

## **Ordinary General Meeting of Shareholders**

Sabadell, 30 March 2017

### **Speech by the Chairman, Mr. Josep Oliu**

Ladies and gentlemen,

2016, Banco Sabadell's 135th year, was the last in a three-year plan that we called the Triple Plan, because of the three pillars around which it was structured: profitability, transformation and internationalisation. And it concluded very positively, with satisfactory results in its three main areas of action.

Firstly, profitability regained acceptable levels despite a prolonged situation of extremely low interest rates.

The Bank improved net interest income significantly, from 1.815 billion euro in 2013 to 3.838 billion euro in 2016. Gross income amounted to 5.471 billion euro in 2016, up from 3,977 million euro in 2013.

Secondly, transformation. We achieved a notable transformation of the balance sheet, exceeding expectations in terms of provisioning and the reduction in the NPL ratio which, though still high, is much closer to what might be considered normal levels.

While the balance sheet was being restored, a commercial transformation process was set in motion to prepare the Bank for the challenges posed by technology change, which is being intensified by changes in consumer behaviour patterns, to prepare for a more digital environment, within the Bank's unique approach of proximity to customers.

The Bank has always been a leader in service quality. The investments in technology to adopt new means of engaging with customers and the culture of proximity that is our hallmark have put the Bank in the lead in terms of customer experience among both large corporates and SMEs, while ranking among the top three with individual customers.

By transforming the production model, we achieved greater efficiency through a scalable platform that made it possible to absorb a major increase in size, business volume and customer numbers while containing costs.

In connection with the third pillar, internationalisation, the Bank encountered an opportunity to enter the United Kingdom via an important transaction, the acquisition of UK bank TSB in 2015, and we also commenced operating as a bank in Mexico. As a result, 32% of the bank's lending was outside Spain at 2016 year-end.

The goal of diversifying risks through internationalisation was achieved by focusing on two markets, the United Kingdom and Mexico, that offer higher margins than the Spanish market, appropriate legal certainty, and the prospect of growth by replicating the banking and technology model that Banco Sabadell has developed.

I think these three years have been crucial to placing the Bank in a good competitive position in relation to the other big Spanish banks, and with a plan to create value in the future in the three geographies that we are targeting.

In 2016, the year which this General Meeting has been convened to discuss, group net attributable profit amounted to 710 million euro, a 0.3% increase on 2015, and net interest

income increased by 19.8% after booking provisions and impairments totalling 1.427 billion euro.

Outstanding loan volumes remained stable in Spain. Problematic assets were reduced by 2,961 million euro, much more than expected, the NPL ratio declined to 6.1%, and the problematic asset coverage ratio improved to 49.6% at the end of 2016.

TSB is successfully fulfilling its strategy; the process of migrating it to the Banco Sabadell IT platform is advancing on schedule and should be completed by the end of 2017.

Jaime Guardiola will give a more detailed account of the company's performance and business results in 2016.

The year was characterised by a more favourable economic climate and the appearance of political phenomena that brought uncertainty to the economy and volatility to the financial markets.

Early in the year, oil prices reached their lowest level in a decade, and prices fell in most European countries, showing a

clear danger of deflation. The central banks, particularly the European Central Bank, reacted by flooding the system with liquidity and lowering benchmark interest rates to record low levels —into negative territory, in fact— which managed to reverse this deflationary trend; however, this came at the expense of enormous pressure on banks spreads.

At the end of June, the UK referendum on whether or not to remain in the European Union produced an unexpected result, which altered perceptions of the process of building Europe by introducing uncertainty about economic and financial relations between the United Kingdom and the rest of Europe in the coming years.

Donald Trump's victory in the US presidential elections in November marked a departure from the international status quo and triggered a change in global economic expectations by raising concerns about the framework of the international power balance.

Announcements by the US government of new trade and fiscal policies had a positive impact on the stock markets, particularly on bank stocks, due to generating expectations with regard to interest rates.

The Spanish economy again displayed its resilience and adaptability in the face of difficulties. GDP increased by 3.2% in the year, regaining pre-crisis levels. The real estate market has recovered in the big cities and in coastal areas. Despite job creation, the 18.6% unemployment rate reveals persisting structural problems in the labour market and in the system of government subsidies, with the corollary of a government deficit that is higher than is recommendable at this stage of the cycle.

Against this economic backdrop, Banco Sabadell ended 2016 with a sound capital position; its Common Equity Tier 1 ratio, in both phase-in and fully-loaded terms, was 12,0%, above the 11.4% fully loaded ratio it attained at 2015 year-end and amply exceeding the level required by the regulators.

In spite of the capital position and results, share performance in 2016 was shaped by political and economic uncertainties, particularly those resulting from Brexit. Despite good performance in the first half and a gain in value in the last month, the share lost ground in 2016, though it has recovered in the early months of 2017 due, among other factors, to the

markets' good response to our 2016 results, the update of the new plan for 2017, and the sale of Sabadell United Bank.

Before discussing the items on the agenda, I would like to point out that, Spanish banks are suffering from an additional reputational problem arising from a mistaken perception of our activity on the part of public opinion as a result of the economic crisis of recent years, of the bailouts, particularly of the savings banks, and of questionable practices by some financial institutions.

This has result in massive claims, not all well founded, which have made it difficult to distinguish and defend the good banking practices of some banks, including this one.

In particular, there has been heated debate over home mortgages. In connection with the interest rate floor clause, the Supreme Court ruled in May 2013, and recently reiterated in March, that interest rate floors are valid and their nullity depends on a lack of transparency and defects in the information provided to the customer prior to signing and how it was conveyed. The entire controversy over the retroactivity or otherwise of the refunds of amounts collected under improper clauses, as referred to in a ruling by the European

Court of Justice, hinges on the premise that the interest rate floors were declared to be null, whereas we disagree, and this has not been fully litigated.

Although that is the position that Banco Sabadell has defended since the claims began, convinced that our interest rate floor clauses are transparent and were negotiated appropriately with customers, in order to address the worst case scenario in the event of adverse court rulings, the Bank was forced to book 130 million euro in special provisions in the fourth quarter, with a negative impact on the bottom line.

Nevertheless, we maintain our approach to customer relations, and our commitment to the utmost standards of quality, having sought and continuing to seek individual solutions that meet customers' expectations and are in their best long-term interests.

Banco Sabadell's commitment is a response to concerns shared by society. It was a pioneer in providing a responsible approach to the foreclosure crisis by working with municipal governments, other government echelons and social agents.

The security of commerce and the consequent improvement in the broad economy depend greatly on trust in commercial relations and on the legal certainty that such relations, if entered into in good faith and in accordance with the law, cannot be subject to constant revisions. Banks' supporting function in the society in which they operate, and their commercial relations with the customers, require a framework of institutional and legal certainty that guarantees the rights of all parties.

Turning now to the agenda, under the first item, you will be asked to approve the financial statements and the report of the directors, which includes the annual report on corporate governance, and those of the consolidated Group, and also to grant discharge to the directors.

Under item two, the Board proposes that the shareholders approve a dividend out of net profit amounting to 0.05 euro entirely in cash, of which 0.02 euro were paid on 30 December last as an interim dividend and 0.03 euro will be paid on 7 April, once the motion submitted for your consideration has been passed.

The corporate governance report reveals that Banco Sabadell remains committed to the highest standards of governance, and that it adopted the appropriate measures in response to the new demands.

In 2016, the Board of Directors enhanced the position of the Lead Independent Director by separating it from that of Vice-Chairman, with which it had traditionally coincided, and all the Board subcommittees are chaired by independent directors who are not members of the Executive Committee.

We have appointed a director with a strong background in auditing, in line with the most recent trends in corporate governance. Mr Manuel Valls Morató was appointed as a director to fill the vacancy left by Mr Héctor María Colonques Moreno, whose high degree of commitment to the bank and its corporate governance facilitated the appointment of Manuel Valls.

I would like to thank Héctor for his support and dedication during these decisive years for Banco Sabadell. Héctor will remain as Chairman of the Advisory Board in Valencia, his homeland. Héctor, thank you very much.

Therefore, today you will be asked to ratify and appoint Mr Manuel Valls as an independent director. His professional experience in auditing and accounting at credit institutions, the financial sector and banks ensures that he will discharge his duties satisfactorily.

The Meeting is also being asked to approve the appointment of Mr Anthony Frank Elliot Ball as an independent director to fill the vacancy left by António Vítor Martins Monteiro.

Mr Anthony Ball has extensive international experience as a top-level executive in large companies, with expertise in the telecommunications sector and in the digital transformation of businesses, in particular. His background as a British businessman with strong ties to Spain complements the balance of skills on the Board of Directors at a time when the Banco Sabadell Group is expanding in the United Kingdom via TSB.

I would also like to thank António Monteiro for his commitment and dedication during his lengthy service as a director of Banco Sabadell, while we held an interest in BCP.

The third item on the agenda refers to the re-appointment of two directors. Ms María Teresa García Milà-Lloveras as an independent director, to continue her valuable service on the Board; and Mr José Luis Negro Rodríguez as an executive director, because of his in-depth knowledge of all areas of the Bank.

Under item seven of the agenda, we ask the shareholders, as we did last year, to approve a supplementary incentive plan, linked to the appreciation by the shares of Banco Sabadell, for executive directors, senior management and other executives of the Banco Sabadell Group.

This three-year incentive plan, which is similar to plans approved in the past, has the goal, as I discussed last year, of including in Banco Sabadell's executive remuneration structure a recurring component consisting of variable remuneration linked to the share price as a supplement to the variable annual remuneration for attaining the annual objectives.

This design of variable remuneration linked to the appreciation by Banco Sabadell's share seeks to provide greater alignment between short and long-term objectives, business strategy and shareholder interests, and it is an important factor in retaining key talent in the Group.

This system complies with the recommendations of the European Banking Authority on remuneration policies in credit institutions, which were adopted by the Bank of Spain.

The other items, which the Secretary will read, refer to motions that are passed every year. Among them, item eight refers to approval of the cap on variable remuneration for the members of the designated group at twice the annual fixed remuneration assigned to each one. This does not entail an increase in remuneration, present or future; rather, it is to comply with a legal requirement linked to the remuneration system proposed under agenda item seven.

Under item nine, the annual report on director remuneration is submitted to the meeting on a consultative basis.

Under items four, five and six, you are asked to renew the powers granted to the Board of Directors to increase capital, with the possibility of overriding pre-emptive subscription rights provided that the overall amount does not exceed 20% of capital stock; to issue securities that are convertible and/or exchangeable for shares, again with an overall limit of 20% of capital stock; and to acquire own shares in the market, either

directly or through Group companies. All these motions seek to provide flexibility in financial management and enable the Board to move quickly; as always, such decisions will be based on shareholders' best interests.

Ladies and gentlemen,

2017 is a transition year before commencing the business plan that will run until 2020.

We started this year with a major divestment: Sabadell United Bank, our subsidiary in the US. It accounts for just half of our activities in that country since the Banco Sabadell branch in Miami, which is specialised in corporate banking and international private banking, continues to form part of our business plan in the US.

The story of Sabadell United Bank is one of success for Banco Sabadell. After a number of small acquisitions in Florida, which I have reported to shareholders in the past, the Board of Directors decided to crystallise value by selling Sabadell United Bank to Iberiabank, a US bank, for 1.025 billion dollars, generating approximately 447 million euro in net capital gains.

This year, we face the challenge of culminating the migration of TSB to the new technology platform developed by Banco Sabadell; this project is moving forward and must be finalised by the end of the year, which will require considerable efforts and dedication on the part of all the Group's teams.

This will not prevent us from pursuing our main lines of strategy, defending profitability through higher efficiency, and steadily reducing the balance of non-productive assets. Moreover, we are working on a new business plan through 2020, which I will have the opportunity to present to you at the next General Meeting.

The plan will focus on expanding the business in the Bank's priority markets, namely, Spain, the United Kingdom and Mexico, and will continue to strengthen our commercial and digital capabilities to enable us to stand out in the market due to our proximity, customer care and technology capabilities focused on offering our customers a better service and working towards our priorities of profitability and shedding non-productive assets.

The Bank is successfully weathering these years of uncertainty and is establishing itself as part of the core of Spain's financial system.

This is due indisputably to a magnificent management team, headed by Jaime Guardiola, whom I would like to thank for their dedication and professionalism.

We have a great company that is capable of producing and attracting very capable executives, inspiring us to look to the Bank's future with considerable optimism.

I would like to thank the Board of Directors for their work and dedication to Banco Sabadell.

And thanks to you the shareholders, once again, for your trust.