Sabadell 2020

Investor Day

23 February 2018
The Landmark Hotel, London
10:00 a.m. Welcome and agenda (Mrs. Cecilia Romero, Head of Investor Relations)
Our vision (Mr. Josep Oliu, Chairman)
Our plan (Mr. Jaime Guardiola, CEO)
Growth and transformation in Spain (Mr. Carlos Ventura, General Manager Commercial Banking Spain)
TSB – the next chapter (Mr. Paul Pester, TSB CEO)

12:00 p.m. Lunch

1:00 p.m. Competitiveness in operations, a superior platform (Mr. Miguel Montes, COO)
Our financial plan to enhance profitability (Mr. Tomàs Varela, CFO)
Q&A

3:00 p.m. Closing remarks (Mr. Josep Oliu, Chairman)
Sabadell 2020
Investor Day

Our vision

London, 23 February

Josep Oliu
Chairman
Sabadell’s new strategic plan embraces a new cycle for value

Banking sector under substantial pressure

- Weak global economic growth
- Interest rates at all-time lows
- Deflation risks
- Deleveraging
- Political risks
- High regulatory uncertainty and pressure
- High NPA legacy
- Smaller digital threat

New Business Cycle

- Positive global economic outlook
- Gradual normalisation of monetary policy
- Inflation converging to targets
- Credit recovery
- Consequences of past political events
- Plateauing regulatory pressure and longer implementation periods
- Advancing towards end of NPA legacy problems
- Digitalisation opportunities to boost profitability

Tailwinds for banking sector profitability
Good evolution of the global economy…

1. Favourable growth/inflation mix
   - Synchronised growth
   - No deflation risks

2. Reduced support from central banks
   - ECB
     - End of QE (Sep-18)
     - First increase in the marginal deposit rate (Mar-19)
   - BoE
     - Focused on Brexit
   - Fed
     - Continuation of the tightening cycle and balance sheet reduction

3. Gradual tightening of global financial conditions
   - Somewhat higher volatility in financial markets
   - Increase in sovereign debt yields
   - FX developments driven by politics

4. Focus on the outcome of several geopolitical events:
   - Brexit and the European construction process
   - USA and mid-term elections
   - NAFTA and Mexican elections

Good global economic outlook while some geopolitical issues still remain
... is also apparent in the economies in which we are present

Spain
GDP growth will remain above Euro area growth
Bank lending to increase and favourable evolution of the real estate sector

United Kingdom
Economic developments driven by Brexit
The baseline scenario calls for an orderly Brexit with a transition period

Mexico
Economic growth will remain close to current levels
Positive outlook for the financial sector

Unemployment
In million

GDP
YoY in percentage

Bank lending
(to private non-financial sector, % of GDP)
# A more favourable banking environment

<table>
<thead>
<tr>
<th><strong>Regulatory environment</strong></th>
<th><strong>Outlook and supporting factors</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-crisis regulatory framework</td>
<td>Plateauing new regulatory pressure and longer implementation periods of agreed reforms</td>
</tr>
<tr>
<td>Compliance costs</td>
<td>Increasing due to entry into force of regulation and development of technical standards and guidelines</td>
</tr>
<tr>
<td>New regulatory priorities</td>
<td>Conduct, transparency, consumer protection and macroprudential dimensions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Banking environment</strong></th>
<th><strong>Outlook and supporting factors</strong></th>
</tr>
</thead>
<tbody>
<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>Business models</td>
<td>Higher reliance on non-interest income, cost-cutting efforts</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>
</tbody>
</table>

## Tailwinds for mid-term bank profitability in a complex regulatory environment
Today, Sabadell is a strong and solid franchise

Key financials 2017

<table>
<thead>
<tr>
<th>Balance sheet and P&amp;L</th>
<th>Asset quality</th>
<th>Profitability</th>
<th>Solvency &amp; liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>NPL ratio¹</td>
<td>ROTE</td>
<td>CET1 (FL pro forma post IFRS9)</td>
</tr>
<tr>
<td>221,348€M</td>
<td>5.14%</td>
<td>7.3%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Gross operating income</td>
<td>Net NPA ratio¹</td>
<td>ROA</td>
<td>Liquidity coverage ratio (LCR)⁴</td>
</tr>
<tr>
<td>5,737€M</td>
<td>3.5%</td>
<td>0.4%</td>
<td>168%</td>
</tr>
<tr>
<td>Net profit</td>
<td>NPA coverage ratio¹,²</td>
<td>Cost-to-income ratio⁵</td>
<td>Spain 32% Abroad</td>
</tr>
<tr>
<td>801.5€M</td>
<td>(pro forma post IFRS9)</td>
<td>50.1%</td>
<td>68% Abroad</td>
</tr>
</tbody>
</table>

Payout: 49%

Business highlights

Diversified portfolio

Lending by geography³

Solvency & liquidity

Cost-to-income ratio⁵

Corporate Governance

Board composition

- Proficient independent board members of different profiles
- Board members are analysed on an ongoing basis
- Fully committed to highest standards through continuous improvements

Note: Data as of December 2017.

¹ Includes contingent risk. 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.
² Excluding mortgage floor provisions.
³ Data based on performing loans.
⁴ Data ex- TSB.
⁵ ROE - ROA ratio calculated as operating expenses divided by gross operating income.

Representative Offices: 14
The rules of the game have changed…

The post-crisis caution of the market still remains…

… but the drivers of future profitability of the sector have changed

- Evolution of customer behaviour
- New entrants
- Emerging technologies
- Focus on competitiveness (investment needed)
- Improve efficiency

We cannot run the new world of banking with the same tools
... and banks will need to prove that they can provide a superior and highly efficient customer experience.

Key elements for the future:

- Customer interface
- Differential Human Touch
- Lean and scalable IT Platform
- Big Data exploitation

Sabadell is already prepared to deliver on all these elements.
Sabadell’s approach to banking

- Focus on integrated customer relationship
- Human Touch approach with clear focus on customer satisfaction
- Continuous evolution to deliver customer needs

Customer – centred

- Leaner IT platform
- Improvement in data analytics and capabilities
- Pragmatic approach with a clear ROI discipline

Technology driven

- Lean organisational structure
- Committed team with continuous training
- Excellent culture shared throughout the organisation

Human Capital excellence

Our approach strengthens our brand recognition, reinforces our culture and creates value for our shareholders
The customer is at the core of our culture

Sabadell is a ubiquitous bank that offers customers multiple access points that are equally convenient

Human Touch + The best of the digital world

The customer chooses when and how they want to interact with the bank

"Know each other, listen to each other, know what the other needs"

"Stay with you. The bank account that stays with you throughout the different stages of your life"

"The key is to think as if we were one"
Sabadell enters a new strategic phase with solid foundations

New Strategic Plan
Enhancing profitability

- Positive core business evolution
- Strong franchise
- SMEs leadership
- Superior efficiency in Spain
- Good NPA coverage
- International growth momentum
- State-of-the-art technology
- Geared to rate increases
Sabadell 2020

**Profitability**
- Growth of business
- Improvement of efficiency
- Normalisation of non-performing assets

**Sustainability**
- Technological capabilities as an opportunity to develop the value proposition
- Attractive organisation and people with the necessary skills

**Value**
- Brand and customer experience as differentiating elements
- Consolidation of the bank's internationalisation process
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Our plan

London, 23 February

Jaime Guardiola
CEO
Large well-diversified domestic universal banking player with a sound domestic SMEs segment franchise

- Diversified portfolio across businesses and geographies

**Customer Lending**¹

- Markets & Private B. 0%
- Corporate B. 12%
- Mexico 2%
- Spain - Individuals 25%
- Spain - SMEs 33%
- UK Retail 28%
- Spain Retail 58%

- Strong SMEs franchise in Spain to profit sooner from the economic recovery

  - Significant market penetration in Spain
    - 74% Large companies²
    - 51% SMEs²
  - NPS³ leadership in both SMEs and large companies
    - +34% (1st) Large companies⁴
    - +19% (1st) SMEs⁴
  - Strong market share across products
    - 11.6% Customer lending⁵
    - 15.3% Transactions at PoS (value)

Note: Data as of December 2017 or last month available.

¹ Performing loans, excluding also the impact of the APS (i.e. the 80% of the APS problematic exposure which risk is presented as performing and the net loans and receivables account).
² Large companies: ≥ €10M. SMEs < €10M.
³ Source: Benchmark NPS Accenture Report. Net promoter score (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 Sabadell to a friend or colleague?” NPS is the percentage of customers who score 9-10 after subtracting the percentage who score 0-6. Considers peer group entities.
⁴ Large companies in NPS analysis: ≥ €5M. SMEs < €5M.
⁵ Excluding loans to real estate companies and repos.
Strong core banking revenue and solid cost management

• Business growth above market

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer lending Spain</td>
<td>7.5%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Customer deposits Spain</td>
<td>6.5%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Mutual Funds (AuM Spain)</td>
<td>4.1%</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

Market shares

Customer spread, ex-TSB

In percentage. Data as at Q4 2017

<table>
<thead>
<tr>
<th></th>
<th>#1</th>
<th>Peer 2</th>
<th>Peer 4</th>
<th>Peer 1</th>
<th>Peer 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sabadell ex-TSB</td>
<td>2.73%</td>
<td>2.19%</td>
<td>1.93%</td>
<td>1.55%</td>
<td>1.48%</td>
</tr>
</tbody>
</table>

Customer spread, ex-TSB

Core revenue, ex-TSB

Euros in million

- 2017 flow vs. stock
  - Mortgages UK (TSB): Flow 2.8% > Stock 1.9%
  - PCAs UK: Flow 6.2% > Stock 4.6%

Evolution of customers, expenses, and revenues

Sabadell, ex-TSB. Rebased to 100 (2014 = 100)

Cost-management levers:

- Acquisition synergies
- Unit cost improvements
- Operational model transformation
Focus continues on commercial and digital transformation while continuing to deliver top customer experience

- Strong focus on a sound commercial and digital transformation
  - Hub & spoke branch model
  - Active management
  - 360° client management
  - 48h response time for consumer loans

- Management focus on customer experience

Net promoter score (NPS)¹
Sabadell NPS and ranking vs peers

<table>
<thead>
<tr>
<th>Country</th>
<th>2013</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain Large companies (turnover ≥ €5M)</td>
<td>15% (1st)</td>
<td>34% (1st)</td>
<td>+19pps</td>
</tr>
<tr>
<td>Spain SMEs (turnover &lt; €5M)</td>
<td>3% (1st)</td>
<td>19% (1st)</td>
<td>+16pps</td>
</tr>
<tr>
<td>Spain Personal banking</td>
<td>-4% (5th)</td>
<td>29% (2nd)</td>
<td>+33pps</td>
</tr>
<tr>
<td>Spain Retail individuals</td>
<td>-22% (5th)</td>
<td>5% (4th)</td>
<td>+27pps</td>
</tr>
<tr>
<td>UK TSB</td>
<td>-</td>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

¹ Source: Benchmark NPS Accenture Report. Net promoter score (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 Sabadell to a friend or colleague?” NPS is the percentage of customers who score 9-10 after subtracting the percentage who score 0-6. Considers peer group entities.
Sabadell has transformed its balance sheet over the past years

• Proven track record on NPA reduction...

NPA reduction ex-TSB
Euros in billion

<table>
<thead>
<tr>
<th>Guidance</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction through Triple Plan</td>
<td>Reduction through Triple Plan</td>
</tr>
<tr>
<td>4.4</td>
<td>7.4</td>
</tr>
<tr>
<td>&gt; 6.5</td>
<td></td>
</tr>
<tr>
<td>2.0</td>
<td>3.4</td>
</tr>
</tbody>
</table>

We have increased our NPA reduction guidance several times and reduced our problematic exposures far beyond our revised targets.

… while boosting our coverage levels

NPA coverage\(^2\), Sabadell Group
In percentage

<table>
<thead>
<tr>
<th></th>
<th>4Q16</th>
<th>4Q17</th>
</tr>
</thead>
<tbody>
<tr>
<td>CoR</td>
<td>47.4%</td>
<td>54.7%</td>
</tr>
</tbody>
</table>

Post IFRS9 pro forma

Our net NPA to assets ratio has fallen since 2013 from 7.8% to 3.2% post IFRS 9

Note: Includes contingent risk. 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.

\(^1\) Includes €1.252M carved out into our new business line Solvia Desarrollos Inmobiliarios.

\(^2\) Excluding mortgage floor provisions.
Our key objective for the next three years will be to enhance profitability

Enhancing profitability

- Business growth
- Efficiency optimisation
- NPA normalisation

ROTE c.13% (2020E)

Brand and customer experience as differentiating elements

Transformation: technological capabilities to evolve the value proposition

Attractive organisation and people with the necessary skills

Develop our international franchises: UK and Mexico
Further core revenue growth driven by increasing business volumes and an active pricing strategy

We will deliver an attractive ROTE leveraging on:

Strong core banking revenue growth... ...improvements in efficiency... ...and normalisation of our balance-sheet

**Core banking revenue**

+5% CAGR

- NII: >4% CAGR
- Net Fees & Commissions: >6.5% CAGR

**Business volume**

+4% CAGR

- Customer lending: c.4% CAGR
- Customer deposits: c.4% CAGR
- Off-balance sheet funds: c.8% CAGR

Note: All CAGRs refer to the 2017-2020E period.

1 Core banking revenue refers to net interest income plus commissions.
2 Like-for-like evolution: 2017 excludes SUB, Mediterráneo Vida as well as the mortgage enhancement contribution.
3 Like-for-like evolution: 2017 excludes SUB, Mediterráneo Vida.
4 Including gross loans and customer funds (on-balance and off-balance).
An increasing core revenue, along with stable group cost will drive our cost-to-income ratio to c.47% in 2020.

We will deliver an attractive ROTE leveraging on:

- **Strong core banking revenue growth**
- **...improvements in efficiency**
- **...and normalisation of our balance-sheet**

**Cost-to-income ratio\(^1\)**

- **c.47%**
  - **(2020E)**

**Countries**

- **Spain**: We will continue to focus on managing cost while we go through further commercial and digital transformation.
- **UK**: TSB acquisition synergies will start to materialise in 2018 and will be fully realised by 2019.
- **Mexico**: Franchise in its rump-up phase: profitability is still low but the franchise is already profit-making.

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\(^1\) Cost-to-income ratio defined as operating expenses (excluding amortisation) divided by gross operating income.
CoR reduction to accelerate improving earnings visibility in the medium term

We will deliver an attractive ROTE leveraging on:

- Strong core banking revenue growth...
- ...improvements in efficiency...
- ...and normalisation of our balance-sheet

• Clear NPA reduction strategy supported by a strong track record and attractive real estate market conditions

• Good coverage levels provide flexibility to accelerate the normalisation of our balance-sheet

NPA reduction
2013-2017 ex-TSB. In percentage

<table>
<thead>
<tr>
<th>Year</th>
<th>Peer 1</th>
<th>Peer 2</th>
<th>Peer 3 (Sabadell ex-TSB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-17</td>
<td></td>
<td></td>
<td>-71%</td>
</tr>
<tr>
<td>2017-20</td>
<td>-42%</td>
<td>-40%</td>
<td>-38%</td>
</tr>
<tr>
<td>2020</td>
<td>-34%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NPA reduction (ex-TSB)
Cost of Risk

>€6bn (2017-2020E)
c.40bps (2020E)

Note: Peer group: Bankia, BBVA Spain, CaixaBank (ex-BPI), and Santander Spain. Source: Quarterly reports. Data as of results presentations. For international banks includes business in Spain only. Data from Dec-2013 to Dec-2017. NPLs and NPAs include 20% of the problematic exposure included in the APS, which risk is assumed by Sabadell according to the APS protocol.
Our priority is to deliver on our brand promise

Attractive brand
- Recognised
- Differential

Outstanding customer experience
- Consistent with our brand promise

Strong brand values
- Commitment
- Non-conformism
- Rigour
- Sincerity
- Empathy
- Efficiency

Communication

Activation
- Processes
- Employees
- Behaviours
We will accelerate our transformation

Sabadell will **accelerate** its transformation in order to...

- ...deliver a **customer experience** that exceeds customer expectations
- ...seize **business opportunities** arising from new technologies
- ...anticipate potential **new banking paradigms**
Our people remain key to our success

In an increasingly competitive business environment, our people are key to seize the opportunities we have and to deliver our objectives

**People** as a key factor for differentiation

**Talent** retention and attraction

**Proximity:** between HR management and businesses

**Planning:** critical skills development, forecast HR needs, etc.

**Culture:** employees behaviours aligned with brand / culture

**New required skills**
We will increase the value of our international franchise

**TSB:** Focus on three key drivers

**Growth**
- Franchise lending (+9% CAGR 2017-2020E)
- PCA share of flow ≥6% per annum

**Efficiency**
- Exploit the benefits of the new platform
- New corporate core organisation design

**SMEs**
- Launch of new SMEs business line
- Currently opting to the RBS remedies
We will increase the value of our international franchise

Mexico: Tailwinds for the banking industry in Mexico

GDP growth will continue to be around 2.0%¹

High potential for banking penetration in Mexico
Banking credit to the non financial private sector (% of GDP as of 1Q17)²

Demographic dynamics supporting the growth of the labour force³

¹ Source: “INEGI” - National Institute of Statistics and Geography in Mexico.
² Source: BIS statistics.
³ Source: IHS, UN Department of Economic and Social Affairs, INEGI and IMF.
We will increase the value of our international franchise

Mexico: Specific approach for each business line in Mexico

**Corporate banking**  
(Launched in 2014)  
- Local bankers (as lever for initial business attraction)  
- Up to date: focus on lending

**Next steps**  
- Deeper relationships with our customers (offering extension)

**Business banking**  
(Launched in 2016)  
- Initial leverage on Sabadell expertise  
- Network of strategically located Business Centers

**Next steps**  
- Deployment of new capabilities (IT platform, products, etc.)

**Retail banking**  
(Launched in 2018)  
- 100% digital banking model, leveraged on remote RMs  
- Differential customer experience  
- Pilot launched in late 2017

**Next steps**  
- Fine-tuning of our value proposition according to market feedback  
- Deployment of new capabilities (IT platform, products, etc.)

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1 RMs refers to Relationship Managers.
Strategic priorities

2020 Key takeaways

**Profitability:** we are committed to a c.13% ROTE by 2020E

**Brand and customer experience:** attractive brand promise and outstanding customer experience

**Transformation:** acceleration of our transformation, widening its scope and anticipating to new paradigms, with a clear ROI discipline

**Organisation and people:** the best team, with the required skills, and an attractive organisation for talent

**International franchises:** development of our international franchises with focus on value creation
Starting point

• **Strong market position in Spain:** volumes, income and market shares
  • Pacesetters in SMEs segment
  • Very positive trend in individuals

• **Leadership in customer spread**

• **Top performance in customer experience**
  (leadership in large companies and SMEs)

• **Significant progress in commercial transformation:** focus and momentum on both capacity building and use of the built capabilities
Sabadell 2020 objectives

**Growth and efficiency**
- Growth: customers, volumes, market shares and margins
- Efficiency: contention of actionable costs

**Focus on areas with growth potential**
- Insurance
- Regions with potential (Madrid)
- Unsecured lending
- Savings & Investments
- Lending market share in SMEs

**Increased business sustainability**
- Consistent brand
- Differential customer experience
- Business transformation
### Ambitious growth targets in Spain for 2020

<table>
<thead>
<tr>
<th>Category</th>
<th>Var. 2017-2020E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer lending&lt;sup&gt;1&lt;/sup&gt;</td>
<td>c.4% CAGR</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>&gt;3% CAGR</td>
</tr>
<tr>
<td>Off-balance sheet funds</td>
<td>c.8% CAGR</td>
</tr>
<tr>
<td># of customers</td>
<td>&gt;3% CAGR</td>
</tr>
</tbody>
</table>

**Growth of annual new lending**

In percentage, 2020E vs 2017

- SMEs **+25%**
- Mortgages **+42%**

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Note: targets 2020E refer to Commercial Banking Spain.

<sup>1</sup> Performing loans.
### Main market shares

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2017</th>
<th>2020E</th>
<th>Yearly growth (2017-2020E)¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Lending</td>
<td>7.50%</td>
<td>7.90%</td>
<td>8.10%</td>
<td>+6bps/year</td>
</tr>
<tr>
<td>Sight Accounts ODS²</td>
<td>6.54%</td>
<td>7.32%</td>
<td>7.88%</td>
<td>+19bps/year</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>4.10%</td>
<td>6.25%</td>
<td>8.00%</td>
<td>+58bps/year</td>
</tr>
</tbody>
</table>

### Market penetration

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2017</th>
<th>2020E</th>
<th>Yearly growth (2017-2020E)¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs³</td>
<td>29.6%</td>
<td>34.7%</td>
<td>39.9%</td>
<td>+173bps/year</td>
</tr>
<tr>
<td>Individuals</td>
<td>11.3%</td>
<td>11.4%</td>
<td>12.2%</td>
<td>+25bps/year</td>
</tr>
</tbody>
</table>

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Note: 2017 data as December 2017 or last month available.

¹ Average yearly growth.

² Other Domestic sectors.

³ Mid Corps, Pure SMEs & Retail stores.

⁴ As of December 2017, considering the 3-year average profitability.

**Strong performance of Sabadell mutual funds:**

94% of our AuM are in mutual funds ranked in the top 2 profitability quartiles in Spain.
Well defined strategic programmes which will allow us to achieve our targets

**Organic growth**

**Current business**

“We will grow the current business…”

**Areas with growth potential**

“... with a greater focus on specific areas”

**Contribution to business sustainability**

**Brand and Customer Experience**

“Attractive and consistent brand promise and delivery”

**Business Transformation**

“More relevant and convenient for our customers”
Well defined strategic programmes which will allow us to achieve our targets

**Organic growth**

**Current business**
“We will grow the current business…”

**Areas with growth potential**
“… with a greater focus on specific areas”

**Contribution to business sustainability**

**Brand and Customer Experience**
“Attractive and consistent brand promise and delivery”

**Business Transformation**
“More relevant and convenient for our customers”
Current business: maintain commercial momentum to continue increasing market shares across products and segments, while defending pricing.

There are two topics with specific action plans:

1. Evolution of our customer-acquisition model
2. Increased focus on fees and commissions

- Digital customer acquisition (100% remote customer registration)
- Indirect channels (prescribers / associate banking / collectives)
- New products with focus on customer acquisition
- Dedicated RMs\(^1\) (RMs focused on customer acquisition)

\(^1\) RM: Relationship Manager.
Increased focus on fees and commissions

- **Current business:** Maintain commercial momentum to continue increasing market shares across products and segments, while defending pricing.

- There are two topics with specific action plans:
  1. Evolution of our customer-acquisition model
  2. Increased focus on fees and commissions

**2018 Approach:**

- **Not-engaged customers**
  - Penalize lack of engagement: ▲ Commissions (within market standards)
  - Reinforce engagement: appropriate management of special conditions

- **Engaged customers**
  - ▲ Customer base / transactionality / cross-selling

2017 fees & commissions growth > 10%

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1 Sabadell ex-TSB.
Focus on areas with growth potential

Objectives

• Increase insurance penetration among Sabadell’s customers
  • # of Sabadell customers with insurance protection
    - 21% (2017) → 28% (2020E)
  • New annual insurance protection contracts
    - 387k (2017) → 653k (2020E)

Key aspects

• New digital insurance offering

Regions with potential (Madrid)

• Business growth in Madrid
  • Market penetration in Madrid
    - 7.84% (2017) → 9.20% (2020E)

• Market opportunity
  • Approach aligned with our previous plan “Oportunidad Madrid”
**Focus on areas with growth potential**

**Objectives**

- **Growth in unsecured lending**
  - Unsecured lending market share¹  
    
    | Year | Percentage |
    |------|------------|
    | 2017 | 4.59%      |
    | 2020E| 6.52%      |
  
- **Establish Sabadell as a reference player for Savings & Investments**
  - Mutual Funds market share  
    
    | Year | Percentage |
    |------|------------|
    | 2017 | 6.25%      |
    | 2020E| 8.00%      |

- **Growth of our market share in SMEs segment**
  - Lending market share in SMEs  
    
    | Year | Percentage |
    |------|------------|
    | 2017 | 11.4%      |
    | 2020E| 12.5%      |

**Key aspects**

- **Profitable and growing market segment**
- **Potential to grow within the Bank’s current customer base**
- **Market growth potential**
- **Evolution of our value proposition**
- **Mutual funds performance**
- **Dynamism of commercial activity**
- **Advanced analytics**

¹ Excludes Sabadell Consumer Finance.
Well defined strategic programmes which will allow us to achieve our targets

**Organic growth**

**Current business**

“We will grow the current business...”

**Areas with growth potential**

“... with a greater focus on specific areas”

**Contribution to business sustainability**

**Brand and Customer Experience**

“Attractive and consistent brand promise and delivery”

**Business Transformation**

“More relevant and convenient for our customers”
Our priority is to deliver on our brand promise

Brand

• Keep building an attractive brand promise

Customer Experience

• Deliver differential customer experience

Action plan

• Engage the organisation: generate momentum
• Translate and infuse our values into our behaviours, processes and offering
• Employees as brand ambassadors and promoters of customer experience
• Monitoring and adjustment

Brand consideration

- 25.3% (2017)
- 27.4% (2020E)

Customer Experience

- Deliver differential customer experience

<table>
<thead>
<tr>
<th>NPS¹</th>
<th>Large companies</th>
<th>SMEs</th>
<th>Personal banking</th>
<th>Retail individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1st</td>
<td>1st</td>
<td>5th</td>
<td>5th</td>
</tr>
<tr>
<td>2017</td>
<td>1st</td>
<td>1st</td>
<td>2nd</td>
<td>4th</td>
</tr>
<tr>
<td>2020E</td>
<td>1st</td>
<td>1st</td>
<td>2nd</td>
<td>2nd</td>
</tr>
</tbody>
</table>

¹ Source: Benchmark NPS Accenture Report. Net promoter score (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 Sabadell to a friend or colleague?” NPS is the percentage of customers who score 9-10 after subtracting the percentage who score 0-6. Considers peer group entities.
Sabadell is approaching its business transformation in three different dimensions:

1. Transformation of current business
2. New value propositions
3. New business models
The systematic deployment of new capabilities is already embedded in our daily management approach, and we are now increasing our focus on reaping the rewards of transformation: enhanced competitiveness, productivity and efficiency.

**Status**

**Individuals:** key capabilities deployed, and current focus on promoting its use

**SMEs & Mid Corps:** focus on generating transformation momentum and on building new capabilities

**Deployment of new capabilities underway**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active management</td>
<td>230k customers</td>
<td>750k customers</td>
</tr>
<tr>
<td>Digital sales</td>
<td>18%</td>
<td>21%</td>
</tr>
</tbody>
</table>

**Next releases**

- New products available online (savings, …)
- Digital on boarding
- Channels evolution (mobile, web, ..)
- Advanced Business Intelligence
- Commercial tools (remote signature, CRM¹, …)

¹ CRM refers to Customer Relationship Management.
Transformation of our current business

1. Distribution Model
   (development of a multi-channel proposal)

2. Team quality and preparation
   (fostering change in customer behaviour)

3. Business Intelligence
   (implementation of a 360 customer view)

4. Commercial proposition
   (contribution to the evolution of our value proposition)

5. Operational and service experience
   (simplification and reduction of complexity)

6. Digital transformation with business vision
   (digital capabilities upgrade)

7. Risk-management evolution
   (digitalisation / analytics)

---

Digital sales in Spain
- 21% (2017) ➔ 36% (2020E)

Digital customers in Spain
- 46% (2017) ➔ 60% (2020E)

Productivity¹ (business volume / expenses)
- 117 (2017) ➔ 132 (2020E)

---

¹ Productivity defined as (Gross loans to customers ex repos+ on balance sheet customer funds+ off-balance sheet funds / Personnel expenses + General Admin expenses). Like-for-like evolution: 2017 excludes SUB and Mediterraneo Vida.
Development of new value propositions from a customer needs point of view

We are also widening the scope of our transformation: we will enrich our value proposition to cover customer needs beyond the strictly financial requirements.

Key elements:
- Market intelligence
- Technology
- Regulation
- Alliances with third parties
3 Participation in the financial innovation eco-system

We will anticipate potential new banking paradigms that may emerge in the future

- Strategic investments in technological and digital businesses
- Collaboration with start-ups and in-house entrepreneurs to develop digital businesses
- Digital know-how Hub of Sabadell
Our business in Spain in 2020

Positive trend in business performance

Banking business objectives in Spain
- Growth, efficiency and margins
- Focus in areas with growth potential
- Increased business sustainability

Strategic programmes

Key targets 2020E

Customer lending\(^1\)

Customer deposits

Off-balance sheet funds

# of customers

Note: targets 2020E refer to Commercial Banking Spain.

\(^1\) Performing loans.
At IPO in June 2014 TSB set out to establish itself as Britain’s challenger bank

Britain’s challenger bank:

- Large scale, full capability, UK retail bank
- Low risk, simple, clean balance sheet
- Clear strategy delivering significant value-enhancing growth within current model
- Low current profitability – growing to strong ROE with momentum and dividends over time
- Experienced and committed leadership team
Our growth strategy has three clear components

In the first five years successful delivery of our growth strategy will lead to a TSB Bank 40-50% larger than today

TSB’s growth strategy

1. Provide great banking to more people

2. Help more people borrow well

3. Provide the kind of banking people want and deserve

Target outcomes 5 years after IPO (2019)

1. PCA¹ market share (flow) consistently in excess of 6%

2. 40-50% growth in franchise² customer lending

3. Increase use of digital channels in sales and service

4. Constrain long-term cost growth to no more than 3% p.a.

Double digit ROE with momentum and strong dividend paying intent and capability over time

¹ Personal Current Account.
² TSB branded.
As of the end of 2016, TSB delivered its end of 2019 growth targets – 3 years ahead of plan

**TSB’s growth strategy at launch**

1. Provide great banking to more people
2. Help more people borrow well
3. Provide the kind of banking people want and deserve

**Target outcomes – by end 2019\(^1\)**

1. PCA\(^2\) market share (flow) consistently in excess of 6%
2. 40-50% growth in franchise customer lending
3. Increase use of digital channels in sales and service
4. Constrain long-term cost growth to no more than 3% p.a.

**Position as of end 2016**

- 7.3% average monthly share of flow since Jan 2014
- 47% growth in customer lending\(^3\)
- 52% of sales through digital channels compared to 18% in Jan 2014
- 0.6% compound annual growth rate in costs 2014 – 2016
- Britain’s most recommended high street bank

**Double digit ROE with momentum and strong dividend paying intent and capability over time**

- 9.4% RoE\(^4\) – pre step-up in TSA costs and migration benefits

---

\(^1\) 5 years after IPO.
\(^2\) Personal Current Account.
\(^3\) Excluding mortgage enhancement.
\(^4\) Target equity.
This growth has been achieved whilst maintaining a low risk profile and reducing the cost of risk.

**TSB customer lending evolution, 2014 – 2017**

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsecured</td>
<td>26,398</td>
</tr>
<tr>
<td>Unsecured</td>
<td>2,027</td>
</tr>
<tr>
<td>Unsecured</td>
<td>2,063</td>
</tr>
<tr>
<td>Unsecured</td>
<td>2,063</td>
</tr>
<tr>
<td>Unsecured</td>
<td>3,006</td>
</tr>
<tr>
<td>Unsecured</td>
<td>2,480</td>
</tr>
<tr>
<td>Unsecured</td>
<td>1,849</td>
</tr>
<tr>
<td>Unsecured</td>
<td>1,371</td>
</tr>
<tr>
<td>Unsecured</td>
<td>8,913</td>
</tr>
<tr>
<td>Unsecured</td>
<td>10,832</td>
</tr>
<tr>
<td>Unsecured</td>
<td>2,109</td>
</tr>
<tr>
<td>Unsecured</td>
<td>1,481</td>
</tr>
<tr>
<td>Unsecured</td>
<td>2,296</td>
</tr>
<tr>
<td>Unsecured</td>
<td>134</td>
</tr>
<tr>
<td>Unsecured</td>
<td>14%</td>
</tr>
<tr>
<td>Unsecured</td>
<td>18%</td>
</tr>
<tr>
<td>Unsecured</td>
<td>3%</td>
</tr>
<tr>
<td>Unsecured</td>
<td>22%</td>
</tr>
<tr>
<td>Unsecured</td>
<td>13%</td>
</tr>
<tr>
<td>Unsecured</td>
<td>2014</td>
</tr>
<tr>
<td>Unsecured</td>
<td>2015</td>
</tr>
<tr>
<td>Unsecured</td>
<td>2016</td>
</tr>
<tr>
<td>Unsecured</td>
<td>2017</td>
</tr>
<tr>
<td>End of period</td>
<td>41.5%</td>
</tr>
<tr>
<td>Flow in period</td>
<td>55.8%</td>
</tr>
<tr>
<td>AQR</td>
<td>44bp</td>
</tr>
<tr>
<td>AQR</td>
<td>37bp</td>
</tr>
<tr>
<td>AQR</td>
<td>31bp</td>
</tr>
<tr>
<td>AQR</td>
<td>25bp</td>
</tr>
</tbody>
</table>

1. Loan to value.
2. Asset quality ratio, including Whistletree and the Mortgage Enhancement.
3. Excluding mortgage enhancement.
Similarly, the liability side of the balance sheet has grown whilst reducing the cost of liabilities.

**TSB customer deposits evolution, 2014 – full-year 2017 (£m)**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2014-17 CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed rate savings¹</td>
<td>2,890</td>
<td>3,232</td>
<td>4,209</td>
<td>3,898</td>
<td>10%</td>
</tr>
<tr>
<td>Variable rate savings¹</td>
<td>14,027</td>
<td>13,793</td>
<td>15,076</td>
<td>15,390</td>
<td>3%</td>
</tr>
<tr>
<td>Business banking</td>
<td>890</td>
<td>975</td>
<td>1,058</td>
<td>1,188</td>
<td>10%</td>
</tr>
<tr>
<td>Personal Current Accounts</td>
<td>6,818</td>
<td>7,875</td>
<td>9,041</td>
<td>10,044</td>
<td>14%</td>
</tr>
</tbody>
</table>

**Liabilities cost²**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>80bp</td>
</tr>
<tr>
<td>2015</td>
<td>66bp</td>
</tr>
<tr>
<td>2016</td>
<td>66bp</td>
</tr>
<tr>
<td>2017</td>
<td>40bp</td>
</tr>
</tbody>
</table>

**Net Interest Margin³**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>356bp</td>
</tr>
<tr>
<td>2015</td>
<td>351bp</td>
</tr>
<tr>
<td>2016</td>
<td>309bp</td>
</tr>
<tr>
<td>2017</td>
<td>302bp</td>
</tr>
</tbody>
</table>

¹ Including ISAs.
² Customer interest payable.
³ Management basis net interest income divided by average loans and advances to customers, gross of impairment allowance.
The resulting underlying 2017 profit growth was strong

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>899.5</td>
<td>968.8</td>
<td>1,080.5</td>
<td>11.5%</td>
</tr>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Franchise</td>
<td>834.0</td>
<td>851.2</td>
<td>961.1</td>
<td>12.9%</td>
</tr>
<tr>
<td>- Whistletree</td>
<td>2.2</td>
<td>71.4</td>
<td>57.7</td>
<td>(19.2%)</td>
</tr>
<tr>
<td>- Mortgage Enhancement</td>
<td>63.3</td>
<td>46.2</td>
<td>61.7</td>
<td>33.5%</td>
</tr>
<tr>
<td>Total income</td>
<td>899.5</td>
<td>968.8</td>
<td>1,080.5</td>
<td>11.5%</td>
</tr>
<tr>
<td>Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- IT outsourcing (TSA costs)</td>
<td>(85.4)</td>
<td>(91.8)</td>
<td>(213.8)</td>
<td>132.9%</td>
</tr>
<tr>
<td>- Other</td>
<td>(626.1)</td>
<td>(612.0)</td>
<td>(607.5)</td>
<td>(0.7%)</td>
</tr>
<tr>
<td>Total costs</td>
<td>(711.5)</td>
<td>(703.8)</td>
<td>(821.3)</td>
<td>16.7%</td>
</tr>
<tr>
<td>Impairments and fraud</td>
<td>(82.3)</td>
<td>(87.3)</td>
<td>(77.8)</td>
<td>(10.9%)</td>
</tr>
<tr>
<td>Management profit before tax</td>
<td>105.7</td>
<td>177.7</td>
<td>181.4</td>
<td>2.1%</td>
</tr>
<tr>
<td>Underlying management profit¹</td>
<td>105.7</td>
<td>177.7</td>
<td>287.9</td>
<td>62.0%</td>
</tr>
</tbody>
</table>

One-offs and banking volatility (38.1) 4.3 (18.7) (534.9%)
Statutory profit before tax 67.6 182.0 162.7 (10.6%)

¹ Excluding the impact of the early call of the mortgage enhancement, and the TSA uplift in 2017.
Migration onto TSB’s own infrastructure will reverse the TSA cost increase – and position TSB for continued success

Design principles behind new platform

- **Competitive advantage**
  - Competitive advantage: leveraging opportunities to introduce market differentiation without introducing risk to delivery
  - Ability to compete: with a solid basis for future business transformation
  - Operating costs: operating costs materially lower than today
  - Resilience and stability: to provide a fully functioning bank with no detriment to customer service
  - Compliance: with all UK legal and regulatory requirements

**Migration benefits**

- Reverse increase in IT costs
- Reduced development time/cost for new services/products
- Access to SME banking capability
The design, build and test of the new infrastructure is close to completion

1. Design
   - Design the new platform consistent with the Design Principles
     - c.2,500 human-years of effort
     - c.4,000 processes designed
     - 154 Dossiers in scope

2. Build
   - Build the platform to the specified Design
     - >1,500 software components
     - Two new data centres built
     - 140 miles of cabling laid

3. Test
   - Test the Build against the Design Spec
     - 55,000 test cases executed
     - Non-functional testing

4. Migrate
   - Extract data from LBG, transform and load onto new platform
     - 248 terabytes of data to be moved
     - First full Dress Rehearsal completed successfully on 3-4 Feb
     - Final landing slot being agreed

   ✓ Complete  ✓ Complete  ✓ Showcase event  ✓ TSB Beta  Migration-ready by end Q1 2018 and targeting April completion
The 30 November 2017 showcase event was a great opportunity to demonstrate the capability of the new platform.
Around 2,000 TSB employees are or will be using “TSB Beta” to prove the end-to-end operation of the new platform

- >1,300 employees transacting on the new platform via TSB Beta
- 96% of TSB ATMs operating on the new platform
- Faster payments operating via 5 sort codes for c.45k customers on the new platform
- 140 mortgage brokers using the new platform (Mortgage Pro)
- >8,000 TSB employees using the new digital workplace
- All Mobile customers operating on the new platform
- Public website operating on the new platform
The outlook is for a relatively benign UK economy over 2018-2020, supporting steady growth in lending markets.

### 2017 Outcomes

- **Mortgage market**
  - Market £12-13bn larger than expected at £1.37tn
  - Market “flow” strong at £257bn

- **Unsecured lending market**
  - Market slightly larger than expected at £207bn
  - Market includes auto finance

- **Corporate lending market**
  - SME market broadly flat in 2017

- **Household deposit balances**
  - 2017 outcome as expected at c.£1.32tn

### 2018-2020 Outlook

- **Mortgage market**
  - Total market growth of c.2% p.a. from 2018-2020
  - Market “flow” at c.£240-260bn over 2018-2020

- **Unsecured lending market**
  - Total market growth of c.4% p.a. from 2018-2020

- **Corporate lending market**
  - Total corporate lending growth of c.3% p.a. from 2018-2020, large companies likely to outpace SMEs

- **Household deposit balances**
  - Total market growth of c.3% p.a from 2018-2020 supported by rate rises

*Note: Sources include Bank of England, Office for National Statistics, Council of Mortgage Lenders and TSB analysis.*
Our priorities in 2018 are to complete migration, make the most of the new platform and continue to grow

<table>
<thead>
<tr>
<th>Complete migration</th>
<th>1. Complete migration</th>
</tr>
</thead>
</table>
| Make the most of the new platform… | 2. Launch SME banking, including leveraging the RBS remedies  
3. Commence the redesign of TSB – reducing costs and increasing agility |
| Continue to grow organically | 4. Maintain PCA share of flow ≥6.0%  
5. Continue to grow assets |
TSB’s SME banking launch will combine the best of “physical” and “digital” propositions for small businesses and entrepreneurs across the UK

**Target segments:** small and micro SMEs across the UK

- Business size
  - Micro: <10 employees
  - Small: <50 employees
- Strong growth in this market
  - 500,000 new SMEs in 2017
  - 5.7m total small SMEs
- Typically transactions and deposits led businesses
- Typically high ROE on lending
- Strong alignment to TSB brand and capabilities

**Proposition and brand positioning:** “Helping Britain’s small businesses and entrepreneurs thrive”

**Distribution**
- Branch-based Relationship Managers (RMs) in key locations
- iPad and video conference enabled branches
- Market-leading digital capability

**Products**
- Competitively priced core product set – Business Current Accounts, deposits, cards, lending
- Range of partnerships for wider services

**Approach**
- Design-led, integrating best of TSB in-house capability and fintechs

**Current position – targeting H2 2018 launch**

- Commercial Banking Director appointed – team building
- Announced recruitment of 15 RMs for Manchester, Birmingham, Leicester, Edinburgh
- Digital onboarding and lending being built

- Business size
- Commercial Banking Director appointed – team building
- Announced recruitment of 15 RMs for Manchester, Birmingham, Leicester, Edinburgh
- Digital onboarding and lending being built
We will be competing for a Pool A Innovation and Capability Fund grant and to participate in the Incentivised Switching Scheme.

### Alternative remedies – summary
Total fund of £775m to be used to promote SME banking competition

- **Capability and Innovation Fund Grants** (£425m)
  - **Pool A:** £120m, £100m, £60m
  - **Pool B:** £50m, 2 x £15m
  - **Pool C:** 4 x £10m
  - **Pool D:** 5 x £5m

- **Incentivised Switching Scheme** (£350m)
  - £0.1-1.0m T/O: £3,000
  - £1.0-1.5m T/O: £6,250
  - £1.5-2.0m T/O: £13,125
  - £2.0-2.5m T/O: £16,875
  - > £2.5m T/O: £25,000

- **Independent Body**
  To be established to receive bids and award grants

### Process
1. TSB is eligible to compete for a **Pool A** grant
2. RBS is required to transfer a minimum of 120,000 SME banking customers
3. The Independent Body is expected to be established in Q1 2018
   - grant applications in Q2 2018
   - grants awarded Q3 2018
Continuation of TSB’s growth strategy post migration creates a high ROE business growing strongly

TSB’s continuing growth strategy

1. Provide great banking to more people
2. Help more people borrow well
3. Provide the kind of banking people want and deserve
4. Help local businesses thrive

Target outcomes by the end of 2020

1. £8-10bn net additional customer lending compared to end of 2017
2. Average PCA\(^1\) share of flow at or above 6%
3. Costs managed to achieve c.55% cost:income ratio\(^2\) on a standalone basis in 2021
4. Leverage of Proteo4UK to build leading mobile and digital capability
5. Strong entry into small business banking market
6. Retain strong brand position

Strong double digit ROE\(^3\) with c.20% CAGR Management Profit growth over 2017-2020

\(^1\) Personal Current Accounts.
\(^2\) Includes amortisation.
\(^3\) Target equity.
Sabadell 2020
Investor Day
Competitiveness in operations, a superior platform

Miguel Montes
COO
London, 23 February
Taking advantage of the digitalisation (opportunity)

Increase competitiveness in digital capabilities and new business models, consolidating our top player position in efficiency

Cost management becomes one of the main challenges, and management is essential to...

- Increase productivity and efficiency in core scope
- Create optionality in new environments
Increasing the gap between income and expenses

**Income and expenses evolution, Sabadell Group**

Rebased to 100

- **Group NIM + Fees**
- **Group Costs**

<table>
<thead>
<tr>
<th>Year</th>
<th>Group NIM + Fees</th>
<th>Group Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>2020</td>
<td>116</td>
<td>100</td>
</tr>
</tbody>
</table>

**Focus**

- **Spain**: Deploy optionality while increasing productivity
- **UK**: Deliver integration synergies (tech and operational)
- **Mexico**: Scale business on deployed platform

**Cost-to-income ratio**

- **Spain**: 53.9%
- **UK**: c.47%

---

1 Excluding Sabadell United Bank, Mediterraneo Vida and Mortgage Enhancement.
2 Cost-to-income ratio defined as operating expenses (excluding amortisation) divided by gross operating income (excluding one-offs and extraordinary trading income). 50% CI published (including extraordinary trading income).
Objectives for 2020: In the leading positions

**Objectives**

- Continue providing **productivity and efficiency** in the core business
- Provide the required human capital and adapt the organisational structure, **while increasing productivity and employee satisfaction**
- Develop technological capabilities to **boost Sabadell’s competitiveness**
  - Develop IT capabilities to improve bank’s efficiency
  - Evolve IT platform to **offer opportunities** to tap **new profit pools and improve value proposition** (platform models)

**Group cost-to-income ratio**

\[
\begin{array}{c|c|c}
\text{Year} & \text{Ratio} & \text{Change} \\
\hline
2017 & 53.9\% & -690 bps \\
2020E & c.47\% & \\
\end{array}
\]

**Productivity** (business volume / costs)

\[
\begin{array}{c|c|c}
\text{Year} & \text{Ratio} & \text{Change} \\
\hline
2017 & 117 & +13% in 3 years \\
2020E & 132 & \\
\end{array}
\]

**Great Place to Work (GPTW)**

\[
\begin{array}{c|c|c}
\text{Year} & \text{Ratio} & \text{Change} \\
\hline
2017 & 61\% & +900 bps \\
2020E & >70\% & \\
\end{array}
\]

**IT cost over revenue**

\[
\begin{array}{c|c|c}
\text{Year} & \text{Ratio} & \text{Change} \\
\hline
2017 & 7.6\% & -250 bps \\
2020E & 5.1\% & \\
\end{array}
\]

---

1. Cost to income ratio defined as operating expenses (excluding amortisation) divided by gross operating income (excluding one offs and extraordinary trading income).
2. Productivity defined as (Gross loans to customers ex repos+ on balance sheet customer funds+ off-balance sheet funds) / (Personnel expenses + General Admin expenses) (like for like evolution: 2017 excludes SUB and Mediterraneo Vida).
3. GPTW defined as the result of an internal survey to employees, measuring the global satisfaction of employees with the company.
A good starting point

**Efficiency and productivity**
- Sabadell is today one of the most efficient players in the industry (660 bps less than the average and 200 bps less than the second most efficient player), thanks to: acquisition synergies, improvements in unit costs and operating model enhancement

**People and organisation**
- Sabadell’s operational model has allowed the bank to grow its capacity (its workforce has doubled since 2010), while maintaining unit costs
  - Industrialisation and centralised back offices – moving administrative tasks to more competitive locations
  - Higher needs in our Corporate Centre due to asset and digital transformation, increased regulations and internationalisation, although our competitive operational model offsets potential costs increases

**IT/Ops**
- State-of-the-art core banking system, Proteo, which is also the foundation for TSB’s new platform
- Arm’s length IT/Ops service organisation, that allows cost arbitrage and transparency
- Low levels of fraud and cyber delinquency thanks to our focus on delivering new controls procedures (using Artificial Intelligence to anticipate threats) and reliability without impacting Customer Experience
- Highly rated set of apps (e.g. TSB’s mobile app is the first to offer iris recognition)
Track record of boosting efficiency

- Sabadell ex-TSB improved its core efficiency ratio to 47.9% or by 11 pp since 2014

### Core efficiency ratio, Sabadell ex-TSB

In percentage

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>59.2%</td>
</tr>
<tr>
<td>2015</td>
<td>50.2%</td>
</tr>
<tr>
<td>2016</td>
<td>49.3%</td>
</tr>
<tr>
<td>2017</td>
<td>47.9%</td>
</tr>
</tbody>
</table>

General exp. + Personnel exp.  
NIM + fees

#### Levers

- Acquisitions synergies
- Unit cost improvements
- Operational model transformation

---

1 Core efficiency ratio defined as operating expenses (excluding amortisation) divided by gross operating income excluding trading income and forex as well as the capital gains from the VIF reinsurance transaction.
Banking costs dynamics

The significant reduction in installed capacity has not reduced the cost base accordingly…

… in fact, it has even increased in the last 3 years due to the deployment of digital services and capabilities (creating optionality)

Note: Source: Bank of Spain (statistics).
Banking costs dynamics

Given the coexistence of physical and digital channels, we are at the peak of channels deployment, which implies additional costs.

Changes in available channels

Illustrative

There is still a correlation between branch network size and income

Banks business models will continue to depend on branch networks as the main source of customer engagement.

Sabadell’s transformation program

Dual focus on business transformation to increase productivity and on new business opportunities…

![New value chain diagram]

Develop core business

**Productivity enhancement**
- **Distribution** model transformation
  - Active Customer Serviving
  - Physical distribution model (e.g. Hub & Spoke)
  - Digital distribution channel with transactional capacity
  - Sales force relevance and transformation
- **Pull model** based on Data & Analytics and segmented marketing

Create new business opportunities (optionality)

**Business development**
- Develop new value proposition to satisfy customer needs
  - Introducing new services to accompany our customers throughout the **value chain** (end-to-end vision)

**New digital businesses**
- Develop digital businesses to anticipate the **change of paradigm**
  - Boost banking transformations with new products and services
  - Hedge solutions: Cover our business disruption risk (e.g. GAFA)

…offsetting the impact of increasing complexity
Creating optionality using platform models

One of our key objectives is to further develop the relationship with our customers, a platform model will allow us to be the Everyday Partner to our customers.

**Today**

Shift from a perspective of customers based on their activities affecting the balance sheet to a perspective based on their needs.

**Aspirational**

**APIs & Open Banking**

IT features that will allow us to **satisfy our customer’s strategic requirements**, beyond banking regulatory requirements (PSD2).

**Service Ecosystem Platform**

Sabadell will transform from a banking partner to a **banking and non-banking** partner within the new service ecosystem.
**Our people, our transformation pillar**

Our people are our key differentiating factor as they represent the brand promise and corporate values

---

**Development rather than restructuring**

- Focus on talent management, training and transforming resources for new business needs (deployment of new **active customer servicing agents**)

---

**Organisational initiatives to boost relationship with customers**

- Enhance **mobility of our commercial** workforce by implementing new tools
- Improve the **commercial agenda** (procedures, planning, etc.)
- **Introduce robotics** to reduce administrative tasks, focusing in customer interactions and engagement
- **Artificial Intelligence and Business Analytics** to anticipate customers needs

---

**Continue improving gender diversity**

- Good starting point, currently, >55% female employees and 34.6% female managers
Applying emergent technologies to our business

Implemented first proof of concepts (POC) to pilot the application of technologies in our banking model and test scalability

**Processes Robotisation**
Implementation of robotics in operational processes to achieve a reduction of 150 FTEs and 20M€ in cost savings

**Business intelligence**
Use of cognitive systems to identify customers’ requirements and automatically generate commercial actions

**Account Information Service Provider (AISP)**
Taking advantage of PSD2 opportunities – Use of informational aggregators offering SMEs 360° tools for cash management

**Blockchain – Real Estate**
Connecting major providers, offering a one-click solution to set up direct debits for utilities (internet, electricity, etc.)
TSB migration, a distinctive capacity of Sabadell

We have built the best IT platform for TSB success…

… breaking the UK benchmark

- Deployment of a new IT Platform in UK, thanks to our in-house core banking system, Proteo
- Data migration from Lloyds IT platform to Proteo4UK

From a limited small incumbent to a powerful challenger
Our aim: Taking advantage of digital opportunities increasing competitiveness

From the product and services side…
Deployment of new digital capabilities to increase our customer engagement
• Providing support to improve our value proposition
• Opportunities to access new profit pools

From the cost side…
• Continue our transformation process to gain productivity and generate surplus resources
• Leverage on our IT Platform to gain competitiveness

The digital era is bringing competition and new business opportunities…

…Sabadell embraces the market dynamics supported by its operational superiority
Sabadell 2020
Investor Day

Our financial plan to enhance profitability

Tomàs Varela
Group CFO

London, 23 February
Improving context for the banking sector

**Favourable growth / inflation mix**
- Global growth to be more synchronised
- Positive and contained rates of inflation

**Gradual tightening of global financial conditions**
- Reduced support from central banks
- Ample liquidity in financial markets

**Potential impact of geopolitics and economic policy**
- Orderly Brexit despite complex negotiations
- Progress in the European construction process
- More populist tone in the US
- Risks to Mexican politics from NAFTA renegotiation
- Elections increase political uncertainty in Mexico

**Central banks focused on scaling back monetary stimuli**

**Improving context for the banking sector**
- Tail-winds for EU banking sector mid-term profitability
- “Plateauing” and recalibration of post-crisis regulations
- Balance sheet repair efforts intensify
- New impetus to finalise Banking and Capital Markets Union
- Increased usage of macroprudential policy

**Core sovereign yields increase, low euro periphery spreads**

**Stronger euro relative to the US dollar and stability relative to the British pound**
Spain: Strong dynamism in economic activity

- GDP growth will continue to outperform the euro area
- Unemployment will return to pre-crisis levels
- Positive dynamics in the real estate sector
- Return to growth in private sector credit

### Strategic plan baseline scenario

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (%, year-on-year)</td>
<td>3.3</td>
<td>3.1</td>
<td>2.5</td>
<td>2.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Inflation (%, year-on-year)</td>
<td>-0.3</td>
<td>2.0</td>
<td>1.4</td>
<td>1.7</td>
<td>1.9</td>
</tr>
<tr>
<td>Unemployment rate (%, annual average)</td>
<td>19.6</td>
<td>17.2</td>
<td>15.6</td>
<td>14.2</td>
<td>13.0</td>
</tr>
<tr>
<td>House prices (%, year-end)</td>
<td>4.5</td>
<td>6.5</td>
<td>3.5</td>
<td>3.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Credit (%, w/o NPLs, year-end)</td>
<td>-1.1</td>
<td>-0.5</td>
<td>1.4</td>
<td>2.9</td>
<td>3.5</td>
</tr>
<tr>
<td>Deposits (%, year-end)</td>
<td>3.3</td>
<td>2.9</td>
<td>4.5</td>
<td>5.0</td>
<td>5.0</td>
</tr>
</tbody>
</table>

1 Estimation.

Our business plan macroeconomic assumptions do not include recent positive developments in market expectations.
UK: Stable economic activity despite complex Brexit negotiations

Reasonable growth supported by strong global activity

Lack of spare capacity in the labour market reinforced by lower net migration

Absence of second-round effects will allow inflation to eventually return to 2% target

House prices broadly flat over the next 3 years

Our business plan macroeconomic assumptions do not include recent positive developments in market expectations

Strategic plan baseline scenario

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (% year-on-year)</td>
<td>1.9</td>
<td>1.8</td>
<td>1.3</td>
<td>1.6</td>
<td>1.8</td>
</tr>
<tr>
<td>Inflation (% year-on-year)</td>
<td>0.7</td>
<td>2.7</td>
<td>2.7</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>4.9</td>
<td>4.4</td>
<td>4.9</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>House prices (% annual average)</td>
<td>7.6</td>
<td>3.2</td>
<td>-2.0</td>
<td>0.5</td>
<td>3.3</td>
</tr>
<tr>
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<td>3.0</td>
<td>2.4</td>
<td>2.0</td>
<td>2.4</td>
<td>2.5</td>
</tr>
<tr>
<td>Deposits (% year end)</td>
<td>5.7</td>
<td>3.9¹</td>
<td>2.9</td>
<td>4.3</td>
<td>4.5</td>
</tr>
</tbody>
</table>

¹ Estimation.
Further progress in monetary policy normalisation

Reduced support from central banks

- **ECB**: End of QE (Sep-18) and first increase in the marginal deposit rate (Mar-19)
- **BoE**: Recent interest rate hikes expectations have not been included in our business plan assumptions
- **Fed**: Continuation of the tightening cycle and balance sheet reduction

Gradual tightening of global financial conditions

- Higher volatility in financial markets
- Increase in sovereign debt yields
- FX developments driven by politics

More favourable regulatory context for the banking sector

- Recalibration of banking regulation, although supervisory pressure set to continue

Strategic plan baseline scenario

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Euribor 3m</td>
<td>-0.33</td>
<td>-0.23</td>
<td>0.14</td>
<td>0.72</td>
</tr>
<tr>
<td>Euribor 12m</td>
<td>-0.19</td>
<td>-0.11</td>
<td>0.29</td>
<td>0.94</td>
</tr>
<tr>
<td>BoE Bank rate</td>
<td>0.50</td>
<td>0.75</td>
<td>0.75</td>
<td>1.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year-end</th>
<th>2017</th>
<th>2018E</th>
<th>2019E</th>
<th>2020E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollars per euro</td>
<td>1.20</td>
<td>1.25</td>
<td>1.30</td>
<td>1.35</td>
</tr>
<tr>
<td>Pounds per euro</td>
<td>0.89</td>
<td>0.90</td>
<td>0.90</td>
<td>0.90</td>
</tr>
<tr>
<td>Mexican pesos per dollar</td>
<td>19.65</td>
<td>19.00</td>
<td>18.50</td>
<td>18.50</td>
</tr>
</tbody>
</table>
Profitability boosted by continued core banking revenue growth, efficiency improvements and NPA normalisation

2020E

Net Interest Income
>4% CAGR

Fees
>6.5% CAGR

Net NPA ratio
2

Cost of risk
c.40bps

Efficiency optimisation

Business growth

NPA normalisation

ROTE c.13%

ROE >10%

Cost-to-income1
c.47%

Note: 2020E Group targets or 2017-2020E when applicable. Data on like-for-like basis which excludes Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement contribution.

1 Cost-to-income ratio defined as operating expenses (excluding amortisation) divided by gross operating income.

2 Net NPA / Total Assets, at Group level.
Timeline towards optimal profitability

2018

- Revenue comparability impacted by corporate transactions
- Low interest rates scenario
- Fees will be key for top-line growth
- Managing the cost base while transforming our business model
- TSB migration
- Significant improvement in CoR

2019-2020

- Higher loan growth and interest rate increases
- Core banking revenue growth together with stable Group expenses to drive cost-to-income\(^1\) ratio even lower
- 100% of TSB migration synergies achieved
- Leap forward in the business’ commercial and digital transformation
- NPA balance further reduced
- Normalised CoR

\(^1\) Excluding amortisation.
Sustainable double digit profitability in a normalised environment

Return on equity evolution, Sabadell Group
In percentage and basis points

ROE 2017 | NII | Fees | Trading Income | Costs | CoR | Organic equity growth | ROE 2020E
---|---|---|---|---|---|---|---
6.1% | c.+150 bps | c.+-200 bps | c.-200 bps | c.+15 bps | c.+.325 bps | c.-75 bps | >10%

Core banking revenue and Cost of Risk normalisation will be the key drivers to achieve double digit ROE in 2020

Note: Core banking revenue refers to net interest income plus fees.

1 Includes AT1 coupon payment.
Customer business growth, in both Spain and the UK, will be central to the positive evolution of NII

Net interest income evolution, Sabadell Group

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume</th>
<th>Yield (rates)</th>
<th>NPAs</th>
<th>ALCO</th>
<th>Wholesale funding</th>
<th>TSB</th>
<th>2020E</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>3,802</td>
<td>+ c.200</td>
<td>+ c.75</td>
<td>- c.50</td>
<td>- c.75</td>
<td>+ c.150</td>
<td>c.4,150</td>
</tr>
<tr>
<td>2017 like-for-like</td>
<td>3,663</td>
<td>+ c.175</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Main drivers:
- Volumes
- Rates
- NPAs
- TSB

Customer business growth, in both Spain and the UK, will be central to the positive evolution of NII.

Net interest income evolution, Sabadell Group

Euros in million

Main drivers:
- Volumes
- Rates
- NPAs
- TSB

1 Data on like-for-like basis which excludes Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement contribution.
Performing loans increasing above 4% CAGR thanks to a strong focus on SMEs and Corporates in Spain and on retail in UK

Performing loans, Sabadell Group

Euros in billion. In percentage

- **Spain**: Growth driven by SMEs and unsecured lending. The increase of new mortgage lending will more than offset attritions and prepayments.

- **Mexico**: Focus remains on Corporates and SMEs.

- **UK**: Growth driven by secured lending while launching SME strategy.

- **APS**: Portfolio in run off.

1. Spain includes overseas branches (OFEX) and subsidiaries.
2. APS exposure includes 80% of the APS problematic exposure which is presented as performing in the net loans as well as the DGF receivable account.
Customer funds growth focused on off-balance sheet funds…

Customer funds, Sabadell Group
Euros in billion. In percentage

€177.4bn → c. €205.0bn

2017
26%
19%
55%

2020E
28%
20%
52%

CAGR c.5%
CAGR c.8%
CAGR c.6%
CAGR c.3%

… driven by increasing mutual funds market share…

2017
6.25%
2020E
8.00%

…while maintaining a stable loan-to-deposit ratio around 107% and a comfortable liquidity coverage ratio above 150%
Regular wholesale funding maturities for the next 3 years…

Upcoming wholesale maturities, Sabadell Group

Euros in million. In percentage

2018 2019 2020 2021 2022 2023 2024 >2024

2,217 1.124 2,418 2,252 1,708 2,388 1,855 2,421
2.74% 1.97% 1.72% 2.19% 2.09% 0.59% 0.41% 2.28%

The size of the bubble represents the volume of maturities.
% Average coupon payment.

… with an attainable funding plan that will comply with MREL requirements:

- **Additional Tier 1**: The 1.5% tier 1 bucket has already been filled
- **Tier 2**: The 2.0% tier 2 bucket is also almost full
- **Senior unsecured**: Regular presence in the market with 1 or 2 benchmark transactions per annum to build up a buffer for MREL

1 Excluding AT1.
Our commercial strategy will enable us to achieve our business growth targets...

<table>
<thead>
<tr>
<th>Focus</th>
<th>Drivers</th>
<th>Target 2020E</th>
<th>Accumulated growth target 2020E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Spain</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Current business</td>
<td>SMEs new lending</td>
<td>+8% CAGR</td>
<td>c.25%</td>
</tr>
<tr>
<td></td>
<td>Mortgages new lending</td>
<td>+12% CAGR</td>
<td>&gt;40%</td>
</tr>
<tr>
<td></td>
<td>Off-balance sheet funds</td>
<td>+8% CAGR</td>
<td>c.30%</td>
</tr>
<tr>
<td></td>
<td>New protection insurance contracts</td>
<td>+19% CAGR</td>
<td>c.70%</td>
</tr>
<tr>
<td></td>
<td># of customers</td>
<td>&gt;3% CAGR</td>
<td>c.10%</td>
</tr>
<tr>
<td>• Areas with growth potential</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TSB</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Maintain the organic momentum</td>
<td>PCA share of flow</td>
<td>≥6%</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Franchise loan portfolio</td>
<td>+9% CAGR</td>
<td>&gt;25%</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Corporate banking</td>
<td>Loan portfolio</td>
<td>+20% CAGR</td>
<td>c.70%</td>
</tr>
<tr>
<td>• Business banking</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Retail banking</td>
<td>Cost-to-income ratio¹</td>
<td>&lt;65%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

¹ Cost-to-income ratio defined as operating expenses (excluding amortisation) divided by gross operating income.
... while improving customer profitability

Net interest margin and customer spread, Sabadell group

In percentage

Positive loan mix evolution in Spain will more than offset customer spread compression in UK

Note: 2017 figures exclude Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement portfolio.
Reinforcing customer loyalty and penalising lack of engagement will allow us to grow in commissions…

Commissions evolution, Sabadell Group
Euros in million

Commissions over business volume, Sabadell Group
In percentage points

… with a higher ratio of net fees over business volume

---

1 Business volume includes loans, deposits and off-balance sheet funds.
Efficiency improvements despite a solid starting point at ex-TSB level

Group cost-to-income ratio evolution

In percentage

- 2017: 53.9%
- 2018E: 50.1%
- 2019E: c.47%
- 2020E: 50.0%

Core efficiency ratio\(^1\) vs. peers

In percentage. Data as of 2017

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018E</th>
<th>2019E</th>
<th>2020E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sabadell ex-TSB</td>
<td>47.9%</td>
<td>50.7%</td>
<td>52.0%</td>
<td>55.9%</td>
</tr>
<tr>
<td>Peer 1</td>
<td>52.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peer 2</td>
<td>54.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peer 3</td>
<td>58.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peer 4</td>
<td>55.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2020 operating expenses to remain flat vs. 2017 like-for-like\(^2\)

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

\(^1\) Core efficiency ratio defined as operating expenses (excluding amortisation) divided by gross operating income excluding trading income and forex as well as the capital gains from the VIF reinsurance transaction and the early call of the Mortgage enhancement portfolio.

\(^2\) Like-for-like figures in 2017 exclude Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement portfolio.
Cost trends will reflect the different business life cycles in each core market

Gross operating income and costs evolution by core market

In percentage and rebased to 100\(^1\)

1. Ex-TSB and ex-Mexico\(^2\)

2. TSB\(^2\)

3. Mexico

Stable efficiency ratio despite inflationary pressure in costs from:

- Transformation and digitalisation of our business model, which will ultimately help us to keep differentiating ourselves and improving customer convenience and service quality
- Implementation of new regulations (MiFID II, PSD2), which could also represent a commercial opportunity for us

- Income growth and synergies (GBP160M fully achieved in 2019) to drive down efficiency ratio over the period
- Initial ramp-up in costs as we continue to grow the business, which is already generating profits
- Efficiency improvements to accelerate from 2019, decreasing to c.58% by 2022

Note: Cost-to-income ratio defined as operating expenses (excluding amortisation) divided by gross operating income (excluding one-offs and extraordinary trading income).

\(^1\) Gross operating income and operating expenses figures rebased to 100 starting in 2017.

\(^2\) Like-for-like figures in 2017 exclude Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement portfolio.
Well thought-out NPA reduction strategy

Specific management priorities with a particular approach for each type of NPA

1. NPLs inflow
   - Normalisation of NPL inflows

2. NPLs stock
   - Speeding up the reduction of the stock

3. Foreclosed assets
   - No more losses
Further reduction in NPLs inflow…

Gross NPL entries, ex-TSB
Euros in billion

… driven by an ongoing focus on preventive actions, and the use of business intelligence tools supported by a favourable economic environment
2 Speeding up the reduction of NPLs stock

NPL ratio evolution
In percentage

12.70%
6.57%
5.14%
<3.5%
<3.0%

NPLs composition (2017)
- Mortgage Guarantees: 74%
- Residential: 68%
- Commercial RE: 25%
- Land: 7%
- Non-Mortgage Guarantees: 26%

NPLs workout and recoveries breakdown (2017-2020E)
- Foreclosed: 27%
- Write-offs: 18%
- Collections & recoveries: 42%
- Sales: 13%

Efficiency Business growth
NPA normalisation

Group
Ex-TSB
No more losses on foreclosed asset sales with a significant improvement in composition

Foreclosed assets evolution, ex-TSB
Euros in billion

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreclosed Assets (in billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>€8.8bn</td>
</tr>
<tr>
<td>2015</td>
<td>€8.8bn</td>
</tr>
<tr>
<td>2016</td>
<td>€8.8bn</td>
</tr>
<tr>
<td>2017</td>
<td>€7.4bn</td>
</tr>
<tr>
<td>2018E</td>
<td></td>
</tr>
<tr>
<td>2019E</td>
<td></td>
</tr>
<tr>
<td>2020E</td>
<td></td>
</tr>
</tbody>
</table>

Foreclosed assets composition, ex-TSB

2017
- Finished properties: 62%
- Land: 34%
- Under construction: 4%

2020E
- Finished properties: 91%
- Land: 5%
- Under construction: 4%

1 2017-2020 data excludes €1,252M carved out into our new business line Solvia Desarrollos Inmobiliarios.
Net NPAs representing c.2% of the total assets by 2020

Problematic exposure and coverage evolution, ex-TSB

Euros in billion. In percentage

- Net NPAs representing c.2% of the total assets by 2020.
- Problematic exposure and coverage evolution, ex-TSB.
- Euros in billion. In percentage.

- €24.8bn
- €15.2bn
- <€9bn
- c.€4bn
- <€5bn

- Foreclosed assets
- NPLs
- NPA coverage
- NPA coverage post IFRS9

1. 2017-2020 data excludes €1.252M carved out into our new business line Solvia Desarrollos Inmobiliarios.
2. Net NPAs divided by total assets, at Group level.
We will continue to strengthen our capital position

Capital position, Sabadell Group

In percentage

2017
Phase-in
16.1%
13.4%
1.8%
0.9%

2017
Fully loaded
16.1%
12.8%
1.8%
1.5%

2017
Fully loaded post
IFRS9 pro forma
15.3%
12.0%
1.8%
1.5%

2020E
Fully loaded
c.16%
c.12.5%
c.2.0%
c.1.5%

Total
Capital
Ratio

c.12.5%
FL CET1

c.50%
Dividend
payout

Sabadell

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Uncertainty has begun to clear as more and more regulatory matters are resolved.

**Less uncertainty:**
- IFRS 9: already implemented and transitional adjustments applied (phased in until 2023)
- Basel III: pending transposition to EU law. Very little impact envisaged

**Yet to be resolved by regulators:**
- MREL framework (under discussion)
- Actively providing support to resolution authorities in resolution planning

**European NPL action plan:**
- New NPLs: SSM NPL Addendum to be released in March 18
- NPL stock. Banco Sabadell has a clear NPL reduction strategy

**Ongoing fieldwork with the SSM,** expected to be complete in 2019

After our swift adaptation to the regulatory framework we expect to see some stability in capital requirements going forward.
<table>
<thead>
<tr>
<th>Category</th>
<th>Growth / Basis Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performing loans</td>
<td>&gt;3%</td>
</tr>
<tr>
<td>Net Interest Income</td>
<td>c.2%</td>
</tr>
<tr>
<td>Core banking revenue(^1)</td>
<td>&gt;5%</td>
</tr>
<tr>
<td>Costs(^2)</td>
<td>c.1%</td>
</tr>
<tr>
<td>Cost of Risk</td>
<td>60bps</td>
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</tbody>
</table>

Note: Targets expressed on a like-for-like basis in 2017, excluding Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement contribution.

\(^1\) Core banking revenue refers to net interest income plus commissions.

\(^2\) Excluding amortisation.
## Group guidance 2020

<table>
<thead>
<tr>
<th>Business growth</th>
<th>Net Interest Income</th>
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<tr>
<td></td>
<td>Commissions</td>
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<td></td>
<td>Performing loans</td>
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</table>

<table>
<thead>
<tr>
<th>Efficiency</th>
<th>Cost-to-income ratio(^1)</th>
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<tbody>
<tr>
<td></td>
<td>c.47%</td>
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<table>
<thead>
<tr>
<th>NPA normalisation</th>
<th>NPA coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>49%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>NPA normalisation</th>
<th>NPL ratio</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>&lt;3%</td>
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<table>
<thead>
<tr>
<th>NPA normalisation</th>
<th>NPA reduction (accumulated)</th>
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<tbody>
<tr>
<td></td>
<td>&gt;€6.0bn</td>
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</table>

<table>
<thead>
<tr>
<th>Cost of Risk</th>
<th>ROE</th>
<th>ROTE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&gt;10%</td>
<td>c.13%</td>
</tr>
</tbody>
</table>

Note: Targets expressed on a like-for-like basis in 2017, excluding Sabadell United Bank, Mediterráneo Vida as well as the Mortgage enhancement contribution.

\(^1\) Cost-to-income ratio defined as operating expenses (excluding amortisation) divided by gross operating income.
Key takeaways

Positive macro trends

- Tailwinds for the banking sector will support mid-term profitability improvements
- Business plan based on conservative macroeconomic assumptions

Business growth

- Well-defined commercial and business strategy, with competitive advantages and top customer experience, to grow volumes while increasing customer profitability
- Balance sheet well positioned to benefit from medium term interest rate increases

Efficiency enhancement

- Efficiency expected to improve, even when considering the cost to leverage the opportunities from the digital transformation and new regulations, the pressure from an inflationary environment and the cost involved in growing our bank in Mexico

NPA normalisation

- Clear path to NPA normalisation with the flexibility to accelerate it even more
- Improved market conditions provide increasingly attractive institutional transaction opportunities to reduce NPAs faster while preserving capital

Strong capital & shareholder remuneration

- Strong capital position, comfortably in excess of requirements, will favour shareholder remuneration
- After our swift adaptation to the regulatory framework we expect to see some stability in capital requirements going forward

Strong core banking revenue growth, COR normalisation, and efficiency optimisation will enable us to reach a ROTE of c.13% by 2020
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