-TSB increased +0.7% QoQ

## Performing loans: performance by customer type, ex-TSB

Euros in million



	Mar-17 <sup>1</sup>	New lending, ex-TSB	Attrition, ex-TSB	Jun-17	Var. %
Corporates	20,747	2,287	-1,872	21,162	+2.0%
SMEs	25,915	3,177	-2,972	26,120	+0.8%
Mortgages <sup>2</sup>	31,285	699	-906	31,078	-0.7%
Others <sup>3</sup>	27,437	1,787	-1,419	27,805	+1.3%
<b>Total Sabadell, ex-TSB</b>	<b>105,384</b>	<b>7,950</b>	<b>-7,169</b>	<b>106,165</b>	<b>+0.7%</b>

Note: excludes accruals adjustments. Sabadell United Bank data included for quarterly comparison purpose. The EURGBP exchange rate of 0.8793 used for this quarter's balance sheet is the closing rate as of June 2017.

<sup>1</sup> Data as of Mar-17 adjusted due to an internal customer reclassification.

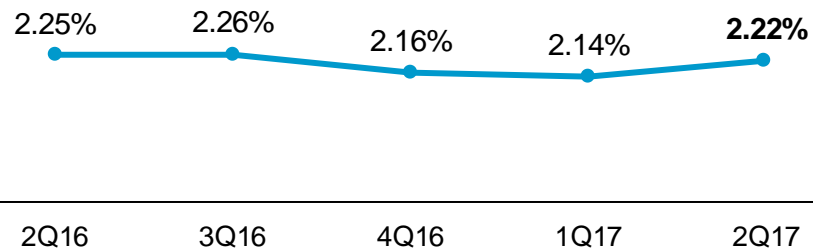
<sup>2</sup> Refers to residential mortgages to individuals within Spain only.

<sup>3</sup> Others include other mortgages, loans to developers, construction sector, real estate sector and others.

# Front book pricing remained stable

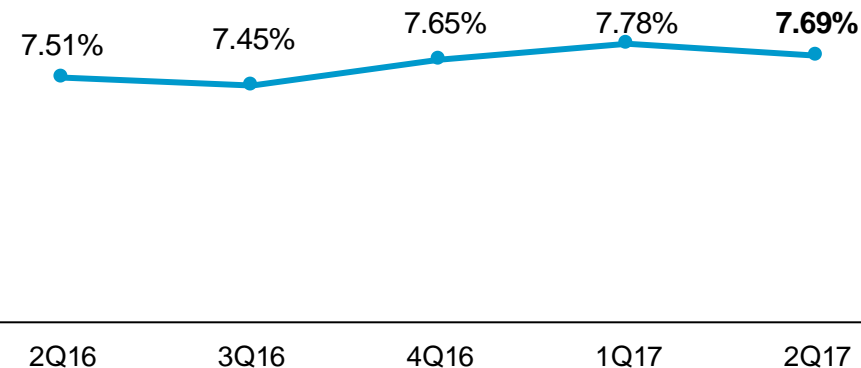
## Mortgages to individuals

Yield in percentage



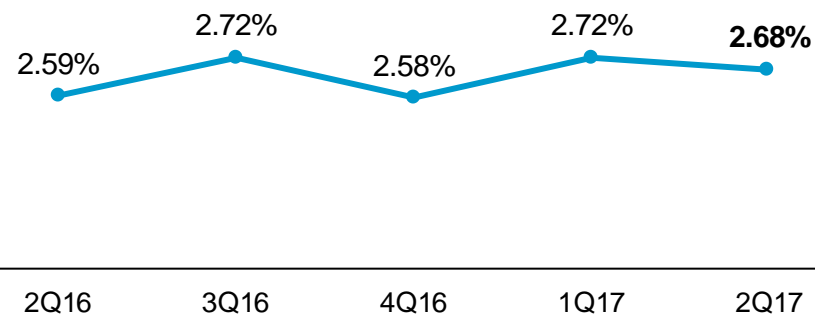
## Consumer loans

Yield in percentage



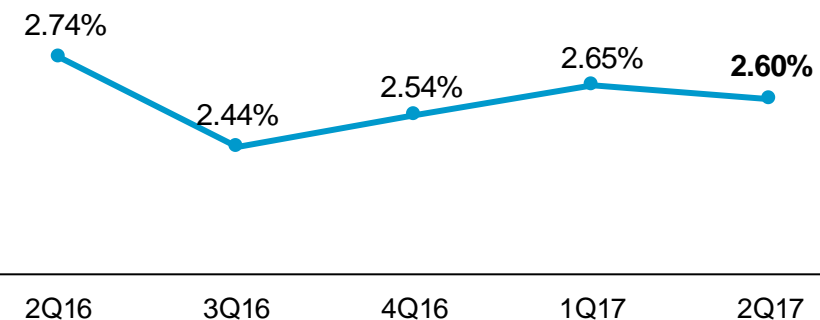
## Loans to SMEs and Corporates

Yield in percentage



## Credit line for SMEs and Corporates

Yield in percentage



Note: Data refers to yield from front book of Spanish Commercial Banking Unit excluding Sabadell Consumer Finance.

# Our market position in Spain grows even stronger...

## Market shares by product

In percentage

		Loans <sup>1</sup>	Total export transactions	PoS turnover	Transact <sup>2</sup>
<b>Companies</b>	<b>Jun- 17</b>	<b>↑ 11.30%</b>	<b>↑ 13.20%</b>	<b>↑ 14.97%</b>	<b>↑ 9.61%</b>
	<b>Jun- 16</b>	11.02%	12.84%	13.89%	9.10%
		Credit card turnover	Life insurance <sup>3</sup>	Household sight acc.	Mutual funds
<b>Individuals</b>	<b>Jun- 17</b>	<b>↑ 7.94%</b>	<b>≈ 5.26%</b>	<b>↑ 6.31%</b>	<b>↑ 6.34%</b>
	<b>Jun- 16</b>	7.49%	5.27%	5.85%	5.95%

Note: 2017 data as of June 2017 or last month available. Figures to make data comparable YoY.

Sources include ICEA (life insurance), Bank of Spain (loans, PoS turnover, credit card turnover, household current acc.), Iberpay (transact.) and Swiftwatch (total export transactions).

<sup>1</sup> Excluding loans to Real Estate companies and repos.

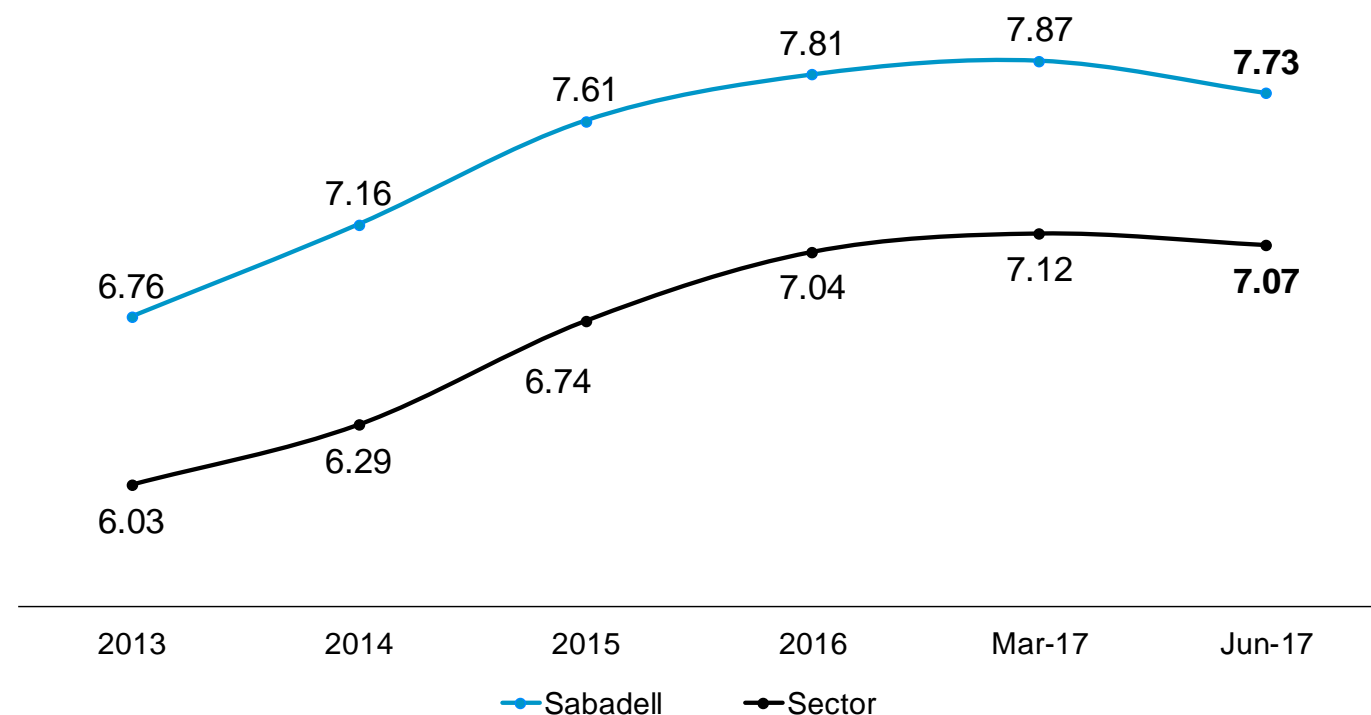
<sup>2</sup> Transactionality calculated per volume.

<sup>3</sup> Insurance calculated per number of contracts.

# ... with high standards in quality of service

## Level of service quality <sup>1</sup>

Evolution of Sabadell quality index vs. sector



## Net promoter score <sup>2</sup>

Evolution of Sabadell quality index vs. sector

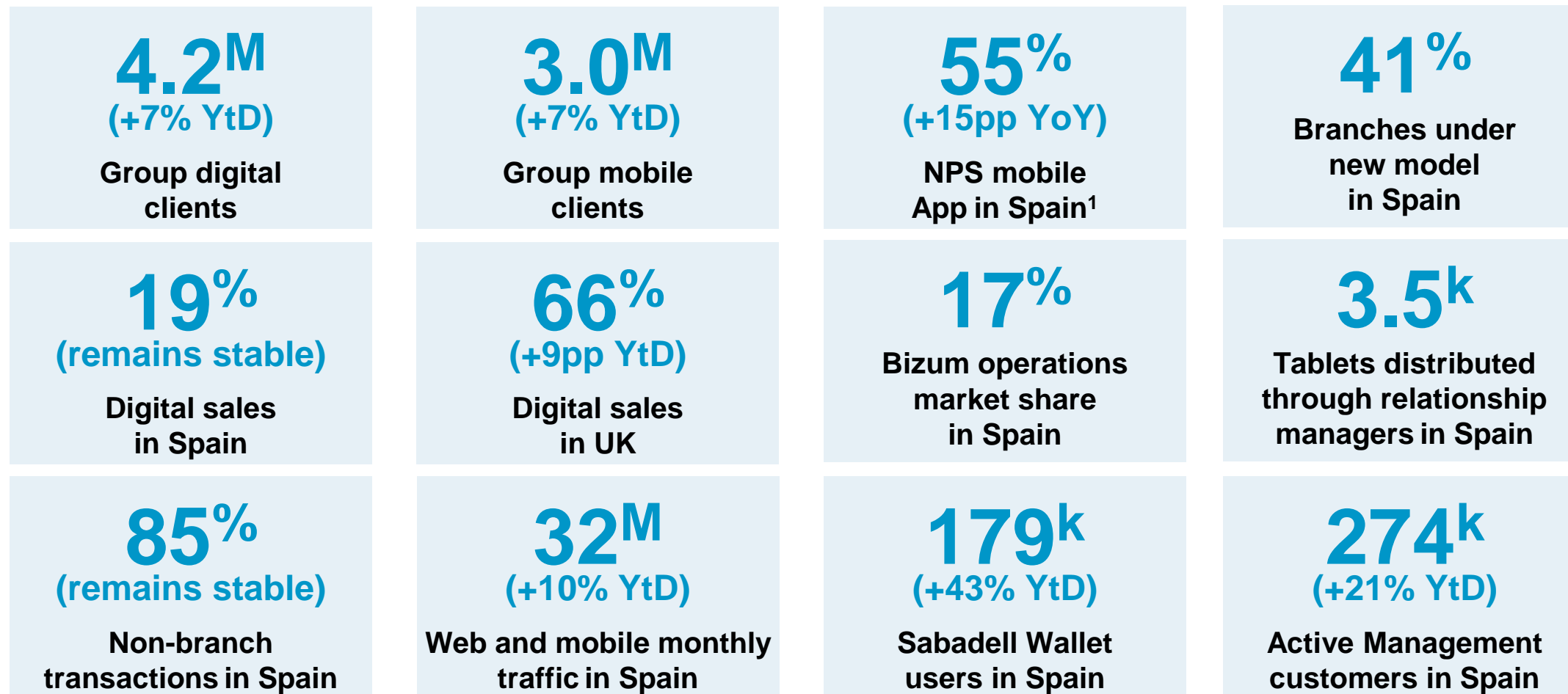
	2017	Ranking
Large companies (turnover > €5 M)	35%	1°
SMEs (turnover < €5 M)	19%	1°
Personal banking	28%	2°
Retail banking	3%	4°

**Sabadell continues to have a better service quality score vs. the sector and is Top ranked by SMEs and large companies**

<sup>1</sup> Source: STIGA, EQUOS (Objective Quality Analysis in Banking Networks, Q2 2017). Cumulative data.

<sup>2</sup> Source: Report Benchmark NPS Accenture. Considers peer group entities. Data as last available month.

# Strongly committed to our digital and commercial transformation with digital clients up +7.0% YtD



Note: data as of June 2017.

<sup>1</sup> Last data available (December 2016).

# We continue to strengthen our leap in commercial and digital transformation

## Objectives

## Initiatives

## Quarterly performance

### Leap in commercial transformation

*“Increase the number of customers under the Active Management model...”*

*... while expanding our digital capabilities*

*...*

*... and improving our value proposition”*

### Distribution model

Offers greater efficiency and more convenience as well as an improved customer experience

### Simplification

Facilitates commercial and operational processes for our clients and simplifies their interaction with the bank

### Digital offering

Develops new capabilities and promotes their use to provide our customers with the best user experience

### Data driven processes

Provides value to our customers and enhances our business decision process

- We have increased our **Active Management** model capabilities
- Closure of 191 branches and deployment of 17 **Hub & Spoke branches** and 9 **Shared Manager Branches**
- **Mobile Branch** to serve small towns

- Number of documents<sup>1</sup> signed using **Proteo Mobile**<sup>2</sup>: + 39% QoQ
- **ATMs customisation**
- **Simplified account categorisation**, which reduced account types by 43%

- New versions of BS Online, Sabadell Mobile and Sabadell Wallet
- Deployment of **Digital Signature** to business customers
- **Card Transfer** service to send money immediately from other banks to Sabadell accounts

- **Pull event driven client impact**: 24% of total (+5 pp YtD)

<sup>1</sup> Refers to biometric signatures.

<sup>2</sup> Tablets distributed through relationship managers.

# InnoCells is an unique and innovative platform that allow us to embrace new digital businesses models

## Objectives

To maintain our leadership in digital business and innovation

## Initiatives

**InnoCells**  
Accelerating the digital transformation of the bank by adding to our entity disruptive business models that increasingly foster agility and entrepreneurial culture

## Quarterly performance

Launched in Q2



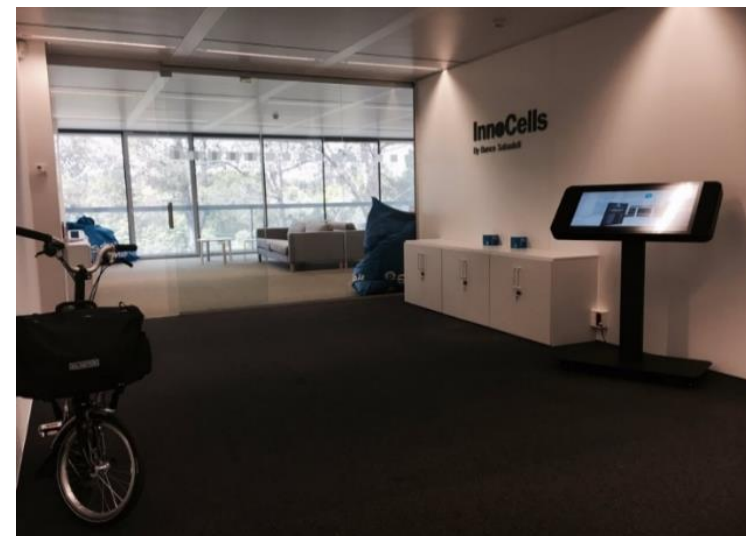
Business building: launching new digital ventures



Strategic partnerships with competitive start-ups

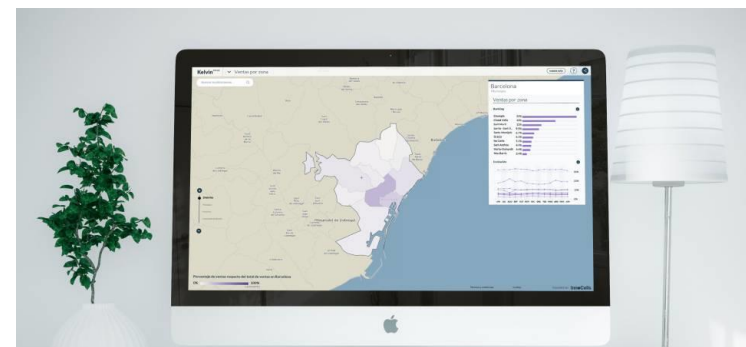


InnoCapital: vehicle to undertake strategic investments



**Kelvin Atlas by InnoCells**

The first portal of Open Data in real time of the Spanish banking sector



# 4

Solvency and asset quality



## 2Q17 highlights: Solvency and asset quality

- Group NPL ratio continued to decrease to 5.49%<sup>1</sup>
- Capital gains from the Sabadell United Bank (“SUB”) and the BanSabadell Vida Value in-force (“VIF”) transactions will increase our NPA coverage to 54% (52% ex-floors).  
  
This will imply no further losses in the stock of foreclosed assets going forward. As a consequence, group CoR<sup>2</sup> should fall to 60bps in 2018
- Accumulated NPA reduction increased to c.€1.2bn in the year, which is above our business plan target. Reduction in foreclosed assets for the fourth consecutive quarter
- Best solvency in the sector when considering our combined capital and provisioning levels. Our CET1 FL currently stands at 12.1% (12.5% including the impact from the SUB sale<sup>3</sup>)
- Sabadell obtained again investment grade rating from all agencies

<sup>1</sup> Including Sabadell United Bank.

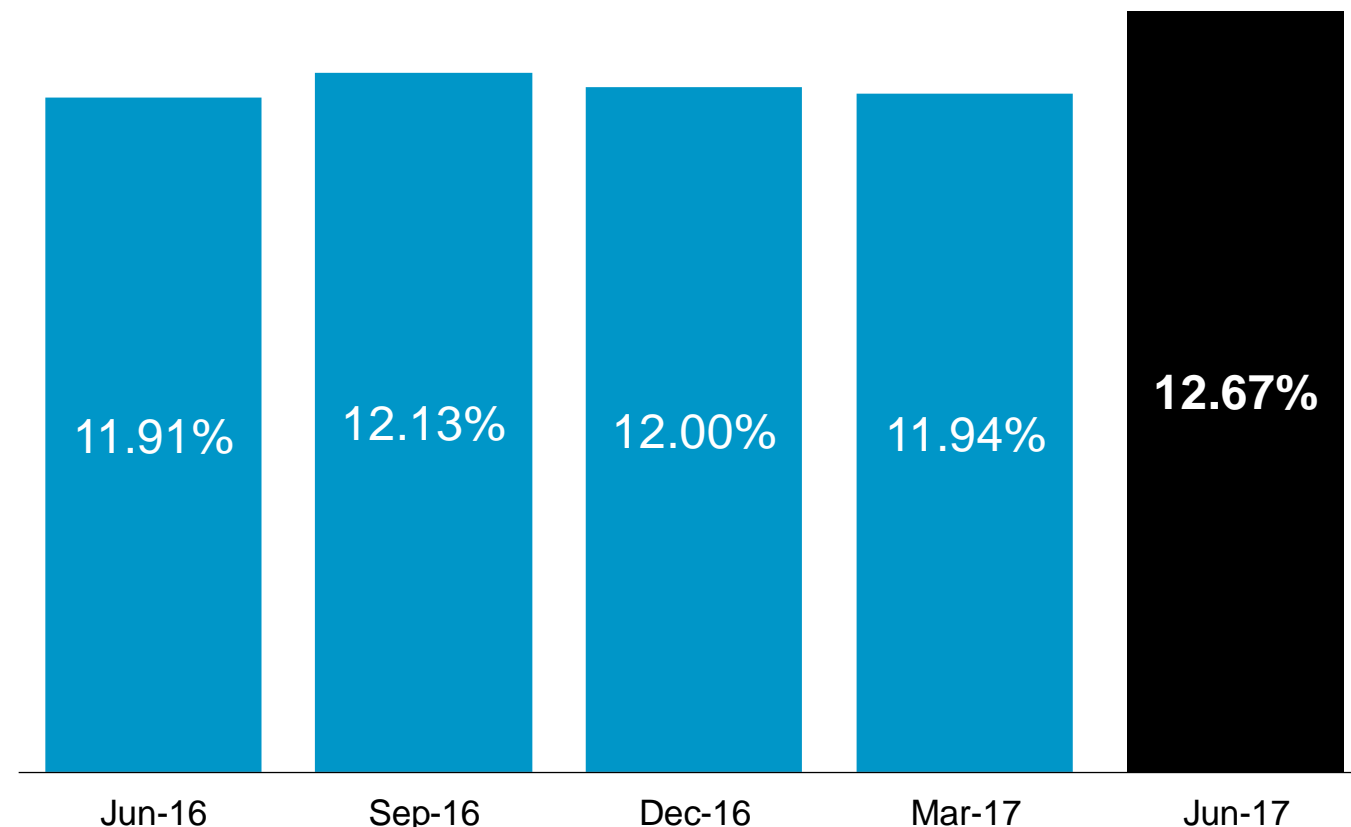
<sup>2</sup> CoR (Cost of Risk) relates to both NPL and foreclosed provisions out of total lending and foreclosed assets .

<sup>3</sup> Positive impact on CET1 FL of c.42bps due to the exclusion of SUB's RWAs and intangibles assets.

# Top capital position with CET1 phase-in at 12.67%

## Common equity Tier 1 phase-in evolution

In percentage and basis points



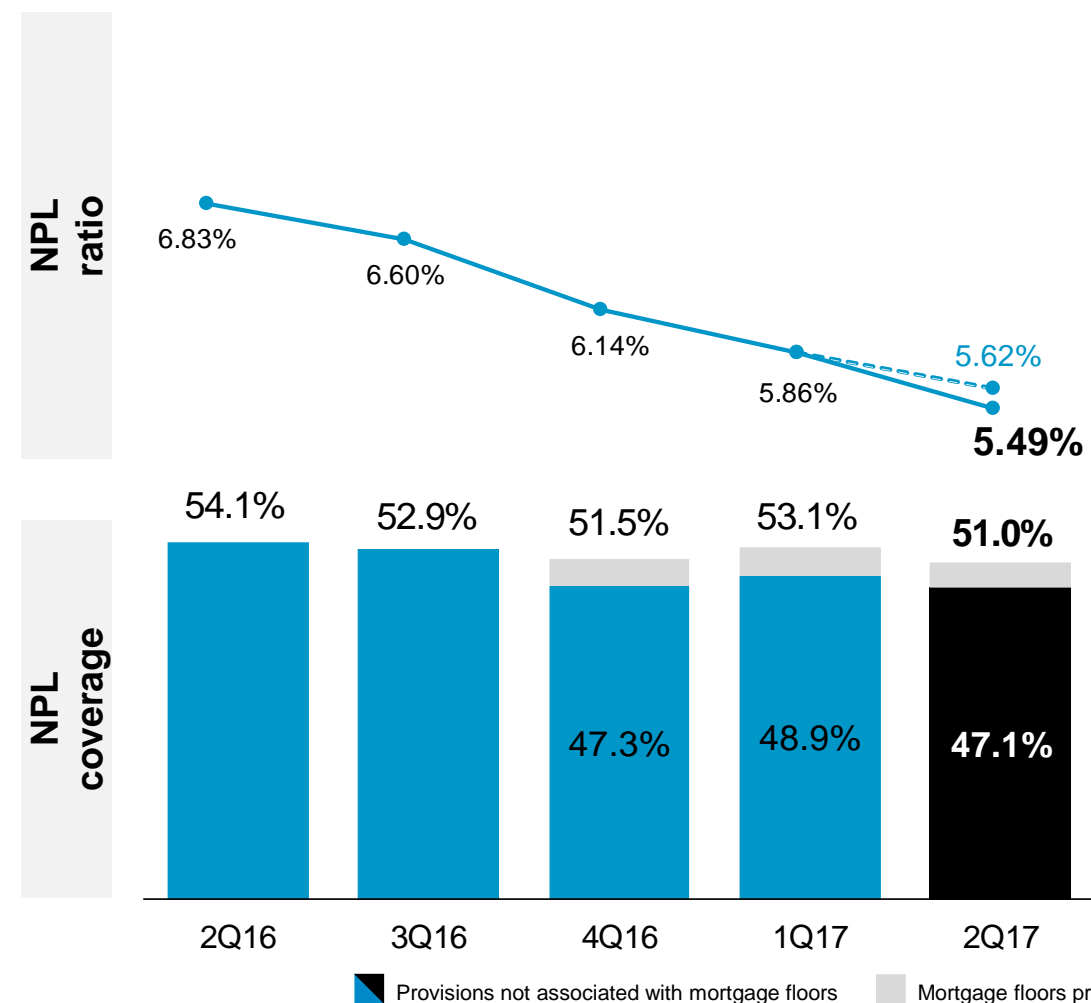
- **CET1 phase-in improved substantially in the quarter**, as we benefitted from the AT1 issuance, as well as a reduction in RWAs and the Mortgage Enhancement call, among others

**Common Equity Tier 1 fully-loaded of 12.1% (Jun-17). Including the SUB sale (ex-capital gains), this ratio increases to 12.5%**

# NPL ratio continues to decline and stands at 5.49%

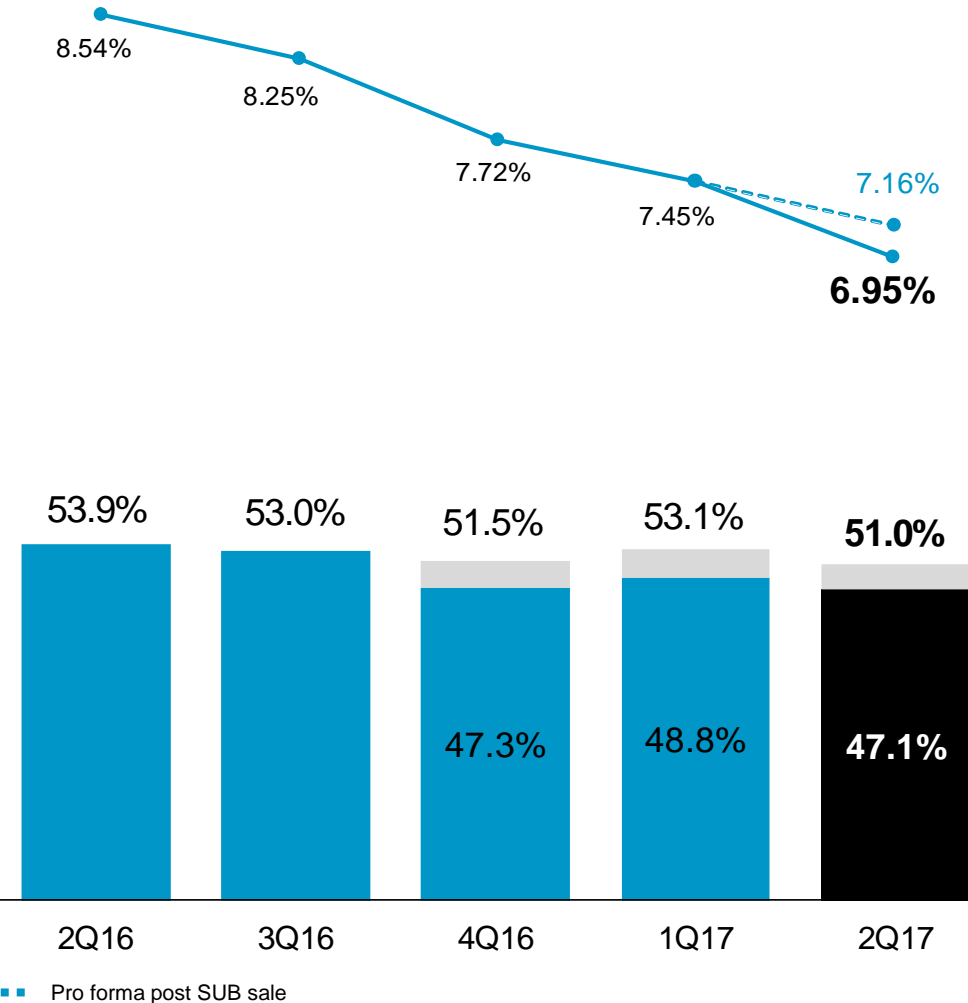
## Sabadell group

In percentage



## Sabadell, ex-TSB

In percentage

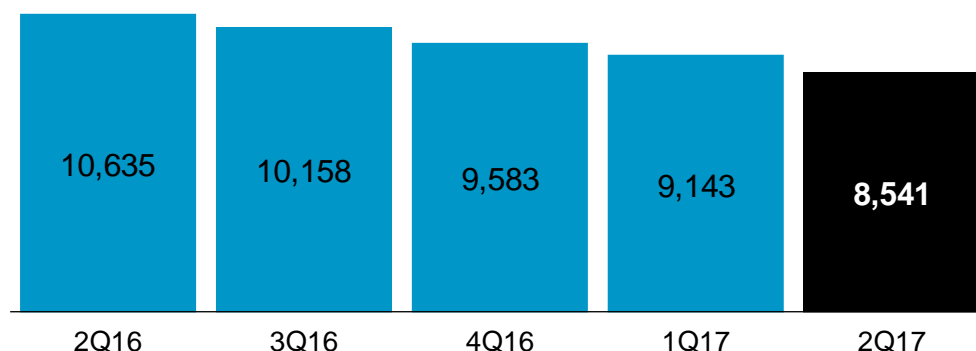


Note: Includes contingent risk. Sabadell United Bank data included for quarterly comparison purpose. Excluding Sabadell United Bank, the NPL coverage ratio stood at 45.8% (Group) and 45.7% (ex-TSB) as of June 2017. The Group and Sabadell ex-TSB's NPLs and provisions include 20% of the NPLs and associated provisions included in the APS, which risk is assumed by Sabadell in accordance with the APS protocol.

# Accumulated NPA reduction of c.€1.2bn in the year, which is above our business plan target...

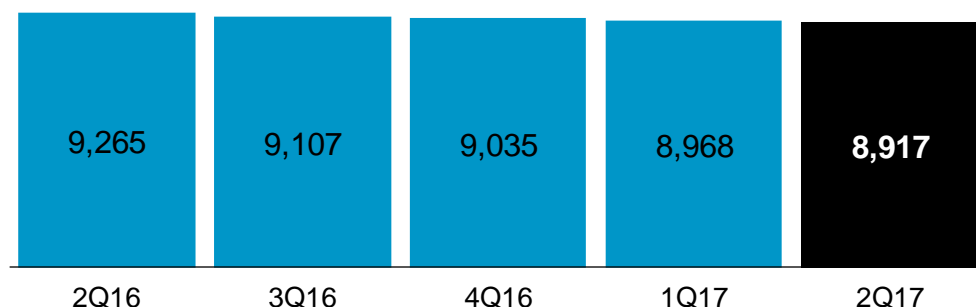
## NPL evolution, ex-TSB

Euros in million



## Foreclosed assets evolution, ex-TSB

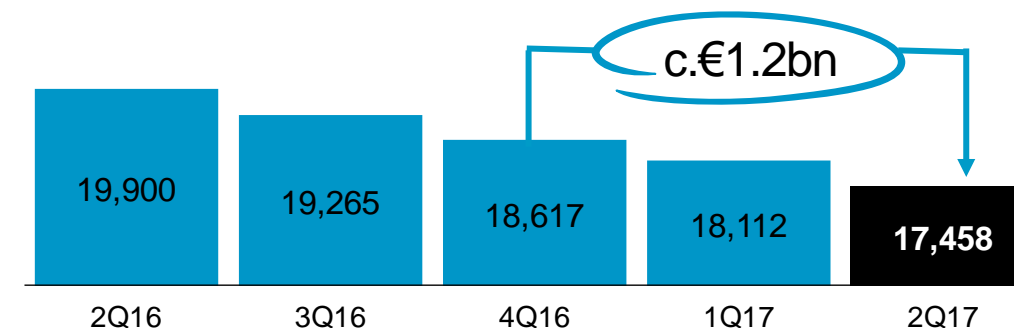
Euros in million



## Total problematic assets, ex-TSB

Euros in million

- **€602M** further reduction of NPLs during 2Q17
- Foreclosed asset reduction of **€51M** during 2Q17
- NPAs decreased by **€653M** during 2Q17

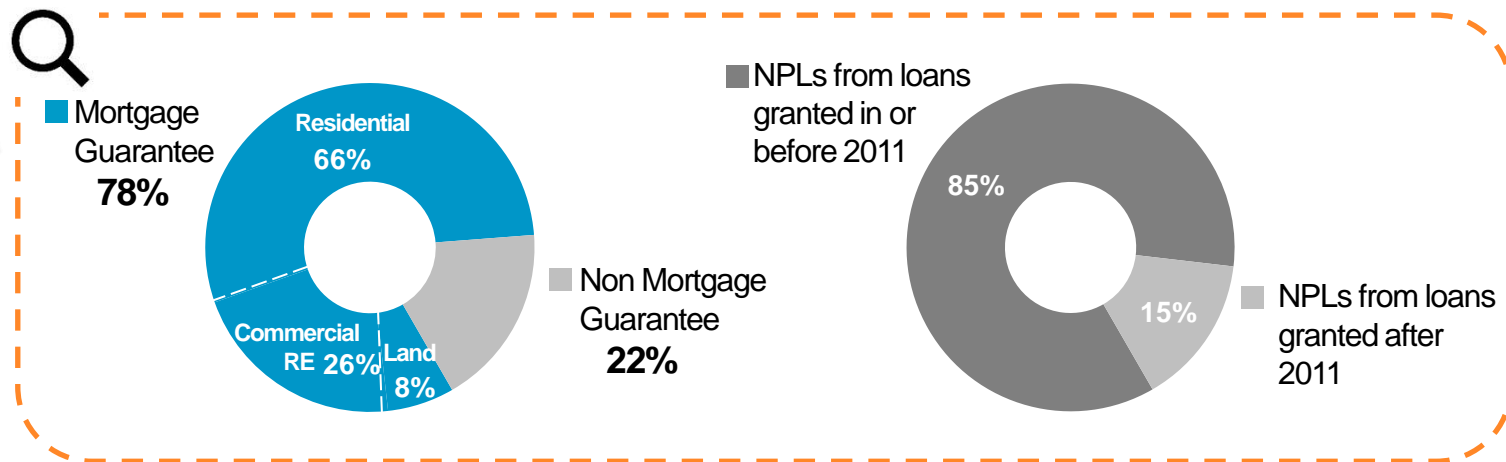
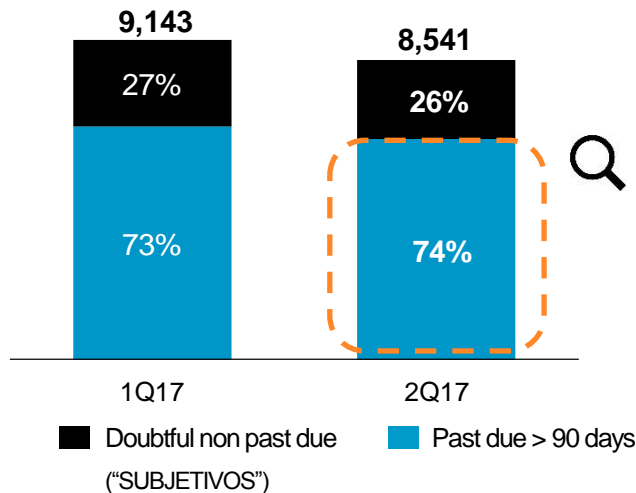


Note: Includes contingent risk. Sabadell United Bank data included for quarterly comparison purpose. Sabadell ex-TSB's NPLs, Foreclosed Assets and NPAs include 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell in accordance with the APS protocol.

# ... with an improved NPL composition and a high rotation of the foreclosed assets portfolio

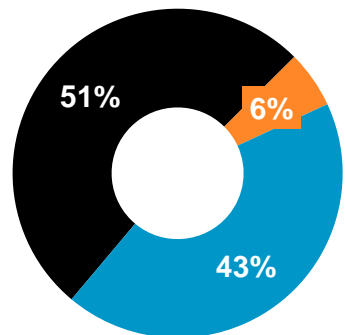
## NPL evolution, ex-TSB

Euros in million. In percentage



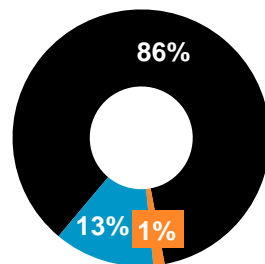
## Foreclosed Assets, ex-TSB

1Q17



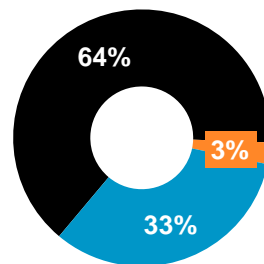
## + New Entries

2Q17



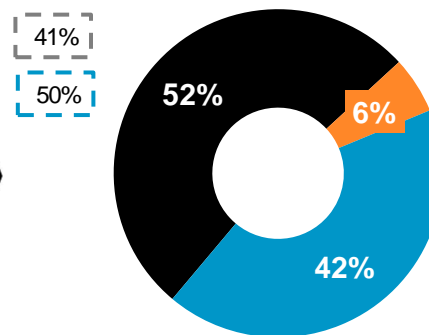
## - Sales

2Q17



## Foreclosed Assets, ex-TSB

2Q17



In Q2, **land sales** represented **33%** of our foreclosed sales

**75%** of our stock was foreclosed in the **last 5 years**

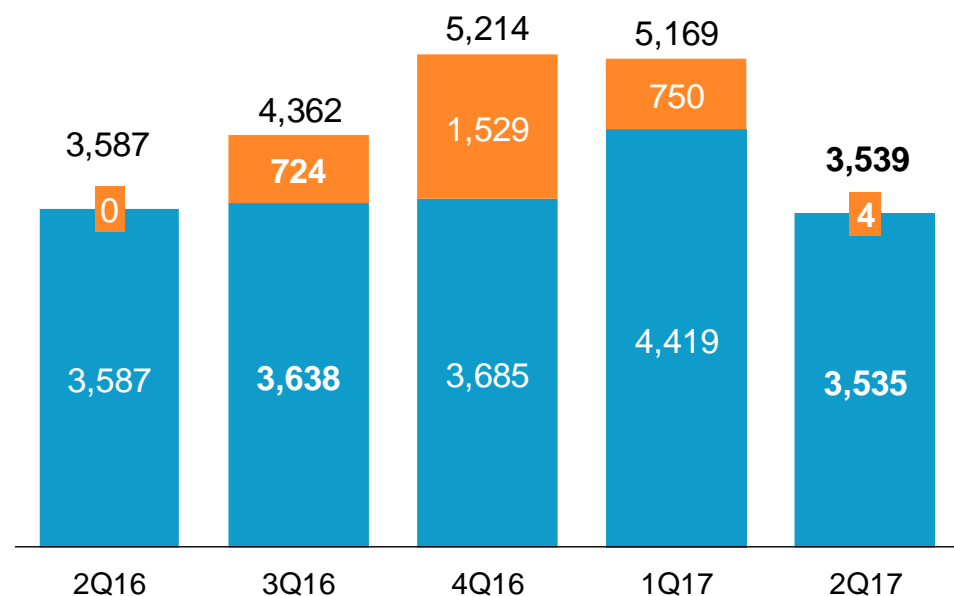
Legend: Land (blue), Under construction (orange), Finished properties<sup>1</sup> (black), Coverage (dashed box), Coverage including write downs (dotted box)

Note: NPL evolution includes Sabadell United Bank. Sabadell ex-TSB's NPLs, foreclosed assets and provisions include 20% of the NPLs, foreclosed assets and associated provisions included in the APS, which risk is assumed by Sabadell in accordance with the APS protocol. <sup>1</sup> And other real estate assets derived from home loan mortgages for house purchases.

# Solvía continues to deliver a solid performance in real estate asset sales

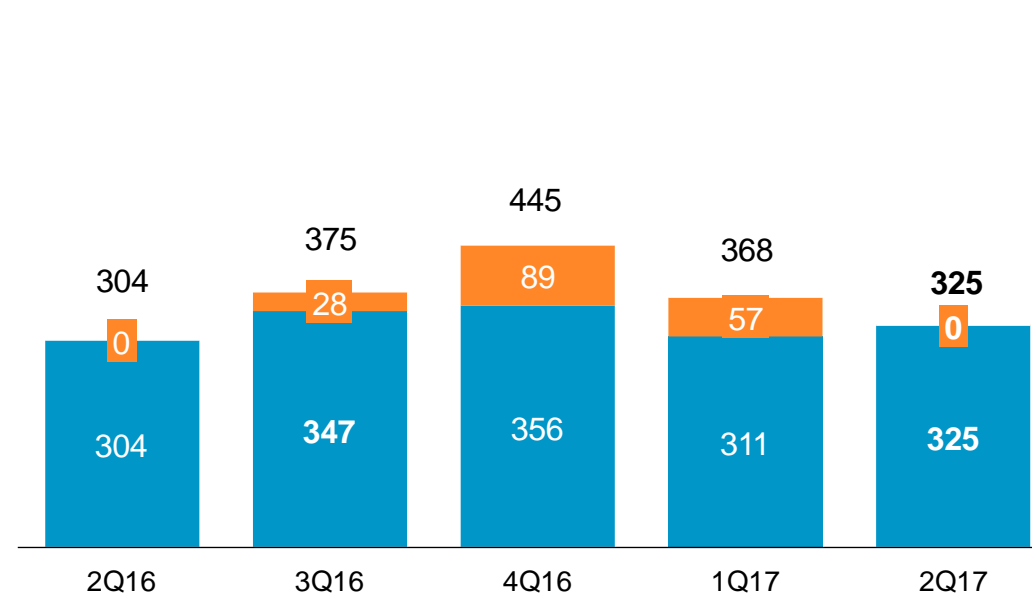
## Number of foreclosed assets sold

In units



## Foreclosed assets sold (Includes 20% APS exposure)

Euros in million



■ Institutional sales

■ Private individuals sales

**Average foreclosed assets sale discount has decreased from 6.3% in 2016 to 3.7% in 2Q17**  
**On average, going forward we do not expect to sell at a loss**

Note: includes sales from Sabadell foreclosed assets which risk is assumed by Sabadell in accordance with the APS protocol. (i.e. includes 20% of APS).

# HI Partners has consolidated its position as one of the leading leisure hotel platforms in Spain

HI Partners has established itself as a scalable real estate platform focused on the leisure hotel industry, which currently has a portfolio of 14 owned upscale hotels in Spain:



**Integrated 40-staff platform with hotel and real estate experience**



**Located in most demanded tourism destinations**



**€689M appraisal valuation June 30, 2017<sup>1</sup>**



**More than 3,700 rooms<sup>2</sup>**



**HI Partners'** consolidation pace has led Banco Sabadell to explore **strategic alternatives** in connection with the financing and future development of the business of its wholly-owned subsidiary

**HI Partners Holdco Value Added, S.L.U. ("HIP VA")**



**Included an eventual divestment of its equity stake in HIP VA**



**Including a potential IPO in Spain within the coming months**

Note: for further information see the appendix of this presentation – slide 64.

<sup>1</sup> RICS Red Book.

<sup>2</sup> HIP VA figures considering 100% ownership of assets under management.

# Our coverage level reflects our strong NPA reduction in the quarter...

## Sabadell Group coverage ratios evolution

Euros in million

	2Q16	3Q16	4Q16	1Q17	2Q17
NPL evolution	10,812	10,328	9,746	9,307	8,703
Provisions	5,847	5,468	4,614	4,548	4,100
<b>Coverage ratio (%)</b>	<b>54.1%</b>	<b>52.9%</b>	<b>47.3%</b>	<b>48.9%</b>	<b>47.1%</b>
<b>Coverage ratio incl. mortgage floors (%)</b>			<b>51.5%</b>	<b>53.1%</b>	<b>51.0%</b>
	2Q16	3Q16	4Q16	1Q17	2Q17
RE foreclosed assets evolution	9,265	9,107	9,035	8,968	8,917
Provisions	3,997	3,911	4,297	4,299	4,264
<b>Coverage ratio (%)</b>	<b>43.1%</b>	<b>42.9%</b>	<b>47.6%</b>	<b>47.9%</b>	<b>47.8%</b>
	2Q16	3Q16	4Q16	1Q17	2Q17
Total problematic assets	20,077	19,435	18,781	18,275	17,619
Provisions	9,845	9,380	8,911	8,847	8,364
<b>Coverage ratio (%)</b>	<b>49.0%</b>	<b>48.3%</b>	<b>47.4%</b>	<b>48.4%</b>	<b>47.5%</b>
<b>Coverage ratio incl. mortgage floors (%)</b>			<b>49.6%</b>	<b>50.6%</b>	<b>49.4%</b>

Foreclosed assets  
coverage ratio  
(incl. write-downs)

**57.9%**

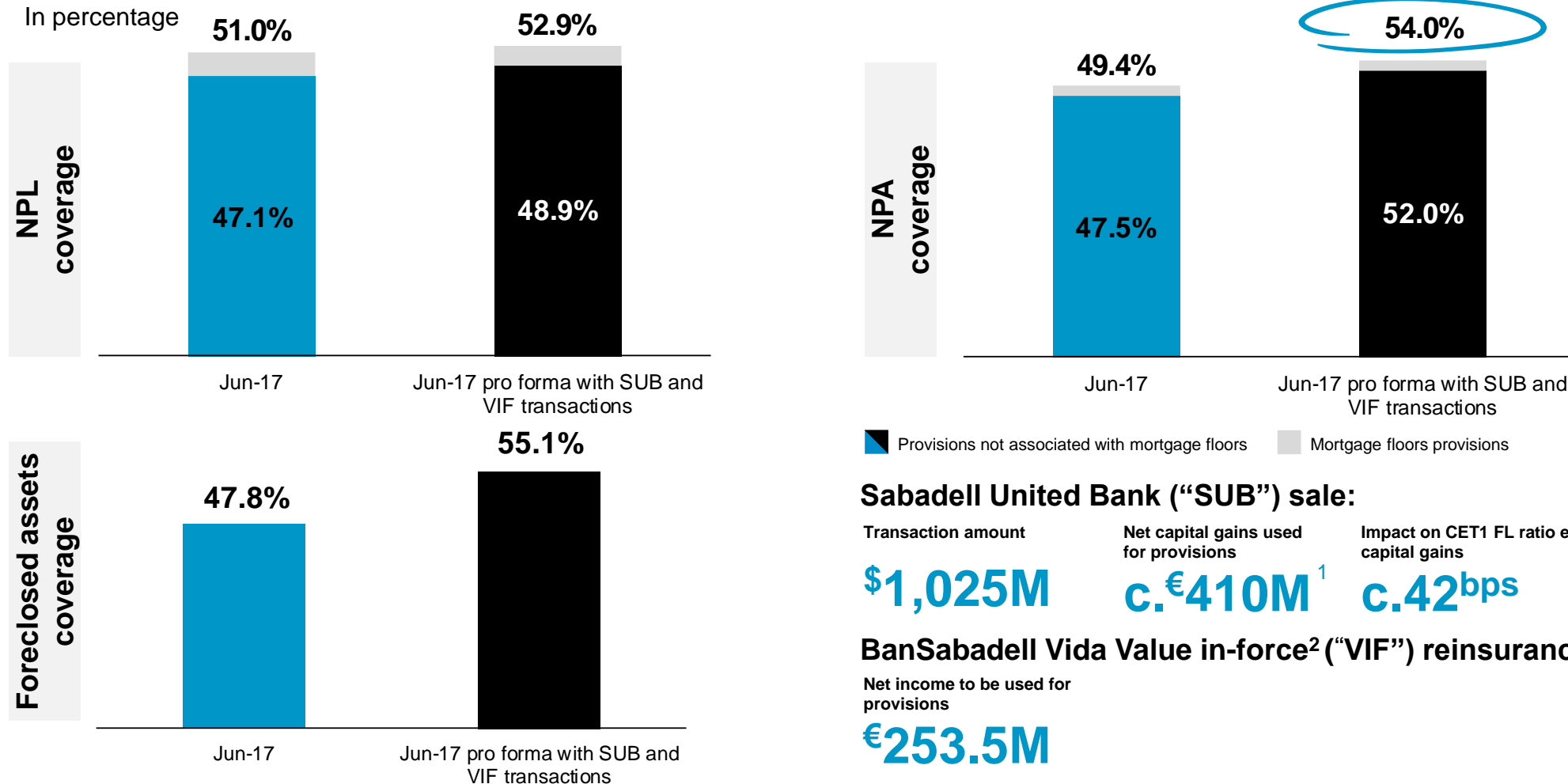
Note: Includes contingent risk. Sabadell United Bank data included for quarterly comparison purpose. Excluding Sabadell United Bank the NPL coverage ratio stood at 45.8% and NPA coverage stood at 46.8% as of June 2017. Sabadell Group's NPLs, Foreclosed Assets and NPAs include 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell in accordance with the APS protocol. Accordingly, the Group provisions include the provisions associated with 20% of the problematic exposure included in the APS.



# ... and will be further reinforced with the capital gains from the transactions of Sabadell United Bank and VIF

## Sabadell ex-TSB coverage ratios pro forma

In percentage



### Sabadell United Bank (“SUB”) sale:

Transaction amount	Net capital gains used for provisions	Impact on CET1 FL ratio excluding capital gains
<b>\$1,025M</b>	<b>c. €410M<sup>1</sup></b>	<b>c.42bps</b>

### BanSabadell Vida Value in-force<sup>2</sup> (“VIF”) reinsurance:

Net income to be used for provisions  
**€253.5M**

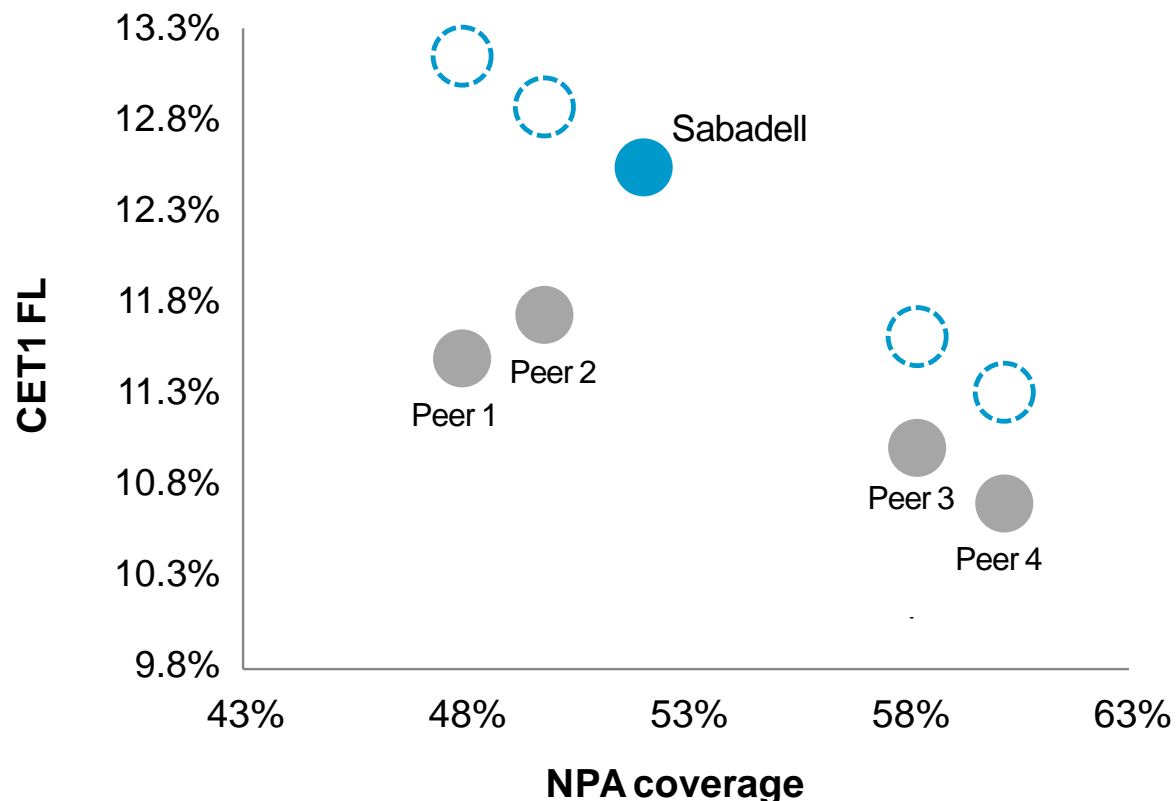
Note: Includes contingent risk. Sabadell Group’s NPLs, Foreclosed Assets and NPAs include 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell in accordance with the APS protocol. Accordingly, the Group provisions include the provisions associated with 20% of the problematic exposure included in the APS.

<sup>1</sup> Including SUB cumulated results as of July 2017. <sup>2</sup> Individual life risk portfolio.

# We have a top solvency position when considering our combined capital and provisioning levels vs. peers

## CET1 FL vs. NPA coverage ratio – theoretical analysis

In percentage



## Sabadell CET1 FL vs. NPA coverage correlation

CET1 FL  $\nabla$  **100bps**  $\longleftrightarrow$  NPA coverage ratio  $\triangle$  **667bps**

- Sabadell pro forma including the transactions of Sabadell United Bank and VIF
- Sabadell equivalent CET1 FL at peers' NPA coverage levels
- Peers

Note: Data as of Mar-17 except for Sabadell. Chart includes the top five Spanish banks. Ratios pro forma post acquisitions. Sabadell ratios exclude mortgage floor provisions.

**5**

**TSB results**

## 2Q17 highlights: TSB results

- Positive balance sheet trend continues, with Franchise customer lending<sup>1</sup> growing +3.6% QoQ and +16.6% YoY
- Solid Franchise NII<sup>1</sup> performance, increasing +3.6% QoQ and +8.6% YoY
- The mortgage enhancement portfolio<sup>2</sup> has been returned to Lloyds after delivering its purpose. The success of TSB's business model, which is delivering solid lending growth and customer acquisition, has allowed the cancellation of the arrangement one year ahead of schedule
- Customer deposits grew +6.4% YoY. TSB share of long term current account openings stood at 6.0%<sup>3</sup> in the past 12 months, in line with target
- TSB migration is on track, with all critical milestones having been met
- Customers continue to recommend TSB, with NPS<sup>4</sup> at +24 throughout 1H17

<sup>1</sup> Including the Whistletree portfolio.

<sup>2</sup> £3.4 billion residential mortgage loan book created in February 2014 to enhance TSB's profitability with a target of delivering £230 million profit over a four year period (for further information see the appendix of this presentation – slide 61).

<sup>3</sup> 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 two month lag.

<sup>4</sup> 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. Calculated on a year-to-date basis.

# TSB income statement

GBP in million	1Q17	2Q17	%QoQ	1H16	1H17	%YoY
Franchise and Whistletree <sup>1</sup>	217.1	225.0	3.6%	407.2	442.1	8.6%
Mortgage enhancement <sup>2</sup>	10.1	5.5	-45.5%	28.4	15.6	-45.1%
<b>Net interest income</b>	<b>227.2</b>	<b>230.5</b>	<b>1.5%</b>	<b>435.6</b>	<b>457.7</b>	<b>5.1%</b>
Franchise and Whistletree <sup>1</sup>	24.8	29.4	18.5%	55.5	54.2	-2.3%
Mortgage enhancement <sup>2</sup>	-0.6	46.7	--	-4.0	46.1	--
<b>Other operating income</b>	<b>24.2</b>	<b>76.1</b>	<b>214.5%</b>	<b>51.5</b>	<b>100.3</b>	<b>94.8%</b>
<b>Total income</b>	<b>251.4</b>	<b>306.6</b>	<b>22.0%</b>	<b>487.1</b>	<b>558.0</b>	<b>14.6%</b>
<b>Total operating expenses (excl. one-offs)</b>	<b>-202.8</b>	<b>-206.1</b>	<b>1.6%</b>	<b>-339.0</b>	<b>-408.9</b>	<b>20.6%</b>
Franchise and Whistletree <sup>1</sup>	-20.6	-17.5	-15.0%	-40.4	-38.1	-5.7%
Mortgage enhancement <sup>2</sup>	0.0	0.0	--	0.0	0.0	--
<b>Impairment on loans &amp; advances</b>	<b>-20.6</b>	<b>-17.5</b>	<b>-15.0%</b>	<b>-40.4</b>	<b>-38.1</b>	<b>-5.7%</b>
<b>Management profit (excl. one-offs)</b>	<b>28.0</b>	<b>83.0</b>	<b>196.4%</b>	<b>107.7</b>	<b>111.0</b>	<b>3.1%</b>
One-offs and others	3.8	-6.4	--	17.7	-2.6	--
Tax income	-9.0	-20.4	127.2%	-31.9	-29.4	-7.7%
<b>Statutory profit after tax</b>	<b>22.8</b>	<b>56.1</b>	<b>146.1%</b>	<b>93.5</b>	<b>78.9</b>	<b>-15.6%</b>
	<b>1Q17</b>	<b>2Q17</b>	<b>QoQ</b>	<b>1H16</b>	<b>1H17</b>	<b>YoY</b>
<b>TSB NIM <sup>3</sup></b>	<b>3.05%</b>	<b>2.99%</b>	<b>-0.06 pp</b>	<b>3.20%</b>	<b>3.02%</b>	<b>-0.18 pp</b>

- **Franchise and Whistletree NII was up +3.6% in the quarter and +8.6% in the year**, driven by mortgage volume growth
- **Other operating income increased substantially** due primarily to the income received from the early call of the Mortgage Enhancement portfolio
- The early call of **the Mortgage enhancement portfolio brought forward profit** from 2H17 and FY18 into 1H17. **The transaction is financially neutral**
- **Operating expenses grew +1.6% in the quarter**, driven primarily by the annual payment of the FSCS levy in April, and an increase in personnel cost
- **Overall, statutory profit after tax increased significantly** in the quarter but reduced YoY due to the non-recurring gain from the sale of TSB's interest in Visa Europe, which was recognised in 1H16
- The contractual increase of more than £100 million in outsourcing fees TSB pays to Lloyds this year will continue to drive a reduction in profit before tax in 2017. **Looking forward, the new platform, will reduce TSB's IT costs considerably** and enable it to become more innovative and agile than before

<sup>1</sup> Franchise comprises the retail banking business carried out in the UK, which offers a broad range of retail financial services. Acquired Whistletree Loans is a £2.3 billion portfolio of former Northern Rock mortgages and unsecured loans for which beneficial interest was acquired from Cerberus Capital Management group with effect from 7 December 2015.

<sup>2</sup> £3.4 billion residential mortgage loan book created in February 2014 to enhance TSB's profitability with a target of delivering £230 million profit over a four year period (for further information see the appendix of this presentation – slide 61).

<sup>3</sup> Calculated as Management profit net interest income divided by average loans and advances to customers, gross of impairment allowance.

# TSB balance sheet

GBP in million	Jun-16	Mar-17	Jun-17	% QoQ	% YoY
Franchise and Whistletree customer lending <sup>1</sup>	25,880	29,114	30,174	3.6%	16.6%
Mortgage enhancement <sup>2</sup>	2,049	1,765	0	--	--
<b>Total customer lending (net)</b>	<b>27,929</b>	<b>30,879</b>	<b>30,174</b>	<b>-2.3%</b>	<b>8.0%</b>
Savings deposits	18,748	19,283	19,286	0.0%	2.9%
Current account deposits	8,399	9,359	9,552	2.1%	13.7%
Business banking deposits	988	1,050	1,105	5.2%	11.8%
<b>Total customer deposits</b>	<b>28,135</b>	<b>29,692</b>	<b>29,943</b>	<b>0.8%</b>	<b>6.4%</b>

	Jun-16	Mar-17	Jun-17	QoQ	YoY
<b>Common Equity Tier 1 Capital ratio</b>	<b>17.2%</b>	<b>18.1%</b>	<b>19.3%</b>	<b>1.2 pp</b>	<b>2.1 pp</b>

- **Positive balance sheet trends continues**, with strong growth in Franchise and Whistletree customer lending, which grew to £30.2bn, a growth rate of +3.6% and +16.6% QoQ and YoY, respectively
- TSB extended **£4.1 billion in new mortgage loans** in first half of 2017 – building on the £6.6 billion total in 2016
- **Total customer lending was impacted by the early call of the Mortgage enhancement portfolio**. At the time of the call, the Mortgage Enhancement portfolio amounted to £1.7bn
- **Total customers grew to more than 5M**, or +3.3% YoY
- **Customer deposits grew to £29.9bn, +0.8% QoQ and +6.4% YoY**, driven primarily by strong current account growth
- **As TSB focuses its efforts on the delivery of the new IT platform**, as planned, it has temporarily reduced the rate of mortgage lending growth in 2Q17 and the coming months to preserve customer service levels, as already signalled in previous guidance
- Our **lending book is of good quality**. 92% of total balances comprise mortgage lending, with an average LTV of 45%
- **TSB liquidity is robust** while the capital position remains one of the strongest of UK banks with a **CET1 ratio of 19.3%**

Note: Customer lending and customer deposits include Micro fair value hedge accounting adjustment.

<sup>1</sup> Franchise comprises the retail banking business carried out in the UK, which offers a broad range of retail financial services. Acquired Whistletree Loans is a £2.3 billion portfolio of former Northern Rock mortgages and unsecured loans for which beneficial interest was acquired from Cerberus Capital Management group with effect from 7 December 2015.

<sup>2</sup> £3.4 billion residential mortgage loan book created in February 2014 to enhance TSB's profitability with a target of delivering £230 million profit over a four year period (for further information see the appendix of this presentation – slide 61).

# TSB migration is on track, with all critical milestones having been met

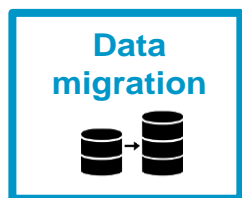
## Quarterly migration update



- Over 75k clients have already downloaded TSB's new mobile app
- Updated versions based on customer feedback
- Fingerprint login for enhanced ID security
- Inclusion of an available balance checker
- A currency converter for holiday money
- Booking tool for mortgage appointments
- The first bank in Europe to announce a partnership with Samsung to integrate iris recognition



- Proteo4UK platform built
- CHAPS, FPS and BACS payments schemes tested and payments completed successfully
- ATMs migration in progress
- Employee's training of the new system has started
- Employees are already opening bank accounts on Proteo4UK
- Roll out of the new IT equipment to the branches
- New Digital Work Place – implementation of a more collaborative and digital workplace



- Data dress rehearsals launched
- **On track to migrate to our new banking platform towards the end of 2017**



Estar donde estás.  
Ser on siguis.  
There, wherever you are.

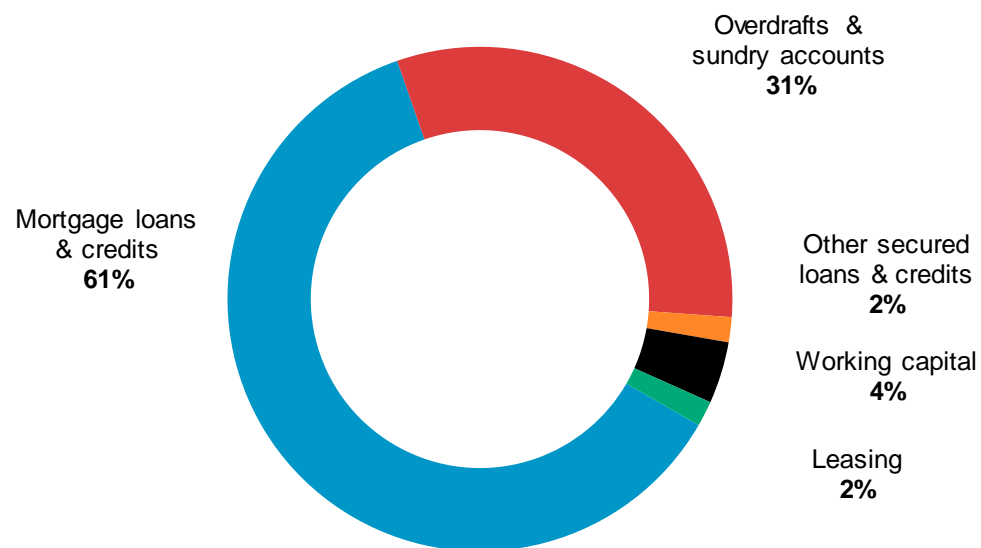


# Annex

# Gross lending by product type

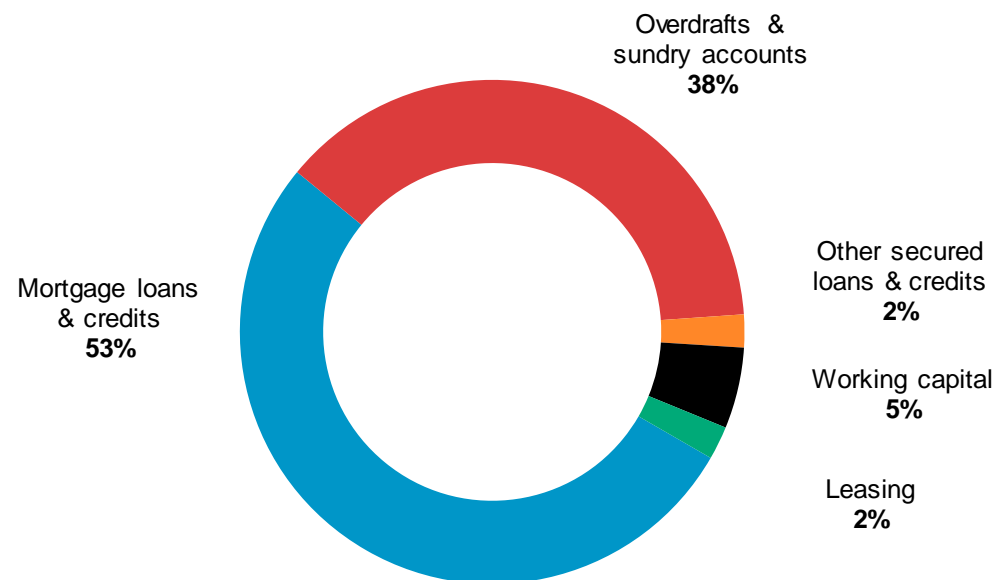
## Sabadell group

In percentage



## Sabadell, ex-TSB

In percentage

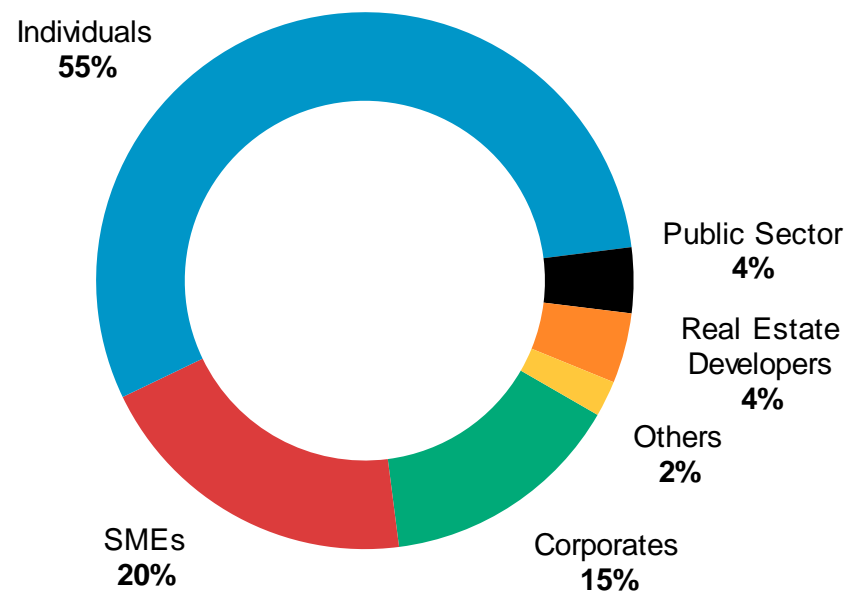


Note: Data as of June 2017. Sabadell United Bank data included.

# Business mix by customer type

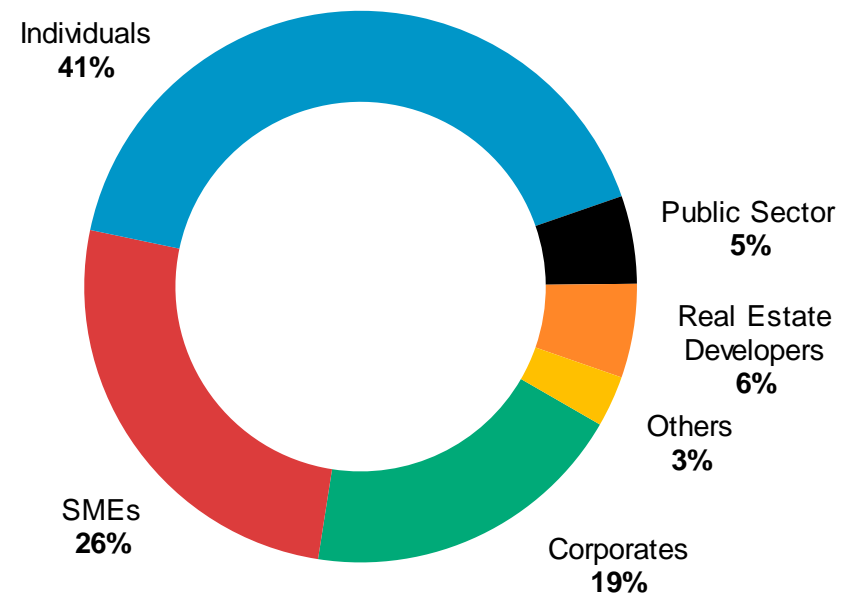
## Sabadell group

In percentage



## Sabadell, ex-TSB

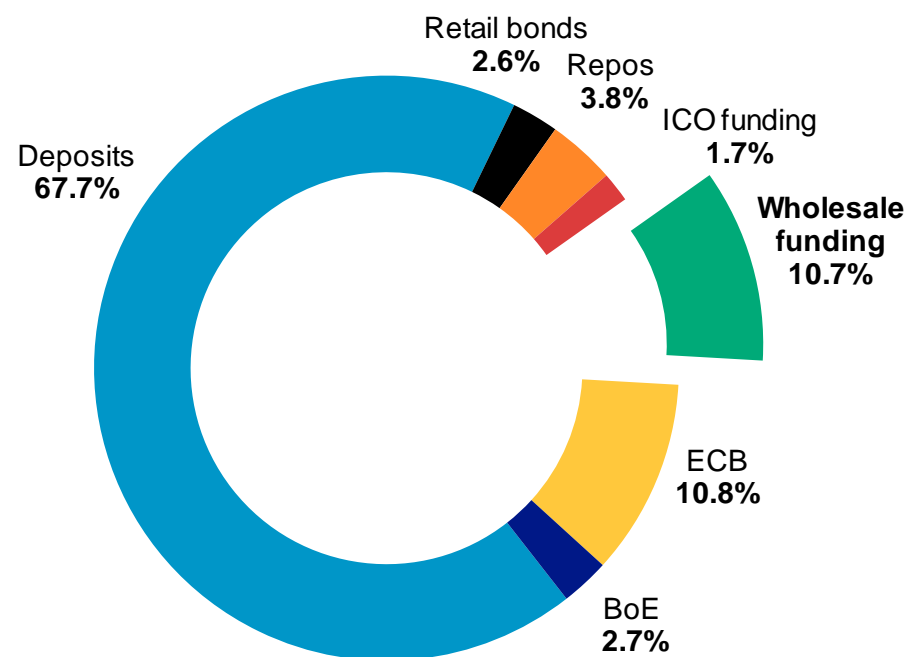
In percentage



# Funding structure, Sabadell group

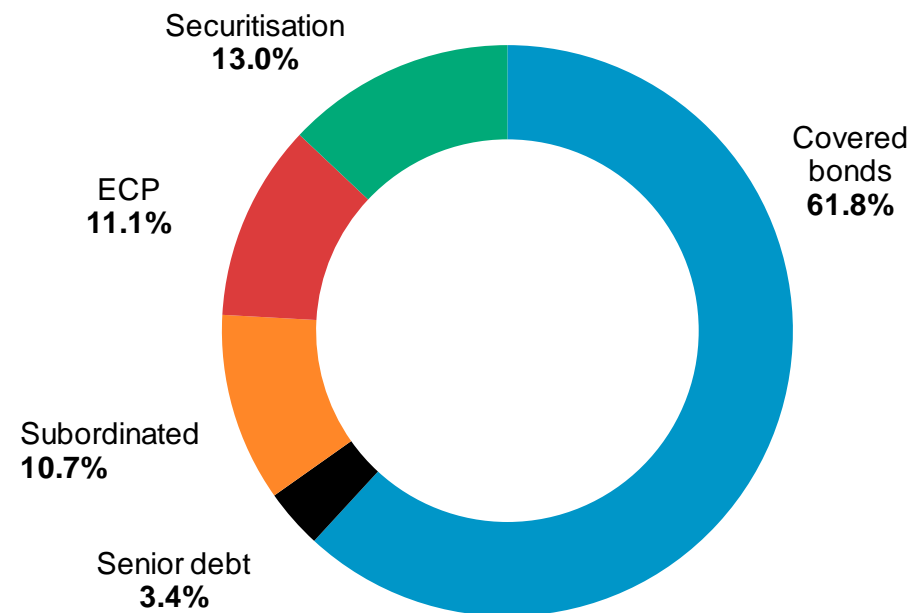
## Funding structure

In percentage



## Wholesale funding breakdown

In percentage



Note: Data as of June 2017. Sabadell United Bank data included.

# Wholesale funding maturities and cost

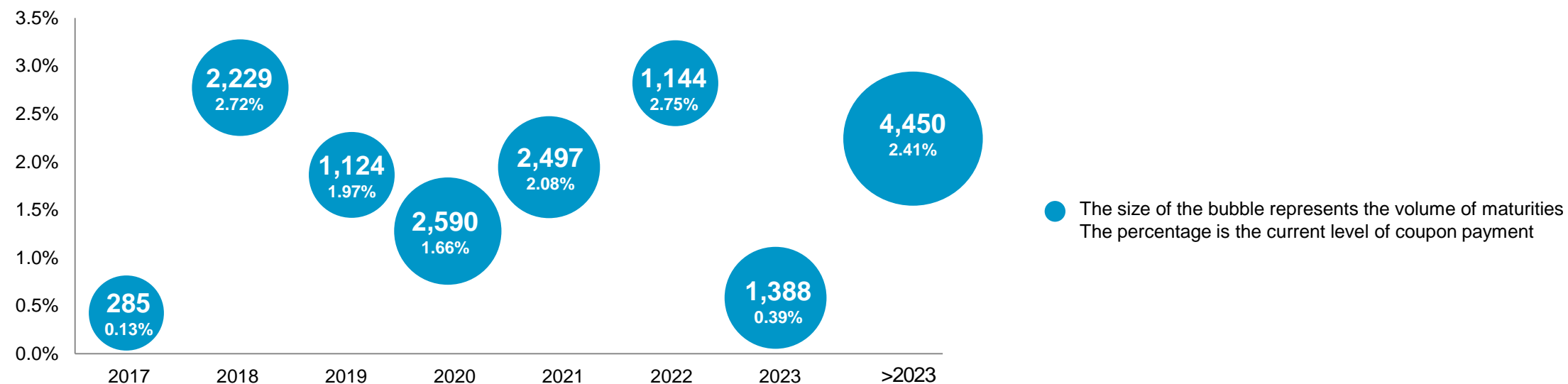
## Maturity by product type, Sabadell group

Euros in million

	3Q17	4Q17	2018	2019	2020	2021	2022	2023	>2023	Outstanding amount
Covered Bonds (CH)	200	85	1,555	1,124	2,165	2,008	1,119	1,388	3,161	12,806
Senior Debt	0	0	657	0	0	0	25	0	0	682
Subordinated Debt and AT1	0	0	0	0	425	478	0	0	1,283	2,186
Other mid- and long-term financial instruments	0	0	18	0	0	10	0	0	5	33
<b>Total</b>	<b>200</b>	<b>85</b>	<b>2,229</b>	<b>1,124</b>	<b>2,590</b>	<b>2,497</b>	<b>1,144</b>	<b>1,388</b>	<b>4,450</b>	<b>15,707</b>

## Upcoming wholesale maturities, Sabadell group

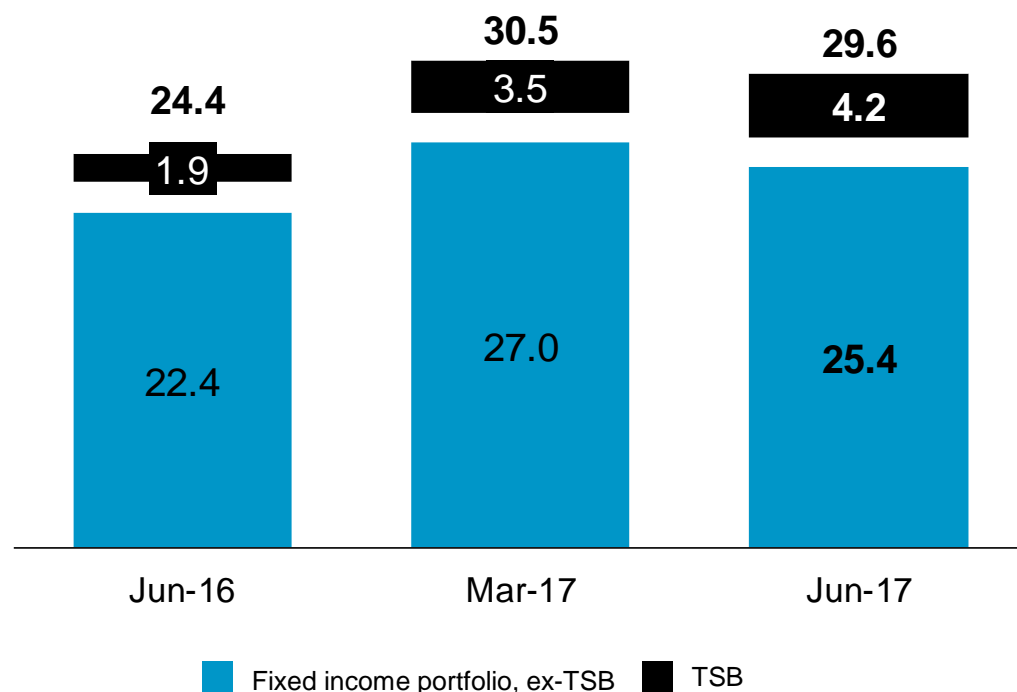
Euros in billion. In percentage



# Fixed income portfolio

## Fixed income portfolio evolution, Sabadell group

Euros in billion



## Fixed income portfolio, Sabadell group

Euros in billion. In percentage

	Jun-16	Mar-17	Jun-17
<b>Fixed income portfolio</b>	<b>24.4</b>	<b>30.5</b>	<b>29.6</b>
<b>% of total assets</b>	11.7%	13.9%	13.6%
of which:			
<b>Available for sale fixed income portfolio</b>	21.5	19.4	19.4
<b>Available for sale duration (yrs)<sup>1</sup></b>	3.4	2.1	1.9

Note: Sabadell United Bank data included.

<sup>1</sup> Duration includes the impact of interest rate swaps.

# Fixed income portfolio composition

## Fixed income portfolio composition evolution, Sabadell group

Euros in billion

	Jun-16	Mar-17	Jun-17
Spanish Government Debt	9.36	10.02	9.09
Italian Government Debt	5.60	10.77	10.46
UK Government Debt	1.95	3.08	3.78
Other Government Debt	3.70	2.69	2.58
of which:			
US Government	1.53	0.45	0.19
Portuguese Government	0.99	1.15	1.14
Mexican Government	0.85	0.75	0.69
Agencies	1.47	1.22	1.21
Covered Bonds	0.35	0.30	0.29
Corporates & Financials	1.96	2.41	2.19
<b>Total</b>	<b>24.40</b>	<b>30.52</b>	<b>29.61</b>
of which:			
Held to maturity	0.00	9.45	9.34
Available for sale	21.50	19.43	19.36

# Evolution of NPLs and foreclosed assets

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

Euros in million

	2Q16	3Q16	4Q16	1Q17	2Q17
Gross entries	660	547	700 <sup>1</sup>	636	526
Recoveries	-1,629	-880	-1,174	-897	-1,067
<b>Ordinary net entries</b>	<b>-969</b>	<b>-333</b>	<b>-474</b>	<b>-261</b>	<b>-541</b>
Gross entries (foreclosed assets)	362	248	384	312	343
Sales <sup>2</sup>	-290	-406	-457	-379	-394
<b>Change in RE assets</b>	<b>71</b>	<b>-158</b>	<b>-73</b>	<b>-67</b>	<b>-51</b>
<b>Net entries + Change in RE assets</b>	<b>-898</b>	<b>-490</b>	<b>-547</b>	<b>-328</b>	<b>-592</b>
Write-offs	70	144	101	178	61
<b>Real estate and NPL quarterly change</b>	<b>-968</b>	<b>-634</b>	<b>-648</b>	<b>-506</b>	<b>-653</b>

Note: Includes contingent risk. Sabadell United Bank data included for quarterly comparison purpose.

Sabadell ex-TSB's NPLs, foreclosed Assets and NPAs include 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell in accordance with the APS protocol.

<sup>1</sup> Includes the impact of new Bank of Spain provisioning circular of €184M.

<sup>2</sup> Includes other outcomes.



# Forbearance exposure

## Forborne and restructured loans

Euros in million

	Total	Of which: doubtful
Public authorities	19	3
Corporate and entrepreneurs	4,680	2,634
Of which: Financing for construction and real estate development	1,165	930
Individual borrowers	3,311	1,808
<b>Total</b>	<b>8,009</b>	<b>4,445</b>
<b>Provisions</b>	<b>1,453</b>	<b>1,370</b>

# NPL ratio breakdown

## NPL ratios by segment, ex-TSB

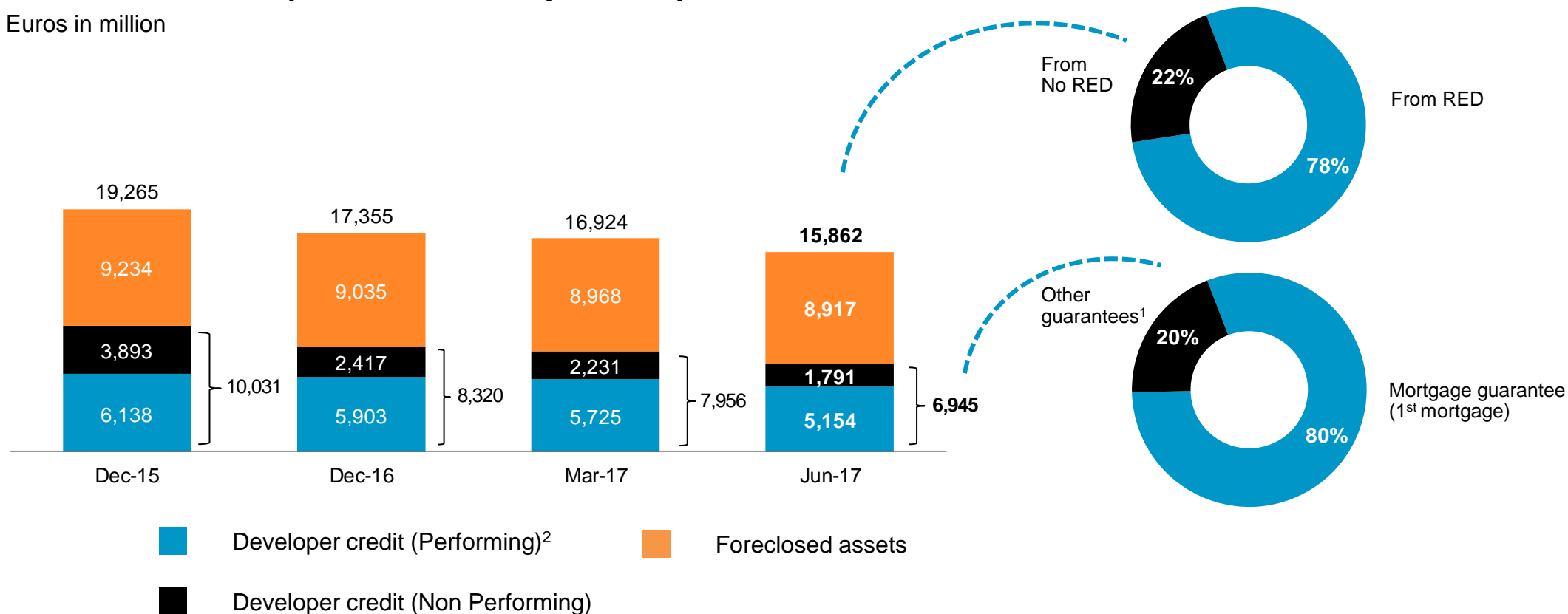
In percentage

	<b>2Q16</b>	<b>3Q16</b>	<b>4Q16</b>	<b>1Q17</b>	<b>2Q17</b>
Real Estate development and/or construction purposes	33.29%	31.99%	29.05%	28.04%	25.80%
Construction purposes non-related to real estate dev.	11.76%	11.62%	9.68%	5.88%	6.57%
Large corporates	3.89%	3.84%	3.82%	3.16%	3.01%
SME and small retailers and self-employed	9.39%	8.71%	8.47%	8.41%	8.31%
Individuals with 1 <sup>st</sup> mortgage guarantee assets	7.47%	7.43%	7.25%	7.24%	7.20%
<b>NPL ratio, Sabadell ex-TSB</b>	<b>8.54%</b>	<b>8.25%</b>	<b>7.72%</b>	<b>7.45%</b>	<b>6.95%</b>

# Sabadell real estate exposure

## Balance sheet (real estate exposure), ex-TSB

Euros in million



Note: Date as of June 2017. Contingent exposures included.

Sabadell ex-TSB's Developer NPLs include 20% of the Developer NPLs included in the APS, which risk is assumed by Sabadell in accordance with the APS protocol.


<sup>1</sup> Unsecured assets or with pledge, personal or 2nd mortgage guarantees.

<sup>2</sup> Of which €1,951M is APS developer non-performing credit which risk has been transferred to the DGF and €277M is APS developer performing exposure which credit risk has been transferred to the DGF.

# Real Estate exposure

## Real estate portfolio break-down, ex-TSB

Euros in million (gross value)

<b>Foreclosed assets</b>	<b>8,917</b>
Finished property <sup>1</sup>	52%
Under construction	6%
Land	42%
<b>Developer loans</b>	<b>6,945</b> 
Finished property	57%
Under construction	4%
Land	20%
Others <sup>2</sup>	19%
<b>Total RE related exposure</b>	<b>15,862</b>

## Developer loans break-down, ex-TSB

Euros in million (gross value)

	Jun-17	%
<b>Developer loans</b>	<b>6,945</b>	<b>44%</b>
Performing	4,683 <sup>3</sup>	67%
Watchlist	471	7%
Non performing	1,791	26%

Note: Data as of June 2017. Contingent exposures included.

Sabadell ex-TSB's developer NPLs and foreclosed assets include 20% of the developer NPLs and foreclosed assets included in the APS, which risk is assumed by Sabadell in accordance with the APS protocol.

<sup>1</sup> And other real estate assets derived from home loan mortgages for house purchases.

<sup>2</sup> Other guarantees.

<sup>3</sup> Of which €1,951M is APS developer non-performing credit which risk has been transferred to the DGF and €277M is APS developer performing exposure which credit risk has been transferred to the DGF.

# Foreclosed assets exposure and coverage

## Foreclosed assets exposure and coverage break-down by asset type, ex-TSB

Euros in million. In percentage

	Gross problematic exposure	Associated provisions	Coverage ratio
<b>Finished buildings</b>	<b>2,721</b>	<b>1,041</b>	<b>38.3%</b>
Housing	1,369	552	40.3%
Rest	1,352	489	36.2%
<b>Under construction</b>	<b>499</b>	<b>225</b>	<b>45.1%</b>
Housing	430	185	43.0%
Rest	69	40	58.0%
<b>Land</b>	<b>3,779</b>	<b>2,155</b>	<b>57.0%</b>
Building land	1,379	789	57.2%
Other land	2,400	1,366	56.9%
<b>Others<sup>1</sup></b>	<b>1,918</b>	<b>843</b>	<b>44.0%</b>
<b>Total foreclosed assets</b>	<b>8,917</b>	<b>4,264</b>	<b>47.8%</b>

Note: Data as of June 2017.

Sabadell ex-TSB's foreclosed assets include 20% of the foreclosed assets included in the APS, which risk is assumed by Sabadell according to the APS protocol.

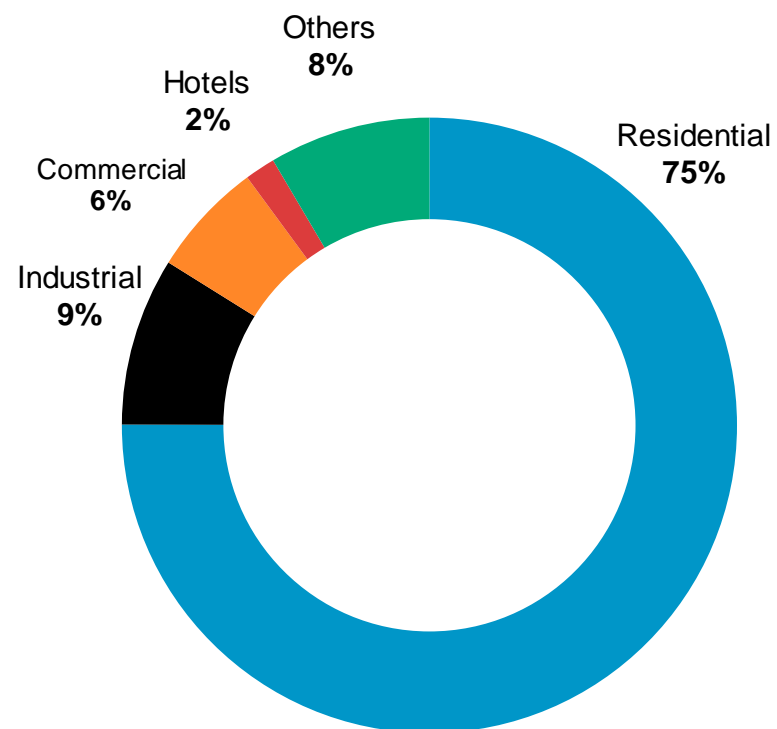
Accordingly, Sabadell ex-TSB's provisions include all provisions associated to 20% of the foreclosed assets included in the APS.

<sup>1</sup> Refers to real estate assets derived from home loan mortgages for house purchases.

# REOs/Foreclosed assets segmentation

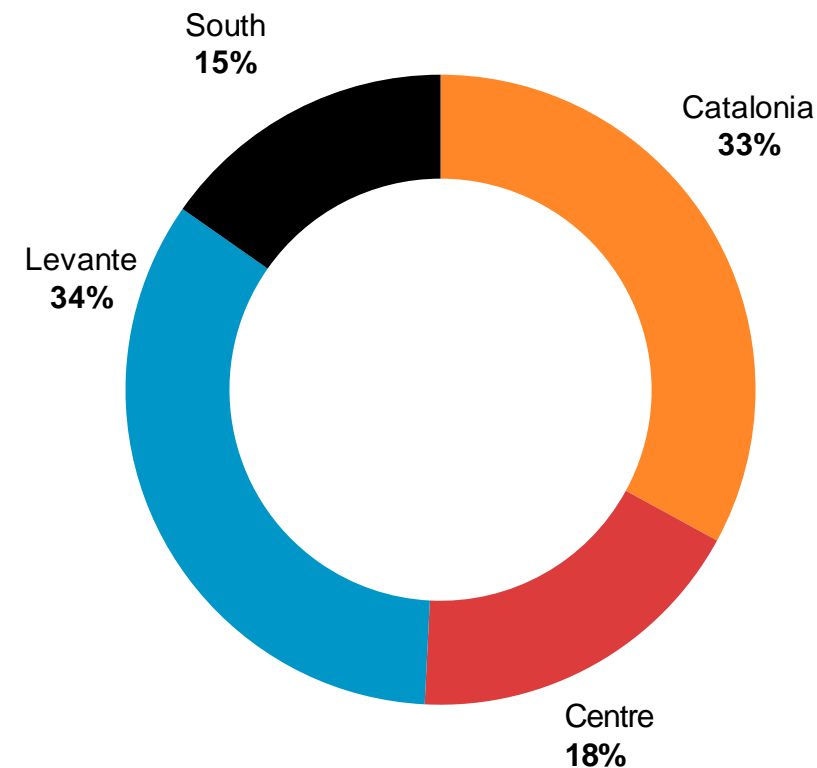
## Foreclosed assets by use, ex-TSB

In percentage



## Foreclosed assets by location, ex-TSB

In percentage

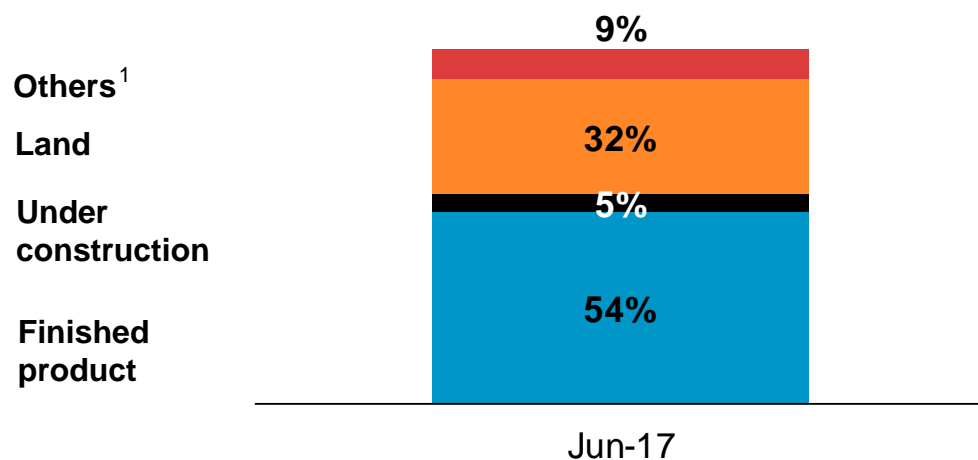


Note: Data as of June 2017. Includes 100% APS.

# Real Estate portfolio breakdown by asset class and region

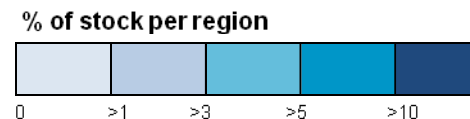
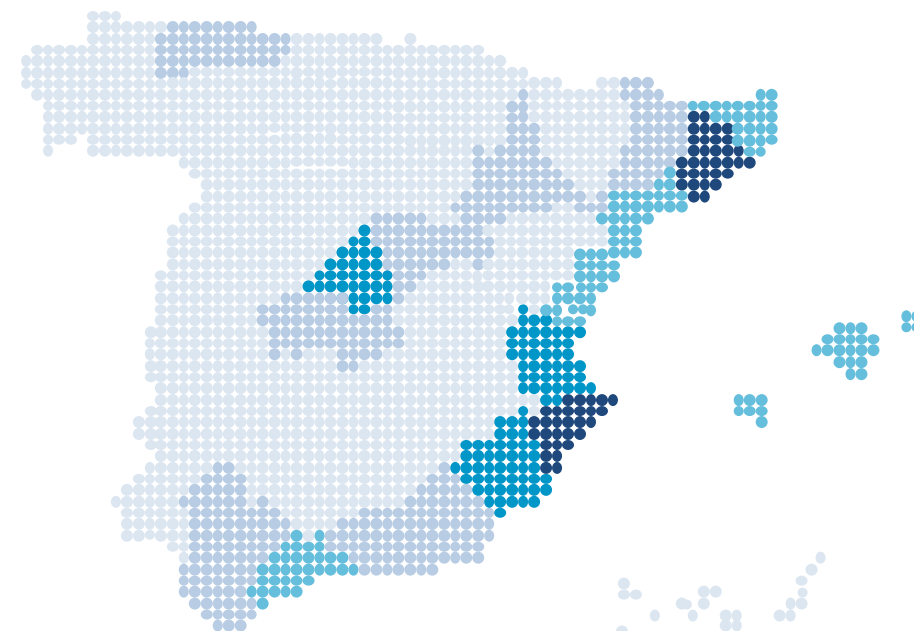
## Portfolio breakdown by asset class, ex-TSB

In percentage



## Portfolio breakdown by region

>80% of finished properties in coastal areas and Madrid



Note: Data as of June 2017.  
<sup>1</sup>Other guarantees.

# APS main figures

## APS breakdown and evolution

Euros in million

Concept	Jun-12 <sup>1,2</sup>	Jun-17 <sup>2</sup>	Var. (%)
Gross loans and advances	19,117	6,183	-67.7%
of which at-risk	18,460	6,175	-66.6%
of which contingent guarantees and liabilities	657	9	-98.7%
Real estate assets	4,663	4,519	-3.1%
Equity stakes	504	48	-90.5%
Write offs	360	1,451	303.1%
<b>Total</b>	<b>24,644</b>	<b>12,154</b>	<b>-50.7%</b>

**The APS book has decreased by more than 50% (€12.5bn) in 5 years**

<sup>1</sup> The APS came into effect on June 1, 2012 with retroactive effects from July 31, 2011.

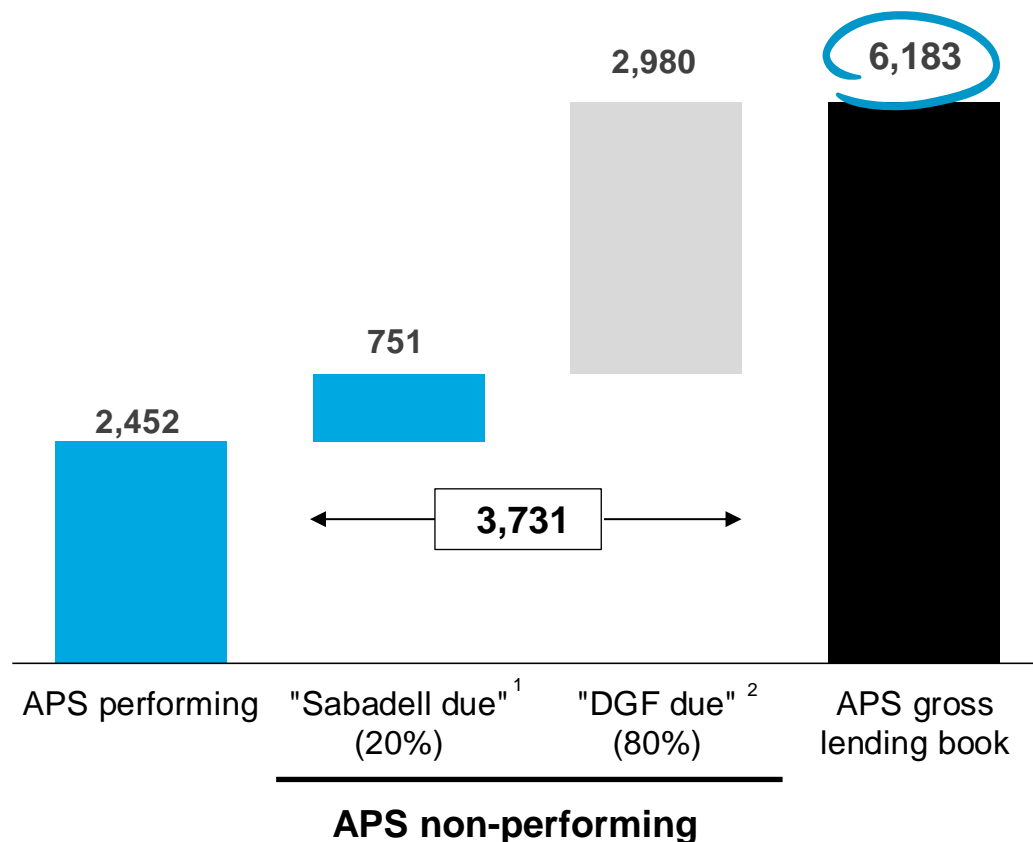
<sup>2</sup> Gross of original existing provisions.



# APS gross loan and developers exposure

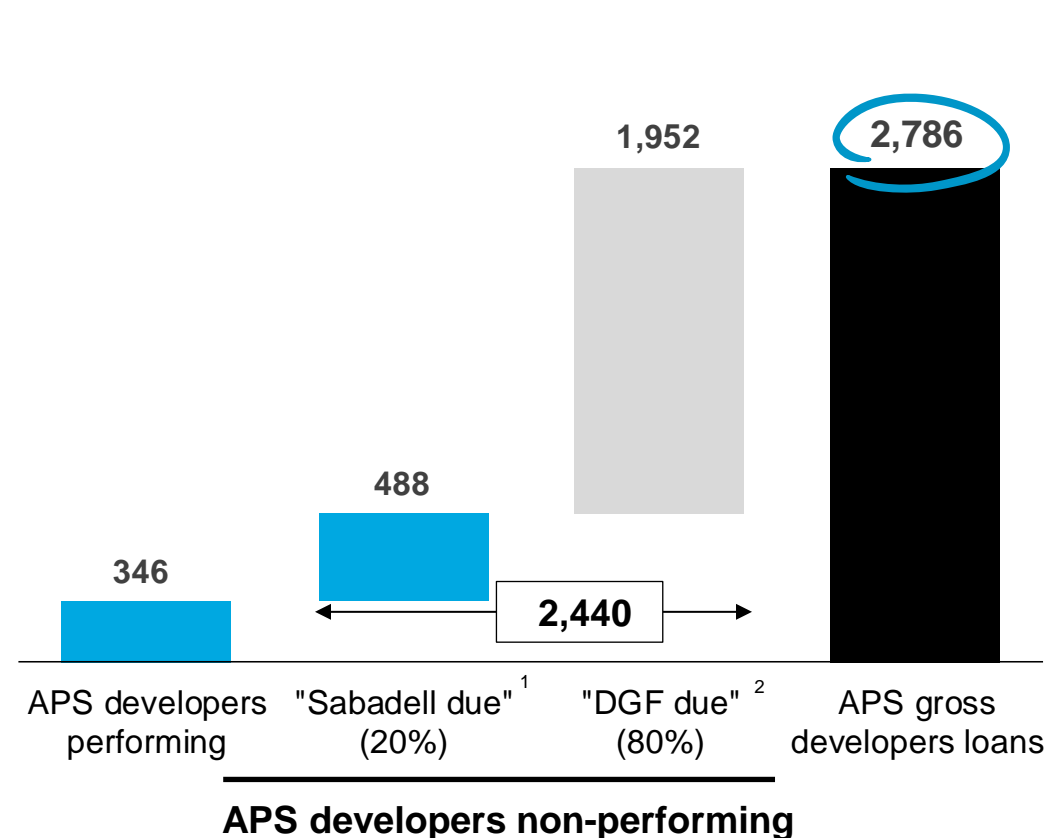
## APS gross loans and advances (as of Jun-17)

Euros in million



## APS developers loans (as of Jun-17)

Euros in million



**The total APS NPL ratio is 60.3%**

**The developers APS NPL ratio is 87.6%**

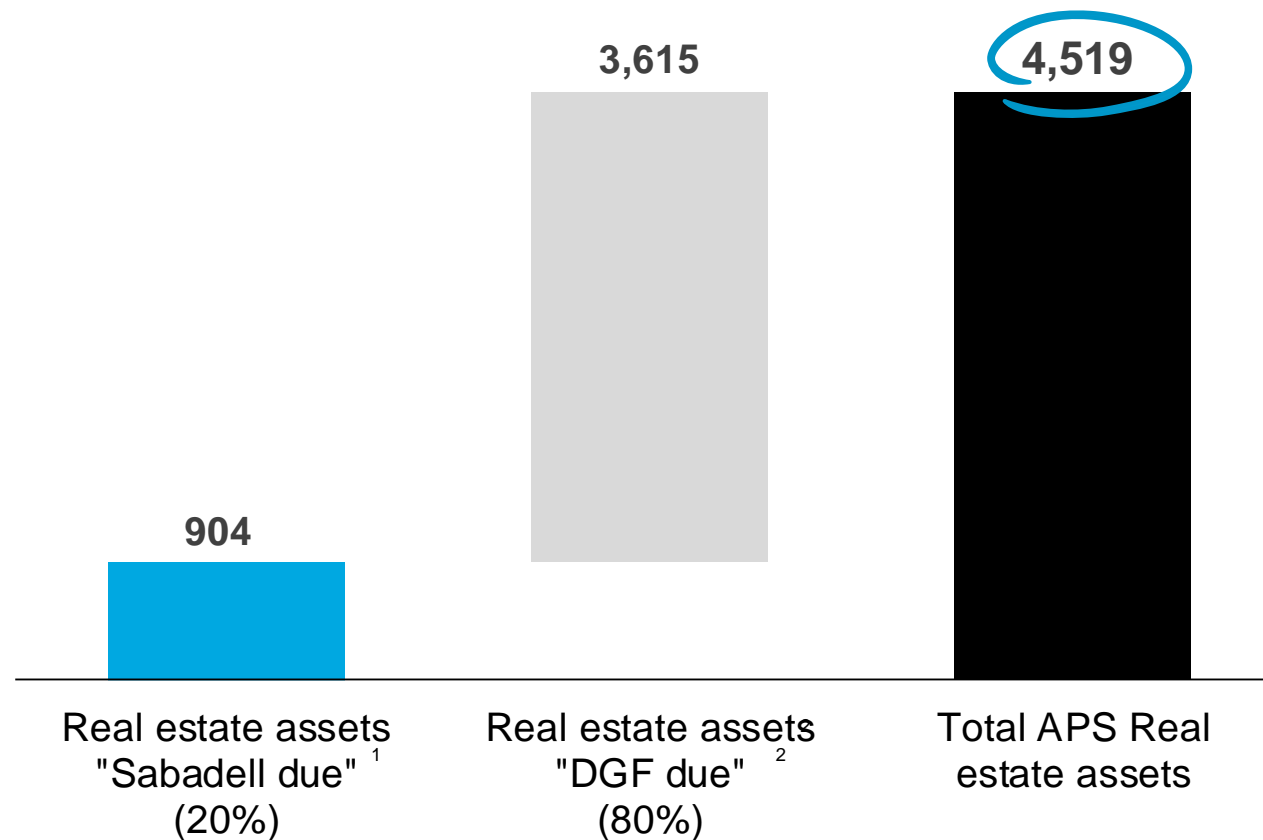
<sup>1</sup> 20% of total APS non-performing credit risk is assumed by Sabadell as per the APS protocol.

<sup>2</sup> 80% of total APS non-performing credit risk is transferred to the Deposit Guarantee Fund ("DGF") as per the APS protocol.

# APS real estate asset book

## APS real estate (as of Jun-17)

Euros in million



<sup>1</sup> 20% of all APS real estate losses are assumed by Sabadell as per the APS protocol.

<sup>2</sup> 80% of all APS real estate losses are assumed by the Deposit Guarantee Fund ("DGF") as per the APS protocol.

# APS provisions overview

## APS provisions and exposure (as of Jun-17)

Euros in million

	APS Exposure	APS Provisions	APS Coverage
<b>Total APS problematic exposure</b>			
Non-performing credit	3,731	1,987	53.2%
of which "DGF due" <sup>1</sup>	2,980	1,589	
Real estate assets	4,519	2,667	59.0%
of which "DGF due" <sup>1</sup>	3,615	2,134	
<b>Total APS problematic credit and assets</b>	<b>8,250</b>	<b>4,654</b>	<b>56.4%</b>
<b>Total APS developers loans</b>			
Non-performing developers credit	2,440	1,461	59.9%
of which "DGF due" <sup>1</sup>	1,952	1,169	
<b>Total APS problematic developers credit and assets</b>	<b>6,958</b>	<b>4,128</b>	<b>59.3%</b>

<sup>1</sup> "DGF due" represents 80% of APS exposure which risk has been assumed by the Deposit Guarantee Fund ("DGF") as per the APS protocol.

# TSB customer lending - additional information

## Total Customer Lending - Mortgages and Unsecured & Business Banking

GBP in million	Jun-16	Mar-17	Jun-17
Mortgages	25,635	28,534	27,752
Unsecured & Business Banking	2,294	2,345	2,423
<b>Total Lending balances (net)</b>	<b>27,929</b>	<b>30,879</b>	<b>30,174</b>

## Mortgages - Residential vs Buy to let (BTL)

In percentage	Jun-16	Mar-17	Jun-17
TSB Total BTL %	14%	15%	15%

## Mortgages loan to value (LTV) <sup>1</sup>

In percentage	Jun-16	Mar-17	Jun-17
LTV Mortgage Flow	61.0%	62.6%	62.7%
LTV Mortgage Stock	41.6%	43.1%	44.6% <sup>2</sup>

## Cost of Risk (AQR) - Mortgages and Unsecured & Business Banking <sup>3</sup>

In percentage (annualised for each quarter)	Jun-16	Mar-17	Jun-17
Mortgages	0.06%	0.02%	-0.06%
Unsecured & Business Banking	2.87%	3.15%	3.51%
<b>Total TSB AQR</b>	<b>0.31%</b>	<b>0.28%</b>	<b>0.23%</b>

Note: Customer lending include micro fair value hedge accounting adjustment.

<sup>1</sup> The LTV ratio is a calculation which expresses the amount of a mortgage balance outstanding as a percentage of the total appraised value of the property. The appraised value is indexed quarterly.

<sup>2</sup> Jun-17 LTV Mortgage Stock excludes the Mortgage Enhancement portfolio, which had a LTV of approximately 32% as at Mar-17. This accounts for approximately 1pp of the LTV Mortgage Stock increase for the quarter to Jun-17.

<sup>3</sup> AQR is a measure used to track the quality of the lending book. Calculated as P&L impairment charge divided by average gross customer lending balances.

# Background on TSB's Mortgage Enhancement

- In September 2013 TSB Bank was created by Lloyds Banking Group (“LBG”) followed a ruling by the European Commission in November 2009 aimed at bringing more competition to the UK banking market
- In June 2013, at the request of the Chancellor of the Exchequer, the Office of Fair Trading (OFT) reviewed the effect on competition of the divestment of TSB
- The OFT recommended measures to enhance TSB's ability to compete and its financial stability
- As a result, the economic benefit of a £3.4 billion residential mortgage loan portfolio was assigned to TSB by LBG with effect from 28 February 2014
- This portfolio was designed to strengthen TSB's profitability over the medium term – with a target of delivering £230 million profit over a four year period
- The Mortgage Enhancement was subject to a call option such that it would be returned to LBG after the £230 million target had been achieved, including delivery of at least £30 million in 2017
- These conditions were not expected to be met until 2018, however TSB and LBG have agreed an early settlement arrangement and the Mortgage Enhancement was returned to LBG on 28 June 2017<sup>1</sup>
- The Mortgage Enhancement was a separate portfolio of mortgage assets managed by LBG and not branded as TSB. There is no customer impact as a result of this announcement
- The early call of the Mortgage enhancement portfolio brought forward profit from 2H17 and FY18 into 1H17. The transaction is financially neutral. The Mortgage Enhancement portfolio consisted of £1,711M in loans as at May 31, 2017

<sup>1</sup> The transaction was effective as of June 1, 2017.

# Sabadell United Bank contribution to group

Euros in million	2016	1H17
<b>Net interest income</b>	<b>136.2</b>	<b>75.7</b>
Equity method & dividends	1.0	0.6
Commissions	8.6	4.2
Trading income & forex	11.7	1.8
Other operating results	-3.1	-1.0
<b>Gross operating income</b>	<b>154.4</b>	<b>81.3</b>
Personnel costs	-45.0	-23.9
Administrative costs	-23.6	-12.7
Depreciation & amortisation	-6.0	-2.9
<b>Pre-provisions income</b>	<b>79.8</b>	<b>41.7</b>
Total provisions & impairments	-0.7	1.3
Gains on sale of assets	0.2	0.4
<b>Profit before taxes</b>	<b>79.3</b>	<b>43.5</b>
Taxes	-29.2	-16.9
<b>Attributable net profit</b>	<b>50.2</b>	<b>26.5</b>

# Sabadell obtained again investment grade rating from all agencies

<b>Sabadell</b>	<b>Long Term</b>	<b>Short Term</b>	<b>Outlook</b>
<b>DBRS</b>	BBB (high)	R-1 (low)	Stable
<b>MOODY'S<sup>1</sup></b>	Baa3 / Baa2	P-3 / P-2	Positive/Stable
<b>STANDARD &amp; POOR'S</b>	BBB-	A-3	Positive

**S&P Global Ratings upgraded Sabadell's long-term credit rating to BBB- (investment grade) with the outlook remaining positive, in recognition of the progress made in improving our solvency and in de-risking our balance sheet**

<sup>1</sup> Relates to senior debt and deposits, respectively.

# HIP VA<sup>1</sup> main figures

## Current asset portfolio as of June 30, 2017

- HIP VA asset portfolio is made up of 14 owned upscale hotels<sup>2</sup> managed by third party hotel operators:
  - Located in main tourism destinations in Spain: 5 in the northeast Mediterranean coast, 2 in the southwest Mediterranean coast, 6 in the Canary Islands and 1 in Madrid
  - Comprising in total 3.746 rooms<sup>3</sup>
  - €689M portfolio appraisal valuation prepared by an independent expert based on DCF in accordance with RICS methodology<sup>4</sup>
  - Generating a 2016 proforma EBITDA of €38.3M<sup>5</sup>
- HIP VA is implementing a Capex Plan to reposition its portfolio
  - €68.4M of fully funded Capex remaining to be deployed during the next 18 months

## June 30, 2021 targets for current asset portfolio

- HIP VA has defined the following targets of its portfolio for the last 12 months period ended June 30, 2021 following stabilization of the assets after completion of the repositioning Capex Plan
  - 9-10 % EBITDA<sup>6</sup> running yield
  - > 30% TRevPar<sup>7</sup> growth
  - > 1.75 x Total portfolio EBITDA growth<sup>8</sup>

## Expansion plan

- Defined expansion plan, identifying new opportunities for growth
  - HIP VA has identified a broad pipeline, including 57 hotels under assessment and negotiation or under exclusivity agreements / due diligence
  - With an EBITDA yield and EBITDA margin of 10% and > 25%, respectively, upon stabilization of the identified set of hotels in Spain

<sup>1</sup> HI Partners Holdco Value Added, S.L.U. ("HIP VA").

<sup>2</sup> All data referred to the asset portfolio assume that HIP VA owns the 100% of the 14 assets, including The Ritz Carlton Abama Resort and Meliá Villaitana, from which HIP VA owns 49.99% and 80%, respectively.

<sup>3</sup> The overall number of rooms includes all the rooms at the Ritz Carlton Abama Resort (461 rooms) and Meliá Villaitana (455 rooms) despite the fact that HIP VA does not own 100% of these assets (see note 2); The overall number of rooms also consider the Axel Madrid hotel (88 rooms) currently under refurbishment.

<sup>4</sup> Taking into account HIP VA equity stake in the Ritz Carlton Abama Resort and Meliá Villaitana, the attributable appraisal valuation is €580M as of June 30, 2017.

<sup>5</sup> The EBITDA or Earnings Before Interest, Taxes, Depreciation and Amortisation on a proforma basis for 2016 is the EBITDA generated by HIP VA hotel portfolio as of June 30, 2017 as if the hotels had all been acquired on January 1, 2016. However, it does not include headquarters costs nor reflects the potential of the portfolio at stabilization as the repositioning Capex Plan is currently underway. The EBITDA is an alternative performance measure or APM as defined in the Guidelines on Alternative Performance Measures released by the European Securities and Markets Authority as of October 5, 2015 (ESMA/2015/1415es). The APMs are financial performance measures based on financial information prepared by HIP VA according to International Financial Reporting Standards (IFRS) but are not defined or detailed on the applicable financial information framework, and therefore have not been audited and are not susceptible of being totally audited. EBITDA is a metric often used by companies in the Hotel industry, and therefore HIP VA considers that offers relevant additional information about the performance and profitability of its assets. However, it does not substitute HIP VA financial information prepared according to the IFRS. Moreover, HIP VA EBITDA definition and calculation can vary from the methodology applied by other entities which use similar metrics and, therefore, the figures could not be comparable.

<sup>6</sup> Expected EBITDA for the last 12 months as of June, 2021, calculated by an independent expert, generated by all the hotels operating at their expected performance before FF&E (investment in furniture, fixtures and equipments) divided by the GAV of the current portfolio of assets once the remaining CAPEX has been deployed.

<sup>7</sup> The TRevPar growth target corresponds to the results target of the last 12 months as of June, 2021 compared with the proforma results as of December, 2016, excluding the two hotels managed under a lease agreement (Meliá Villaitana and Prestige Coral Platja). The rest of the hotels are managed under management agreements. The TRevPar is the result of the division of the total revenues of the portfolio by the number of available rooms. The TRevPar is an APM (see note 5).

<sup>8</sup> EBITDA growth target corresponds to the stabilized multiple over 2016 proforma EBITDA that it is expected to represent the EBITDA of the last 12 months as of June, 2021 (see notes 5 and 6).



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