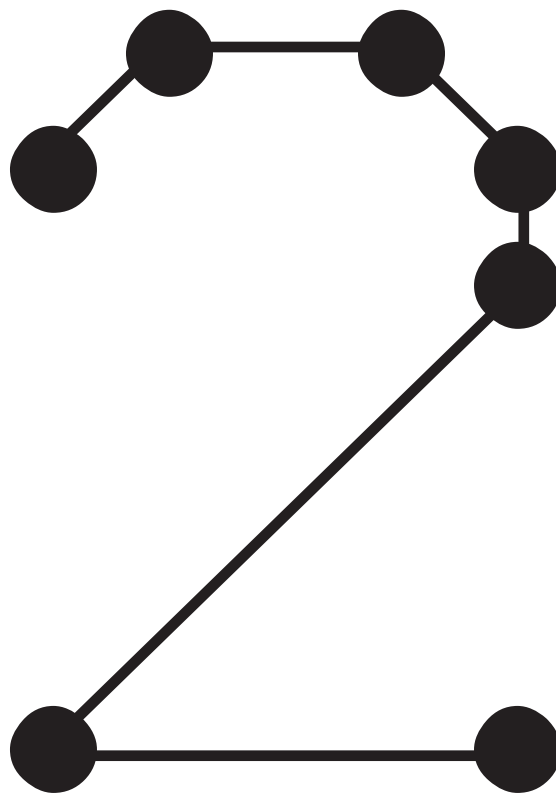


Chairman's message





Josep Olliu Creus, Chairman

Dear shareholder,

Although 2019 proved to be demanding for Banco Sabadell, it culminated in an improved capital position due to the sale of real estate portfolios, and a stronger capital ratio, which reached 12%. The Bank achieved positive results while TSB left the technology crisis behind it and focused on moving forward in the framework of a profitability plan under a new professional executive team.

The year was marked by weakening of the global economy caused by trade tensions between the United States and China and the uncertainty surrounding Brexit. These situations had an adverse impact on international trade and on manufacturing, while services and consumer spending were more resilient.

The euro area proved vulnerable to the more adverse world situation and the economy registered moderate growth, affected by export performance. The European economy was also impacted by the confluence of a number of idiosyncratic factors, such as the new environmental regulations in the automobile industry.

In the United Kingdom, the unknowns surrounding Brexit continued to shape economic activity, especially investment. The election result, which produced a less fragmented Parliament, had a positive impact on economic sentiment based on the belief that it should facilitate the negotiation of a Brexit agreement.

The Spanish economy stood out in positive terms within the euro area by achieving 2.0% GDP growth. As in 2018, growth dynamics were supported by domestic demand. In Spain, the unemployment rate continued to decline, house prices remained dynamic in aggregate, the country registered a trade surplus for the eighth consecutive year, and several rating agencies upgraded Spain's sovereign debt.

Faced with the flagging global economy, the main central banks resumed monetary stimulus policies. In the United States, the Fed cut interest rates for the first time in a decade. The ECB reduced the deposit interest rate for the first time since 2016 and resumed its asset purchase programme. Actions by the central banks contributed to good performance by the capital markets in 2019, which also benefited towards the end of the year from the trade agreement that was finally reached between the United States and China.

The European banking industry maintained its capital position in 2019, made advances in reducing non-performing loans, and had a good liquidity position overall, as evidenced by the ECB's liquidity stress tests in the euro area banking system. The prolonged period of low interest rates continued to pose challenges to profitability. The European and Spanish markets suffered the consequences of the various uncertainties and monetary policy decisions, and the banking industry performed similarly but fell short of its targets.

Banco Sabadell reported net profit of 768 million euros in 2019, an increase of 134% on the previous year. This result was driven by 1.0%

year-on-year growth in banking revenues, a 1.8% reduction in total costs, and significantly lower provisions and impairments than in 2018.

Revenue growth was attributable to dynamic commercial performance, which was positive in all geographies, reflected in year-on-year growth of 2.9% in total performing loans and advances, and 7.7% in fee and commission income.

The cost of risk declined on a recurring basis to 52 bps as a result of a significant reduction in non-performing assets and in the NPL ratio, to 3.8% at year-end. The portfolio sales agreed in 2018, worth 8,200 million euros gross, were completed in December 2019. All these factors provided a substantial improvement in the institution's risk profile, following the major transformation the previous year.

The year also saw TSB regain its commercial momentum, and evidenced that all the migration-related incidents had been resolved. TSB has laid the groundwork for a new era; a new customer-centric Strategic Plan was unveiled that focuses on simplicity, efficiency and operational excellence; and the bank has a sound, competitive IT platform and a new management team with an enhanced governance model. TSB is not yet contributing profit to the Group, but it is on the path to doing so in the coming years.

One notable achievement in 2019 was the improvement in the capital position, as the Group achieved its target CET1 FL ratio of 11.7% (12.1% in pro forma terms). As a result, the ROTE reached 7.4%, and the Board of Directors proposed that the General Meeting of Shareholders approve a gross dividend of 0.04 euros per share from 2019 income, representing a payout of around 40%.

At the same time, aware of the challenge that climate change poses to society in general and to the banking sector in particular, last June Banco Sabadell adopted the United Nations Principles of Responsible Banking. These principles are the first reference framework to define the role and responsibility of the banking industry in guaranteeing a sustainable future. With this decision, the Bank strengthened its commitment to sustainability, which is fully integrated in its future strategy, and to society. Additionally, the impact of climate change on the banking sector attracted increasing attention from central banks and supervisors, which are working to incorporate climate risks into stress tests for 2021.

Going forward, Banco Sabadell will continue to advance with its digital transformation while preserving its distinctive features, converging on a business model based on service quality and respect for the Responsible Banking principles. Trends in metrics such as the number of consumer loans arranged digitally in Spain (up 50% year-on-year in 2019) are indicative of the accelerating digital transformation being undertaken by the Bank. The Bank signed a major agreement with IBM to modernise and transform its IT infrastructure, which will increase its resilience, security and scalability while simplifying the operating model and enhancing the customer experience.

The objectives for 2020 are to maintain the flow of banking revenues in an adverse environment, further reduce non-performing assets, execute TSB's new Strategic Plan and maintain an adequate level of capital - all core elements

of the Bank's strategy to address the upcoming challenges. The Bank looks to 2020 with the determination to create value for shareholders by being the bank for business that best serves its customers, while also improving the relationship with individual customers through an appropriate offer of products and services, increasingly arranged through digital channels.

A handwritten signature in black ink, appearing to read 'Olliu', written in a cursive style.

Josep Olliu
Chairman

January 2020