

# Banco Sabadell

**Enhancing profitability in a low  
interest rate environment**



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Consejero Delegado**

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# 1. Spanish economy

2. Banco Sabadell's current position

3. Business dynamics

4. New Business Plan

# The economic recovery is gaining traction in Spain ...

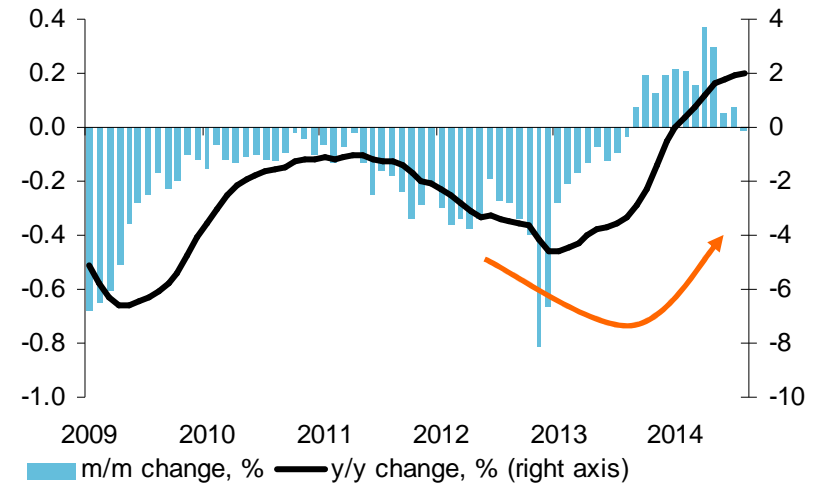
## Industrial production

(year-on-year variation in %, seasonally adjusted)



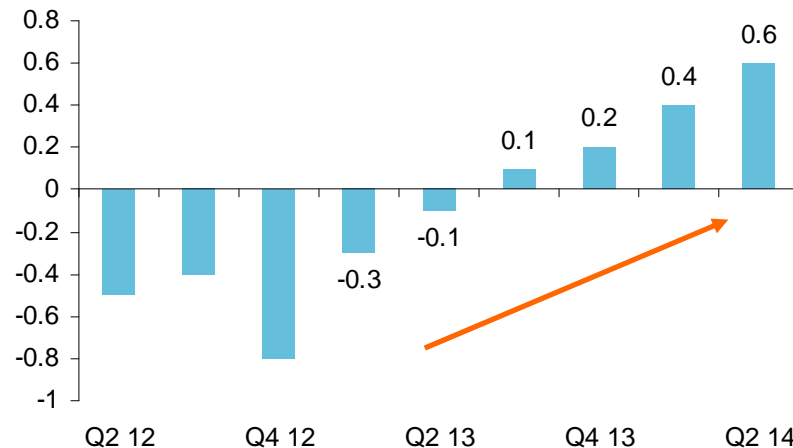
## Social Security contributors

(seasonally adjusted)



## Real GDP

(quarterly variation, %)

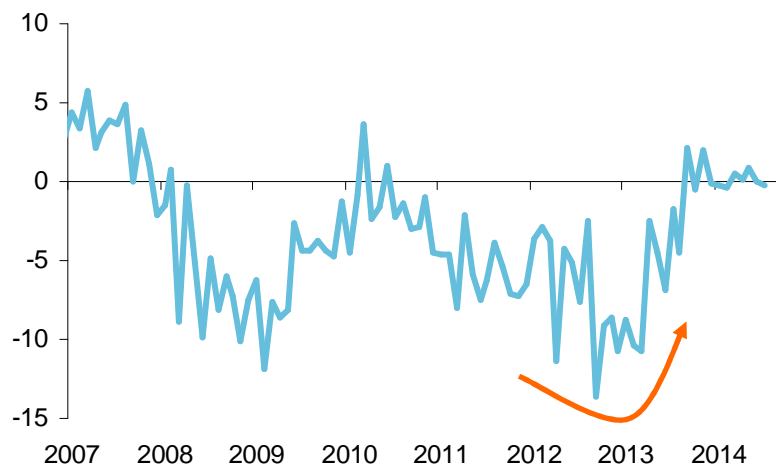


**GDP increased in 2Q14 at its fastest pace since early 2008**

# ... supported by the improvement in domestic demand

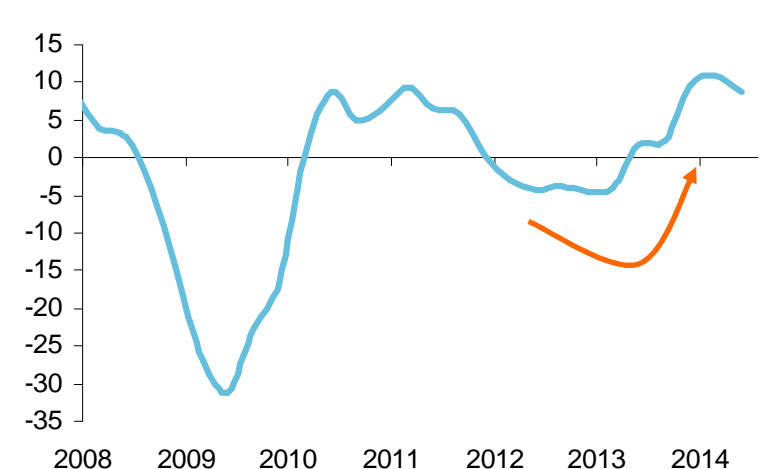
## Retail sales

(year-on-year variation in %)



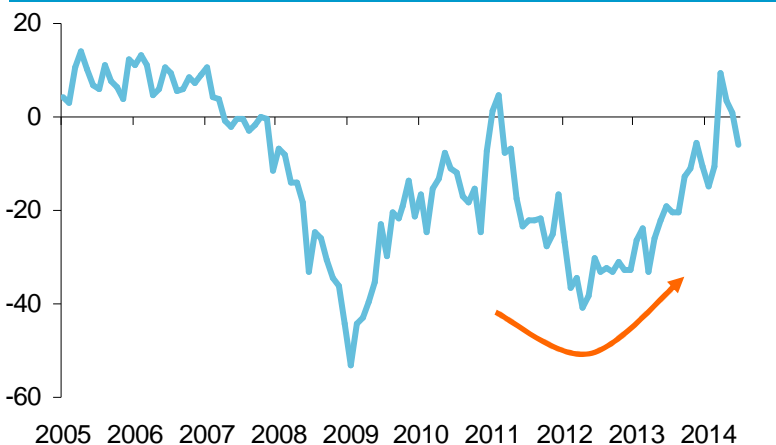
## Investment in capital goods

(year-on-year variation in %)



## Apparent cement consumption

(year-on-year variation in %, seasonally adjusted)



## Domestic demand

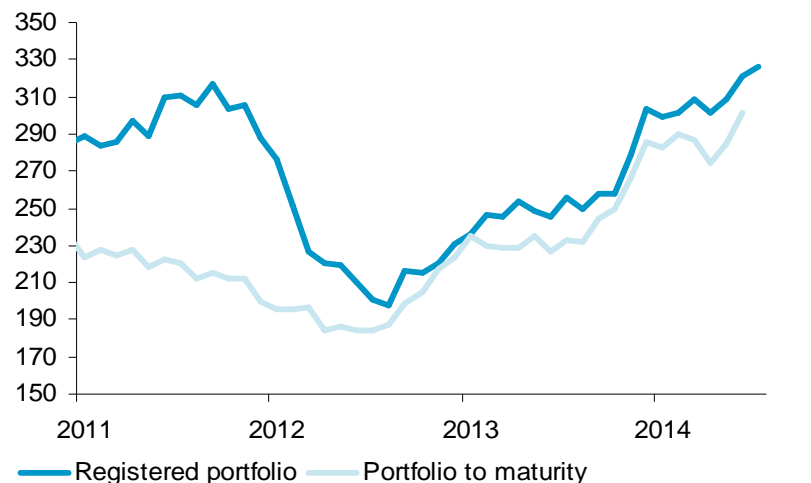
(contribution to GDP growth)

1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
-4.3	-3.6	-2.1	-0.6	+0.7	+1.9

Sources: Bank of Spain, Spanish Statistical Office (INE) and Ministry of Economy.

# The recovery is finding support in the more favourable financial conditions ...

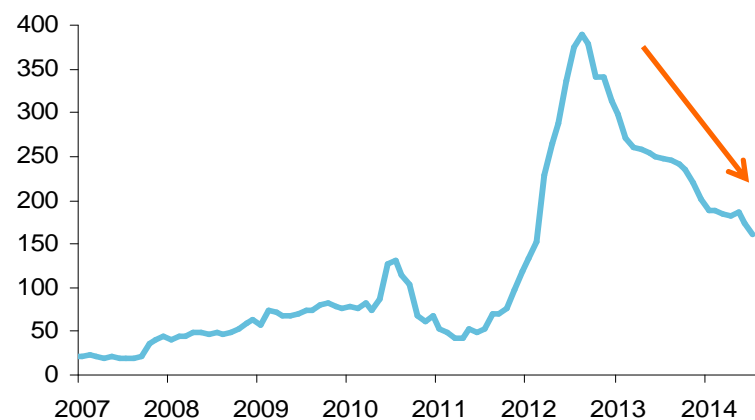
## Non-resident holdings of Spanish Treasury debt Euros in billion



## Spanish 10-year government bonds spread (b.p.)



## Spanish banks ECB usage Euros in billion



## Credit rating

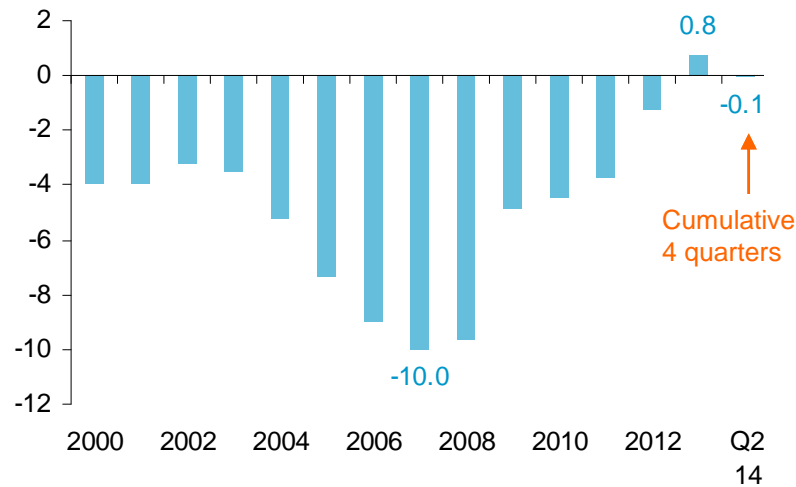
	Rating	Outlook
S&P's	BBB	Stable
Moody's	Baa2	Positive
Fitch	BBB+	Stable

Moody's (Feb14), Fitch (Apr14) and S&P's (May14) improved the rating of Spain by one notch

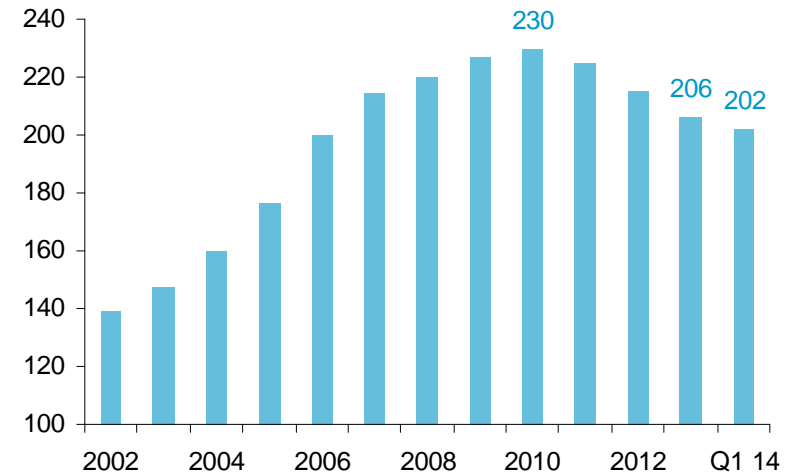
Sources: Bank of Spain and Bloomberg.

# ... in the realised progress towards correcting past accumulated imbalances ...

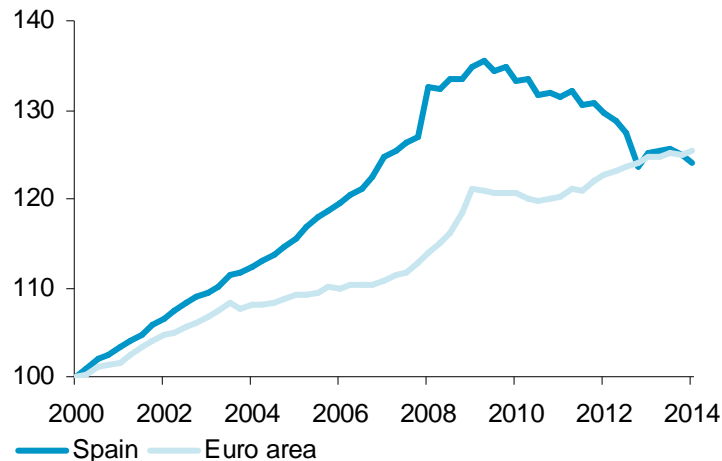
### Current account balance (% of GDP)



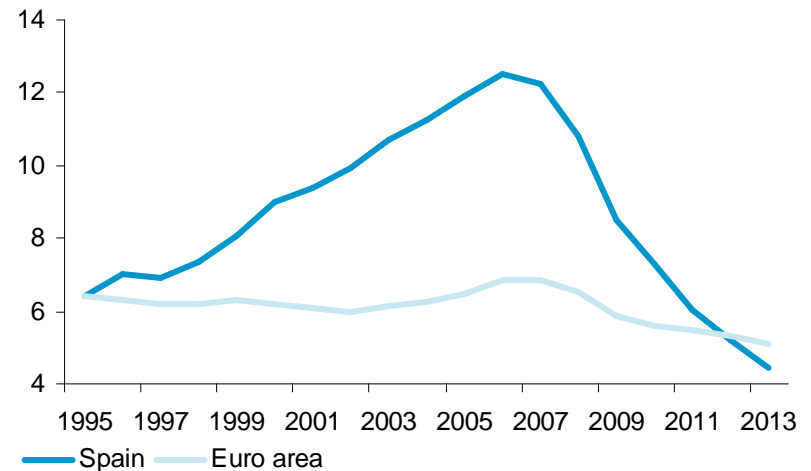
### Private sector debt (% of GDP)



### Unit labour cost (2000 = 100)



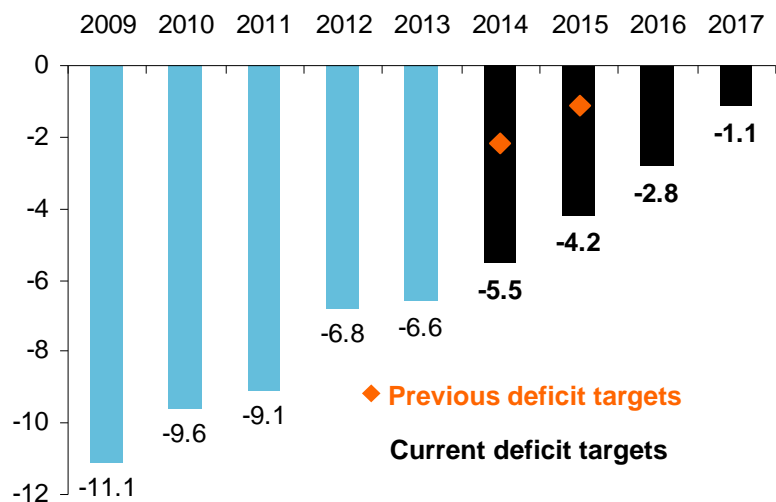
### Investment in housing (% of GDP)



Sources: Bank of Spain, ECB, AMECO and INE.

# ... and in the moderation in the intensity of the budgetary adjustment

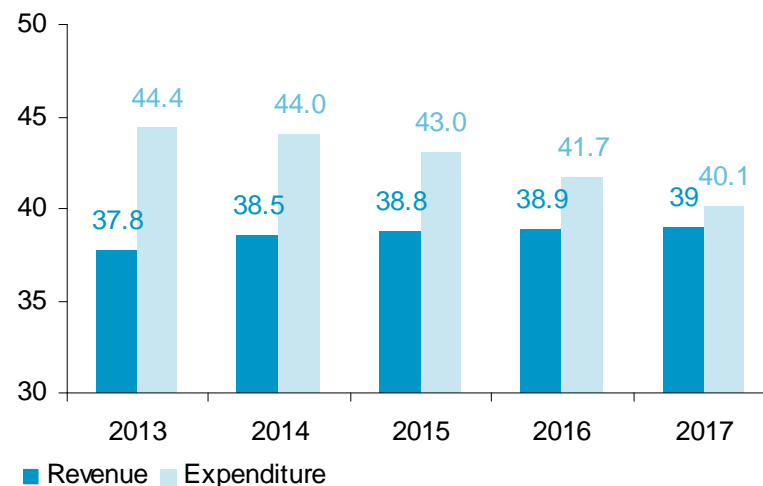
## Public sector balance (% of GDP)



The softening of the deficit reduction path results in a better balance between fiscal consolidation and boosting economic activity.

The expected deficit reduction path is feasible

## Public sector balance (% of GDP)



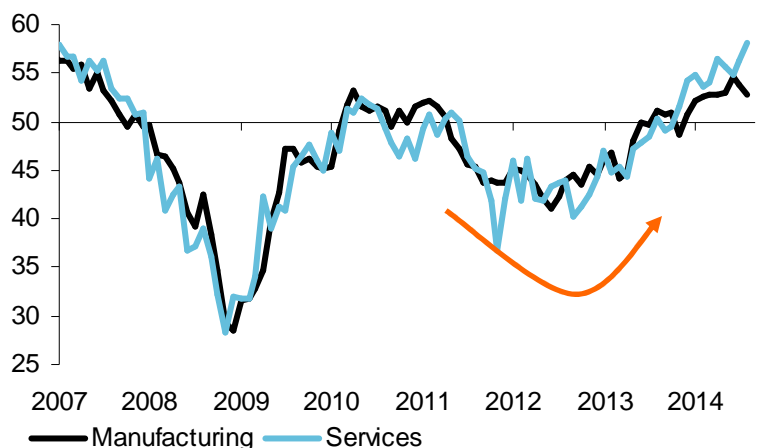
Sources: European Commission and Ministry of Finance.  
 Note: The impact on the deficit of the support for the financial sector is not considered.



# The improvement in economic activity is expected to continue going forward

## Business sentiment

(index)



## Activity will continue to be supported by:

- ✓ More benign financial conditions
- ✓ Lower fiscal effort
- ✓ Favorable evolution of exports
- ✓ Advance stage of the imbalances adjustment process

## GDP forecasts

(avg. yearly growth rate)

	2013	2014e	2015e
Government	-1.2	1.2	1.8
Bank of Spain	=	1.3	2.0
Funcas consensus	=	1.2	1.9
Banco Sabadell	=	1.3	2.0

## And also by:

- ✓ An improved behaviour of the construction sector
- ✓ Impact of structural reforms
- ✓ Normalisation of credit conditions

A low-angle photograph of a modern building's facade, showing a grid of windows and architectural details against a clear blue sky. The building's design is characterized by white concrete elements and dark window frames.

1. Spanish economy

## **2. Banco Sabadell's current position**

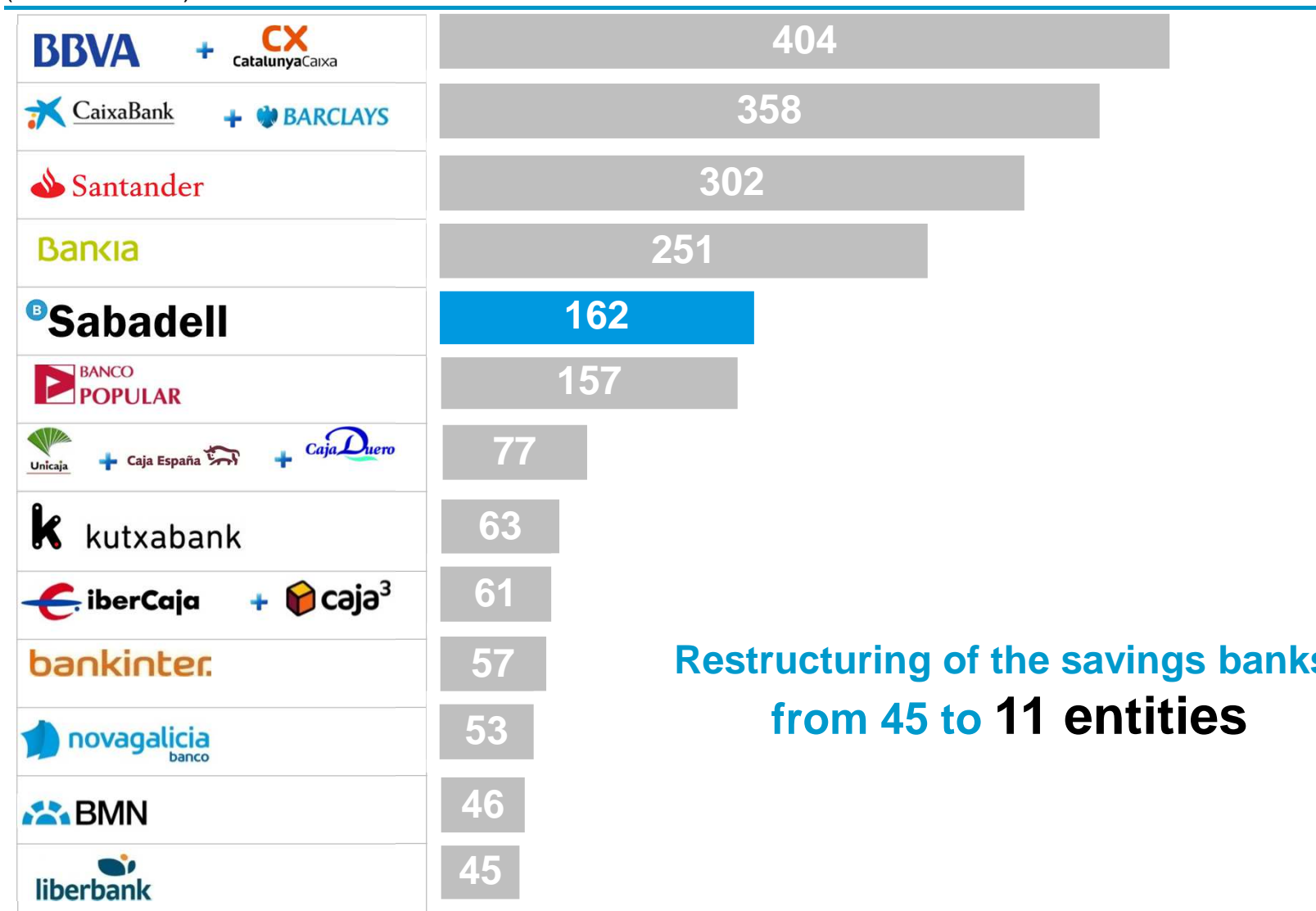
3. Business dynamics

4. New Business Plan

# The Spanish financial map has changed

## Total domestic assets of the main financial entities in Spain

(Euros in billion)



**Restructuring of the savings banks:  
from 45 to 11 entities**

Note: Refers to latest available financial disclosures by entity.

# The bank managed to double in size during the financial crisis

(Euros in million)	2007	2010	2Q 2014	2Q 2014/07
Assets	76,776	97,099	161,557	x 2.1
Loans <sup>1</sup>	63,165	73,058	122,838	x 1.9
Deposits <sup>2</sup>	34,717	49,374	95,043	x 2.7
Branches	1,225	1,428	2,247 <sup>3</sup>	x 1.8
Employees	10,234	10,777	16,900 <sup>4</sup>	x 1.6

## Improving liquidity and solvency ratios

Core Capital	6.0%	8.2%	11.4% <sup>5</sup>	x 1.9
Loan to deposit	197%	135%	104%	x 0.5

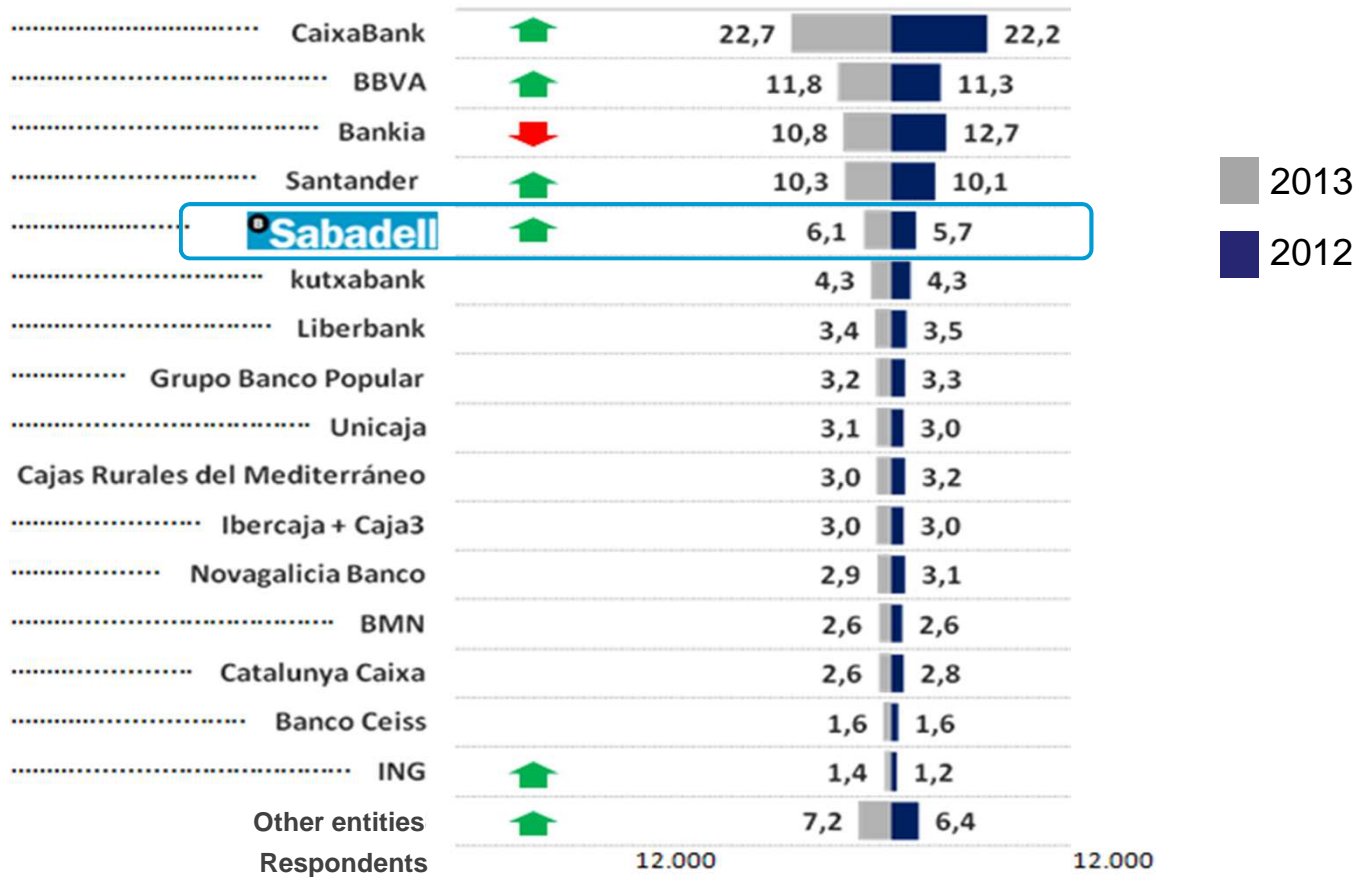
1. Gross loans to customers excluding repos. 2. On-balance sheet customer funds. 3. 2014 forecast. 4. 2015 forecast. 5. 2014 data under Basel III regulation vs 2007 and 2010 under Basel II.  
Note: Loan to deposit ratios is net of provisions and intermediary funding.

# Taking advantage of inorganic growth opportunities

Integration year	Recent integrations	Total assets (Euros in billion)
2008	BBVA Miami	€80 bn
2009	BNY MELLON	€83 bn
2010	BANCO Guipuzcoano	€97 bn
2011	LYDIAN™	€100 bn
2012	CAM Caja Mediterráneo	€162 bn
<b>2013</b>	Banco Gallego Caixa Penedès LLOYDS BANK INTERNATIONAL	<b>€163 bn</b>

# Improving its position as the preferred entity to do banking with

## Ranking of banking relationships\*



Source: IFRS Inmark. \* Percentage of respondents who value a certain bank as its main bank.

# An ample customer base and strong growth in funds

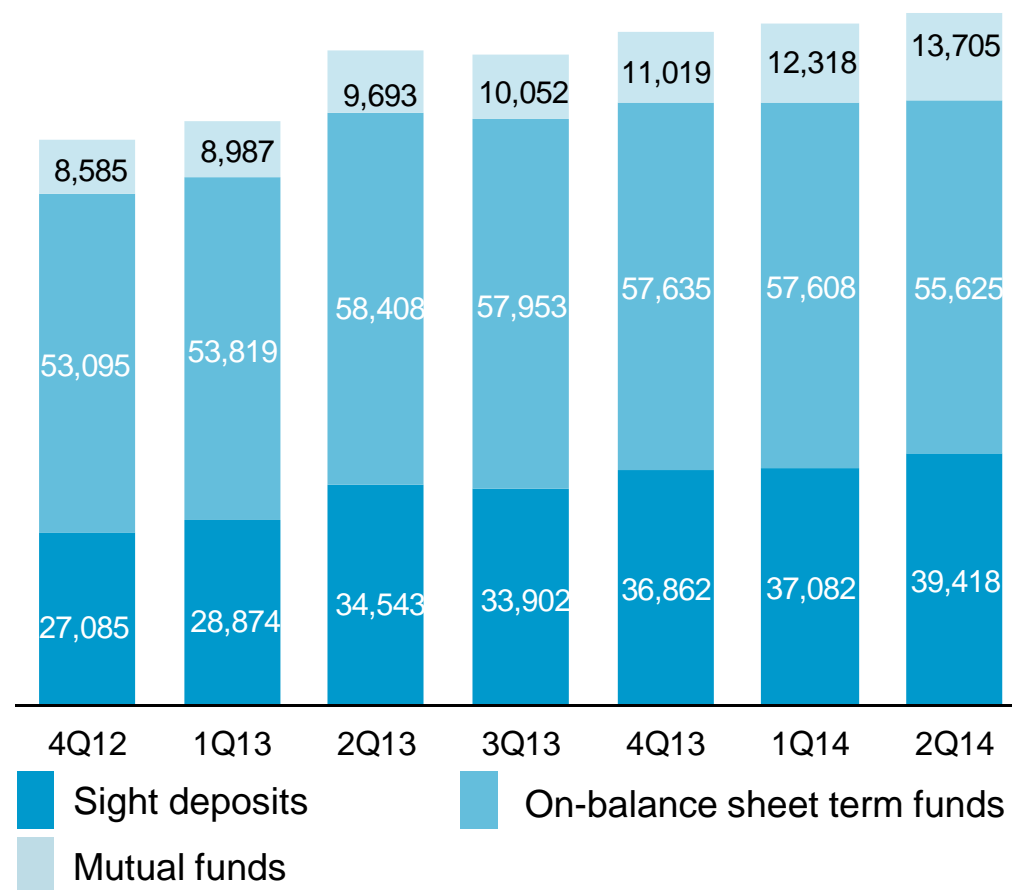
**6.4** Million customers

**9,000** New Customers every week

Acceleration in the growth of AuM and current accounts

## Evolution of customer funds and off-balance sheet funds

Euros in million

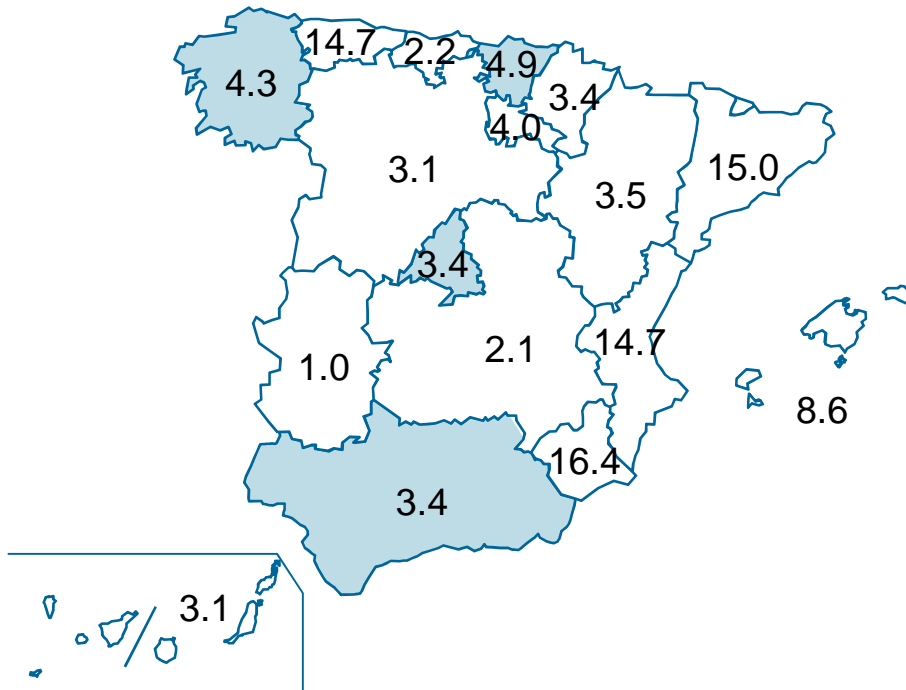


Note: on-balance sheet term funds include term deposits and other funds placed in the retail network: preference shares, mandatory convertible bonds, senior debt, commercial paper and other. Excludes repos.

# Opportunity to gain further market share organically

## Banco Sabadell market share\* by region

Identified regions with more room to grow



**7.8%**

**Spain Market Share (pro-forma)**

**There is still room to grow in certain regions**

Commercial push in the Madrid area to increase market share x2, with a new concept of flagship branches.



A low-angle photograph of a modern building's facade, showing a grid of windows and architectural details against a clear blue sky. The building's design is characterized by white concrete elements and dark window frames.

1. Spanish economy

2. Banco Sabadell's current position

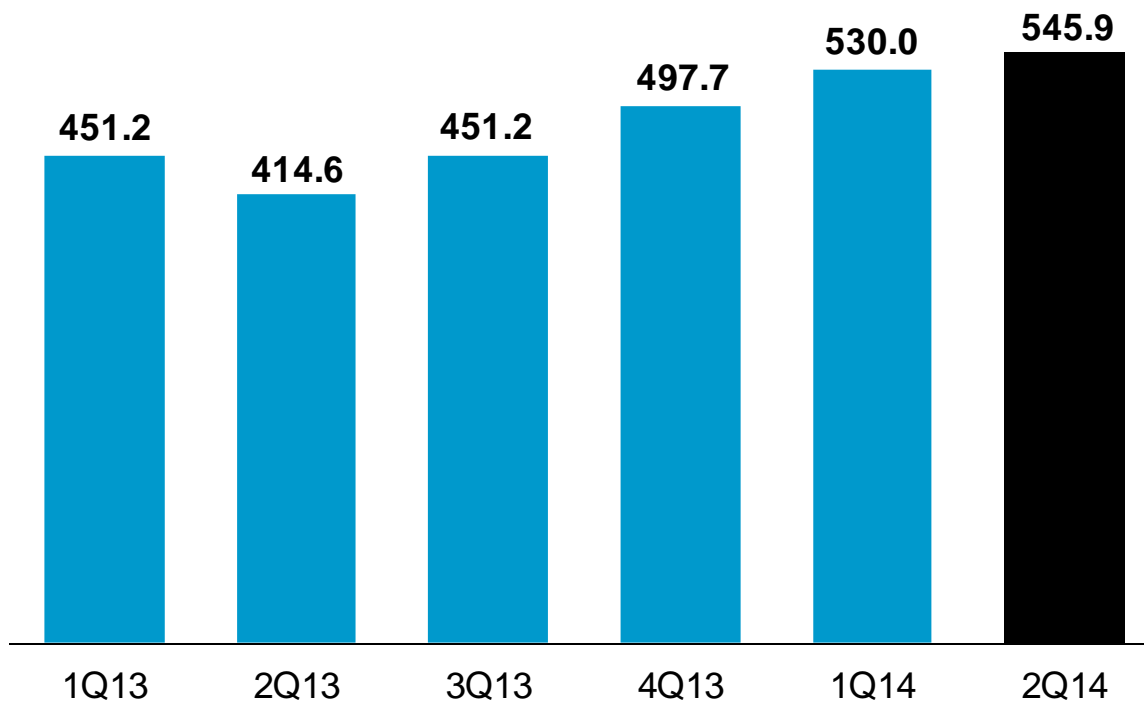
**3. Business dynamics**

4. New Business Plan

# Net interest income is showing a steady increase ...

## Net interest income evolution

Euros in million



✓ Net interest income  
1H14:  
+24.3% YoY

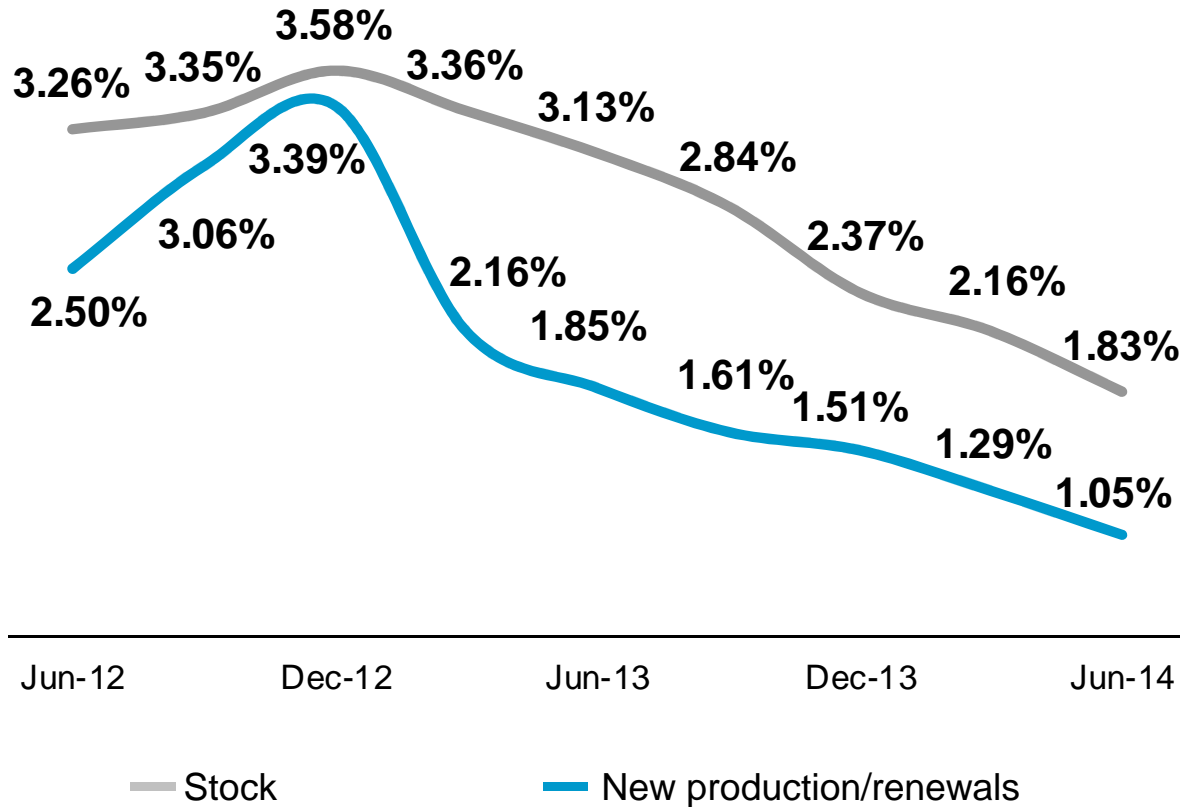
✓ Net interest income  
1H14 like-for-like\*:  
+17.9% YoY

\* Excludes BMN-Penedés network, Lloyds Spain and Banco Gallego

# ... as continued repricing of term deposits drives down the cost of the back book ...

## Contractual rates on term deposits

In percentage



**New term deposits at 1%**

# ... at the same time as there is limited downward pressure on the loan yield

## Evolution of loan spreads by segment

In percentage

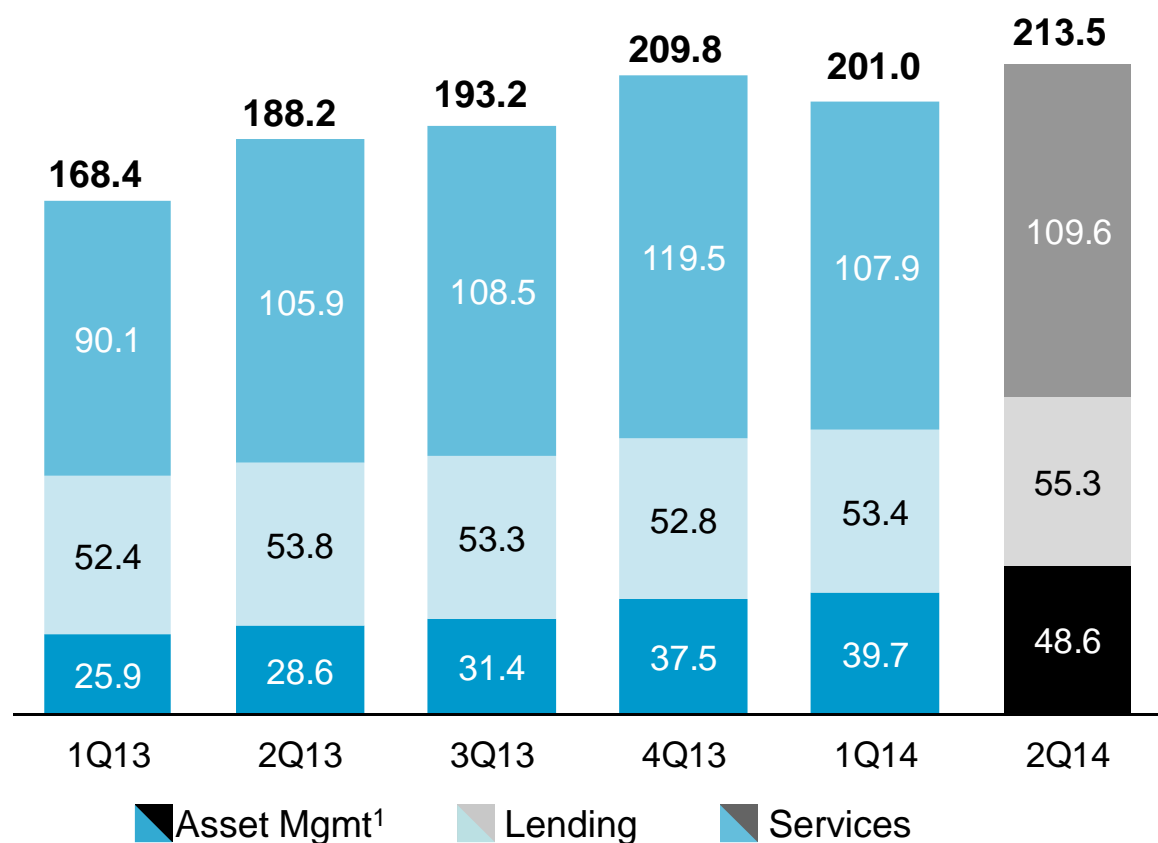
	4Q13		1Q14		2Q14	
	Back book	Front book	Back book	Front book	Back book	Front book
Mortgages to individuals	88	229	87	227	89	214
SME	269	526	270	500	277	492
Corporates	268	342	268	327	266	302

**Spreads on new loan production remain significantly above the spreads on the back book**

# Commission income is growing ...

## Commission income evolution

Euros in million



✓ Commission income 1H14 +16.2% YoY

✓ Commission income 1H14 like-for-like\*: +8.3% YoY

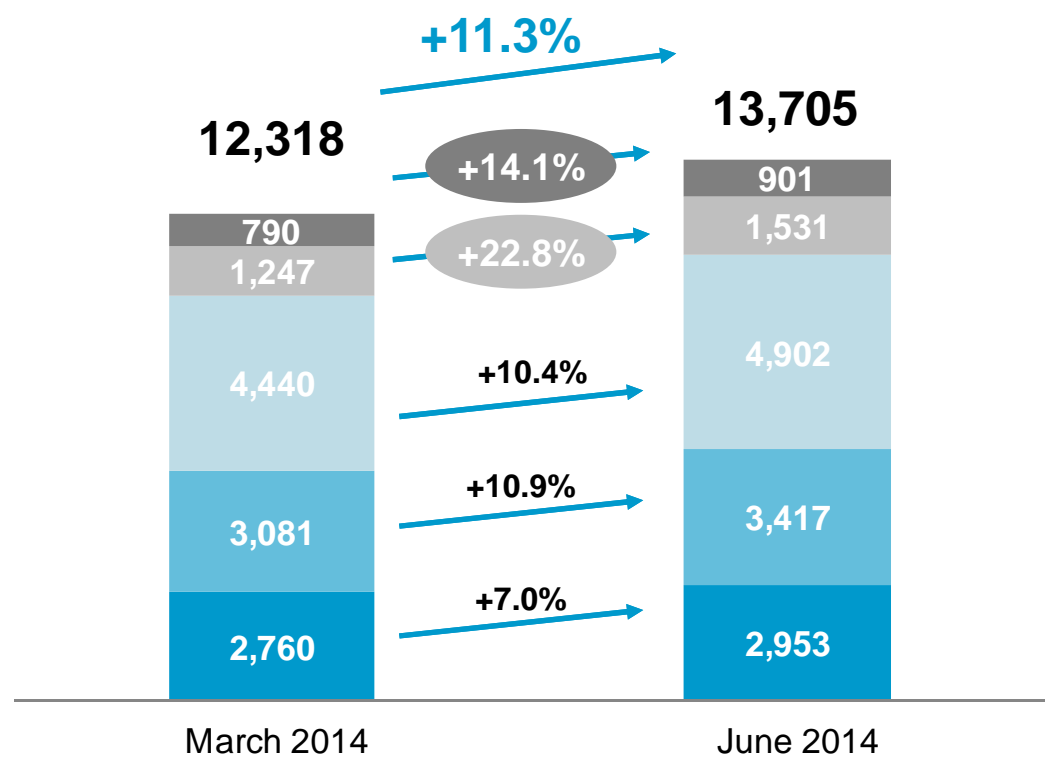
<sup>1</sup> Including mutual funds commissions and pension funds and insurance brokerage

\* Excluding BMN-Penedés network, Lloyds Spain and Banco Gallego

# ... driven by strong performance in mutual funds

## Evolution by type of investment fund

Euros in million



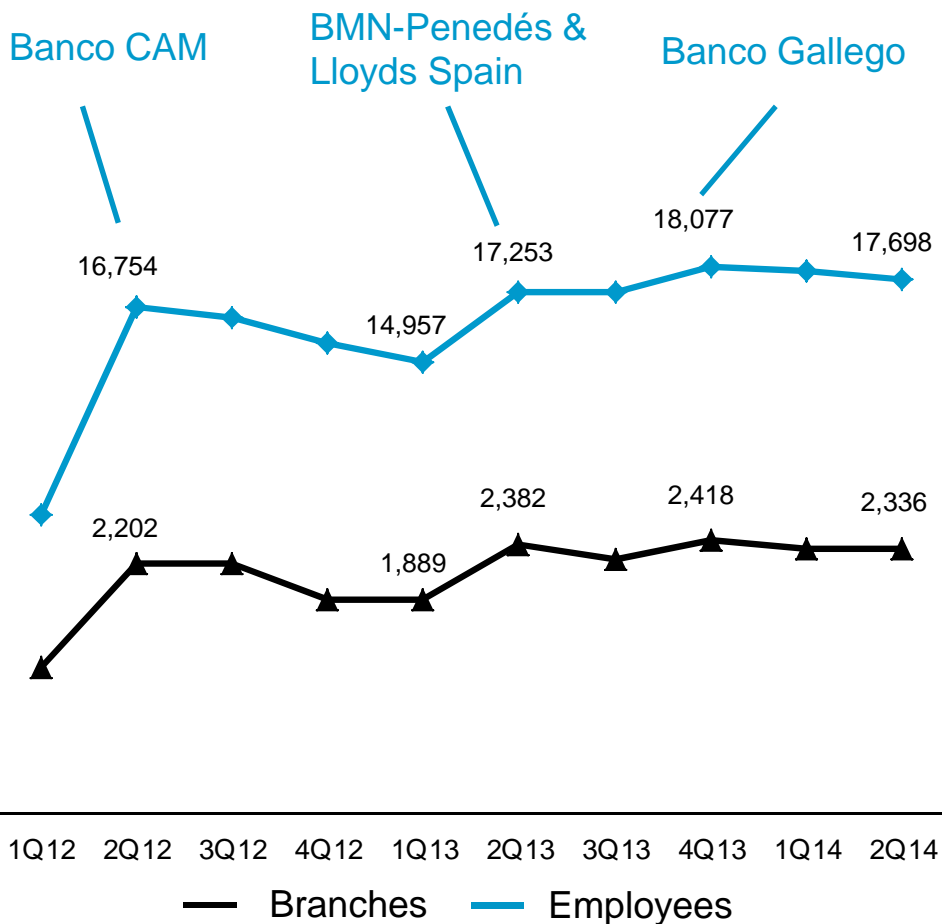
- ✓ Bias towards higher margin products
- ✓ Annualised growth rate of 53% in funds under management

■ Fixed income funds    ■ Guaranteed funds  
■ SICAV, External funds and Others  
■ Balanced funds        ■ Equity funds

# The cost to income ratio is improving: in line with the Triple business plan

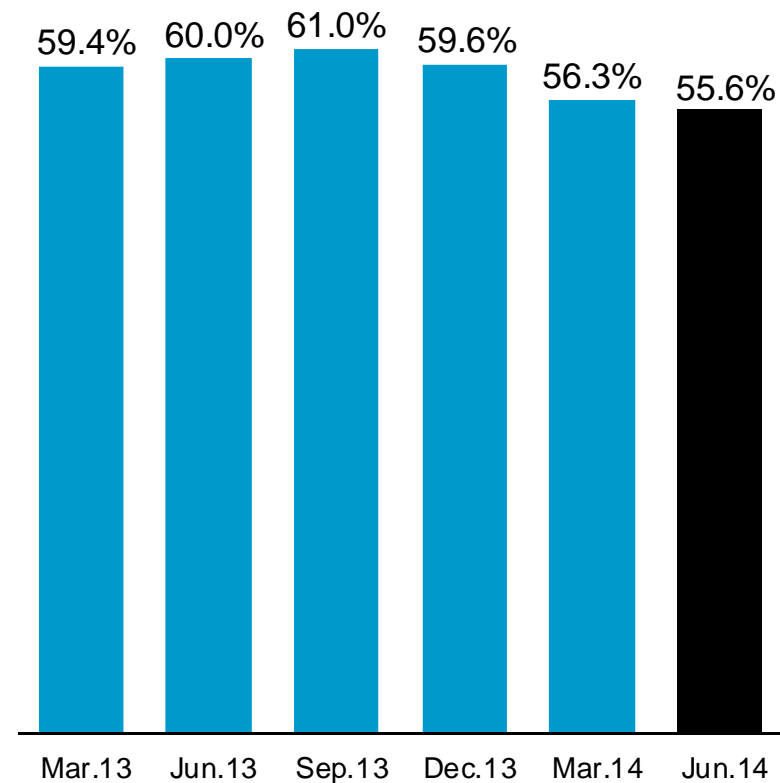
## Employee and branch evolution

In number



## Cost income evolution\*

In percentage

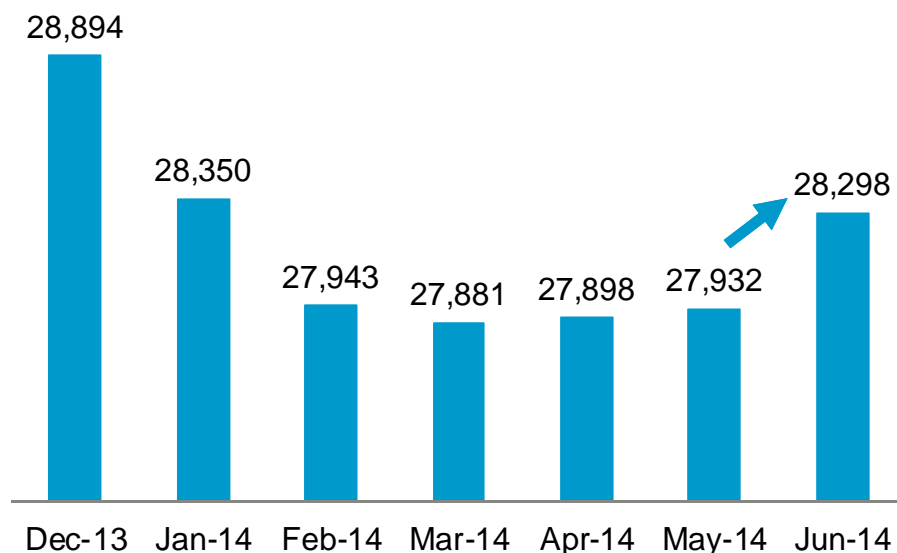


\*Adjusting operating income for non-recurrent trading income. Same criteria applies for all quarters.

# Loan growth is being reactivated

## SME and company loans evolution

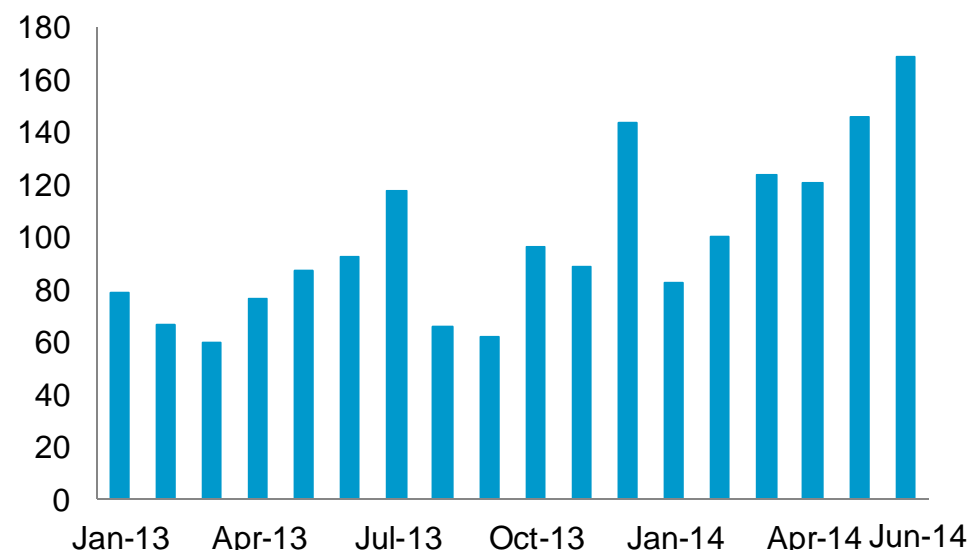
Euros in million



During the month of June the SME and company loans book grew by €366M; +1.5% QoQ

## Monthly residential mortgage production

Euros in million



In 1H14 the number of new mortgages increased by 54% YoY with volume growth of 61% YoY (43% and 50% like-for-like\*)

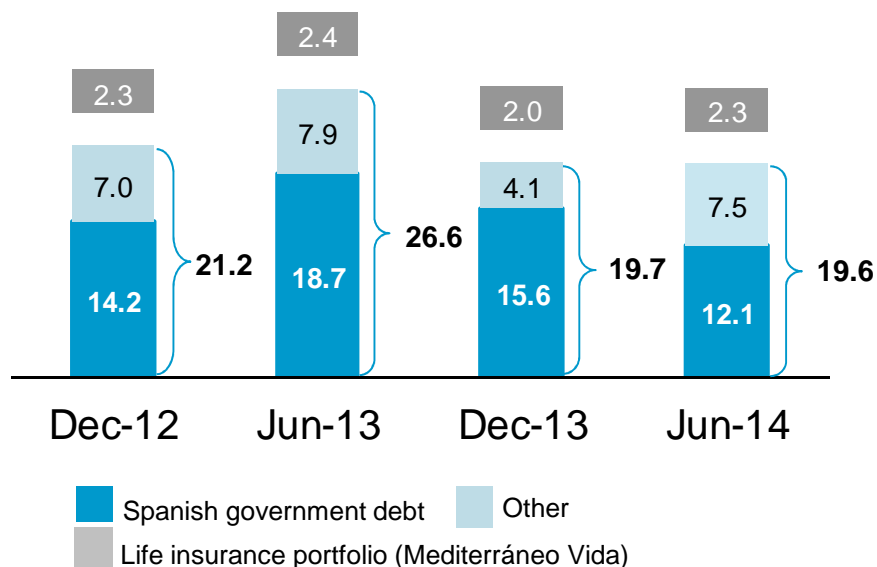
Note: SME and company loans includes loans to SMEs, corporates and public sector  
 \* Excludes BMN-Penedés network, Lloyds Spain and Banco Gallego in 2014



# Fixed income portfolio remains unchanged

## Fixed income portfolio evolution

Euros in million



## ALCO portfolio

Euros in billion and in percentage

	Jun-13	Dec-13	Jun-14
ALCO portfolio	26.6	19.7	19.6
% of total assets	15.6%	12.1%	12.1%
Duration (in years)	3.8	4.9	5.0
Yield	3.3%	3.9%	3.5%
ECB liquidity position	18.0	8.8	5.5

The ALCO portfolio contribution is stable

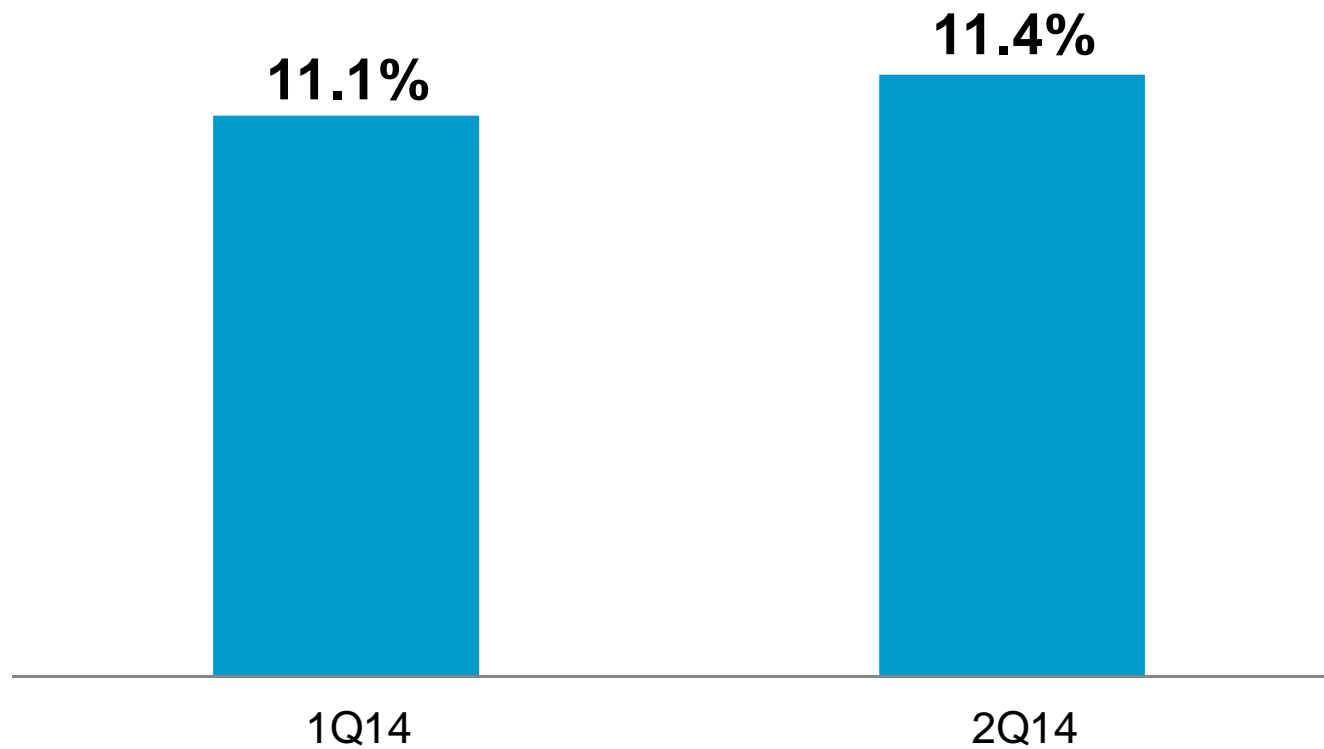
# Strong capital levels

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## Capital ratios. Core capital Basel III *phase-in*

In percentage

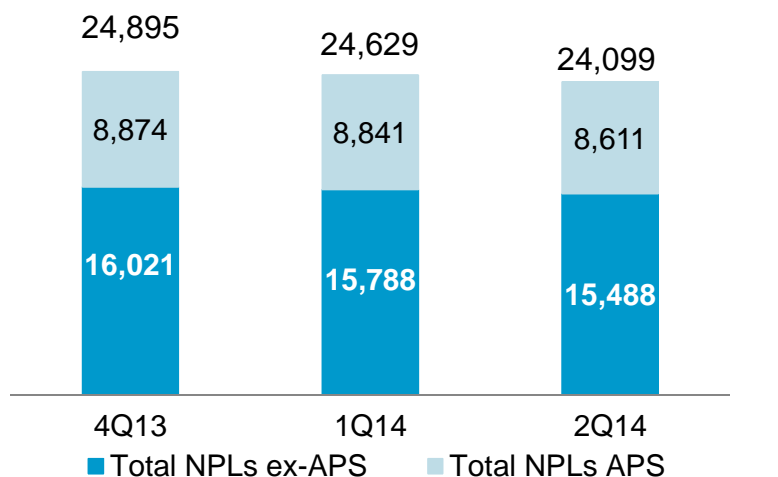
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# The stock of NPLs continues the downward trend ...

## NPL evolution

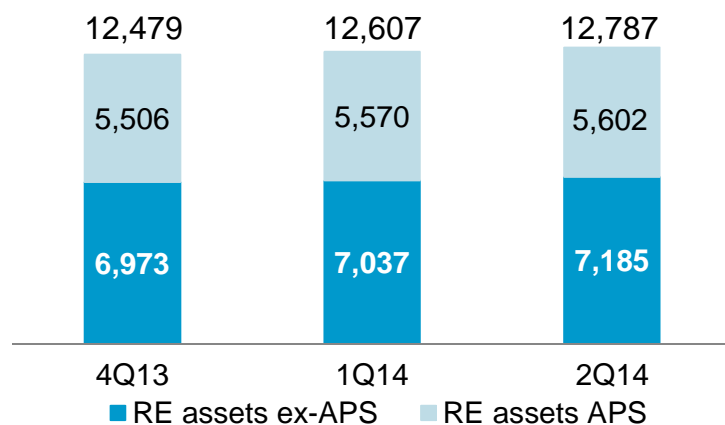
Euros in million



- ✓ €300M further reduction of NPLs, ex-APS, during 2Q14
- ✓ Second consecutive quarter showing a decline in total problematic assets, ex-APS

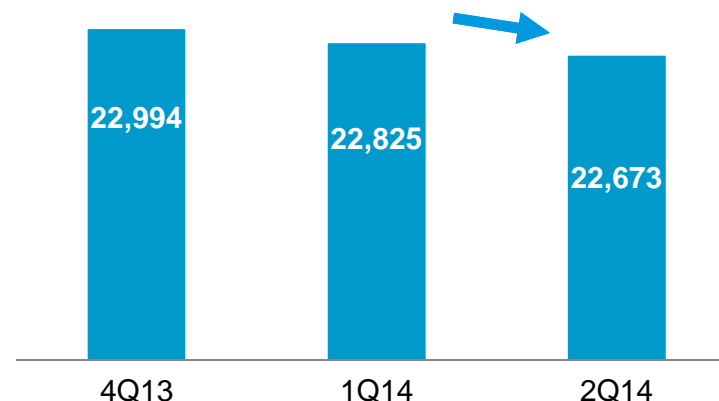
## On-balance sheet RE assets evolution

Euros in million



## Total problematic assets, ex-APS

Euros in million



Note: NPLs include contingent risk

## ... maintaining high coverage levels

### Coverage by loan segment and real estate assets

Split between asset protection scheme and rest

2Q14	BS ex-APS	APS	Total
Real estate assets	40.5%	50.8%	45.0%
Real estate development loans	33.8%	47.4%	40.1%
<b>Total real estate exposure</b>	<b>37.0%</b>	<b>48.9%</b>	<b>42.3%</b>
Construction	12.2%	5.3%	10.3%
Large Corporates	6.5%	46.5%	8.2%
SME and small retailers and self-employed	8.5%	20.6%	9.6%
Individuals	3.8%	12.6%	4.2%
<b>Rest of loan book</b>	<b>5.6%</b>	<b>20.2%</b>	<b>6.4%</b>
<b>Total</b>	<b>9.7%</b>	<b>39.5%</b>	<b>13.8%</b>

- ✓ **13.8%** Global coverage of total loans and RE assets
- ✓ **9.7%** Global coverage of total loans and RE assets, ex-APS

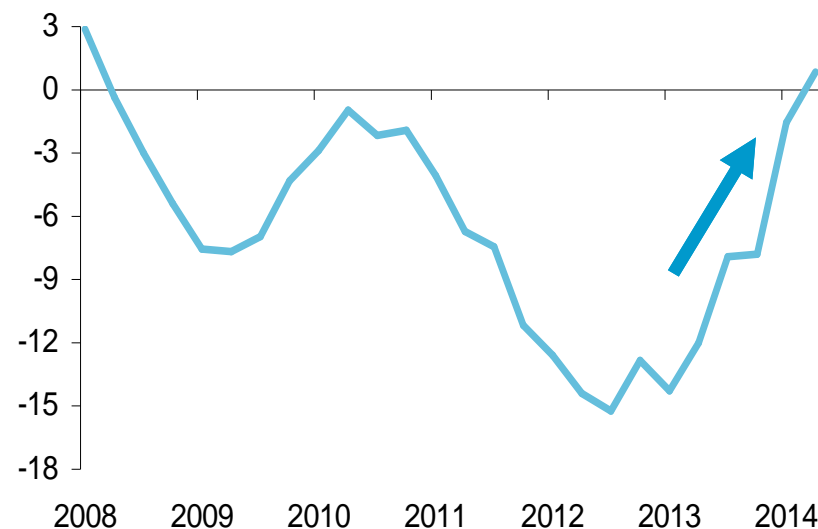
**Comfortable coverage levels relative to expected loss levels**

# Real estate market turning signs

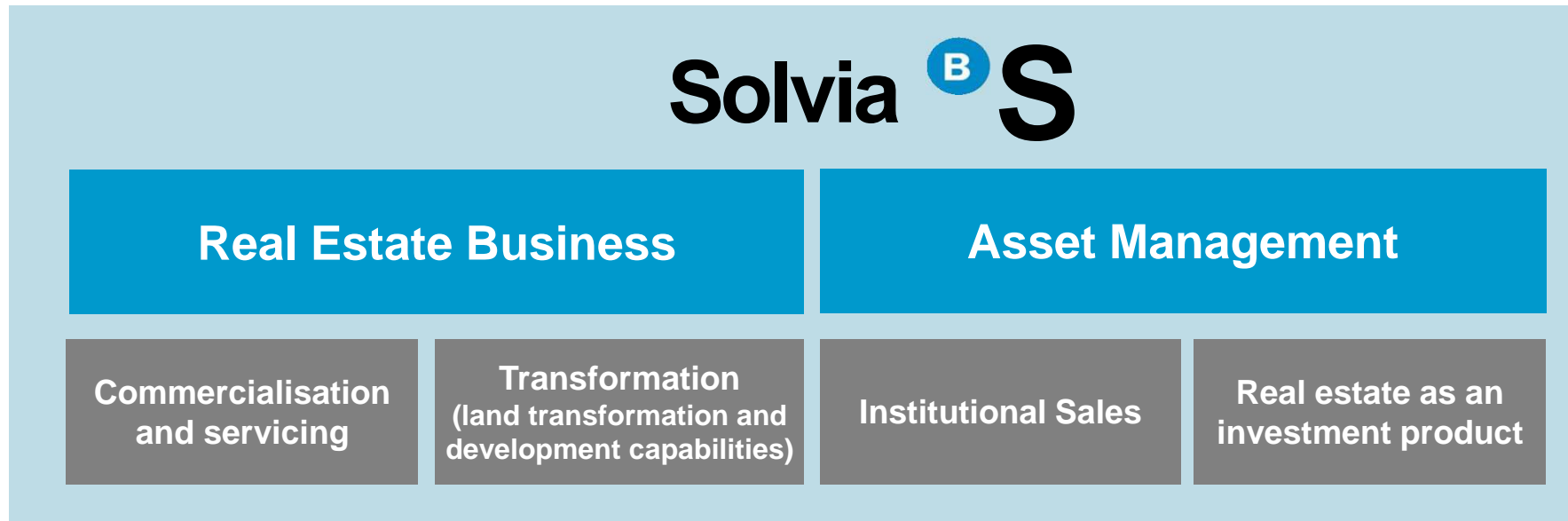
- ✓ **Pick-up in transactions in 2014**  
(INE, Public works Ministry)
  
- ✓ **Price increase in 10 regions in 2Q14** (INE)
  
- ✓ **House price expectations are improving**  
The proportion of people expecting house price declines has changed from over 50% in 2012 to below 25% in 2014 (Social research centre)
  
- ✓ **Rental yields are improving** (BoS)



## House price evolution In %



# Solvia has become a leader real estate company increasing its brand recognition



- ✓ Launch of house rentals initiatives
- ✓ Third party servicing
- ✓ Institutional and retail sales

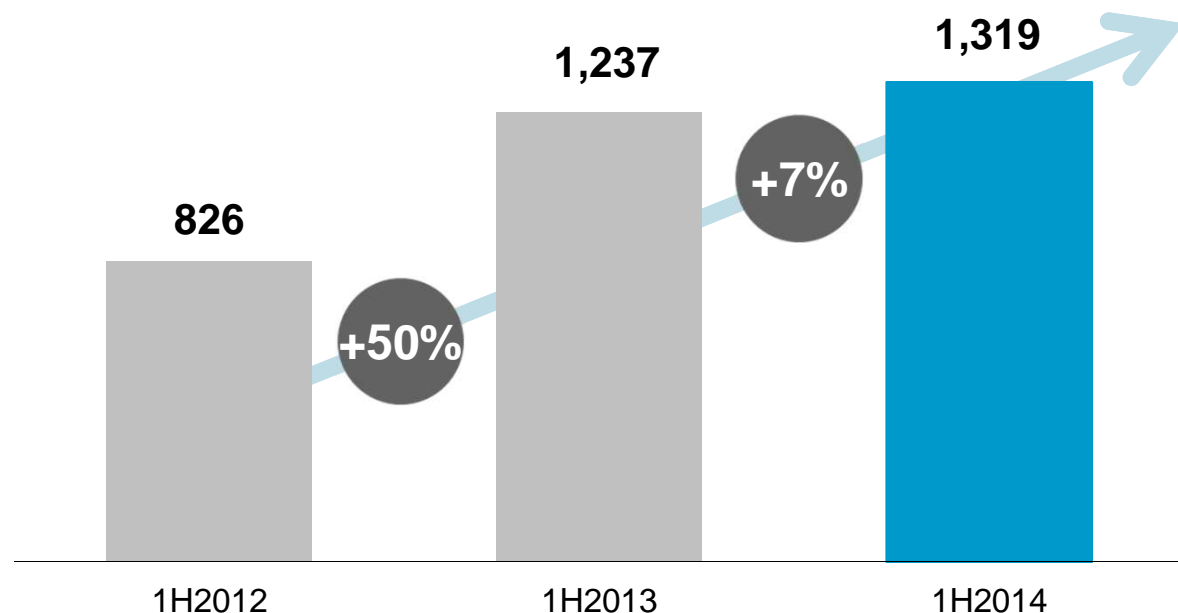
**Solvia** brand recognition is improving and growing significantly among potential house buyers

**One of the largest sales platform in Spain**

# Maintaining good sales results

## Sales evolution

Euros in million



**Increase in sales  
in 1H14**

**12%**

**Solvía**

market share in Spanish property sales

- 
1. Spanish economy
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## **4. New Business Plan**



# Banco Sabadell Business Plan 2014-2016

## The new Business Plan focuses on:



- ✓ Selective growth
- ✓ Increasing profitability
- ✓ Reducing problematic assets
- ✓ Improving efficiency levels

**100%** Loan-to-deposits 2016

**40%** Efficiency ratio 2016

**€ 1bn** 2016 profit

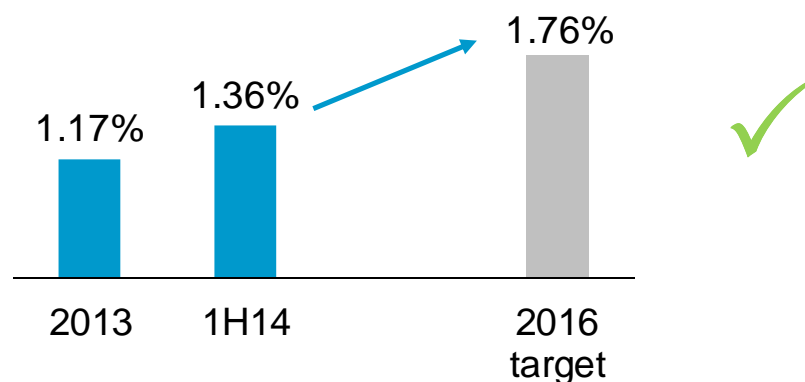
**12%** ROTE 2016

**1%** Credit growth  
(CAGR 13-16)

# On track with the Triple business plan targets

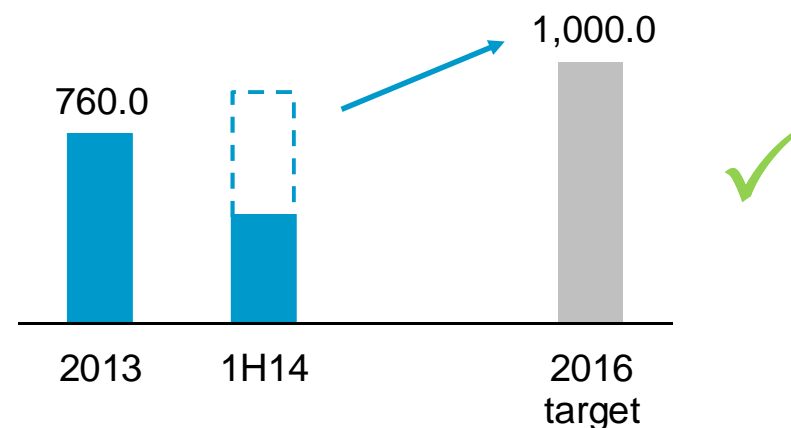
## Net interest margin

In %



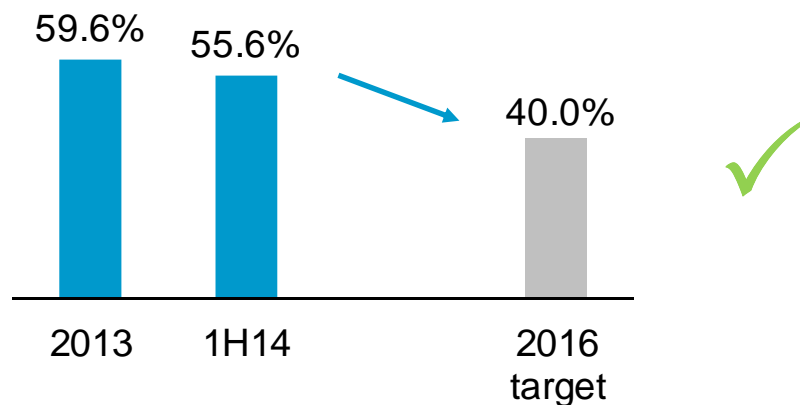
## Commissions

Euros in million



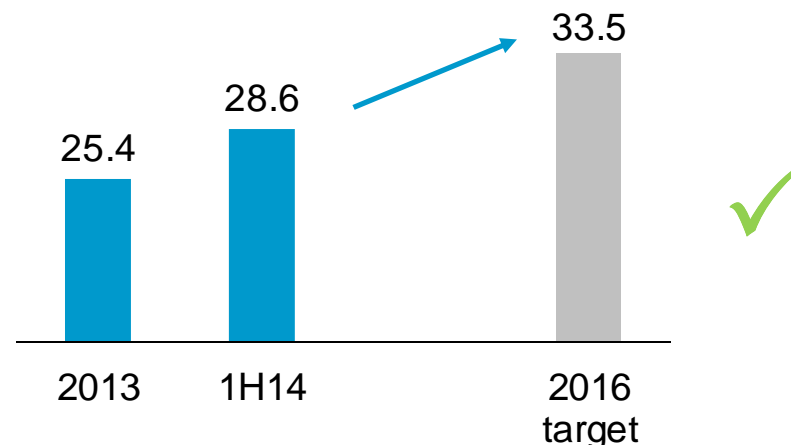
## Efficiency ratio

In %



## Off Balance sheet funds

Euros in billion





**Thank you for your attention**