

Ordinary General Meeting of Shareholders

Sabadell, 30 March 2017

Address by the Managing Director, Mr Jaime Guardiola

Good afternoon, ladies and gentlemen,

The Chairman detailed the results of Plan TRIPLE, and described the general context in which the bank operated in 2016, the final year of the plan.

Before moving on to describe the Group's key figures and business performance during the year, I would like to discuss the principle management factors that enabled the Bank to conclude Plan TRIPLE that the Chairman outlined with the positive results in every key focus: transformation, profitability and internationalisation

Profitability was the key focus of Plan TRIPLE. Over the three years of the plan, core banking revenues, by which I mean net interest income plus fees and commissions, increased steadily.

This performance was achieved as a result of two basic factors: intense commercial activity, and pricing discipline.

Our core business market share growth— banking for businesses and for individuals — demonstrates the excellent commercial performance which we sustained throughout the plan.

Moreover, we ended 2016 as the bank with the best ratio of net interest income to average total assets in Spain, 1.69% excluding TSB. Moreover, we are the Spanish bank that has increased that ratio the most over the last three years.

The second focus of Plan TRIPLE was transformation, focused on three areas of action: the balance sheet, the production model, and the commercial model.

As for the transformation of the balance sheet, during the period covered by Plan TRIPLE, the NPL ratio was reduced by 591 basis points, or 749 basis points if we include TSB, and the balance of non-performing assets fell by 28%, from 26,028 million to 18,617 million euros.

The bank maintained a strong pace of property sales, coupled with a proactive approach and a focus on recovering doubtful balances, which resulted in a substantial reduction in problematic assets.

The second aspect of transformation under Plan TRIPLE was the transformation of the production model.

Over the course of the plan, we expanded the scope of BSOS, our operational services subsidiary. While retaining control, we welcomed two new strategic shareholders and BSOS is now a servicer that manages all of the group's administrative tasks on an industrialised basis.

This industrialisation makes it possible to enhance efficiency and enable our branch network to focus on value-added activity.

Thirdly, the Plan focused on commercial transformation, the goal being to successfully address the challenges and opportunities emerging as a result of the digital revolution.

In any event, this transformation always gives pride of place to the customer. The customer chooses how and when they want to work with us. This is expressed perfectly in our slogan: "there, wherever you are".

Let me give some examples from among the numerous initiatives that we undertook as part of this commercial transformation.

With Plan TRIPLE, we implemented Active Management, a new relationship approach based on the use of remote account managers. At the end of 2016, 230,000 customers were benefiting from Active Management, and we expect to reach 750,000 by the end of 2017.

Active Management adapts to customers' needs, offering them a personal manager with extended work hours and availability through remote channels, enabling us to respond immediately to their needs and spare them the need to visit their branch.

We are also placing the best in digital capabilities at our customers' disposal, capacities that are totally focused on enhancing the user experience.

I refer, among others, to Sabadell Wallet, with which users can pay at retail point of sale terminals using their phones; Instant Money, which enables customers to send money that the recipient can withdraw at an ATM without a card; and Digital Signature, which replaces password cards for on-line transactions, Fingerprint Authentication, which improves security and the client experience.

And one final example, we have distributed 3,500 digital tablets throughout our branch network, to enable our relationship managers to bring the bank to wherever is convenient for the customer — whether at home or in their place of business.

In short, the proof that our commercial transformation is on the right track is our Net Promoter Score, or NPS. The NPS indicates how likely a client is to recommend us, and it is the benchmark for measuring satisfaction with the customer experience.

Banco Sabadell is the leader in customer experience among SMEs and large corporates, and is in the top three among private individuals.

The third axis of our Plan Triple was internationalisation.

We amply exceeded our goals in this connection; as the Chairman noted, at the end of 2016, fully 32% of our business was located in other countries, or 30% if we exclude Sabadell United Bank, whose sale was agreed in the first quarter.

International growth was driven by three factors.

Firstly, international activity by our Corporate Banking unit, which nearly tripled the volume of lending by our offices overseas during the period of the Plan TRIPLE.

Secondly, we commenced operations in Mexico. Specifically, in 2014 we created Sabadell Capital SOFOM, which engages in corporate banking and structured finance in Mexico.

And in January 2016, we launched a commercial bank in Mexico, also called Banco Sabadell, which is focused on business banking for the moment, but plans to expand into banking for individuals in the future.

Business in Mexico exceeded expectations and we ended 2016 with 1.750 million dollars in lending.

However, the biggest leap in the international arena was indisputably the acquisition of the UK bank TSB in 2015.

With 29,419 million pounds in outstanding loans at the end of 2016, TSB represents 24% of the group's total lending.

Having briefly summarised the key features of performance under the Plan TRIPLE, I will now discuss the main figures from the balance sheet and income statement for 2016.

Gross loans and advances to customers, excluding repos, doubtful exposures and accrual adjustments, amounted to 140,557 million euros, 0.1% more than at the end of 2015.

I would like to point out that the year-on-year increase in lending, not counting TSB, was 1.7% due to growth in loans to companies and SMEs.

Additionally, the group's balance of doubtful exposures was reduced by 2,762 million euros in 2016. As a result, the group's NPL ratio was cut by 165 basis points to 6.1% in 2016.

Customer funds on the balance sheet amounted to 133,457 million euros at the end of 2016. That was a 1.5% increase year-on-year. In particular, demand deposits increased by 8.8% in the year.

Deposits with a fixed maturity continued to decline as savers sought alternative investments that offer a better yield.

This trend was clearly evident in off-balance sheet customer funds.

Funds under management in mutual funds amounted to 22,594 million euros, a 5.4% increase with respect to the end of 2015.

Insurance savings products sales amounted to 10,243 million euros at year-end, a 34% increase year-on-year.

Adding the balance of pension funds and asset management, off-balance sheet funds totalled 40,606 million euros, 8.6% more than in 2015.

I will now discuss some of the main features of the income statement.

When comparing figures between years, it's necessary to consider that the 2015 numbers include only six months' of TSB results, which was acquired on 30 June. Consequently, in items where the effect is significant, I will indicate the year-on-year variation with and without TSB.

The Group's attributable net profit in 2016 amounted to 710 million euros, an increase of 0.3% year-on-year.

Excluding TSB, attributed net profit would have amounted to 531 million euros in 2016, 9.4% less than in 2015 due to the fact that the 2015 figure included an extraordinary gain arising from the goodwill related to the TSB acquisition.

Turning now to the most significant contributions to profit in 2016.

Net interest income amounted to 3,838 million euros in 2016, 19.8% more than in 2015. Excluding TSB, the increase would have been 4.6%.

Once again, I would like to emphasise Banco Sabadell's capacity to generate ordinary revenues in this extended low interest rate environment.

Net fees and commissions amounted to 1,149 million euros. That was a 5.6% increase with respect to 2015, or 1.4% if we exclude TSB.

Income from trading activities amounted to 610 million euros, i.e. 1,208 million euros less than in 2015, a year when sizeable gains were booked on the ALCO portfolio.

Considering those results and a number of minor items, the group's gross income amounted to 5,471 million euros in 2016, in line with the previous year.

As for expenses, the bank has rigorously focused on cost control.

Operating expenses, which include personnel and other general administration expenses, amounted to 2,663 million euros, 16.5% more than the previous year due to the incorporation of TSB.

Excluding the TSB effect and non-recurring items, expenses increased by just 0.2% year-on-year.

The cost to income ratio, including recurring income from financial transactions, improved from 48.96% to 48.68% in 2016.

Provisions for NPLs and other impairments amounted to 1,427 million euros, less than the 2015 figure of 2,332 million euros.

I would also like to emphasise our strong capital position. As the Chairman reported, we ended 2015 with a fully loaded Common Equity Tier 1 ratio of 12.0%, very comfortably above regulatory requirements.

Ladies and gentlemen, I would like now to report on the main features of the bank's core business performance.

The group currently operates in five areas: Commercial Banking, Markets and Private Banking, the United Kingdom, Global Corporate Banking and Sabadell America. Additionally, it has the Asset Transformation unit.

Commercial Banking had 76,928 million euros in outstanding loans and advances in 2016, 1% less than the previous year, and 95,726 million euros in customer funds, 1.8% more than in 2015.

With regard to business, the bank strengthened its relationship model based on the "Compromiso Empresas".

Under the "Compromiso Empresas", the bank makes a number of written commitments to its business customers, such as that we will respond to loan applications with credit decisions in a maximum of seven days.

In 2016, we launched the "100 respuestas inmediatas" campaign, associated with the distribution of 3,500 digital tablets among our account managers in order to bring the bank to the customer's home or place of business, as I mentioned earlier in the context of the commercial transformation.

Also important is the BStartup Programme, focused on supporting technology startups.

The bank has a network of branches throughout Spain that are specialised in startups, with specific credit lines for these emerging companies, which have borrowed 100 million euros to date.

In short, Sabadell was the go-to bank for business for yet another year. In 2016, we granted 38,672 million euros in loans and advances, and added 96,239 business customers.

Our penetration in this segment stands at 34.1% in Spain, including a notable 71.1% among large corporations.

As for the individuals market, Banco Sabadell continues to focus on being our customers' primary bank by establishing long-term relationships and providing quality service.

In 2016, we engaged in intense commercial activity, as evidenced by the key business figures I will now describe.

New home purchase loan production increased by 24.4% year-on-year to 3,044 million euros.

Consumer lending amounted to 1,093 million euros, 46.4% more than in 2015.

Consumer finance, which we conduct through subsidiary Sabadell Consumer Finance, granted 566 million euros through ten thousand points of sale throughout Spain. An 18.4% increase over 2015.

Credit and debit card turnover increased by 15.8% to 10,789 million euros.

And bancassurance also performed superbly in 2016. At the end of the year, the total volume of funds under management in insurance savings products and pension plans was 14,371 million euros, 20% more than in 2016.

This impressive results were accompanied, once again, by excellent service quality. In 2016, the STIGA benchmark survey of bank branch service quality ranked Banco Sabadell among the top performers, well above the sector average and ahead of its closest competitors.

We continue to excel in new customer enrolments. Specifically, Banco Sabadell added 475,000 new individuals as customers in Spain in 2016.

During the year, the bank continued to invest in its brand image. As always, we adopted a personal style that distinguishes us from the competition and conveys our values of professionalism, reliability and innovation in customer service.

SabadellUrquijo is the bank's division that offers end-to-end private banking solutions. It has 12 branches, 19 customer care centres and 181 specialised bankers.

In 2016, its business volume totalled 25,837 million euros, 2.1% more than the previous year.

As for the asset management business, assets under management in Spanish-domiciled funds amounted to 14,122 million euros at 2016 year-end, a 7.9% increase on 2015.

TSB, the bank we acquired in June 2015, engages in retail banking in the United Kingdom. TSB has 587 branches, over 8,000 employees and 5 million customers.

In 2016, its first full year within the group, TSB hit its targets in three strategic areas: provide great banking to more people, help more people to borrow well, and provide the kind of banking people want and deserve.

TSB captured 6.4% of the customers switching banks or opening a new account in 2016, exceeding its target of 6%.

Customer deposits amounted to 29,384 million pounds, a 13.6% increase year-on-year, while lending increased by 11.4% to 29,419 million pounds.

With regard to brand recognition, in 2016 TSB was named the "best high-street bank" in the UK and its net promoter score, or NPS, rose to 23 points.

Corporate Banking is the unit responsible for managing our relationships with large corporations; in 2016, its total business volume amounted to 17,863 million euros, in line with 2015.

As I mentioned earlier, this business is particularly active in the international arena. In 2016, Corporate Banking's overseas branches increased lending by 13% with respect to 2015.

In the area of structured finance, Banco Sabadell is one of the leading banks in originating and structuring funding transactions in the market. It performed over 260 deals in 2016, originating 6,036 million euros in credit volume.

With regard to trade finance, the bank has 18 branches and representative offices in strategic locations around the world.

Banco Sabadell has traditionally had a much larger share of this market than its size would suggest.

We ended 2015 with 28.80% of the market in export documentary credit, in terms of Swift transactions, and we reached 30.30% in 2016.

In the area of asset transformation, property sales amounted to 1,567 million euros in 2016, well above the 1,128 million euros figure achieved in 2015.

This increase was driven essentially by a powerful institutional sales channel and by Solvia, our real estate services company.

Solvia, one of Spain's leading real estate servicing companies, provides a complete range of property-related services: from development through asset administration to commercialisation, primarily via retail.

I will conclude the review of the performance by the bank's main businesses by referring to business in America.

Sabadell United Bank engages in commercial banking in South Florida. In 2016, its business volume totalled 9,199 million dollars, 7.2% more than in 2015.

As mentioned earlier, we agreed to sale Sabadell United Bank in the first quarter of 2017 at a considerable capital gain.

Nevertheless, the bank will continue to operate in the US through the Miami based Sabadell International Branch, which has been operational since 1983 with focus on corporate and private banking.

At the end of 2016, Sabadell International Branch's business volume amounted to 9,983 million dollars, 22.6% more than the previous year, due to both organic growth and to the acquisition, in December, of a portfolio of around 800 million dollars from Itaú Private Bank.

As for Mexico, lending amounted to 1,750 million dollars at the end of 2016, an increase of 69.1%.

That concludes my description of performance by line of business.

Good business performance and these results are evidence, once again, of the efficacy of our business model and of Banco Sabadell's ability to create value while strengthening its capital and balance sheet on a sustainable basis.

Before I conclude, I would like to thank you, the shareholders for your fidelity and trust.

My sincere thanks also to the Bank's entire workforce for their professionalism and dedication. Without their commitment and hard work on a daily basis, it would not be possible to continue advancing with our business project or to achieve the results that I have just described, which, I hope, meet with your approval.

Thank you very much.