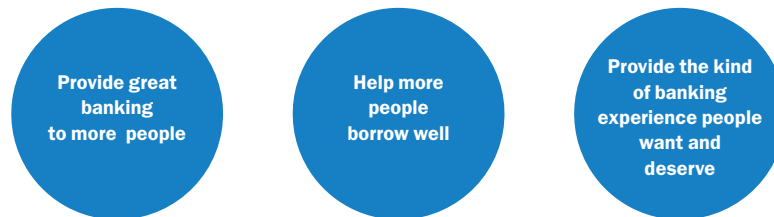


## TSB successfully fulfilled its strategy



G2 TSB strategic aims

### Business overview

The TSB franchise (TSB Banking Group Plc), which was acquired by the Group in June 2015, is a provider of retail banking services in the United Kingdom, including current and savings accounts, personal loans and credit/debit cards.

TSB has a nationwide multi-channel distribution model including 587 branches in England, Wales and Scotland. At the end of the year, it had 5.0 million customers and 8,060 employees.

TSB's business is divided into the following segments:

- The franchise comprising the multi-channel commercial banking business;
- Mortgage enhancement consisting of a separate set of mortgages which was assigned to TSB as part of the restructuring of Lloyds; and
- The *Whistletree* portfolio (UKAR assets), a set of mortgages managed by the British government that were bought from *Cerberus* while repossession proceedings were in progress.

- Increase TSB Franchise lending by 40% to 50% within five years of flotation.
- Develop its digital capabilities. Promote the TSB brand. Offer a differentiated service to customers.

In 2016 TSB achieved its target of growing its market share of bank accounts, capturing 6.4% of customers switching banks or opening a new account, exceeding the Bank's 6% target (according to the CACI Current Account and Savings Database [CSDB] which includes current, packaged, youth, student and basic accounts as well as new account openings excluding account upgrades; data are presented on a 2-month time-lag). Customer deposits increased to £29.4 billion (up by 13.6% year-on-year), a reflection of the trust placed in TSB by customers.

In fulfilment of its lending growth objective, in 2016 TSB increased its loans and advances to £29.4 billion (a year-on-year rise of 11.4%), due to the success of the mortgage brokerage platform. In fact TSB saw its lending rise more rapidly than was forecast at the time of its flotation, achieving an increase of 46% (excluding its Mortgage Enhancement portfolio) three years earlier than expected.

As for the third aim of increased brand recognition, TSB scored notable successes in three key indicators. During the year it was rated the best British high street bank in a study carried out in March 2016 by BDRC Continental (an independent market survey covering all the major banks based on a sample of 15,000 UK consumers). At the end of the year TSB saw its Net Promoter Score (NPS) for 2016 rise to +23, up from +16 in 2015 (compared with a score of -24 at the time of its launch in 2013 according to data for October of that year). The NPS indicator is based on the question: "On a scale of 1 to 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?"

### Key developments in 2016

#### Business overview

For TSB 2016 was an important year in which it saw faster than expected organic growth in assets and customer numbers. It achieved its lending growth targets, fixed at the time of flotation, three years earlier than expected. During the year TSB was named "Best British high street bank".<sup>1</sup>

Having set itself these three strategic aims (G2) in late 2013, TSB went on to set the following objectives:

- Grow its market share of bank accounts to more than 6% of gross flow within five years.

<sup>1</sup> An independent market survey carried out on the main banks by BDRC Continental in March 2016, based on a sample of 15,000 consumers in the UK.

# The balance sheet continues to expand strongly.

The NPS is the proportion of customers rating the brand 9-10 after subtracting those rating it in the 0-6 range. Finally, TSB climbed 84 places in KPMG Nunwood's 2016 UK Customer Experience Excellence ranking, to become the UK's top-rated high street bank. Another important development for TSB was the start of migration to a new technology platform provided by Sabadell. This will give it a more agile approach to selling and a faster pace in adapting to its customers' requirements.

## Customers have an excellent perception of the TSB business model.

### Key financial data

In 2016 TSB expanded its lending thanks to a strong sales momentum, the high quality of service offered to customers and the sources of its funding, which spring largely from the growth in its customer deposit balances and a successful policy of diversification. It also saw an improvement in credit quality and succeeded in reducing non-performing assets in its loan book, with the loan-to-value ratio remaining at a low level of just 42%.

The growth in customer deposit balances was driven by increases in both current and savings accounts, which grew by 14.8% and 13.3% respectively over the year. This growth was once again helped by the success of the "Classic Plus" account; however, it is also significant that more and more customers are choosing to place their savings with TSB.

With regard to the principal components of the profit and loss account, net interest income remained largely unchanged as a result of low interest rates and the maturing of non-core loans, offset by good volume and margin growth from new customer accounts.

Operating costs declined by 1.1% over the year and totalled £703.8 million in 2016. In 2017 the cost of IT services provided by Lloyds Bank is expected to go up by as much as £100 million until migration to the new platform, which is expected to be completed by the end of the year.

Profit before tax and exceptional items increased by 68.1% to £177.7 million in 2016, compared with £105.7 million in 2015. The result is attributable to three main factors:

- the growth in income generated by the Franchise business. This was thanks to the successful intermediation platform, which contributed to a significant increase in mortgage volumes;
- the acquisition of the *Whistletree* loan portfolio; and

— a one-off gain of £32.5 million on the sale of TSB's stake in Visa Europe following its acquisition by Visa Inc.

These exceptional gains were partially offset by the expected decline in the contribution of the Mortgage Enhancement portfolio as loan repayments continued.

TSB continued to show a strong capital position, with a CET1 capital ratio of 18.4% at the close of 2016, well above the 17.8% ratio reported for 2015 (T5).

	2015	2016	% 16/15
<b>Net interest income</b>	<b>539.62</b>	<b>1,050.86</b>	<b>94.7</b>
Fees and commissions (net)	78.83	122.74	55.7
Other revenues	(3.72)	35.18	(1,045.34)
<b>Gross income</b>	<b>614.73</b>	<b>1,208.78</b>	<b>96.6</b>
Operating expenses	(493.57)	(874.55)	77.2
<b>Operating profit/(loss)</b>	<b>121.16</b>	<b>334.23</b>	<b>175.9</b>
Profit/loss on problematic assets	(59.50)	(106.91)	79.7
Other profits/(losses)	—	(4.43)	—
<b>Profit/loss before tax</b>	<b>61.66</b>	<b>222.89</b>	<b>261.5</b>
<b>Ratios (%)</b>			
ROE (profit / average shareholders' equity)	5.3	7.0	—
Cost:income (general administrative expenses / gross income)	77.9	72.6	(6.83)
NPL ratio	0.6	0.5	(20.97)
NPL coverage ratio	44.8	52.7	17.6
<b>Business volumes</b>			
Loans and advances	36,062	34,447	(4.48)
Customer funds	35,249	34,320	(2.64)
<b>Other information</b>			
Employees	8,224	8,060	(1.99)
Branches	614	587	(4.40)

The exchange rate applied for 2016 was GBP 0.8562 for the balance sheet and GBP 0.8166 (year average) for the income statement.

The exchange rate applied for 2015 was GBP 0.7340 for the balance sheet and GBP 0.7201 (six-month average) for the income statement.

Only six months of results were included in 2015. Accounting own funds used for ROE purposes.

## Global Corporate Banking

Global Corporate Banking offers financial solutions and advisory services to large companies and financial institutions, both Spanish and foreign, with branches throughout Spain and in 16 other countries. It encompasses Corporate Banking, Structured Finance, Trade Finance and International Financial Institutions.

## Corporate Banking

### Business overview

Corporate Banking is the unit that handles large corporations; to address the needs of these customers the Bank offers a global solutions approach and a team of professionals located in Madrid, Barcelona, London, Paris, Miami, Mexico City, Bogotá, Lima and Casablanca.

The business model is based on a close strategic relationship with customers, providing them with global solutions adapted to their needs, taking into account the specific features of their industry and the markets in which they operate. Our value contribution takes a number of forms: support from our sales teams working in the

various geographies; a client-focused service delivered by dedicated teams with expertise in particular industries; and constantly improving middle office support to assure excellence in service delivery.

### Key developments in 2016

2016 was an excellent year for Global Corporate Banking which saw the roll-out of a coordinated strategy across all working teams and geographies and in which huge strides were made in firmly establishing Banco Sabadell as the best Corporate Banking experience for customers. Key values underpinning our business model are: knowing the customer, coverage and coordination, excellence in service and specialisation.

The Bank's "know your customer" policy means engaging with the client in a strategic partner relationship, being knowledgeable about their industry or sector, and understanding their development strategy, their most immediate challenges and their key markets. It does all this through a process of collaborative working with its sales and specialist teams serving customers in the different geographies where they are operating, to draw up personalised service and global risk proposals (Global Approach Planning).