The Spanish economy shows remarkable dynamism and it will grow over 3% in 2017

- GDP growth outperforming the Eurozone
- Improvement in the labour market – unemployment down 38% since peak
- Current account balance registered a surplus for the fourth year in a row
- The tourism industry remained strong and competitive
- Public deficit keeps falling
- Corporates and individuals have progressed substantially in their deleveraging

Sources: Eurostat and Banco Sabadell.
Banking sector profitability continues to improve

New credit issuance
W/o renegotiations, year-on-year variation in percentage

Credit to the non-financial private sector
Year-end, stock w/o non-performing loans, year-on-year variation in percentage

Key drivers

- Credit to return to positive growth rates this year
- Front-book yields are above back-book levels, which is mitigating the overall yield decline
- The profitability of government bond portfolios has fallen as a result of ECB monetary policy. However, this impact on revenues is being offset by a reduction in funding costs

Sources: Bank of Spain and Banco Sabadell.
The Spanish real estate market recovery further supports problematic asset reduction for banks

**Property transactions**
Sum of 4 most recent quarters, thousands

**House prices**
Year-on-year variation in percentage

Key factors supporting demand

Strong economic dynamism
Employment creation
Low financial costs
Foreign demand

Sources: Ministry of Public Works and Spanish Statistical Office (INE).
Spanish banks are well positioned to benefit from medium-term interest rate increases

Towards a less accommodative monetary policy

Interest rates have reached bottom

The progressive normalisation of inflation in the euro area will allow a less accommodative monetary policy

Sources: Bloomberg and ECB.
## Tailwinds for mid-term profitability amid structural and cyclical challenges

<table>
<thead>
<tr>
<th>Areas of focus</th>
<th>Outlook and supporting factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cyclical factors</strong></td>
<td></td>
</tr>
<tr>
<td>Low interest rates</td>
<td>Gradual normalisation of monetary policy and the increase in long term yields benefit profitability</td>
</tr>
<tr>
<td>Moderate global economic growth</td>
<td>Improvements in the economic outlook will reduce uncertainty around banks’ earnings</td>
</tr>
<tr>
<td>Financial regulation</td>
<td>Stalling new regulatory pressure and longer implementation periods of agreed reforms</td>
</tr>
<tr>
<td>Political Risks: Brexit &amp; US politics</td>
<td>Diluted impact over time, resilience towards political shocks</td>
</tr>
<tr>
<td><strong>Structural factors</strong></td>
<td></td>
</tr>
<tr>
<td>Non-performing loans</td>
<td>Speeding up balance sheet clean-up with a more positive real estate market back-drop</td>
</tr>
<tr>
<td>Non-bank competition/ FinTech/ Digitalisation</td>
<td>Opportunities to boost profitability via efficiency gains and new revenue sources</td>
</tr>
<tr>
<td>Profitability of business models</td>
<td>Higher reliance on non-interest income, cost-cutting efforts</td>
</tr>
</tbody>
</table>
Sabadell has been successful at tackling the challenges from the economic downturn

Profitability

Customer spread
In percentage

1.86% 2.81%

2013 Jun-17

Balance sheet transformation

Gross non performing assets
Euros in million

2013

26,028

Jun-17

17,448

Current net non performing assets:
€8.4bn\textsuperscript{1,2}

Internationalisation

Loans by geography
In percentage

2013

95%

5%

Ju-17

32%

68%

Note: Foreclosed assets and NPLs include 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell according to the APS protocol.

\textsuperscript{1} As at Jun-17, including the SUB and VIF transactions and ex-TSB

\textsuperscript{2} Excludes provisions associated to mortgage floors
Top profitability in Spain with strong core banking revenue momentum…

Customer spread, ex-TSB\(^1\)
In percentage. Data as at Q2 2017

<table>
<thead>
<tr>
<th></th>
<th>Sabadell ex-TSB</th>
<th>Peer 2</th>
<th>Peer 4</th>
<th>Peer 1</th>
<th>Peer 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2.73%</td>
<td>2.19%</td>
<td>1.83%</td>
<td>1.59%</td>
</tr>
</tbody>
</table>

Variation since 2013\(^2\): +87\(^1\) bps

Core revenue, ex-TSB\(^2\)
Euros in million

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>NII</td>
<td>1,815</td>
<td>2,260</td>
<td>2,663</td>
<td>2,787</td>
</tr>
<tr>
<td>Fees</td>
<td>824</td>
<td>921</td>
<td>1,009</td>
<td>1,023</td>
</tr>
</tbody>
</table>

CAGR 13%

"… driven by a sound SME & affluent segment franchise"

Note: Peer group: Bankia, BBVA Spain, CaixaBank (ex-BPI), and Santander Spain. Source: Quarterly reports.

\(^1\) In the case of Sabadell Group, the customer spread stands at 2.81% and variation since 2013 rises to 95 basis points.

\(^2\) Core banking revenue refers to net interest income and fees.

\(^3\) 2013-15 fees have been restated to include FX commissions, which were previously included in trading income and forex.
Strengthened market positioning across products…

Market shares by product

<table>
<thead>
<tr>
<th></th>
<th>Credit card turnover</th>
<th>Life insurance</th>
<th>Household sight acc.</th>
<th>Mutual funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Companies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jun- 17</td>
<td>↑ 7.94%</td>
<td>≈ 5.26%</td>
<td>↑ 6.31%</td>
<td>↑ 6.34%</td>
</tr>
<tr>
<td>Jun- 16</td>
<td>7.49%</td>
<td>5.27%</td>
<td>5.85%</td>
<td>5.95%</td>
</tr>
<tr>
<td><strong>Individuals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jun- 17</td>
<td>↑ 11.30%</td>
<td>↑ 13.20%</td>
<td>↑ 14.97%</td>
<td>↑ 9.61%</td>
</tr>
<tr>
<td>Jun- 16</td>
<td>11.02%</td>
<td>12.84%</td>
<td>13.89%</td>
<td>9.10%</td>
</tr>
</tbody>
</table>

Note: 2017 data as at 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).
1 Excluding loans to Real Estate companies and repos.
2 Transactionality calculated per volume.
3 Insurance calculated per number of contracts.
... with high standards in quality of service...

Level of service quality
Evolution of Sabadell quality index vs. sector

Net promoter score
Evolution of Sabadell quality index vs. sector

<table>
<thead>
<tr>
<th>2017</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large companies (turnover &gt; €5 M)</td>
<td>35%</td>
</tr>
<tr>
<td>SMEs (turnover &lt; €5 M)</td>
<td>19%</td>
</tr>
<tr>
<td>Personal banking</td>
<td>28%</td>
</tr>
<tr>
<td>Retail banking</td>
<td>3%</td>
</tr>
</tbody>
</table>

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

1 Source: STIGA, EQUOS (Objective Quality Analysis in Banking Networks, Q2 2017). Cumulative data.
2 Source: Report Benchmark NPS Accenture. Considers peer group entities. Data as at last available month.
... and strong focus on our commercial and digital transformation

<table>
<thead>
<tr>
<th>Distribution model</th>
<th>Hub &amp; spoke branch model</th>
<th>Active management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital initiatives</td>
<td>Sabadell Mobile</td>
<td>Best rated banking app. for five consecutive years</td>
</tr>
<tr>
<td>Commercial intelligence</td>
<td>360º client management</td>
<td>Personalised offering and launch of value added products to customers</td>
</tr>
<tr>
<td>Commercial initiatives</td>
<td>Proteo Mobile</td>
<td>Customised initiatives according to customer segments and products</td>
</tr>
<tr>
<td>Simplicity</td>
<td>24+24</td>
<td>48h response time for consumer loans</td>
</tr>
</tbody>
</table>

We have developed a commercial strategy that offers simplicity, convenience and that is tailored to the needs of our clients.

- Client account openings in 5 minutes
We have consolidated our leap in size while achieving leading efficiency levels

We have consolidated our increase in size while becoming more efficient...

Evolution of clients, expenses, and revenues
Sabadell, ex-TSB. Rebased to 100 (2013 = 100)

Cost-to-income ratio
In percentage. Data as at Q2 2017

Note: Peer group: Bankia, Bankinter, BBVA Spain, CaixaBank (ex-BPI), and Santander Spain. Source: Quarterly reports.
We have a proven track record of delivering on our NPA reduction strategy

NPL ratio reduction since 2013, ex-TSB
In basis points

<table>
<thead>
<tr>
<th></th>
<th>Peer 1</th>
<th>Peer 2</th>
<th>Peer 3</th>
<th>Peer 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sabadell ex-TSB</td>
<td>-668</td>
<td>-557</td>
<td>-523</td>
<td>-519</td>
</tr>
<tr>
<td>#1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Today we are the bank that has most improved its NPL ratio and #2 in NPA ratio reduction, having reduced c.€2.5bn of NPAs per annum

Gross NPA / Gross total loans and RE assets ratio reduction since 2013, ex-TSB
In basis points

<table>
<thead>
<tr>
<th></th>
<th>Peer 1</th>
<th>Peer 2</th>
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<th>Peer 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sabadell ex-TSB</td>
<td>-571</td>
<td>-484</td>
<td>-472</td>
<td>-430</td>
</tr>
<tr>
<td>#2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Data from results presentations. For international banks, includes business in Spain only. Data from Dec-2013 to Jun-2017. Figures do not consider Banco Popular acquisition. NPLs and NPAs include 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell according to the APS protocol.
We have set a clear path for further NPA reduction

NPAs evolution, Sabadell group
Euros in million

\[ \nabla > 9\text{bn} \]

- 2016: 18,781
- 2017e: 9,035
- 2018e: 9,746
- 2019e: < 10bn
- 2020e: < 10bn

\[ \nabla \text{ NPA} > €2\text{bn per year} \]

- NPL Ratio 2020e
  - Total Group < 3%
  - Ex-TSB < 3.5%

Note: Data includes 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell according to the APS protocol.
Recent transactions have reinforced our coverage levels, allowing us to accelerate COR normalisation.

**Sabadell ex-TSB coverage ratios pro forma**

<table>
<thead>
<tr>
<th></th>
<th>Jun-17</th>
<th>Jun-17 pro forma with SUB and VIF transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPL coverage</td>
<td>47.1%</td>
<td>48.9%</td>
</tr>
<tr>
<td>NPA coverage</td>
<td>49.4%</td>
<td>52.0%</td>
</tr>
<tr>
<td>Foreclosed assets coverage</td>
<td>47.8%</td>
<td>55.1%</td>
</tr>
</tbody>
</table>

**Sabadell United Bank ("SUB") sale:**

- **Transaction amount**: $1,025M
- **Net capital gains used for provisions**: c.€402M
- **Impact on CET1 FL ratio excluding capital gains**: c.42 bps

**BanSabadell Vida Value in-force ("VIF") reinsurance:**

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

Note: Includes contingent risk. Sabadell Group’s NPLs and NPA 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. Including SUB cumulated results as at July 2017. Individual life risk portfolio.
Sabadell has a top solvency position vs. peers

CET1 FL vs. NPA coverage ratio – theoretical analysis

In percentage

Note: Data as at Jun-17. Chart includes the top five Spanish banks. Ratios pro forma post acquisitions. Sabadell ratios exclude mortgage floor provisions.
Best-in-class capital position, comfortably in excess of requirements, will favour shareholder remuneration

CET1 fully-loaded
In percentage. Data as at Q2 2017

Best solvency in the sector with a pro forma CET FL standing at 12.5% after including the sale of Sabadell United Bank

Note: Peer group: Bankia, BBVA, CaixaBank, Santander and Bankinter. Source: Quarterly reports.
1 Excluding capital gains.
Brexit is having a smaller impact on the UK economy than initially expected

Real GDP
Annual variation, in percentage

Unemployment rate
In percentage

Tailwinds from favourable global economic developments

Unemployment rate at its lowest level in the last 42 years

Sources: Datastream and Bloomberg.
**TSB continues to demonstrate strong growth momentum having achieved its IPO targets 3 years early**

<table>
<thead>
<tr>
<th>Growth strategy at IPO</th>
<th>IPO Targets for 2019 (5 years after IPO)</th>
<th>Position at the end of 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide great banking to more people</td>
<td>PCA(^1) market share (flow) consistently in excess of 6%</td>
<td>7.3% average monthly share of flow since Jan 2014</td>
</tr>
<tr>
<td>Help more People to borrow well</td>
<td>40-50% growth in franchise customer lending</td>
<td>46% growth in customer lending (including Whistletree)(^2)</td>
</tr>
<tr>
<td>Provide the kind of banking people want and deserve</td>
<td>Increase use of digital channels in sales and service</td>
<td>c. 52% of sales through digital channels</td>
</tr>
<tr>
<td></td>
<td>Constrain long-term cost growth to no more than 3% p.a.</td>
<td>0.6% compound annual growth rate in costs 2014 – 2016</td>
</tr>
</tbody>
</table>

Our greatest step in terms of internationalisation has been the acquisition of **TSB in the UK**

---

\(^1\) Personal current accounts.  
\(^2\) Excluding mortgage enhancement. Since IPO.
TSB migration shows good progress, with critical milestones having been met

Benefits of new IT platform

- Reduce production costs, **creating synergies**
- Gain **operational autonomy**
- Improve **customer experience** through:
  - Digitalisation
  - Time-to-market
  - Range of products
- **Single source of truth** and instant scalability provide agility

Migration update

- Mobile app launched
- Proteo4UK platform built
- Payment schemes tested
- Proteo4UK pilot live
- New platform employee’s training is ongoing
- Roll out of the new IT equipment to the branches in progress
- Data dress rehearsals launched
- The design of the final stage of migration is underway and about to be completed

**A new platform empowers TSB to build a competitive edge in the UK market**
Sabadell strategy for TSB in 2018 and beyond

1. Improve efficiency
   - Deliver migration cost benefits
   - Continue focus on cost management

2. Grow scale
   - Retail organic (franchise stock, unsecured lending and new PCA share flow)
   - SME entry

3. Growing customer relevance
   - Build additional platform capability
   - Develop platform revenue models
   - Participate in platforms

4. Agile TSB
   - Process redesign
   - Cultural change
   - TSB as an agile, digital organisation that happens to be a bank

Targeting a sustained double digit RoE
Conclusions

- Sabadell benefits from the favourable Spanish banking trends and future interest rate increases.
- Domestic trends remain solid with strong momentum in group core banking revenue and top profitability in the sector.
- Sabadell has consolidated substantial growth while achieving best-in-class efficiency level. Focus continues on optimisation of our commercial strategy and advancing our digital transformation.
- Recent corporate transactions have further supported our coverage levels, allowing us to accelerate COR reduction and improving earning visibility in the medium term. This implies no further losses in the stock of foreclosed assets going forward.
- Proven track record of successful NPA reduction, which has materially strengthened our balance sheet position and has brought our COR close to a normalised level.
- Best solvency position in the sector according to capital and provisions combined. Our top capital position, comfortably in excess of requirements, will favour shareholder remuneration.
- Performance YTD places us well on track to meet our YE net profit target of c. €800M.
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