

# Sabadell

## 1Q 2017 Results

April 28, 2017

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**1**

1Q17 highlights

**2**

Profitability and  
efficiency

**3**

Commercial  
activity and digital  
transformation

**4**

Asset quality  
and solvency

**5**

TSB results

# 1

1Q 2017 highlights

# 1Q17 highlights

## Profitability and efficiency

- Solid core banking revenue growth with NIM growing QoQ for the first time since 1Q last year
- Fees increased driven by service fees growth
- Expected one-off TSB IT cost was partially offset by a decrease in costs in Spain
- A large portion of the year's trading income materialised this quarter and was used to front-load provisions
- Our profit for the quarter was in line with our 2017 guidance, and grew by +7.1% YoY for Sabadell ex-TSB

## Asset quality and solvency

- NPL ratio continued to decrease to 5.86%, its lowest rate since 3Q 2011
- NPAs reduced by more than €500M in the quarter, which was in line with our plan
- NPA coverage increased to 48.4%<sup>1</sup> in the quarter
- Strong capital position with 11.94% CET1 phase-in
- The Sabadell United sale, agreed in this quarter, will strengthen our capital position

## Commercial activity and digital transformation

- Performing loan book grew +2.3% (or +4.0% constant FX) and +1.6% YoY for the Group and ex-TSB respectively
- Positive customer fund evolution, particularly in sight accounts and off-balance sheet funds
- We remained at the forefront of innovation with new initiatives: Sabadell Forex and new versions of the Sabadell App and Sabadell Wallet
- Continued to lead NPS rankings by Corporates and SMEs and improved our ranking to No. 2 in Retail Banking for the first time

## TSB

- Solid results with strong QoQ net interest income evolution
- Lending and customer funds grew +12.6% and +11.0% respectively in the year
- Our share of new current account openings stood at 6.0% in the past twelve months, in line with our target
- First migration IT milestone visible to customers achieved, with full development and customer launch of the TSB mobile app

Note: core banking revenue refers to net interest income plus fees. All balance sheet ratios and metrics include Sabadell United Bank.

<sup>1</sup> Excluding mortgage floor provisions.

# 2

Profitability and efficiency

# Quarterly income statement

	Sabadell group							Sabadell, ex-TSB				
	1Q 2016	4Q 2016	1Q 2017	%QoQ	%QoQ constant FX	%YoY	%YoY constant FX	1Q 2016	4Q 2016	1Q 2017	%QoQ	%YoY
Euros in million												
<b>Net interest income</b>	<b>973.9</b>	<b>946.9</b>	<b>962.4</b>	<b>1.6%</b>	<b>1.4%</b>	<b>-1.2%</b>	<b>1.8%</b>	<b>695.7</b>	<b>697.7</b>	<b>702.4</b>	<b>0.7%</b>	<b>1.0%</b>
Equity method & dividends	21.6	12.6	16.4	30.5%	30.4%	-24.0%	-24.0%	21.6	12.6	16.4	30.5%	-24.0%
Commissions	277.8	288.3	296.7	2.9%	2.8%	6.8%	8.1%	245.9	260.2	271.4	4.3%	10.4%
Trading income & forex	311.0	55.8	354.1	--	--	13.9%	13.8%	306.3	56.8	343.0	--	12.0%
Other operating results	-16.7	-106.1	-29.6	-72.1%	-72.0%	77.4%	78.8%	-16.2	-106.3	-27.0	-74.6%	66.4%
<b>Gross operating income</b>	<b>1,567.6</b>	<b>1,197.5</b>	<b>1,600.0</b>	<b>33.6%</b>	<b>33.3%</b>	<b>2.1%</b>	<b>4.2%</b>	<b>1,253.2</b>	<b>920.9</b>	<b>1,306.3</b>	<b>41.8%</b>	<b>4.2%</b>
Personnel recurrent costs	-402.7	-391.2	-387.9	-0.8%	-1.0%	-3.7%	-1.1%	-300.0	-286.4	-294.6	2.9%	-1.8%
Administrative recurrent costs	-247.5	-243.3	-282.2	16.0%	15.6%	14.0%	19.1%	-146.4	-143.6	-151.0	5.2%	3.1%
Non recurrent costs	-14.5	-41.8	-17.8	-57.4%	-57.8%	23.3%	30.5%	-6.7	-28.2	-3.5	-87.7%	-48.1%
Depreciation & amortisation	-97.2	-105.4	-100.6	-4.5%	-4.7%	3.5%	5.6%	-78.3	-88.0	-83.0	-5.7%	6.0%
<b>Pre-provisions income</b>	<b>805.7</b>	<b>415.9</b>	<b>811.5</b>	<b>95.1%</b>	<b>94.8%</b>	<b>0.7%</b>	<b>1.8%</b>	<b>721.9</b>	<b>374.8</b>	<b>774.2</b>	<b>106.6%</b>	<b>7.3%</b>
Total provisions & impairments	-434.9	-313.6	-510.6	62.8%	62.8%	17.4%	17.3%	-434.9	-285.5	-486.6	70.4%	11.9%
Gains on sale of assets	-3.1	3.1	1.7	-45.8%	-47.0%	--	--	-3.1	5.5	-5.8	--	88.5%
<b>Profit before taxes</b>	<b>367.7</b>	<b>105.3</b>	<b>302.6</b>	<b>187.2%</b>	<b>185.4%</b>	<b>-17.7%</b>	<b>-15.7%</b>	<b>283.9</b>	<b>94.8</b>	<b>281.8</b>	<b>197.2%</b>	<b>-0.7%</b>
Taxes	-114.4	-40.0	-84.8	112.0%	110.4%	-25.9%	-24.7%	-92.3	-33.2	-76.1	129.1%	-17.5%
Minority interest	1.3	1.8	1.8	-5.2%	-5.2%	35.7%	35.7%	1.3	1.8	1.8	-5.2%	35.7%
<b>Attributable net profit</b>	<b>252.0</b>	<b>63.5</b>	<b>216.1</b>	<b>240.2%</b>	<b>238.1%</b>	<b>-14.3%</b>	<b>-11.9%</b>	<b>190.3</b>	<b>59.7</b>	<b>203.9</b>	<b>241.4%</b>	<b>7.1%</b>

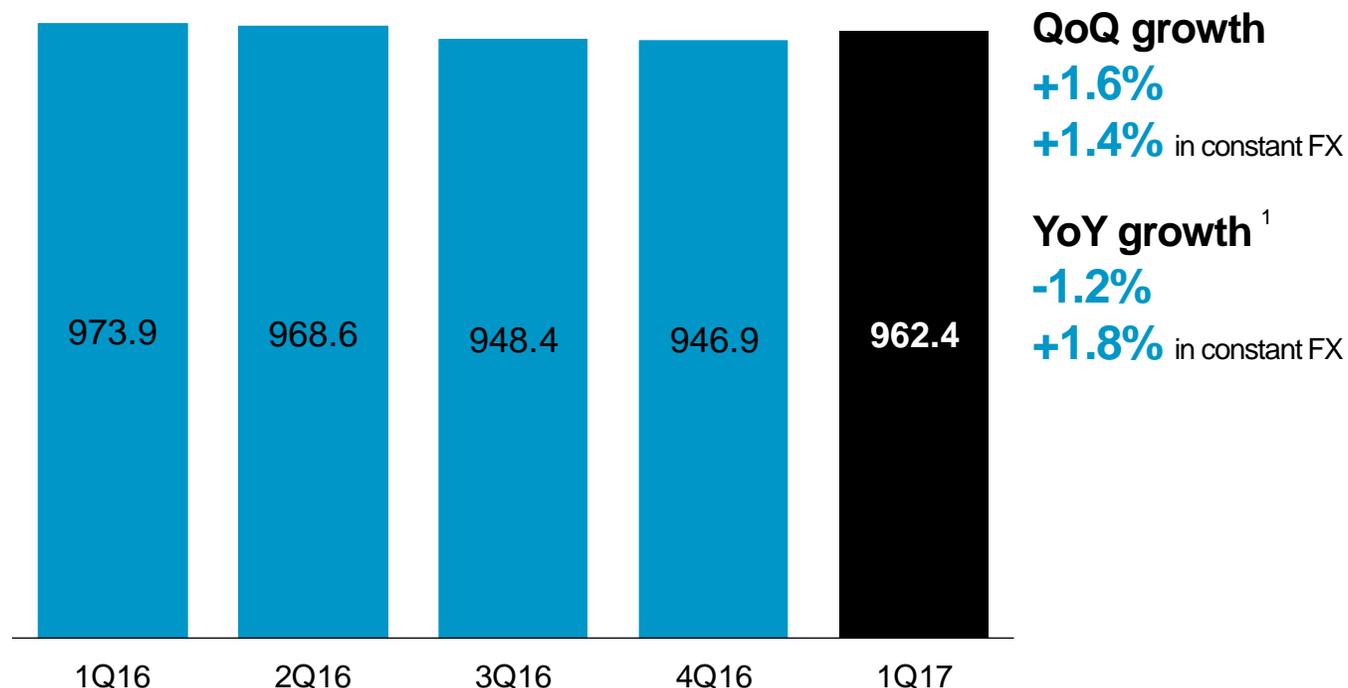
**Our core banking business remains strong, with a large portion of the year's trading income and provisions already anticipated to Q1**

Note: The EURGBP exchange rate of 0.8599 used for this quarter's P&L corresponds to the daily average rate of 1Q17.

# Net interest income returned to strong growth this quarter...

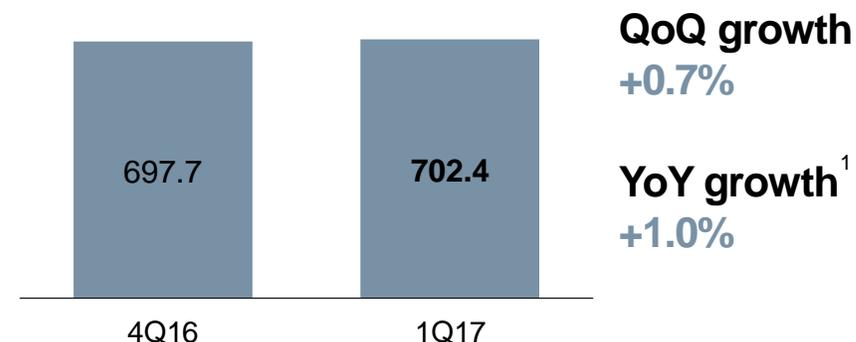
## Group net interest income evolution

Euros in million



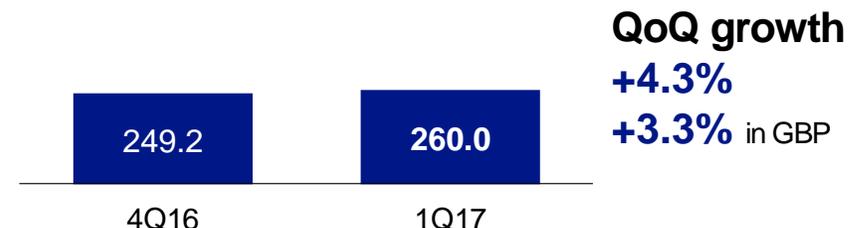
## Sabadell, ex-TSB

Euros in million



## TSB

Euros in million



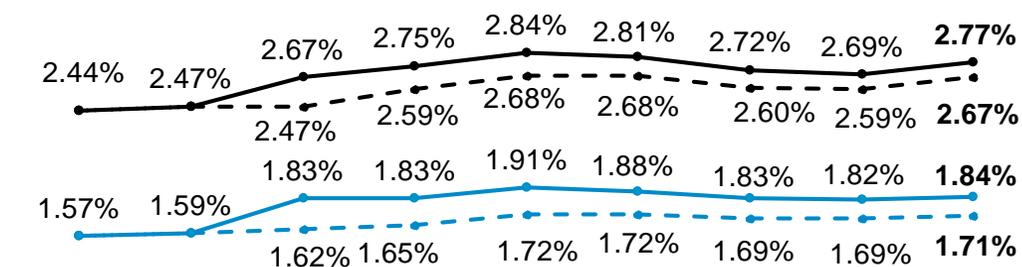
Note: The EURGBP exchange rate of 0.8599 used for this quarter's P&L corresponds to the daily average rate of 1Q17.

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

# ... with NIM growing QoQ for the first time since 1Q last year...

## Net interest margin evolution

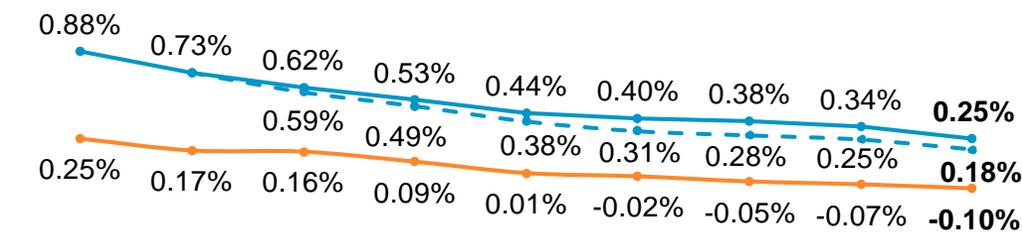
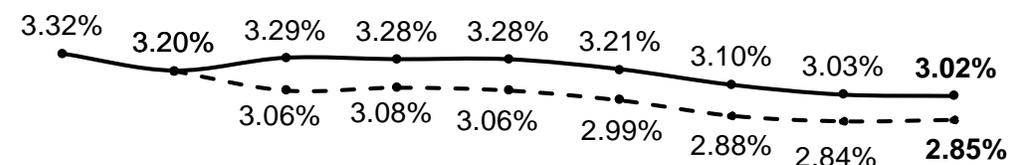
In percentage



- Customer spread
- Net interest margin as % of ATA
- ... Customer spread, ex-TSB
- ... Net interest margin as % of ATA, ex-TSB

## Customer loan yield and cost of funds

In percentage



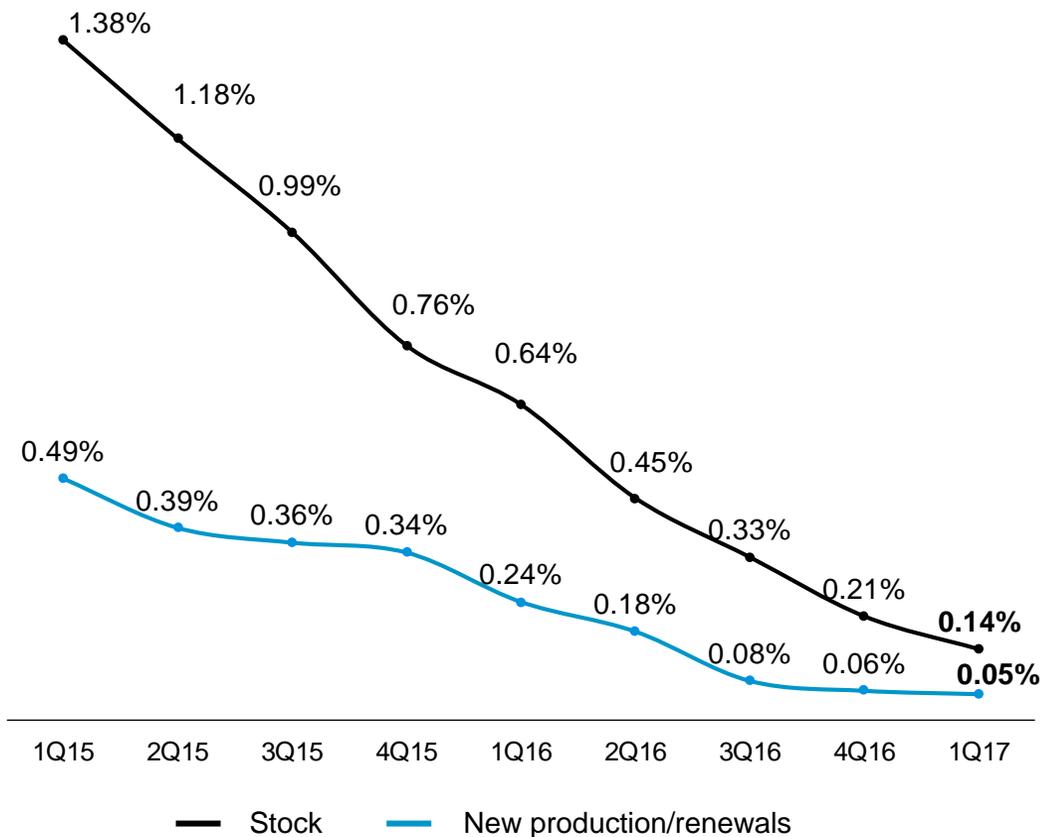
- Customer loan yield
- Cost of customer funds
- ... Customer loan yield, ex-TSB
- ... Cost of customer funds, ex-TSB
- Euribor 12M<sup>1</sup>

<sup>1</sup> Quarterly average.

# ... driven by term deposits and wholesale funding repricing

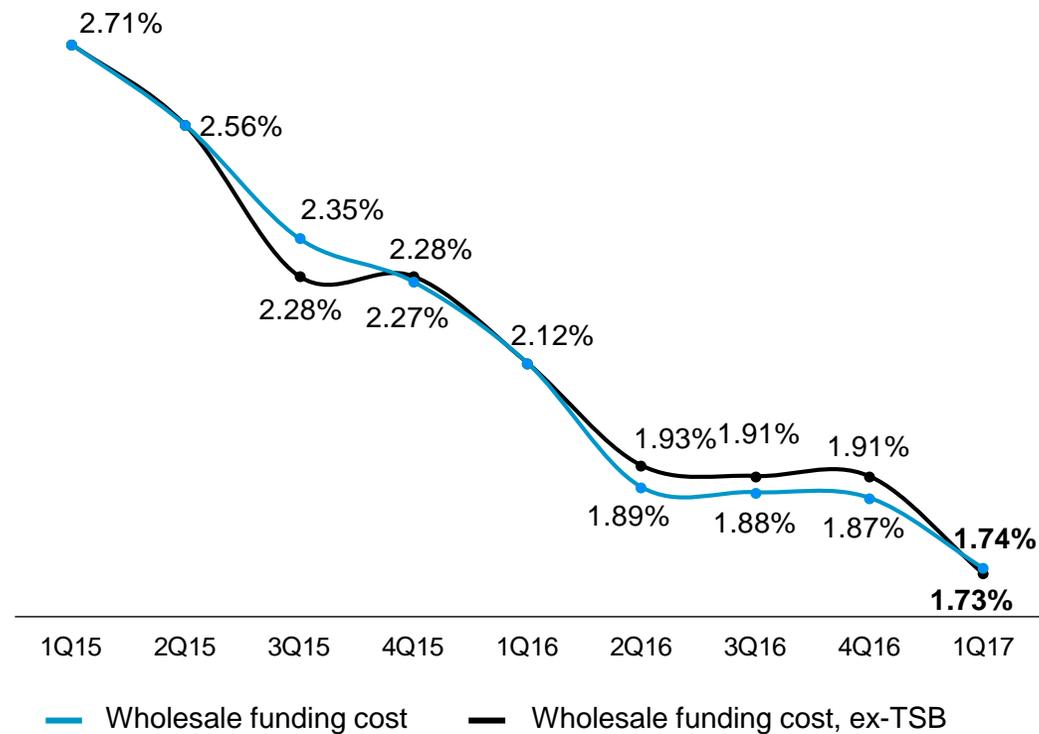
## Contractual rates on term deposits, ex-TSB

In percentage



## Wholesale funding cost evolution

In percentage



Excludes the impact of €20.5bn ECB (TLTROII) and €3.4bn BoE (TFS)

# Sabadell continues to optimise wholesale funding cost with its recent €1.0bn 10-year covered bond

## Terms and conditions

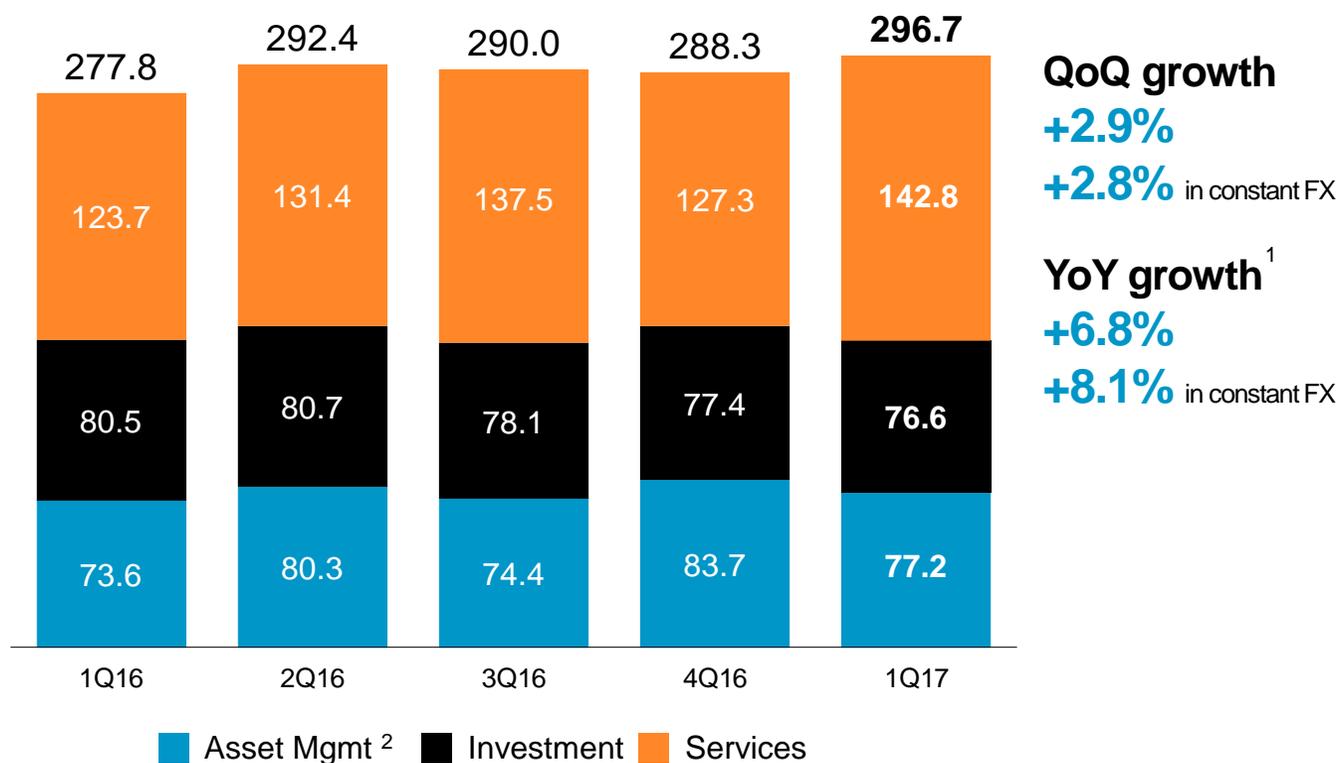
Issuer	Banco Sabadell
Instrument	Covered bond
Rating	Aa2 (Moody's)/ AA (DBRS)
Nominal amount	€1.0bn
Coupon	1.00%
Re-offer Spread	MS + 33 bp
Re-offer Yield	1.007%
Re-offer Price	99.934%
Subscription date	April 19, 2017
Issue and disbursement date	April 26, 2017
Maturity date	April 26, 2027

**Recently Sabadell has successfully tapped the markets raising €1.0bn long dated Covered Bond (10 years), priced at a competitive spread of 33 bps**

# Commissions grew above the YE guidance driven by strong service fee performance

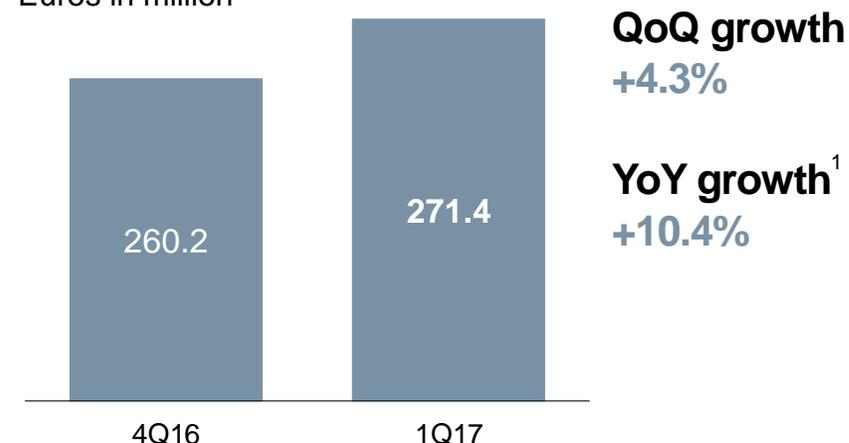
## Group commission income evolution

Euros in million



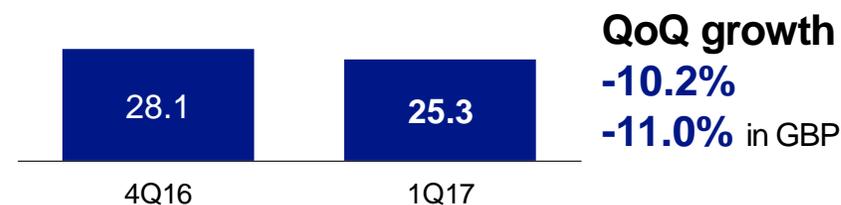
## Sabadell, ex-TSB

Euros in million



## TSB

Euros in million



Note: The EURGBP exchange rate of 0.8599 used for this quarter's P&L corresponds to the daily average rate of 1Q17.

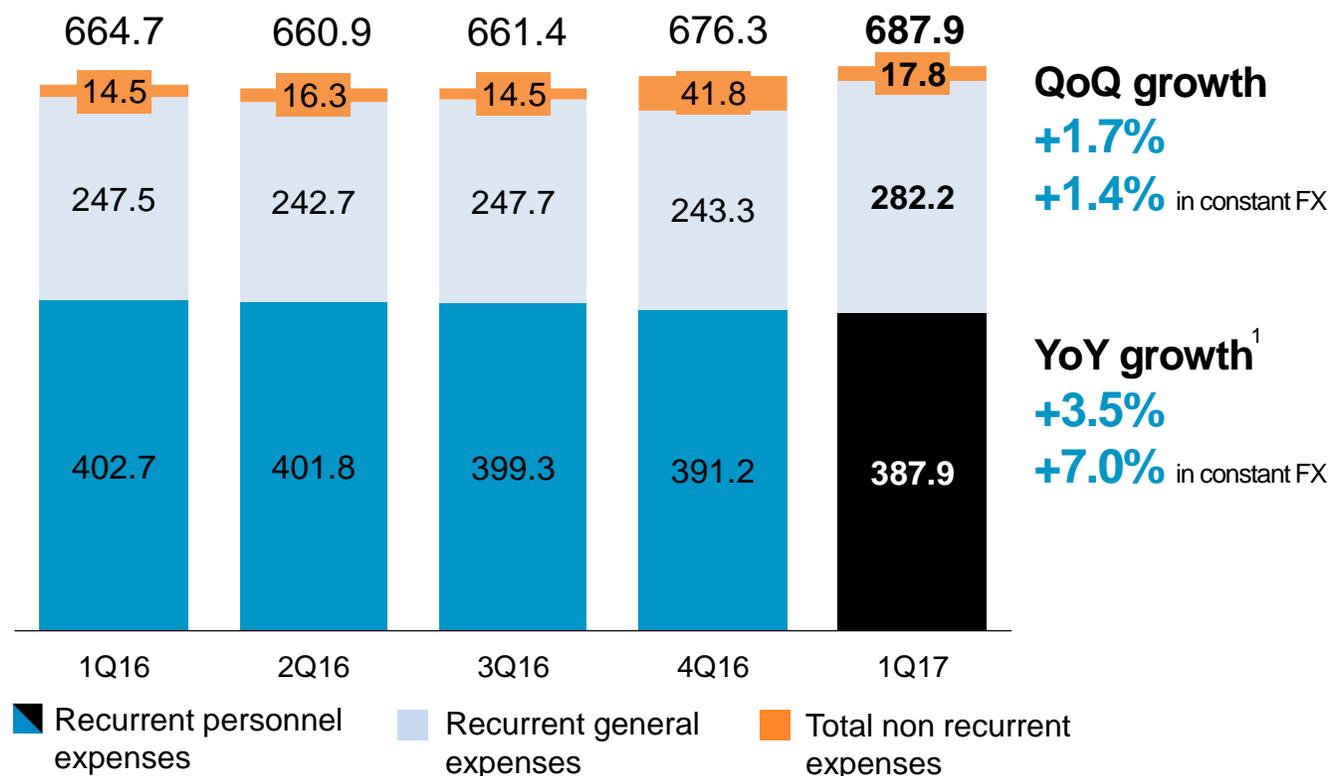
<sup>1</sup>%YoY calculated as the growth rate of accumulated results to March 2017 vs. accumulated results to March 2016.

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

# The expected one-off TSB IT cost was partially offset by a decrease in costs in Spain

## Group personnel and general expenses

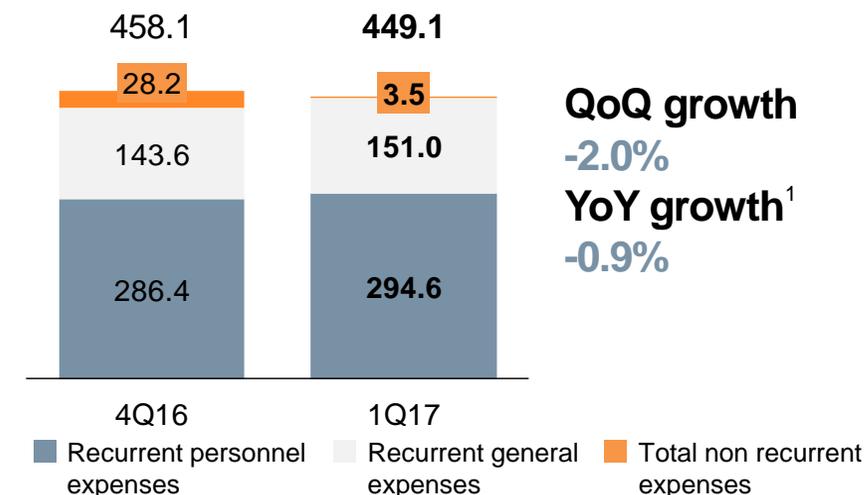
Euros in million



Note: The EURGBP exchange rate of 0.8599 used for this quarter's P&L corresponds to the daily average rate of 1Q17.  
<sup>1</sup>%YoY calculated as the growth rate of accumulated results to March 2017 vs. accumulated results to March 2016.

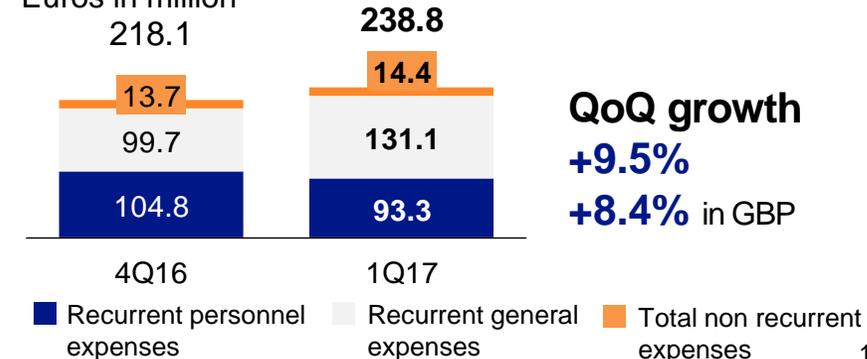
## Sabadell, ex-TSB

Euros in million



## TSB

Euros in million



# 3

Commercial activity and  
digital transformation

# Balance sheet dynamics

## Customer funds and loans evolution

Euros in million	Sabadell group							Sabadell, ex-TSB				
	Mar-16	Dec-16	Mar-17	%YoY	%YoY constant FX	%QoQ	%QoQ constant FX	Mar-16	Dec-16	Mar-17	%YoY	%QoQ
<b>Total assets</b>	<b>204,021</b>	<b>212,508</b>	<b>219,093</b>	<b>7.4%</b>	<b>8.9%</b>	<b>3.1%</b>	<b>3.1%</b>	<b>161,189</b>	<b>168,787</b>	<b>171,574</b>	<b>6.4%</b>	<b>1.7%</b>
Of which:												
Gross loans to customers ex repos <sup>1</sup>	149,828	150,087	150,520	0.5%	2.1%	0.3%	0.2%	115,087	115,640	114,338	-0.7%	-1.1%
Performing loans	138,255	140,557	141,365	2.3%	4.0%	0.6%	0.5%	103,724	106,305	105,384	1.6%	-0.9%
Fixed income portfolio	27,041	25,276	30,501	12.8%	13.1%	20.7%	20.7%	25,217	22,826	27,035	7.2%	18.4%
<b>Total liabilities</b>	<b>191,232</b>	<b>199,425</b>	<b>206,149</b>	<b>7.8%</b>	<b>9.4%</b>	<b>3.4%</b>	<b>3.3%</b>	<b>150,939</b>	<b>158,162</b>	<b>161,125</b>	<b>6.7%</b>	<b>1.9%</b>
Of which:												
On-balance sheet customer funds	131,290	133,457	133,982	2.1%	3.9%	0.4%	0.4%	97,493	99,123	99,264	1.8%	0.1%
Term funds <sup>2</sup>	48,039	41,446	37,339	-22.3%	-21.7%	-9.9%	-9.9%	43,381	36,499	32,431	-25.2%	-11.1%
Sight accounts	83,251	92,011	96,643	16.1%	18.9%	5.0%	5.1%	54,112	62,624	66,833	23.5%	6.7%
Wholesale funding	24,486	24,812	19,647	-19.8%	-18.8%	-20.8%	-20.8%	20,438	20,930	18,065	-11.6%	-13.7%
ECB funding	11,000	11,818	21,295	93.6%	93.6%	80.2%	80.2%	11,000	11,818	21,295	93.6%	80.2%
BoE funding	0	0	3,397	--	--	--	--	0	0	0	--	--
<b>Off-balance sheet funds</b>	<b>37,107</b>	<b>40,606</b>	<b>41,848</b>	<b>12.8%</b>	<b>12.8%</b>	<b>3.1%</b>	<b>3.1%</b>	<b>37,107</b>	<b>40,606</b>	<b>41,848</b>	<b>12.8%</b>	<b>3.1%</b>
Of which:												
Mutual funds	21,153	22,594	23,964	13.3%	13.3%	6.1%	6.1%	21,153	22,594	23,964	13.3%	6.1%
Pension funds	4,194	4,117	4,090	-2.5%	-2.5%	-0.7%	-0.7%	4,194	4,117	4,090	-2.5%	-0.7%
Third party insurance products	7,981	10,243	10,024	25.6%	25.6%	-2.1%	-2.1%	7,981	10,243	10,024	25.6%	-2.1%
Managed accounts	3,779	3,651	3,771	-0.2%	-0.2%	3.3%	3.3%	3,779	3,651	3,771	-0.2%	3.3%

**Group performing loan book grew c. +1.3% QoQ when adjusting for the €984M APS cash payment received in the quarter**

Note: Sabadell United Bank data included in order to make data comparable quarter on quarter. The EURGBP exchange rate of 0.8555 used for this quarter's balance sheet is the closing rate as of March 2017.

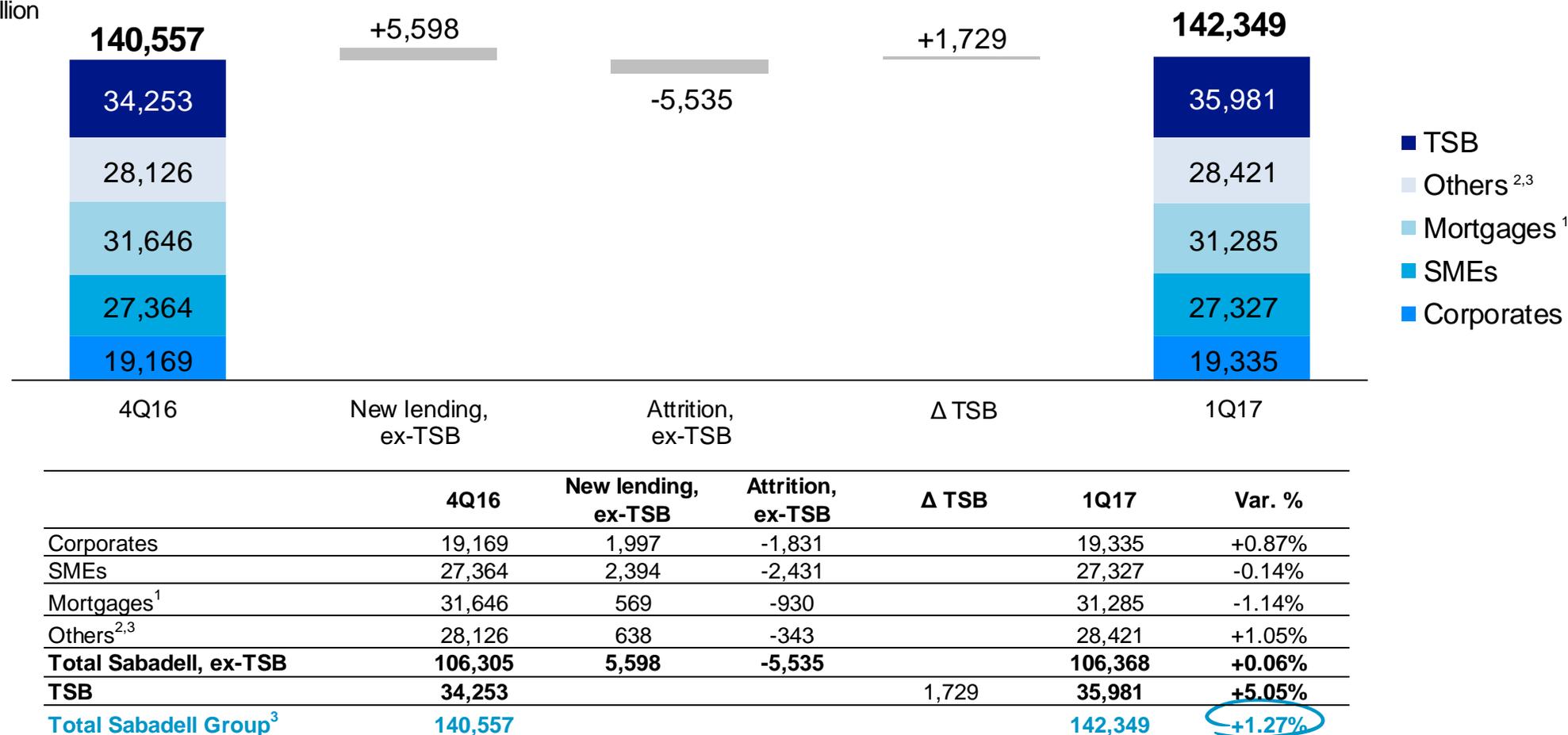
<sup>1</sup> Includes accrual adjustments.

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

# Performing loan volumes grew +1.3% for the group and remained stable ex-TSB affected by seasonality

## Performing loans: performance by customer type, Sabadell group

Euros in million



Note: excludes repos. Sabadell United Bank data included in order to be comparable quarter on quarter.

<sup>1</sup> Refers to residential mortgages to individuals within Spain only. <sup>2</sup> Others include other mortgages, loans to developers, construction sector, real estate sector and others.

<sup>3</sup> The 1Q2017 performing loan book is adjusted for the €984M APS cash payment received from the FGD in the quarter.

# Front book pricing remained stable

## Mortgages to individuals

Yield in percentage points



1Q16 2Q16 3Q16 4Q16 1Q17

## Consumer loans

Yield in percentage points



1Q16 2Q16 3Q16 4Q16 1Q17

## Loans to SMEs and Corporates

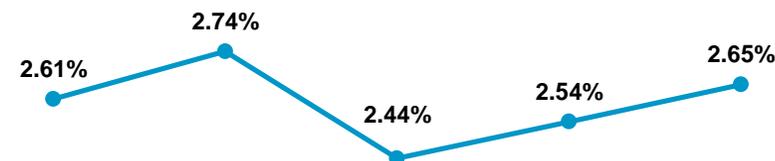
Yield in percentage points



1Q16 2Q16 3Q16 4Q16 1Q17

## Credit line for SMEs and Corporates

Yield in percentage points



1Q16 2Q16 3Q16 4Q16 1Q17

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

## Market shares by product

In percentage

		Loans	Total export transactions	PoS turnover	Transact. <sup>1</sup>
<b>Companies</b>	<b>Mar- 17</b>	<b>↑ 11.14%</b>	<b>↑ 12.99%</b>	<b>↑ 13.97%</b>	<b>↑ 9.89%</b>
	<b>Mar- 16</b>	11.13%	12.71%	13.62%	9.63%
		Credit card turnover	Life insurance <sup>2</sup>	Household sight acc.	Mutual funds
<b>Individuals</b>	<b>Mar- 17</b>	<b>↑ 7.60%</b>	<b>↑ 5.61%</b>	<b>↑ 6.21%</b>	<b>= 6.04%</b>
	<b>Mar- 16</b>	7.41%	5.23%	5.73%	6.04%

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

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

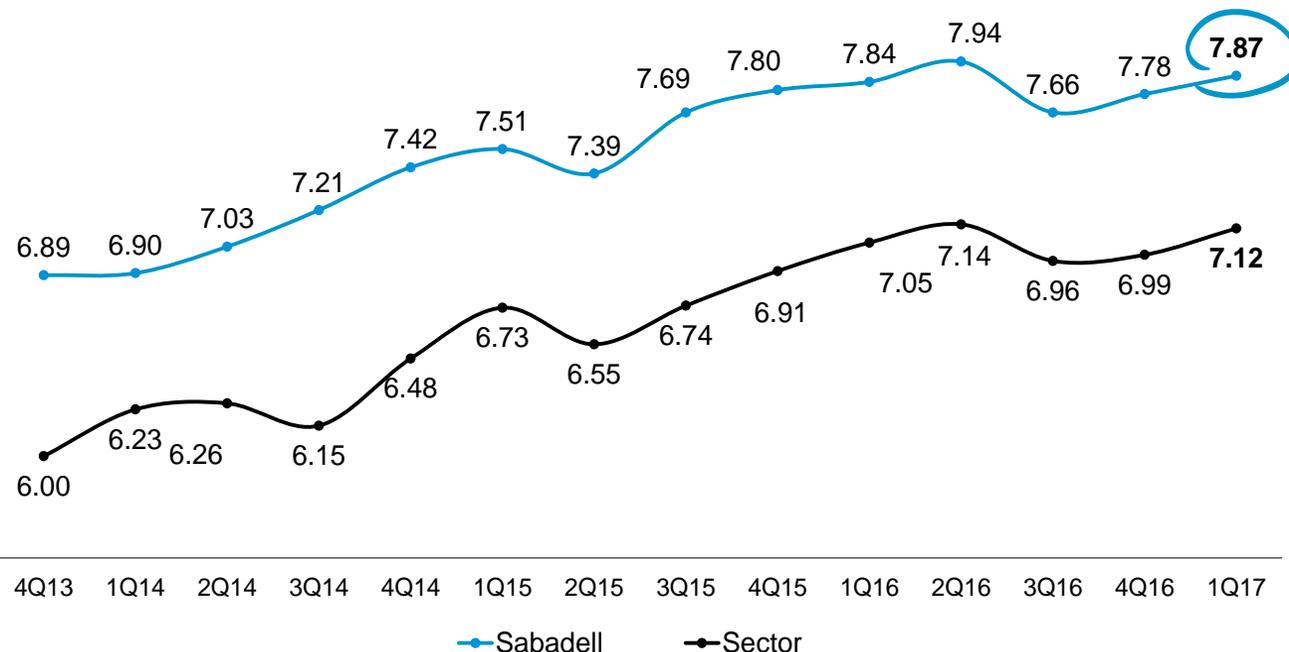
<sup>1</sup> Transactionality calculated per volume.

<sup>2</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	▲ QoQ
Large companies (turnover > €5 M)	31%	1°	=
SMEs (turnover < €5 M)	17%	1°	=
Personal banking	30%	2°	=
Retail banking	7%	2°	↑

**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, 1Q 2017).

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

# Strengthening our leap in commercial & digital transformation

## Objective

Maintain our leadership in innovation

Leap in commercial transformation

“Increase the number of customers within the Active Management model...”

... while expanding our digital capabilities ...”

## Initiatives

### Sabadell Forex

New multichannel<sup>1</sup> online platform for clients to trade Spots, Forwards, ForexSwaps and Cash Options

### Remote management

New integrated client management to improve efficiency and the customer experience through remote management

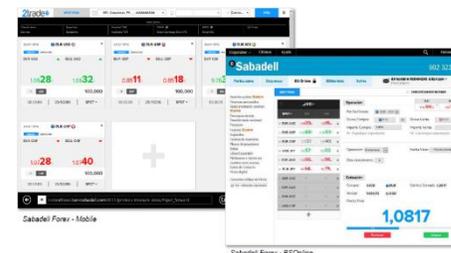
### Digital Offering

Develop new capabilities and promote their use, to provide the best digital offering to our customers

### Simplification

Reduce operational and commercial complexity, to improve both customer and employee experience

## Quarterly performance



### Managed customers +19% QoQ

Currently, 159 remote relationship managers and 273k customers

### New versions of Sabadell App & Sabadell Wallet

launched in January and March. New capabilities include:

- Access with Samsung Fingerprint
- Bizum enrolment is now available in the Sabadell App, which has increased Wallet downloads. **Wallet downloads increased by +50% QoQ**

Redesigned, integrated and automated end to end **mortgage process** improving customer experience while reducing the average sign up time

The mortgage process sign up time has slashed **from more than a month to 14 days**

<sup>1</sup> Proteo Mobile, BS Online and Trading floor.

# Strengthening our leap in commercial & digital transformation

## Objectives

“... and improving our value proposition”

## Initiatives

### Proteo Mobile

Brings our banking services and products to our customer’s homes through mobile devices

### Sabadell Protección

A personalized plan adapted to the needs of our clients

## Quarterly performance

**3,500 tablets** distributed throughout our commercial network  
**12,148 enrollment of clients** and **46,149<sup>1</sup> documents signed** during the quarter

**Launched in 1Q 2017**

**Sabadell Protección**  
 An insurance plan designed specially for you.



We listen to you so we can give you better **protection**

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

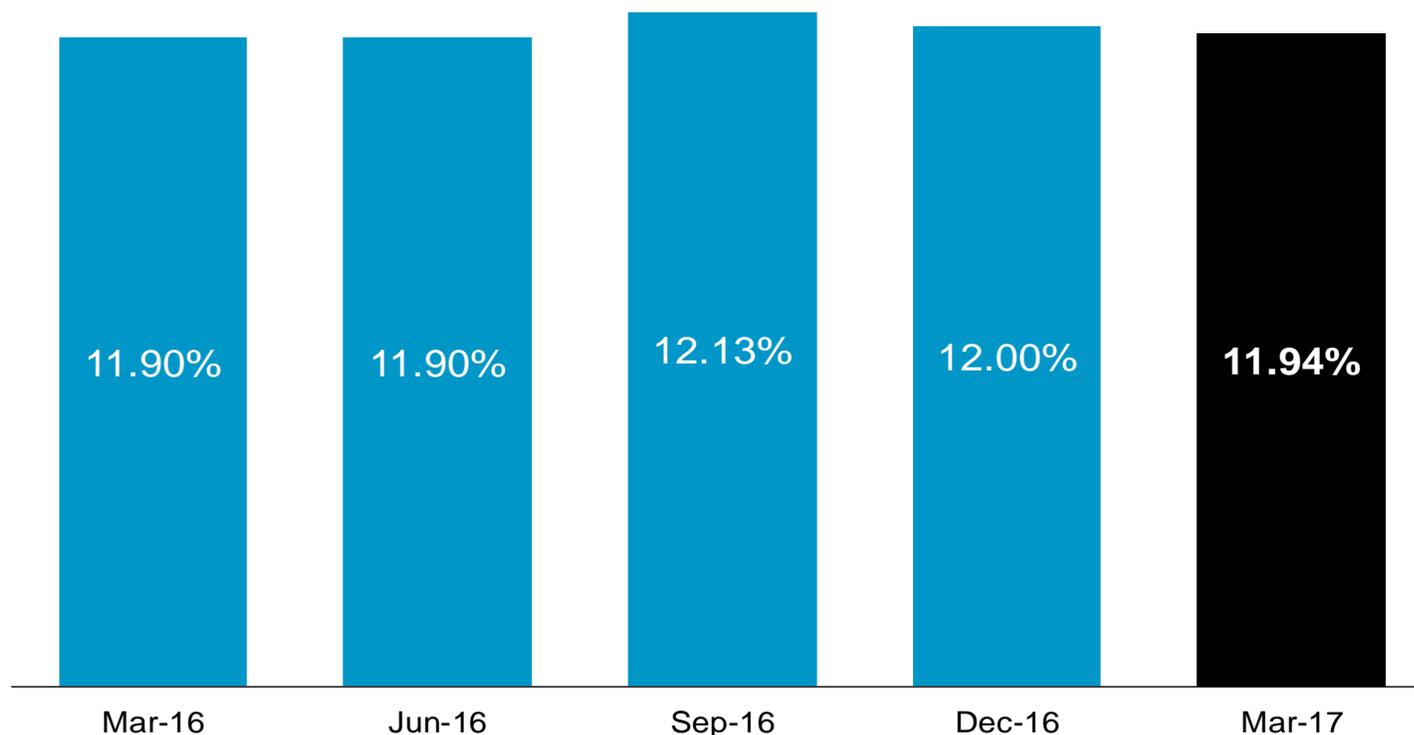
# 4

Solvency and asset quality

# Strong capital position...

## Common equity Tier 1 *phase-in* evolution

In percentage



- CET1 remained stable in the quarter**, as we materialised part of our fixed income portfolio capital gains, which together with the increase in RWAs, has offset this quarter organic capital generation

**Common Equity Tier 1 fully-loaded at 11.9% (Mar-17)**

Note: Fixed income portfolio valuation adjustments included in capital stood at €183M as of March 2017.

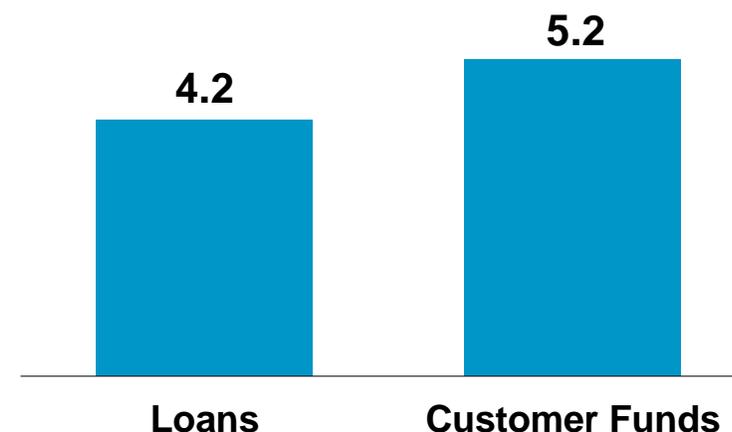
# ... which will be further reinforced with the sale of our retail banking subsidiary in US

- Banco Sabadell has reached an agreement to sell Sabadell United Bank (retail banking subsidiary in Florida) for \$1,025M
- Sabadell United Bank will be integrated into the IBERIABANK Corporation group, a multi-state bank headquartered in Louisiana
- The transaction will generate a net capital gain of c. €447M
- The transaction is expected to close in the second half of this year, once the necessary approvals have been received from the regulatory authorities
- Banco Sabadell will continue its Corporate Banking and International Private Banking activities through its American branch in Florida



## Sabadell United Bank Volumes

US Dollars in billion. Data as of Dec-16



Transaction Amount

**\$1,025<sup>M</sup>**

Tangible Book Value

**x1.95**

Earnings

**x24**

Net Capital Gain

**c. €447<sup>M</sup>**



**The transaction is expected to be closed in the second half of this year**

# Sabadell's inaugural issuance of CRD IV / CRR compliant Additional Tier 1 Capital

## Transaction rationale

This potential transaction will help us to achieve the following

**key objectives** as it will:

- Significantly **fill up the 1.5% AT1 bucket**
- Enable a transition towards a more **optimal capital structure**
- **Improve rating metrics**: Risk Adjusted Capital, ALAC and LGF. It further supports rating upgrade
- Support **MREL position**
- **Increase Sabadell Group's Total Capital and Tier1 Capital Ratios**

## Transaction Roadshow

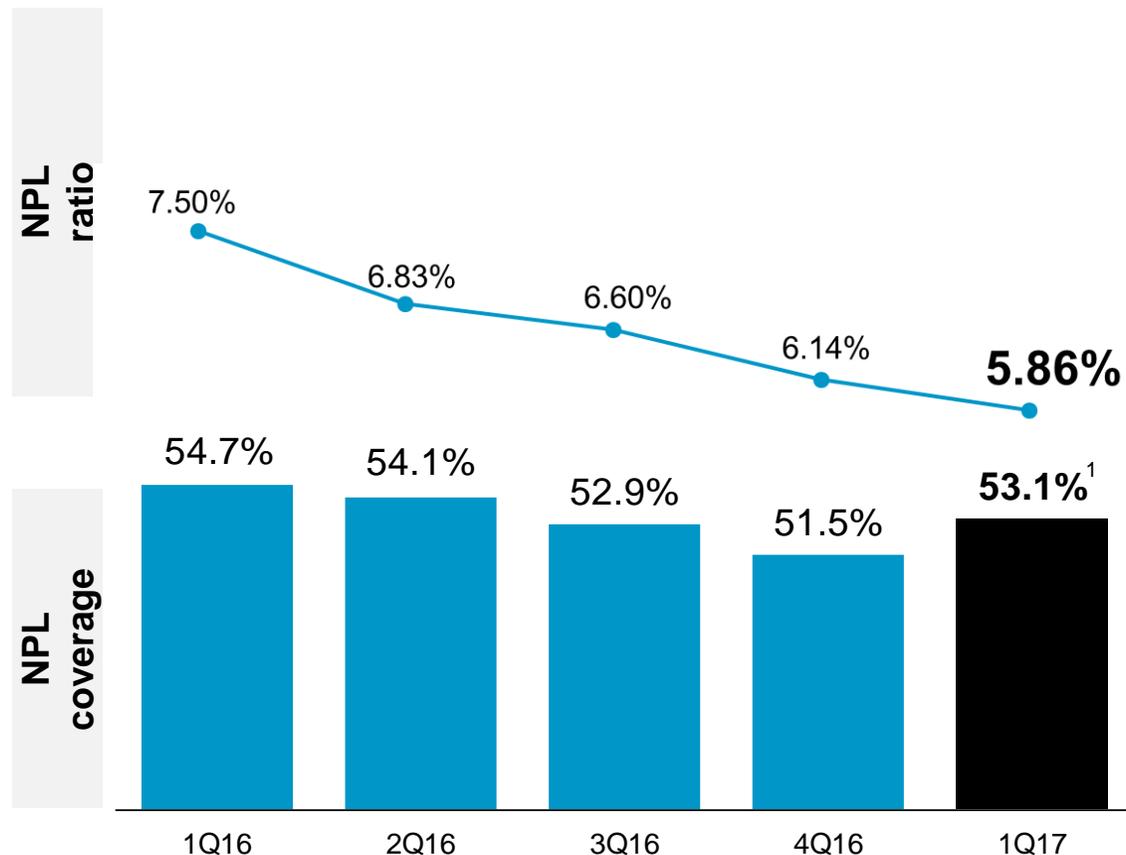
- A marketing roadshow across Europe will be completed during the first week of May



# NPL continues to decline and stands at 5.86%

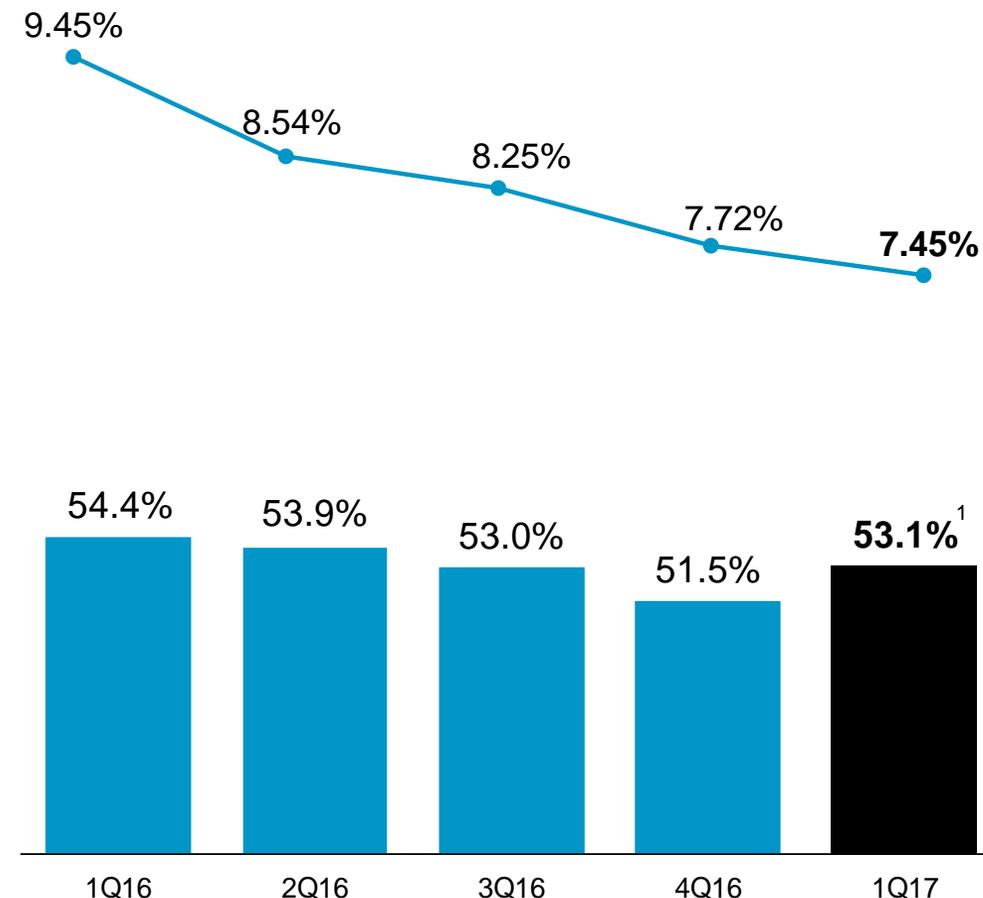
## Sabadell group

In percentage



## Sabadell, ex-TSB

In percentage



**NPL ratio has come down to 5.86%, the lowest rate since 3Q 2011**

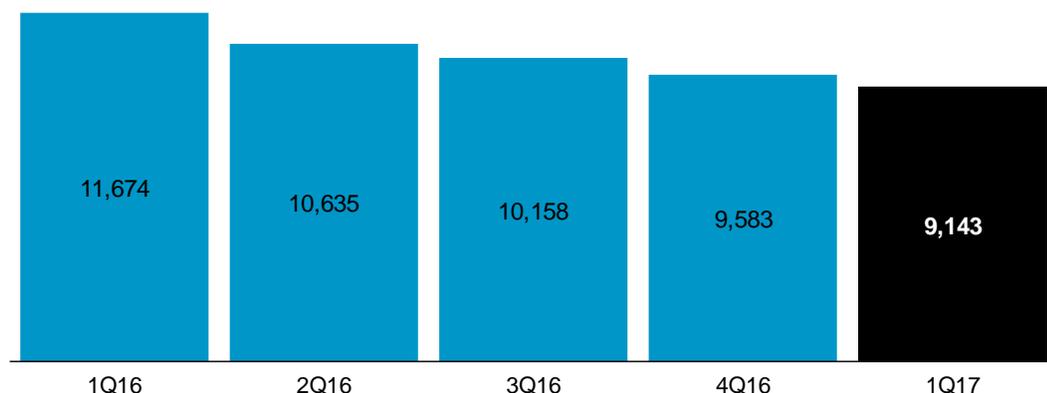
Note: Includes contingent risk. Sabadell United Bank data included in order to ensure consistency in QoQ figures. Excluding Sabadell United Bank, the NPL ratio was 6.0% (Group) and 7.7% (ex-TSB) and the coverage ratio was 51.7% (Group) and 51.6% (ex-TSB) as of March 2017. The Group and Sabadell ex-TSB's NPLs and provisions include 20% of the NPLs and associated provisions included in the APS, which risk is assumed by Sabadell according to the APS protocol.

<sup>1</sup> Excluding mortgage floor provisions, the NPL coverage was 48.9% (Group) and 48.8% (ex-TSB) as of March 2017.

# Maintained discipline in NPA reduction: foreclosed assets down again in the quarter...

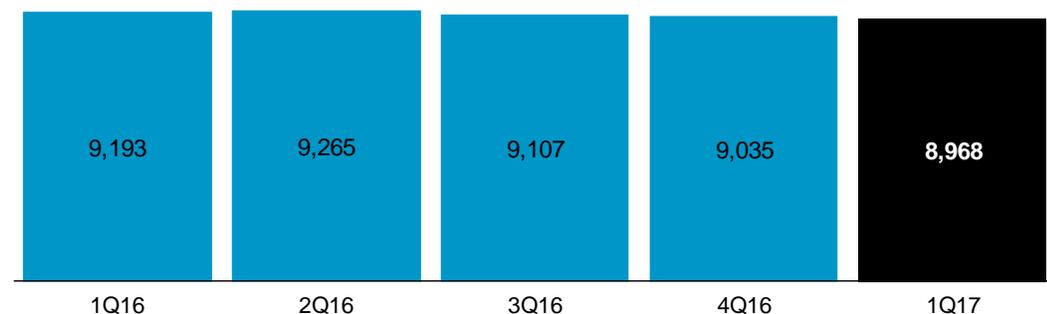
## NPL evolution, ex-TSB

Euros in million



## Foreclosed assets evolution, ex-TSB

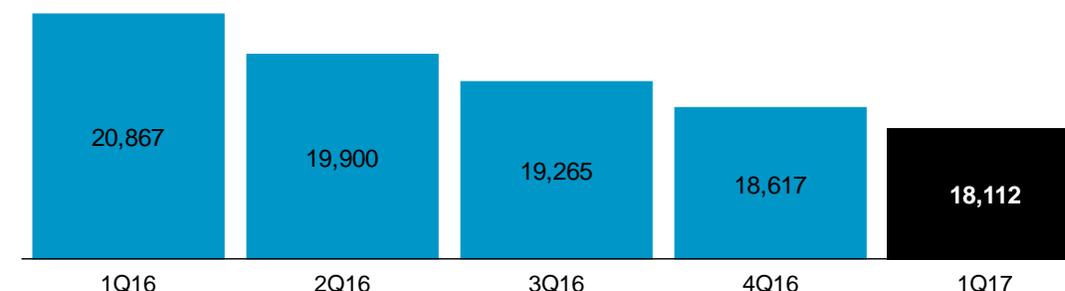
Euros in million



## Total problematic assets, ex-TSB

Euros in million

- **€439M** further reduction of NPLs during 1Q17
- Foreclosed asset reduction of **€67M** during 1Q17
- NPAs decreased by **€506M** during 1Q17

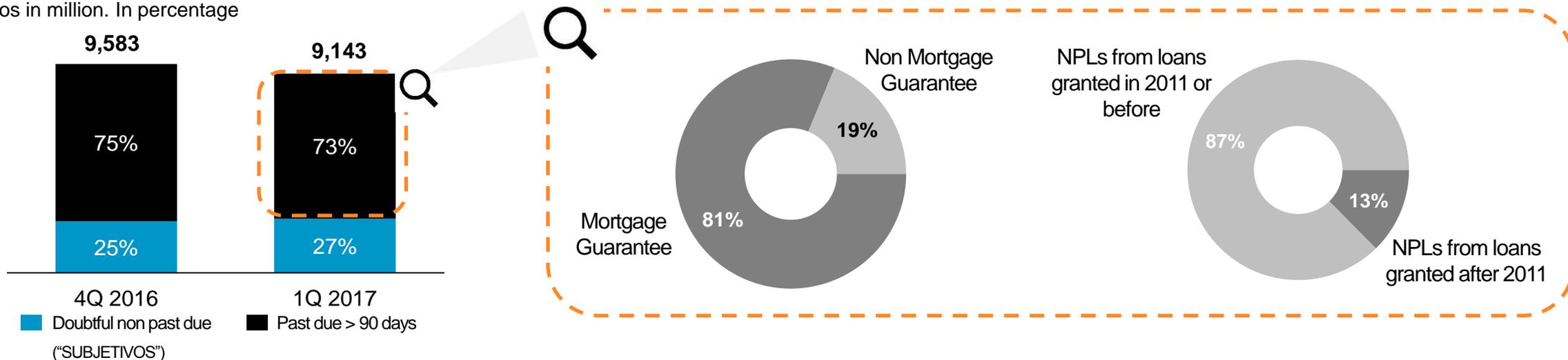


Note: Includes contingent risk. Sabadell United Bank data included in order to be comparable quarter on quarter. Sabadell ex-TSB's NPLs, Foreclosed Assets and NPAs include 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell according to the APS protocol.

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

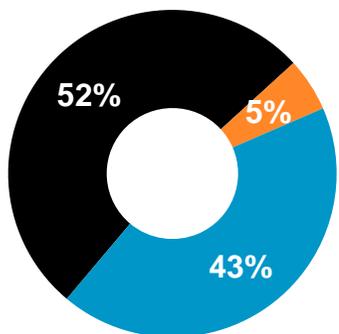
## NPL evolution, ex-TSB

Euros in million. In percentage



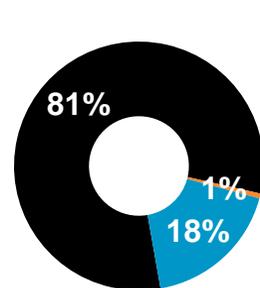
## Foreclosed Assets, ex-TSB

4Q 2016



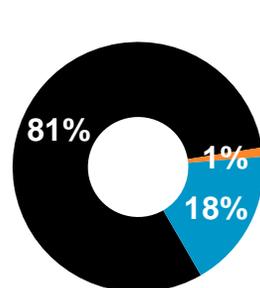
## + New Entries

1Q 2017



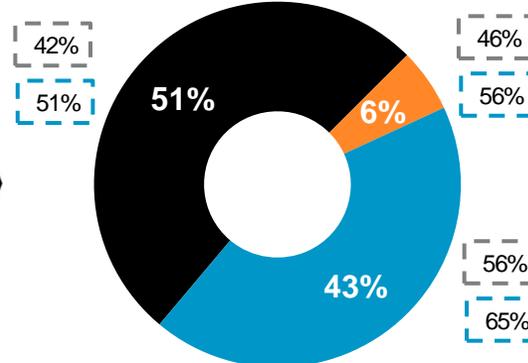
## - Sales

1Q 2017



## Foreclosed Assets, ex-TSB

1Q 2017



74% of our stock was foreclosed within the last 5 years and close to 50% just over the last three years

Legend: Land (Blue), Under construction (Orange), Finished properties (Black), Coverage (Dashed box), Coverage including write downs (Dotted box)

Note: NPL evolution includes Sabadell United Bank. 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.

# ... as well as better coverage

## Sabadell Group coverage ratios evolution

Euros in million

	1Q16	2Q16	3Q16	4Q16	1Q17
NPL evolution	11,870	10,812	10,328	9,746	9,307
Provisions	6,488	5,847	5,468	5,024	4,945
<b>Coverage ratio (%)</b>	<b>54.7%</b>	<b>54.1%</b>	<b>52.9%</b>	<b>51.5%</b>	<b>53.1%</b>

	1Q16	2Q16	3Q16	4Q16	1Q17
RE foreclosed assets evolution	9,193	9,265	9,107	9,035	8,968
Provisions	3,928	3,997	3,911	4,297	4,299
<b>Coverage ratio (%)</b>	<b>42.7%</b>	<b>43.1%</b>	<b>42.9%</b>	<b>47.6%</b>	<b>47.9%</b>

Foreclosed assets  
coverage ratio  
(incl. write-downs)

**57.8%**

	1Q16	2Q16	3Q16	4Q16	1Q17
Total problematic assets	21,064	20,077	19,435	18,781	18,275
Provisions	10,417	9,845	9,380	9,321	9,244
<b>Coverage ratio (%)</b>	<b>49.5%</b>	<b>49.0%</b>	<b>48.3%</b>	<b>49.6%</b>	<b>50.6%</b>

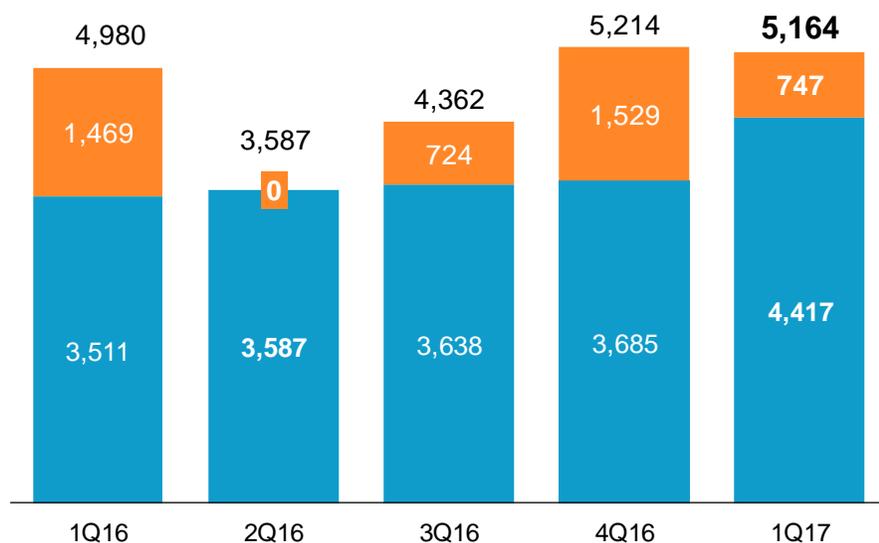
**The group NPL and NPA coverage is 48.9% and 48.4% when excluding coverage corresponding to the mortgage floors**

Note: Includes contingent risk. Sabadell United Bank data included in order to ensure consistency in QoQ figures. Excluding Sabadell United Bank the NPL coverage ratio was 51.7% and NPA coverage was 49.8% as of March 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 according to the APS protocol. Accordingly, the Group provisions include the provisions associated to 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell according to the APS protocol.

# Solvía continues to deliver a solid performance in real estate assets sales while managing valuations

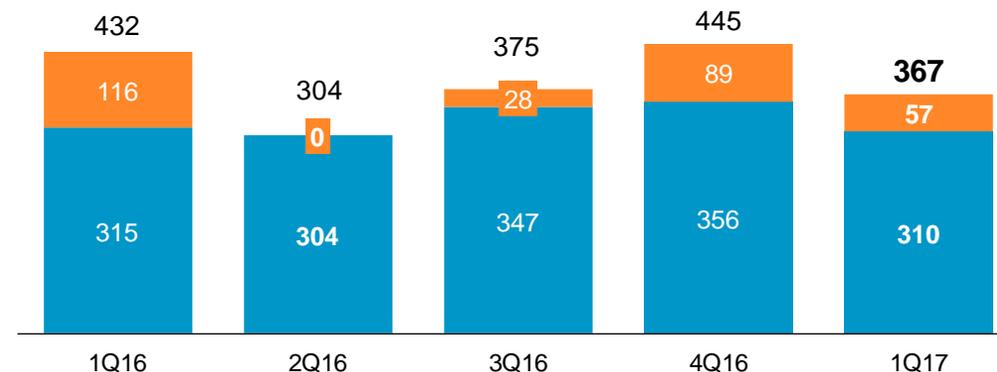
## Number of foreclosed assets sold

In units



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

Euros in million



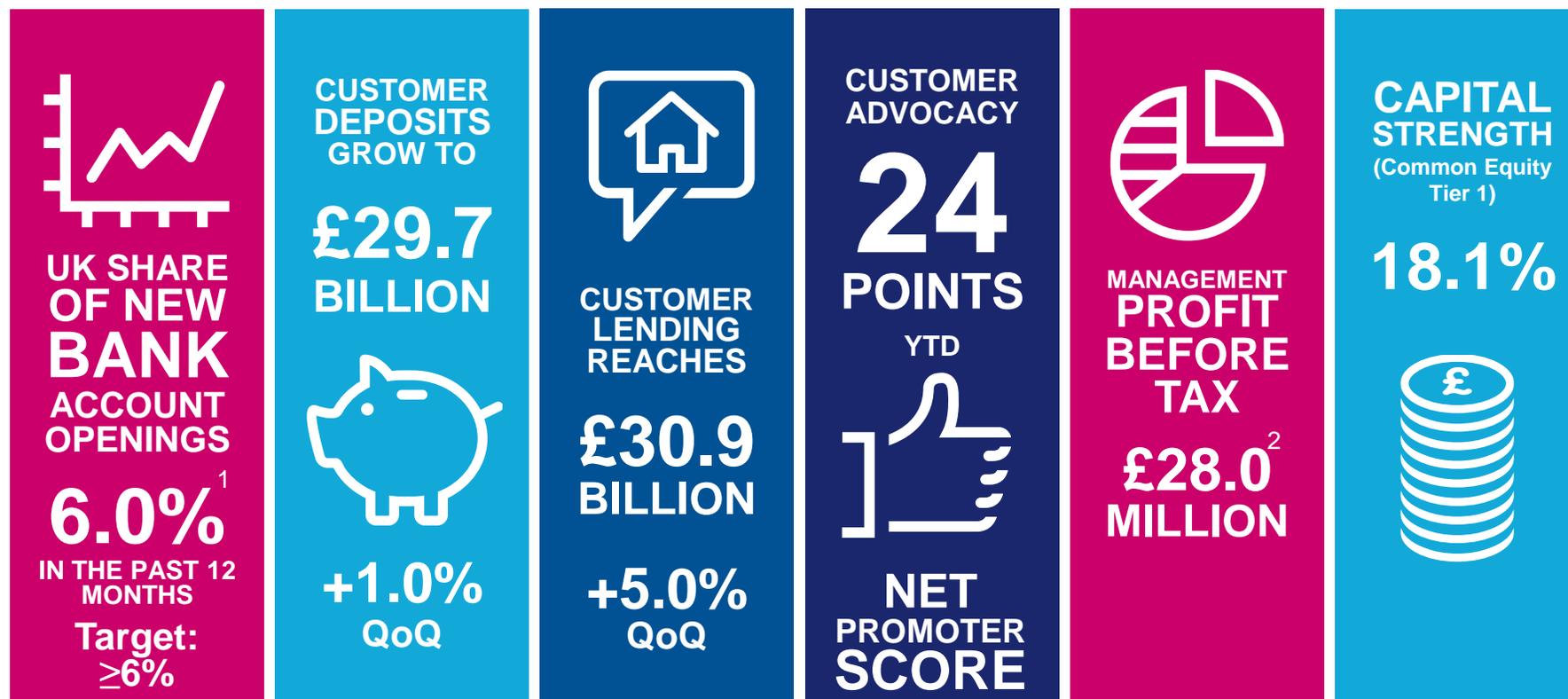
■ Institutional sales
 ■ Private individuals sales

**Average foreclosed assets sale discount has decreased from 6.3% in 2016 to 4.8% in 1Q 2017**

**5**

**TSB results**

# 1Q 2017 TSB highlights



<sup>1</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>2</sup> Management profit is the basis of reporting used by the TSB Board to assess performance without the distortion of one-off and volatile items which are included on a statutory basis.

# TSB is successfully delivering on its strategy

Provide great banking to more people

To grow market share of current accounts by consistently taking a greater than 6% share of gross flow over 5 years

- ✓ TSB total customers<sup>1</sup> grew to more than 5M (+2.9% growth YoY and +0.7% QoQ)
- ✓ 6% of all customers switching banks or opening a new account in the past 12 months chose TSB
- ✓ On average, over 6,000 customers a week opened a bank account with TSB
- ✓ Customer deposits grew to £29.7 billion, a +11.0% YoY increase and +1.0% QoQ, reflecting customers' continued trust in TSB

Help more people to borrow well

To grow TSB franchise customer lending by 40% to 50% over a five-year period from IPO

- ✓ Balance sheet growth remains strong, with total lending growing to £30.9 billion – up +12.6% YoY . Franchise and Whistletree customer lending grew to £29.1 billion – up +15.2% YoY and up +5.6% QoQ
- ✓ TSB helped over 14,000 homebuyers in the quarter, extending £2.2 billion in new mortgage loans, a record number
- ✓ Our average mortgage loan-to-value<sup>2</sup> remains low at 43%

Provide the kind of banking people want and deserve

To deploy our strong digital capability. Build greater consideration of the TSB brand. Deliver a differentiated customer experience through our Partners

- ✓ During the quarter, TSB's Net Promoter Score (NPS)<sup>3</sup> climbed to +24 points, up from +21 points this time last year.
- ✓ TSB is Britain's most recommended high street bank as voted by UK consumers
- ✓ TSB was also named in the top 10 of Britain's Best Big Companies to work for by the Sunday Times, and as the best bank to work for in the UK
- ✓ TSB has been shortlisted by Which? as Banking Brand of the Year for 2017

<sup>1</sup> Refers to Franchise customers only.

<sup>2</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>3</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	1Q 2016	4Q 2016	1Q 2017	%QoQ	%YoY <sup>4</sup>
Franchise and Whistletree <sup>1</sup>	203.7	204.3	217.1	6.3%	6.6%
Mortgage enhancement <sup>2</sup>	14.8	11.2	10.1	-9.8%	-31.8%
<b>Net Interest Income</b>	<b>218.5</b>	<b>215.5</b>	<b>227.2</b>	<b>5.4%</b>	<b>4.0%</b>
Franchise and Whistletree <sup>1</sup>	26.7	25.3	24.8	-2.0%	-7.1%
Mortgage enhancement <sup>2</sup>	-2.2	-1.0	-0.6	-40.0%	-72.7%
<b>Other operating income</b>	<b>24.5</b>	<b>24.3</b>	<b>24.2</b>	<b>-0.4%</b>	<b>-1.2%</b>
<b>Total income</b>	<b>243.0</b>	<b>239.8</b>	<b>251.4</b>	<b>4.8%</b>	<b>3.5%</b>
<b>Total operating expenses (excl. one-offs)</b>	<b>-164.0</b>	<b>-185.8</b>	<b>-202.8</b>	<b>9.1%</b>	<b>23.7%</b>
Franchise and Whistletree <sup>1</sup>	-19.1	-25.5	-20.6	-19.2%	7.9%
Mortgage enhancement <sup>2</sup>	0.0	-0.1	0.0	-100.0%	--
<b>Impairment on loans &amp; advances</b>	<b>-19.1</b>	<b>-25.6</b>	<b>-20.6</b>	<b>-19.5%</b>	<b>7.9%</b>
<b>Management profit (excl. one-offs)</b>	<b>59.9</b>	<b>28.4</b>	<b>28.0</b>	<b>-1.4%</b>	<b>-53.3%</b>
One-offs and others	-7.3	-8.0	3.8	-147.5%	-152.1%
Tax income	-13.4	-6.4	-9.0	40.6%	-32.8%
<b>Statutory Profit after Tax</b>	<b>39.2</b>	<b>14.0</b>	<b>22.8</b>	<b>62.9%</b>	<b>-41.8%</b>
	<b>1Q16</b>	<b>4Q16</b>	<b>1Q17</b>	<b>QoQ</b>	<b>YoY<sup>4</sup></b>
<b>TSB NIM<sup>3</sup></b>	<b>3.26%</b>	<b>2.94%</b>	<b>3.05%</b>	<b>0.11 pp</b>	<b>-0.21 pp</b>

- **NII grew +5.4% in the quarter** supported by lower deposit cost and strong mortgage lending growth
- **Franchise and Whistletree NII was up +6.3%** in the quarter and +6.6% in the year
- As anticipated, **operating expenses** grew +9.1% in the quarter driven primarily by the contractual increase in outsourcing fees paid to Lloyds, which were +£30m vs 1Q16
- Overall, the total IT outsourcing fees paid to Lloyds **will increase by more than £100M** in 2017 (broadly evenly across quarters). The **new platform**, when fully deployed in late 2017, **will reduce TSB's IT costs considerably** and enable it to become more innovative and agile than before
- We expect to see an ongoing **reduction** in the income received from the **Mortgage enhancement** portfolio as it rolls off

<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 £2.4 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> Mortgage enhancement is a separate portfolio of mortgage assets which was assigned to TSB with effect from 28 February 2014. This segment was established in response to a review by the Office of Fair Trading of the effect on competition of the divestment of TSB and is designed to enhance TSB's profitability.

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

<sup>4</sup> %YoY calculated as the growth rate of accumulated results to March 2017 vs. accumulated results to March 2016.

# TSB balance sheet

GBP in million	Mar-16	Dec-16	Mar-17	% QoQ	% YoY
Franchise and Whistletree customer lending	25,277	27,570	29,114	5.6%	15.2%
Mortgage enhancement	2,157	1,849	1,765	-4.6%	-18.2%
<b>Total Customer lending (net)</b>	<b>27,434</b>	<b>29,419</b>	<b>30,879</b>	<b>5.0%</b>	<b>12.6%</b>
Savings deposits	17,605	19,285	19,283	0.0%	9.5%
Current account deposits	8,193	9,041	9,359	3.5%	14.2%
Business banking deposits	948	1,058	1,050	-0.8%	10.8%
<b>Total Customer deposits</b>	<b>26,746</b>	<b>29,384</b>	<b>29,692</b>	<b>1.0%</b>	<b>11.0%</b>

	Mar-16	Dec-16	Mar-17	QoQ	YoY
<b>Common Equity Tier 1 Capital ratio</b>	<b>17.7%</b>	<b>18.4%</b>	<b>18.1%</b>	<b>-0.3 pp</b>	<b>0.4 pp</b>

- **Positive balance sheet trend continues**, with record QoQ growth in core mortgage lending. This growth was partially offset by the run-off of the Mortgage enhancement and Whistletree portfolios
- **Overall, total customer lending rose to £30.9bn, up +5.0% QoQ (+12.6% YoY)**, with TSB franchise and Whistletree customer lending up +5.6% at £29.1bn (+15.2% YoY)
- **Customer deposits grew to £29.7bn, up +1.0% QoQ (+11.0% YoY)**
- As we **focus our efforts on the delivery of the new IT platform**, we intend to temporarily reduce the rate of mortgage lending growth in the coming months to preserve customer service levels, as already signalled in the 8% performing loans guidance
- Our **lending book is of good quality**. 93% of total balances comprise mortgage lending, with an average LTV of 43%, largely unchanged from 1Q 2016
- Capital position remains one of the strongest of the UK banks with a **CET1 ratio of 18.1%**

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

# Migration is on track, both in terms of cost and timing

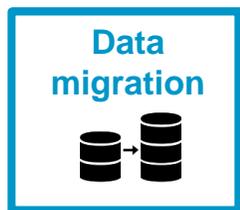
## Quarterly update



- Mobile app full launch deployed and first update already uploaded



- Proteo4UK build phase completed
- UAT progressing (13,000 cases executed already)
- Admitted to Faster Payment System
- Data transfer tests into new platform from LBG have already started
- First (internal) test branch running on Proteo4UK to open in May
- Approx. 650,000 hours of in-depth training for TSB employees scheduled to ensure a smooth transition



- Staged migration strategy agreed
- Implementation of new hardware peripherals successfully completed across a total of 8 pilot branches



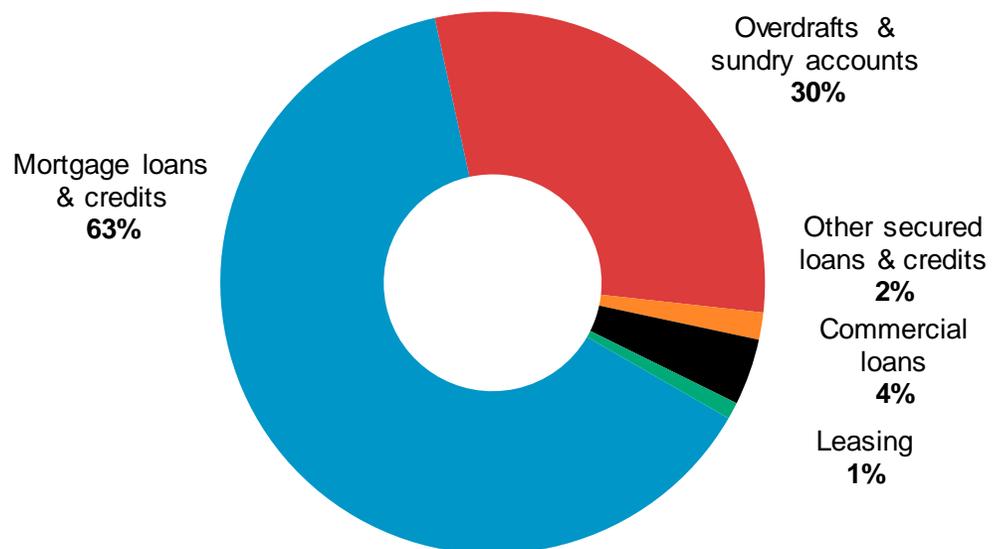
Estar donde estés.  
Ser on siguis.  
There, wherever you are.

# Annex

# Gross lending by product type

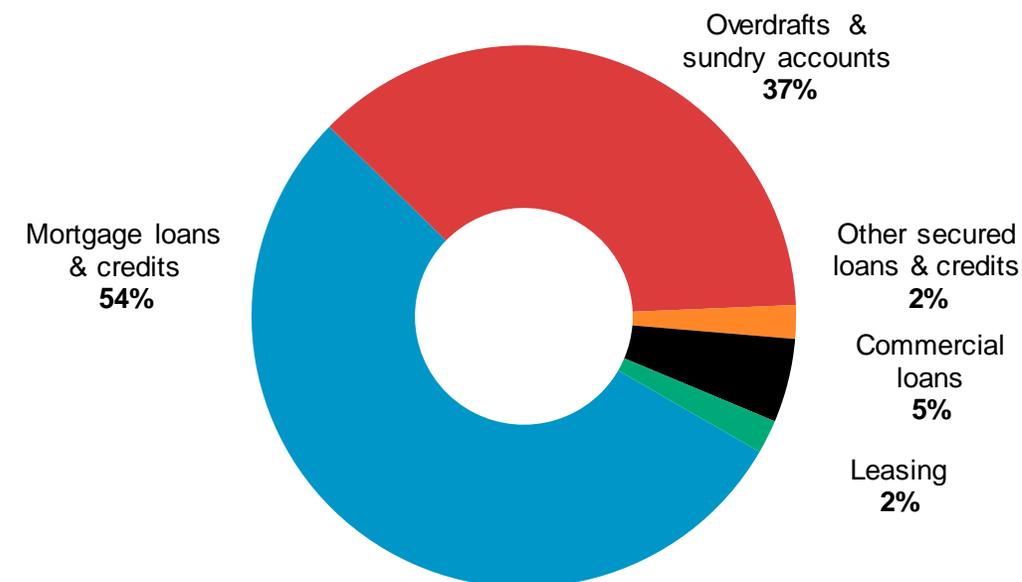
## Sabadell group

In percentage



## Sabadell, ex-TSB

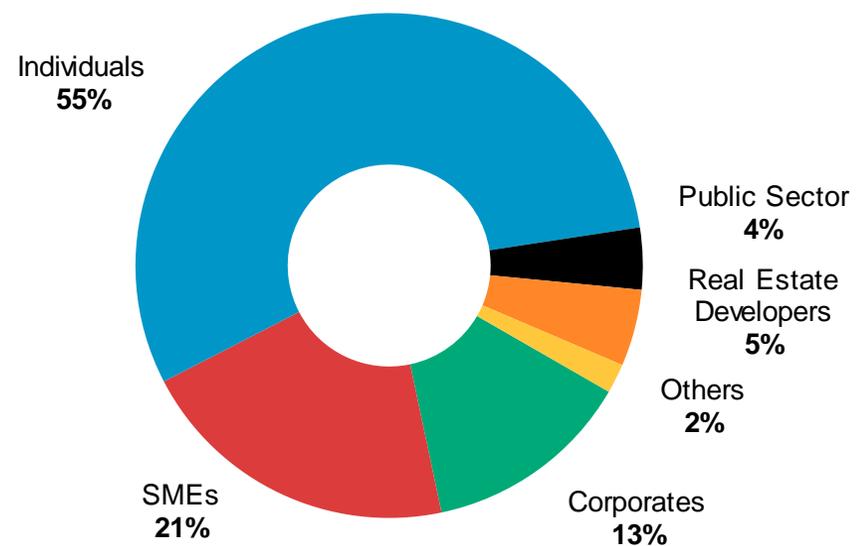
In percentage



# Business mix by customer type

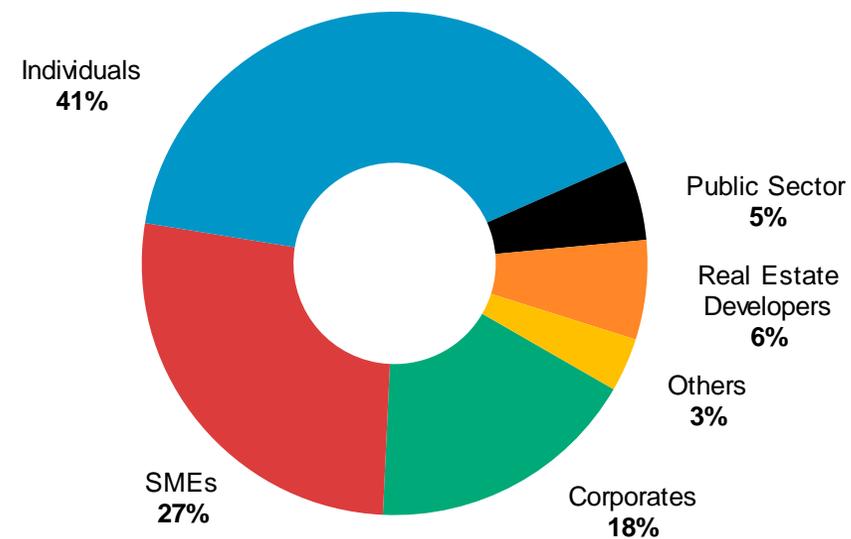
## Sabadell group

In percentage



## Sabadell, ex-TSB

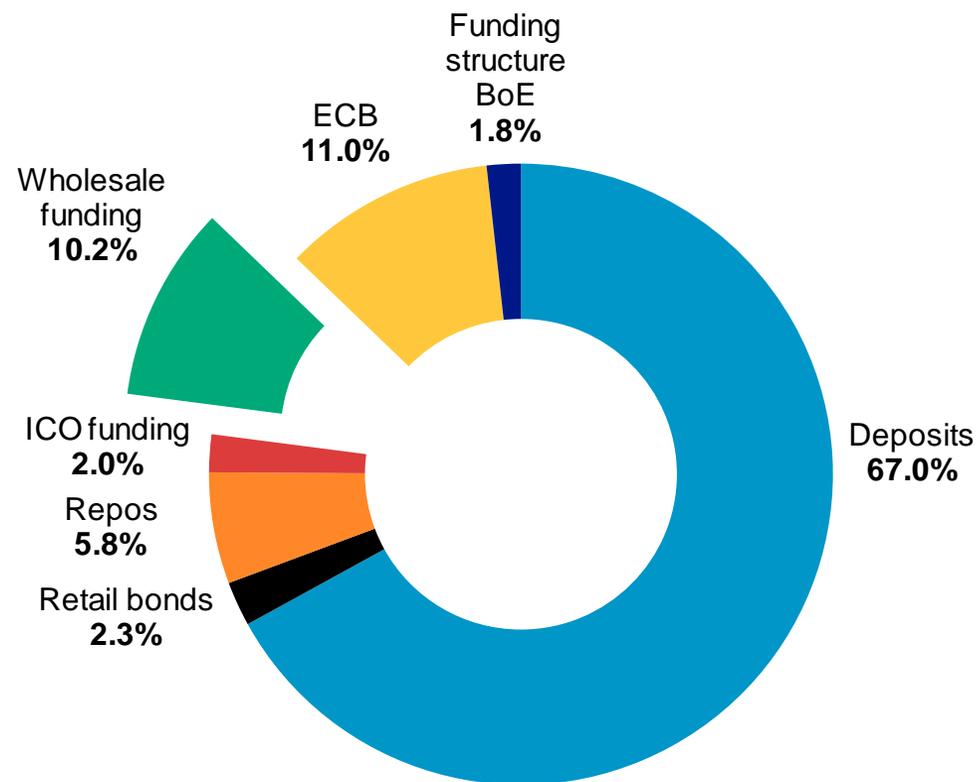
In percentage



# Funding structure, Sabadell group

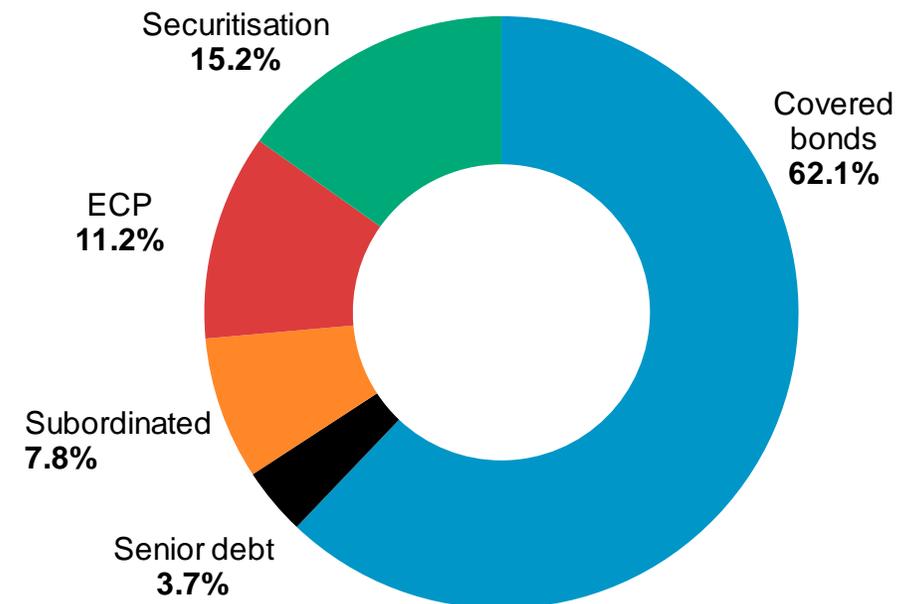
## Funding structure

In percentage



## Wholesale funding breakdown

In percentage



# Wholesale funding maturities and cost

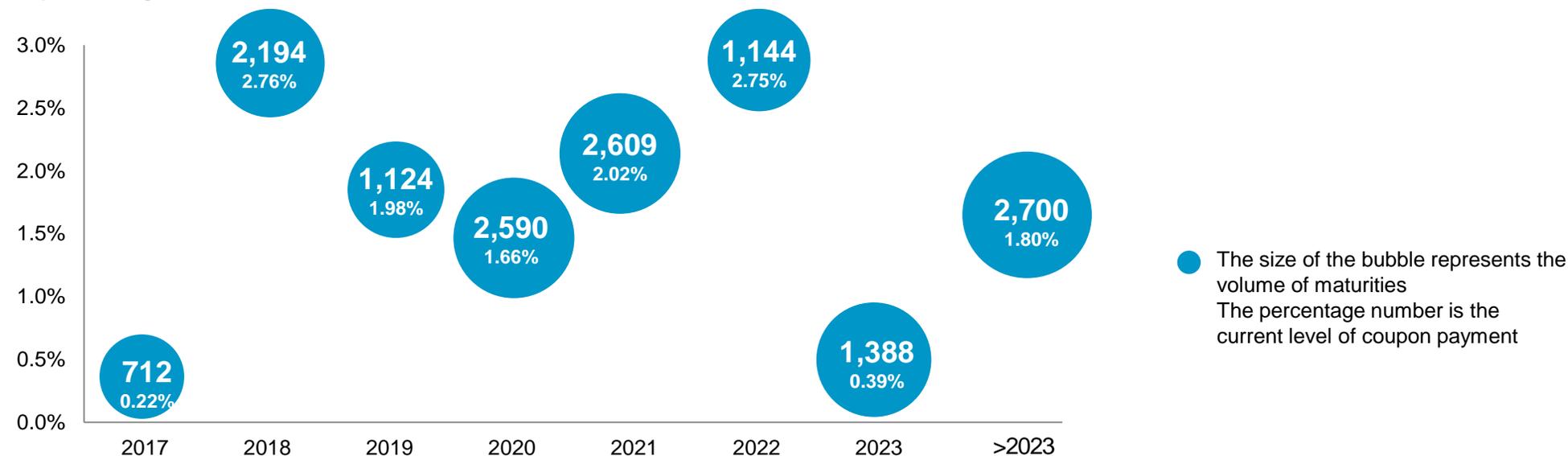
## Maturity by product type, Sabadell group

Euros in million

	2Q17	3Q17	4Q17	2018	2019	2020	2021	2022	2023	>2023	Outstanding amount
Covered Bonds (CH)	321	200	85	1,559	1,124	2,165	2,108	1,119	1,388	2,161	12,231
GGB	0	0	0	0	0	0	0	0	0	0	0
Senior Debt	40	0	0	617	0	0	0	25	0	0	682
Subordinated Debt	66	0	0	0	0	425	490	0	0	533	1,514
Other mid- and long-term financial instruments	0	0	0	18	0	0	10	0	0	5	33
<b>Total</b>	<b>427</b>	<b>200</b>	<b>85</b>	<b>2,194</b>	<b>1,124</b>	<b>2,590</b>	<b>2,609</b>	<b>1,144</b>	<b>1,388</b>	<b>2,700</b>	<b>14,461</b>

## Upcoming wholesale maturities, Sabadell group

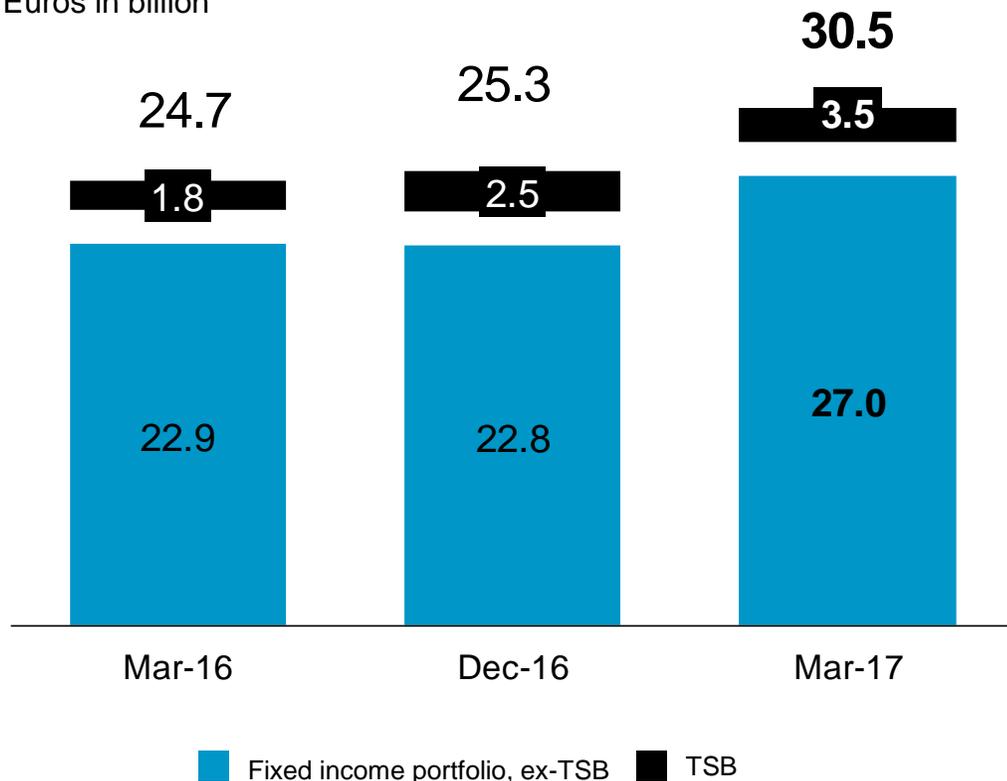
In percentage and euros in million



# Fixed income portfolio

## Fixed income portfolio evolution

Euros in billion



## Fixed income portfolio, Sabadell group

Euros in billion. In percentage

	Mar-16	Dec-16	Mar-17
<b>Fixed income portfolio</b>	<b>24.7</b>	<b>25.3</b>	<b>30.5</b>
<b>% of total assets</b>	12.1%	11.9%	13.9%
of which:			
<b>Available for sale fixed income portfolio</b>	21.3	18.1	19.4
<b>Available for sale duration (yrs)<sup>1</sup></b>	3.2	2.3	2.1

<sup>1</sup> Duration includes the impact of interest rate swaps. Sabadell United Bank data included. Data as of Mar-16 does not include the Life Insurance portfolio for an amount of €2.4bn.

# Fixed income portfolio composition

## Fixed income portfolio composition evolution, Sabadell group

Euros in billion

	Mar-16	Dec-16	Mar-17
Spanish Government Debt	9.70	9.71	10.02
Italian Government Debt	4.84	6.03	10.77
UK Government Debt	1.79	2.20	3.08
Other Government Debt	4.28	3.75	2.69
of which:			
US Government	2.35	1.31	0.45
Portuguese Government	0.78	1.11	1.15
Mexican Government	0.77	0.73	0.75
Netherlands Government	0.08	0.00	0.00
Agencies	1.41	1.28	1.22
Covered Bonds	0.65	0.35	0.30
Corporates & Financials	2.00	1.96	2.41
<b>Total</b>	<b>24.7</b>	<b>25.3</b>	<b>30.5</b>
of which:			
Held to maturity	0.00	4.60	9.45
Available for sale	21.30	18.10	19.43

Note: Sabadell United Bank data included. Data as of Mar-16 does not include the Life Insurance portfolio for an amount of €2.4bn.

# Evolution of NPLs and foreclosed assets

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

Euros in million

	1Q16	2Q16	3Q16	4Q16	1Q17
Gross entries	654	660	547	700 <sup>1</sup>	636
Recoveries	-1,111	-1,629	-880	-1,174	-897
<b>Ordinary net entries</b>	<b>-457</b>	<b>-969</b>	<b>-333</b>	<b>-474</b>	<b>-261</b>
Gross entries (foreclosed assets)	364	362	248	384	312
Sales <sup>2</sup>	-404	-290	-406	-457	-379
<b>Change in RE assets</b>	<b>-41</b>	<b>71</b>	<b>-158</b>	<b>-73</b>	<b>-67</b>
<b>Net entries + Change in RE assets</b>	<b>-498</b>	<b>-898</b>	<b>-490</b>	<b>-547</b>	<b>-328</b>
Write-offs	213	70	144	101	178
<b>Real estate and NPL quarterly change</b>	<b>-711</b>	<b>-968</b>	<b>-634</b>	<b>-648</b>	<b>-506</b>

Note: Includes contingent risk. Sabadell United Bank data included.

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 according to 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	21	3
Corporate and entrepreneurs	5,211	2,738
Of which: Financing for construction and real estate development	1,387	1,068
Individual borrowers	3,739	1,830
<b>Total</b>	<b>8,971</b>	<b>4,572</b>
<b>Provisions</b>	<b>1,551</b>	<b>1,449</b>

# NPL ratio breakdown

## NPL ratios by segment, ex-TSB

In percentage

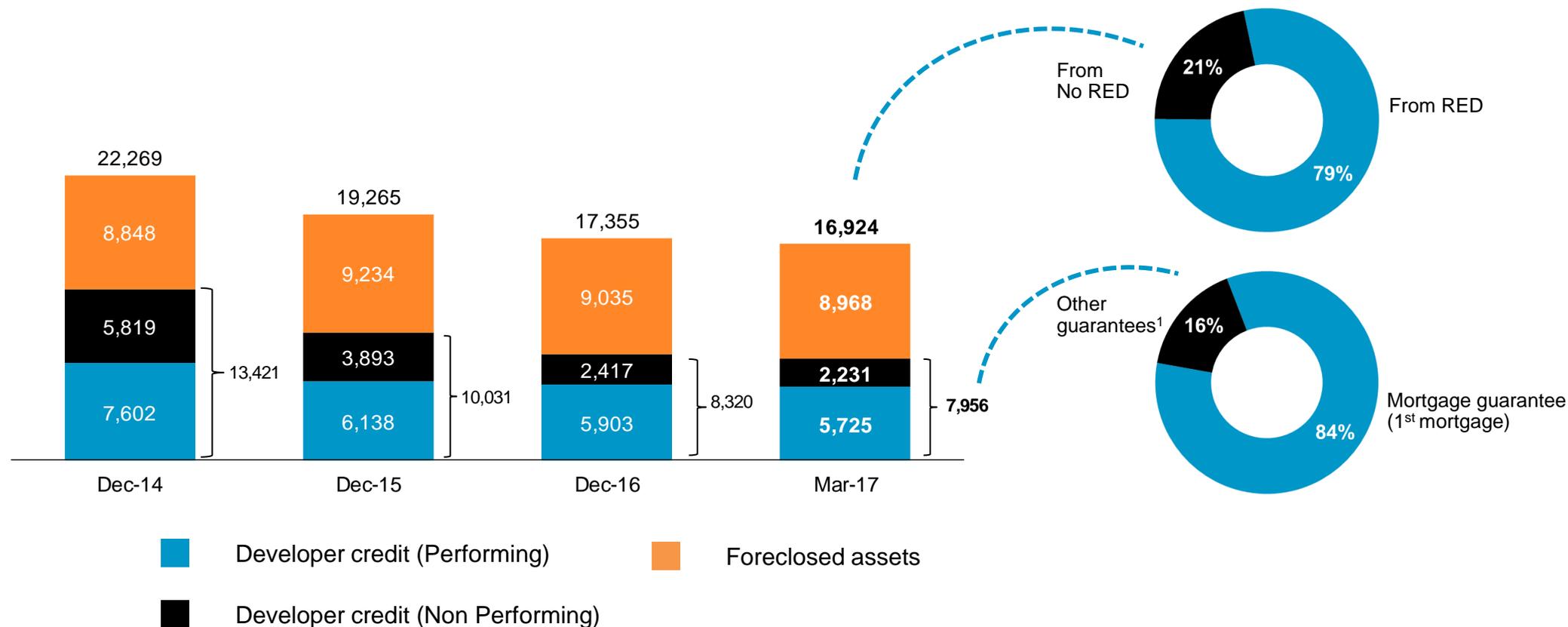
	1Q16	2Q16	3Q16	4Q16	1Q17
Real Estate development and/or construction purposes	37.01%	33.29%	31.99%	29.05%	28.04%
Construction purposes non-related to real estate dev.	12.18%	11.76%	11.62%	9.68%	5.88%
Large corporates	4.58%	3.89%	3.84%	3.82%	3.16%
SME and small retailers and self-employed	10.23%	9.39%	8.71%	8.47%	8.41%
Individuals with 1 <sup>st</sup> mortgage guarantee assets	7.82%	7.47%	7.43%	7.25%	7.24%
<b>NPL ratio, Sabadell ex-TSB</b>	<b>9.45%</b>	<b>8.54%</b>	<b>8.25%</b>	<b>7.72%</b>	<b>7.45%</b>

Note: Includes contingent risk. Sabadell ex-TSB's NPLs include 20% of the NPLs included in the APS, which risk is assumed by Sabadell according to the APS protocol.

# Sabadell real estate exposure

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

Euros in million



Note: Date as of March 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 according to the APS protocol. 80% of APS protected Developer doubtful exposure is presented as performing, given that the credit risk has been transferred to the DGF, according to the APS protocol.  
<sup>1</sup> Unsecured assets or with pledge, personal or 2nd mortgage guarantees.

# Real Estate exposure

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

Euros in million (gross value)

<b>Foreclosed assets</b>	<b>8,968</b>
Finished property	51%
Under construction	6%
Land	43%
<b>Developer loans</b>	<b>7,956</b> 
Finished property	58%
Under construction	5%
Land	21%
Others <sup>1</sup>	16%
<b>Total RE related exposure</b>	<b>16,924</b>

## Developer loans break-down, ex-TSB

Euros in million (gross value)

	Mar-17	%
<b>Developer loans</b>	<b>7,956</b>	<b>47%</b>
Performing	5,197	65%
Watchlist	528	7%
Non performing	2,231	28%

Note: Data as of March 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 according to the APS protocol. 80% of APS protected Developer doubtful exposure is presented as performing, given that its credit risk has been transferred to the DGF, according to the APS protocol.

<sup>1</sup> Other guarantees.

# Foreclosed assets exposure and coverage

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

Euros in million. In percentage

	Gross problematic exposure	Associated provisions	Coverage ratio
<b>Finished buildings</b>	<b>2,731</b>	<b>1,061</b>	<b>38.9%</b>
Housing	1,369	572	41.8%
Rest	1,362	489	35.9%
<b>Under construction</b>	<b>503</b>	<b>231</b>	<b>45.8%</b>
Housing	434	191	43.9%
Rest	69	40	58.5%
<b>Land</b>	<b>3,857</b>	<b>2,154</b>	<b>55.9%</b>
Building land	1,435	813	56.7%
Other land	2,422	1,341	55.4%
<b>Others<sup>1</sup></b>	<b>1,878</b>	<b>853</b>	<b>45.4%</b>
<b>Total foreclosed assets</b>	<b>8,968</b>	<b>4,299</b>	<b>47.9%</b>

Note: Data as of March 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.

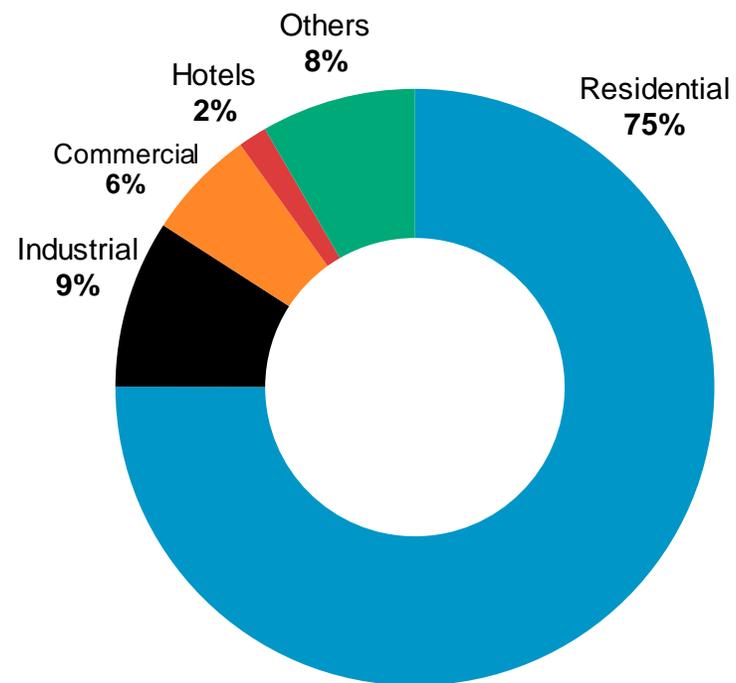
Accordingly, Sabadell ex-TSB's provisions include all provisions associated to 20% of the foreclosed assets included in the APS, which risk is assumed by Sabadell according to the APS protocol.

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

# REOs/Foreclosed assets segmentation

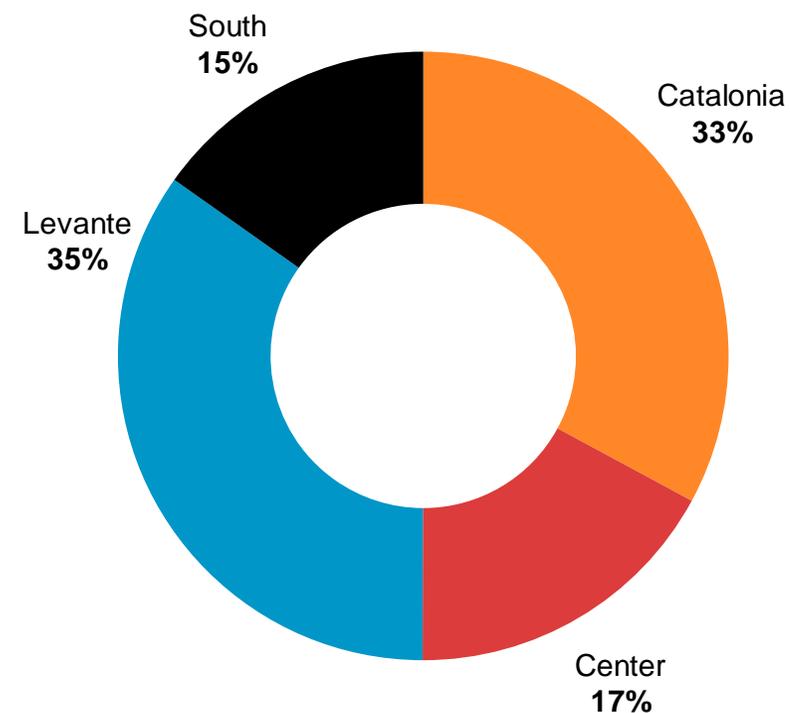
## Foreclosed assets by use, ex-TSB

In percentage



## Foreclosed assets by location, ex-TSB

In percentage

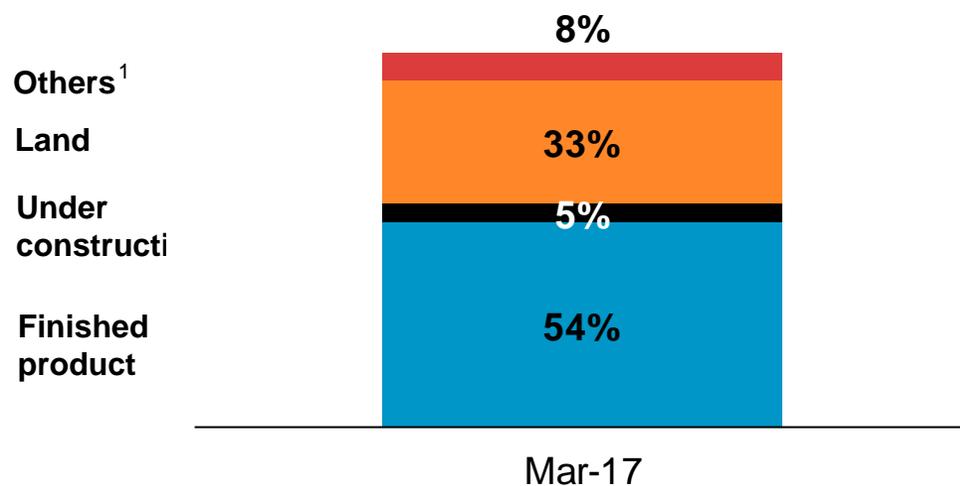


Note: Data as of March 2017. Includes 100% APS.

# Real Estate portfolio breakdown by asset class and region

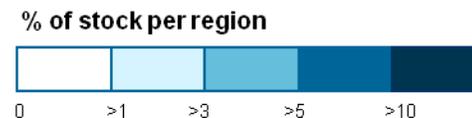
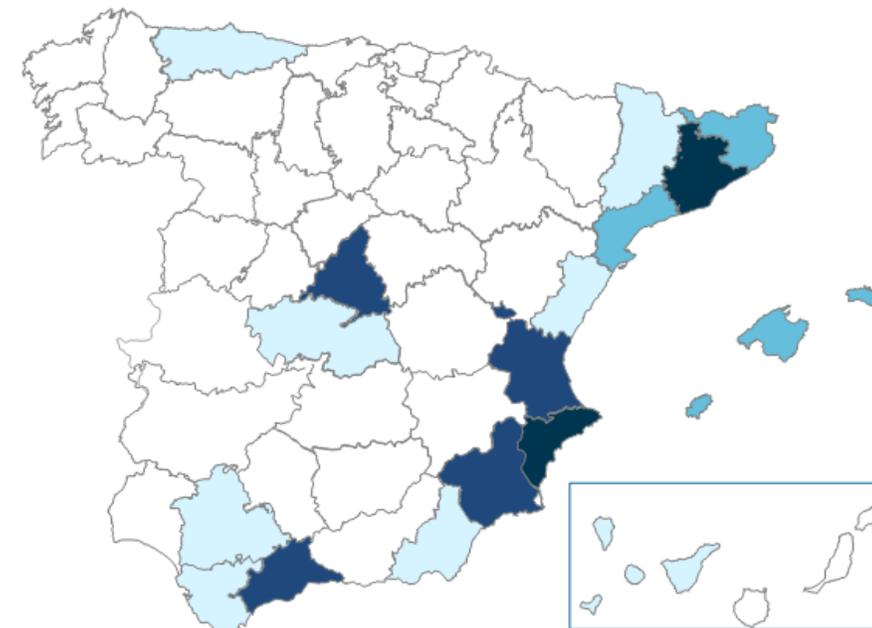
## Portfolio breakdown by asset class, ex-TSB

In percentage



## Portfolio breakdown by region

**>80% of finished properties in coastal areas and Madrid**



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

# APS main figures

## Breakdown of APS-protected assets and evolution

Euros in million

Concept	Jun-12 <sup>1, 2</sup>	Mar-17 <sup>2</sup>	Var. (%)
Gross loans and advances	19,117	7,159	-62.5%
of which at-risk	18,460	7,151	-61.3%
of which contingent guarantees and liabilities	657	9	-98.7%
Real estate assets	4,663	4,715	1.1%
Equity stakes	504	49	-90.3%
Write offs	360	1,480	311.1%
<b>Total</b>	<b>24,644</b>	<b>13,403</b>	<b>-45.6%</b>

**The APS book has decreased by -46% (€11.2bn) in less than 5 years**

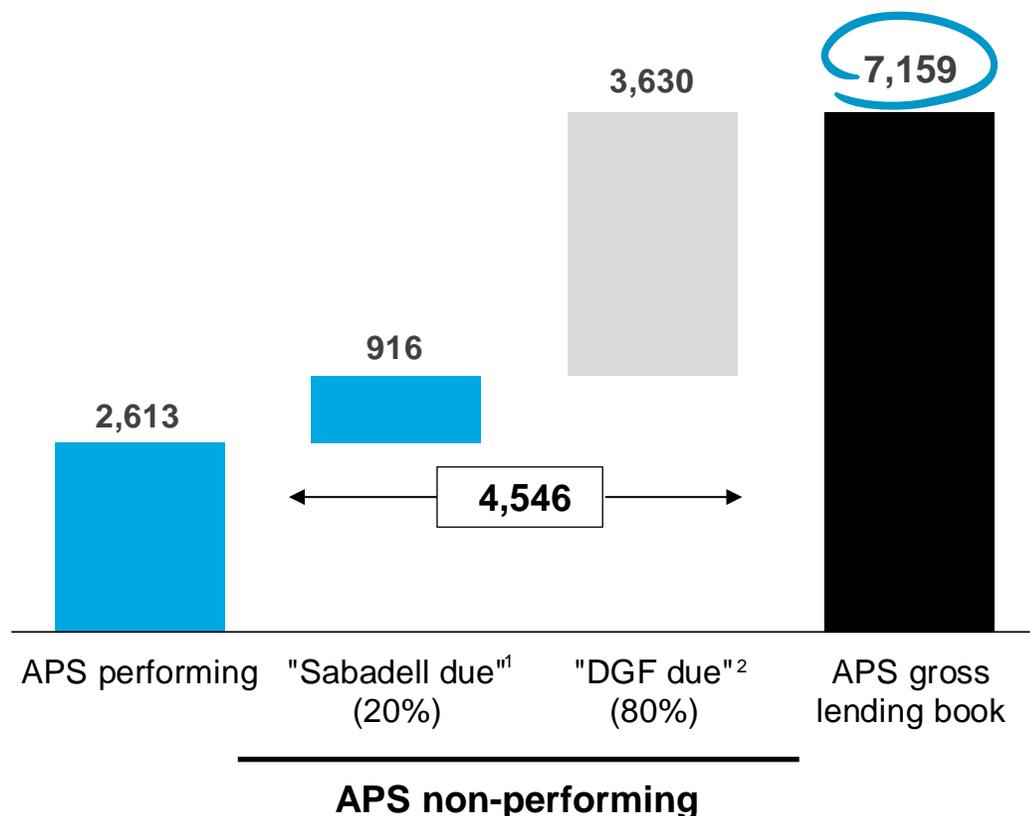
<sup>1</sup> The APS came into effect on June 1, 2012 with retroactive effects from July 31, 2011.

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

# APS gross loan and developers exposure

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

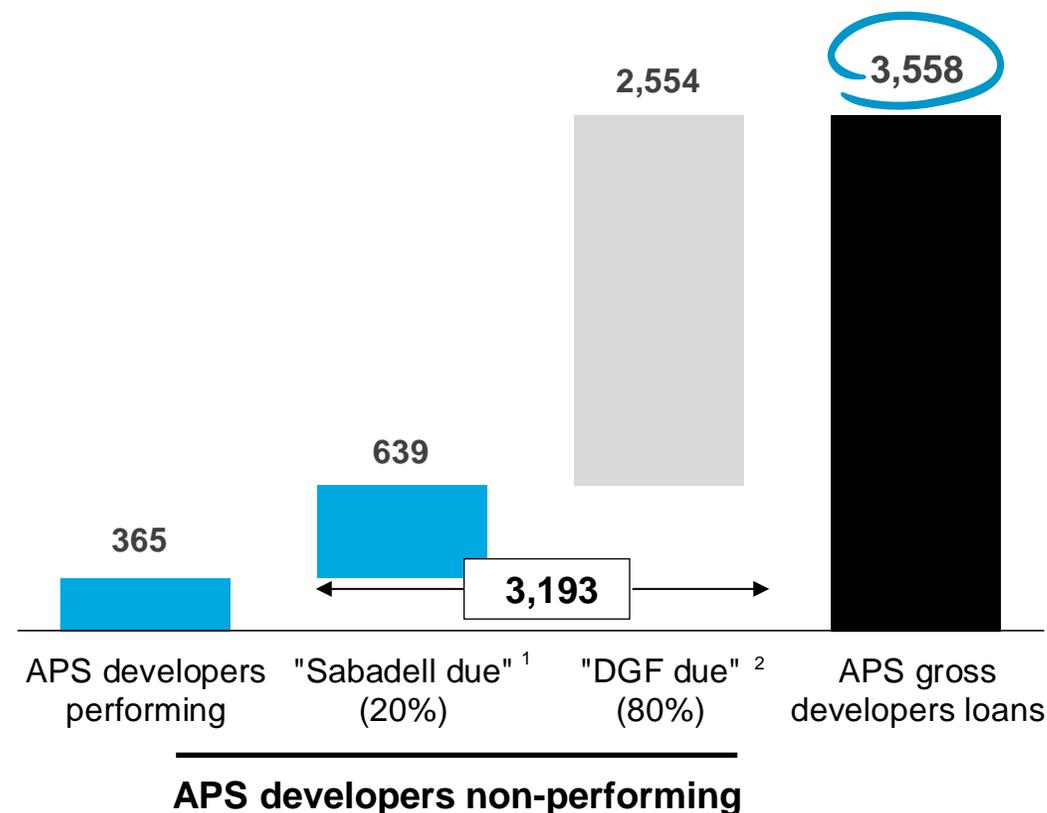
Euros in million



**The total APS NPL ratio is 63.5%**

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

Euros in million



**The developers APS NPL ratio is 89.7%**

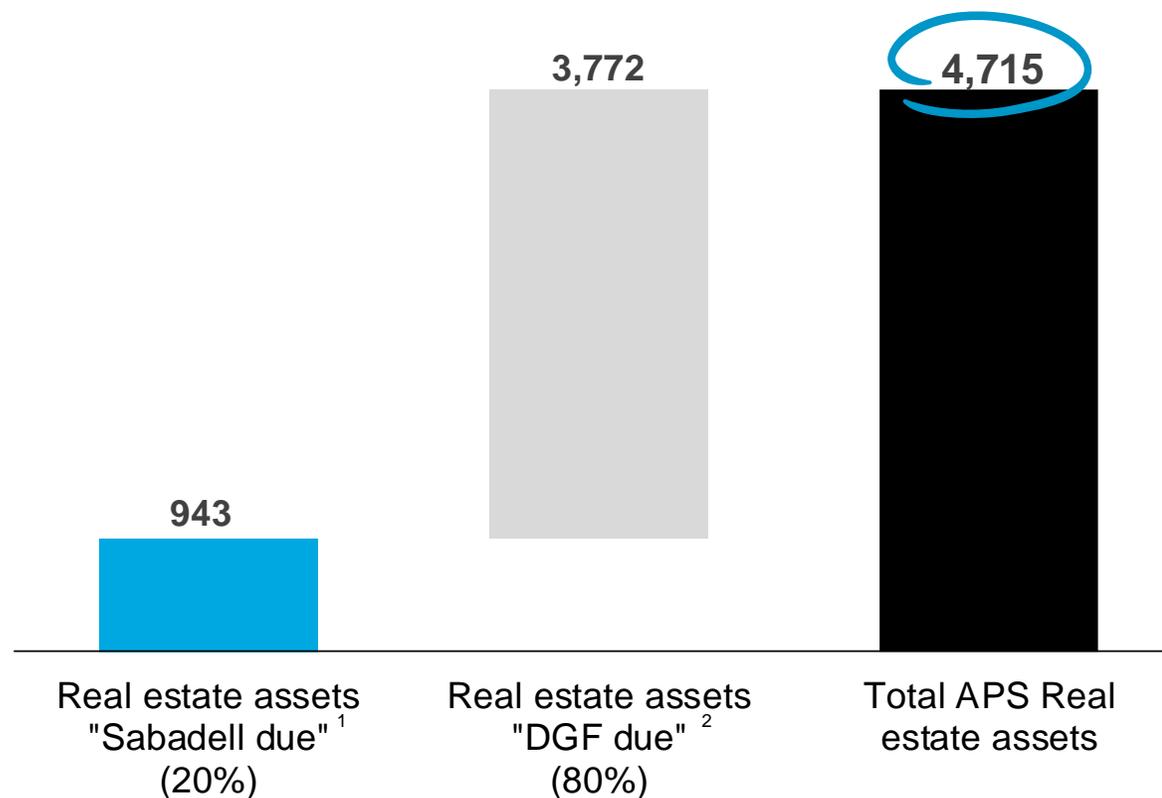
<sup>1</sup> 20% of total APS non-performing credit risk is assumed by Sabadell as per the APS protocol.

<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 Mar-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 Mar-17)

Euros in million

	APS Exposure	APS Provisions	APS Coverage
<b>Total APS problematic exposure</b>			
Non-performing credit	4,546	2,491	54.8%
of which "DGF due" <sup>1</sup>	3,637	1,993	
Real estate assets	4,715	2,850	60.4%
of which "DGF due" <sup>1</sup>	3,772	2,280	
<b>Total APS problematic credit and assets</b>	<b>9,261</b>	<b>5,341</b>	<b>57.7%</b>
<b>Total APS developers loans</b>			
Non-performing developers credit	3,193	1,916	60.0%
of which "DGF due" <sup>1</sup>	2,554	1,533	
<b>Total APS problematic developers credit and assets</b>	<b>7,908</b>	<b>4,766</b>	<b>60.3%</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	Mar-17	Dec-16	Mar-16
Mortgages	28,534	27,124	25,147
Unsecured & Business Banking	2,345	2,295	2,287
<b>Total Lending balances (net)</b>	<b>30,879</b>	<b>29,419</b>	<b>27,434</b>

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

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

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

In percentage	Mar-17	Dec-16	Mar-16
LTV Mortgage Flow	62.6%	61.7%	61.9%
LTV Mortgage Stock	43.1%	42.4%	43.0%

## Cost of Risk (AQR)<sup>2</sup>- Mortgages and Unsecured & Business Banking

In percentage	Mar-17	Dec-16	Mar-16
Mortgages	0.02%	0.05%	0.02%
Unsecured & Business Banking	3.15%	3.68%	2.95%
<b>Total TSB AQR</b>	<b>0.28%</b>	<b>0.35%</b>	<b>0.28%</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> 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.

# Sabadell Group's credit ratings and outlook

<b>Sabadell</b>	<b>Long Term</b>	<b>Short Term</b>	<b>Outlook</b>	<b>Date</b>
<b>DBRS</b>	BBB (high)	R-1 (low)	Stable	02 Aug 2016
<b>STANDARD &amp; POOR'S</b>	BB+	B	Positive	02 Nov 2016
<b>MOODY'S<sup>1</sup></b>	Baa3 / Baa2	P-3 / P-2	Stable	01 Dec 2016

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

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