

Press release

2017 year-end results

Banco Sabadell's profit amounts to €801.5 million, 12.8% higher

- The Group has exceeded all of its target and lays the foundations for its Strategic Plan.
- Revenue from core banking business (net interest income + net fees and commissions) increased by 5.5% year-on-year on a like-for-like¹ basis (5.2% excl. TSB).
- Performing loans grew by 4.6%¹ (1.2% excl. TSB), driven by strong activity in SMEs and new mortgage production.
- The NPA coverage ratio stood at 54.7%² pro-forma, following the implementation of IFRS 9 in January 2018.
- The fully-loaded CET1 ratio stood at 12.8% and with the implementation of IFRS 9 it will stand at 12.0%.
- The Board of Directors approved the distribution of a final dividend in cash of 0.05 euros per share, which will be added to the 0.02 euros already distributed. The payout has increased to 49% from 40% in 2016.

02 February 2018. Banco Sabadell Group has ended 2017 with **net attributed profit** of €801.5 million, representing a 12.8% increase year-on-year and a 33.9% increase excluding TSB, as a testament to the strength of its business. These results have been achieved due to the strong increase in **revenue from core banking business** (net interest income + net fees and commissions), which increased by 5.5% year-on-year on a like-for-like¹ basis (5.2% excl. TSB).

The **customer spread** remained stable at 2.80%, as a result of commercial management, and **net interest income** increased year-on-year on a like-for-like¹ basis by 4.9% year-on-year (2.9% excluding TSB).

(1) Calculated based on uniform bases, assuming constant FX and excluding Sabadell United Bank, Mediterráneo Vida and TSB's Mortgage Enhancement portfolio. Performing loan growth excludes the impact of APS (i.e. 80% of the problematic exposures covered by the APS, which are presented as performing in the loans and receivables account).

(2) Excludes provisions for mortgage floor clauses.

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Income from net fees and commissions showed a 7.4% increase year-on-year considering constant FX (10.3% excluding TSB) and a 5.7% increase quarter-on-quarter (6.6% excluding TSB). Year-on-year, the positive performance of asset management fees was particularly noteworthy.

Operating **expenses** amounted to €2,723.0 million as at December 2017, including €59.3 million in non-recurrent expenses. This year-on-year increase of 2.2% corresponds to TSB's one-off IT expenses which were already forecast. The Group's **cost-to-income ratio**³ ended the year at 50%.

Insolvency provisions and other impairments amounted to €2,196.4 million as at 2017 year-end (€2,107.6 million excluding TSB), compared with €1,427.1 million as at 2016 year-end (€1,399.0 million excluding TSB). 2017 figures include extraordinary gains on corporate transactions, the contribution of which has been offset by the allocation of additional provisions amounting to a gross value of €900 million.

Growth in lending and leaders in service quality

The Group's **performing loans** grew by 4.6% year-on-year on a like-for-like¹ basis. **New lending to corporates** increased by 10.7% to €16,925 million, and new **mortgage loans** grew by 7.5% to €3,299 million. **Consumer loans** also increased, by 17.4% to €1,929 million (figures which make up the business of Sabadell Consumer Finance). **Gross performing loans** amounted to €137,522 million at 2017 year-end (€102,119 million excluding TSB).

Throughout 2017, the bank has been very active in its **acquisition of business banking and retail banking customers**, acquiring a total of 512,460 new customers in these segments. By segments, the Group has acquired 383,300 new retail banking customers, 267,767 new direct deposits of salaries and 129,160 business banking customers.

This increase in the number of customers has been achieved with a level of **service quality** that exceeds the sector average. Banco Sabadell has consolidated its leadership in customer experience in the SMEs and large enterprises segments. According to STIGA and EQUOS studies, the level of service quality stands at 7.8, compared with the sector average of 7.03. The NPS (Net Promoter Score) index indicates that Banco Sabadell is ranked first for large enterprises and SMEs and second for Personal Banking customers. The NPS indicator calculated by Accenture is based on the following question: "On a scale of 0 to 10, where 0 is not at all likely and 10 is extremely likely, how likely are you to recommend Sabadell to one of your contacts?"

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(3) This ratio has been calculated without considering the fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe and the revenue generated by the early call of TSB's Mortgage Enhancement portfolio.



The **market share** in Spain has improved across all products.

In the corporates segment, activity in POS terminals was notable, with Banco Sabadell's market share increasing in 2017 to 15.33%, compared with 14.15% in 2016, and that of documentary credit stood at 32.09% at year-end, up from 31.32% 12 months previously. The market share in terms of lending also increased to 11.59% from 11.17%. In the individuals' life insurance segment, the market share improved to 5.43% at 2017 year-end, from 5.10% in 2016, that of mutual funds improved to 6.25% from 6.00% and household deposits to 6.10% from 6.06%.

Customer funds have increased, both on and off the balance sheet, by 5.0%¹. **On-balance sheet customer funds** amounted to €132,096 million (€97,686 million excluding TSB), representing a 2.9% increase year-on-year and a 0.8% increase quarter-on-quarter on a like-for-like¹ basis, driven by the growth of sight accounts during the year and term deposits during the quarter.

Off-balance sheet funds amounted to €45,325 million and increased by 11.6% compared with the previous year (0.4% quarter-on-quarter), mainly due to net inflows of mutual funds, which increased by 21.2% year-on-year to €27,375 million as at 2017 year-end.

Sight account balances amounted to €98,020 million (€68,039 million excluding TSB), a 12.0% increase on a like-for-like¹ basis in year-on-year terms (15.0% excluding TSB).

Banco Sabadell Group's **total assets** amounted to €221,348 million, representing an increase of 10.2% on a like-for-like¹ basis (+7.3% excl. TSB).

(1) Calculated based on uniform bases, assuming constant FX and excluding Sabadell United Bank, Mediterráneo Vida and TSB's Mortgage Enhancement portfolio. Performing loan growth excludes the impact of APS (i.e. 80% of the problematic exposures covered by the APS, which are presented as performing in the loans and receivables account).

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Dividend distribution increases to a 49% payout

The Board of Directors has approved the distribution of a final dividend in cash of 0.05 euros per share, which will be added to the 0.02 euros per share already distributed. In total, 0.07 euros per share, representing an increase in payout of 49%, up from 40% in 2016.

Banco Sabadell has a solid **capital position**, with a phase-in Common Equity Tier 1 (CET1) ratio of 13.4% and a fully-loaded CET1 ratio of 12.8% as at 31 December 2017. With the implementation of IFRS 9, the pro-forma fully-loaded CET1 ratio stands at 12.0%. The requirement on a consolidated basis requires Banco Sabadell to maintain a minimum phase-in Common Equity Tier 1 (CET1) capital ratio of 8.3125%.

Throughout the quarter, Banco Sabadell has successfully accessed the market on several occasions, including the issuance of €400 million in AT1 capital with a 6.125% coupon (37.5bp less than its previous issuance in May), allowing it to complete its 1.5% AT1 bucket with an average coupon rate of 6.37%.

Additionally, during the quarter €1bn was issued in senior unsecured debt, with a 0.875% coupon and a 5-year maturity, the first senior issuance since 2013 and the first to be allocated the investment grade category by all credit rating agencies since 2012. This transaction allowed the bank to strengthen its liquidity position and generate liabilities that could potentially be eligible for MREL. TSB has also carried out its first covered bond issuance: £500 million with a 3M Libor coupon + 24bps and a 5-year maturity.

Solvía Desarrollos Inmobiliarios and pro-forma coverage of 54.7%

Banco Sabadell has created a new business line, Solvía Desarrollos Inmobiliarios, which includes €1,252 million in assets under management with a net value of €683 million. The objectives of this new business line include streamlining and further improving the real estate development service, developing a new business line that will generate new sustainable sources of income, opening up and diversifying the current real estate development customer base and strengthening the value of the real estate development business. Furthermore, thanks to Solvía Desarrollos Inmobiliarios, the proportion of land in the composition of foreclosed assets has declined from 41% to 34%. Meanwhile, Solvía continues to carry out its usual business activities successfully. Sales of real estate assets have generated an average profit of 1.4% in the quarter. Going forward, we do not expect any losses on sales of foreclosed assets

Thus, **non-performing assets** have been reduced by €3,443 million during the year (€1,802 million in non-performing loans and €1,642 million in foreclosed assets, including Solvía Desarrollos Inmobiliarios). There has also been a reduction in the Group's **NPL ratio**, which stands at 5.14% (6.57% excl. TSB). The **NPA coverage ratio** stands at 49.76%², with the coverage of non-performing loans standing at 45.74% and the coverage of foreclosed assets at 54.08%. With the implementation of IFRS 9, the pro-forma coverage of non-performing assets will stand at 54.72%².

(2) Excludes provisions for mortgage floor clauses.



Digital transformation: digital customers increase by 10%

The number of **digital customers** increased by 10% year-to-date, and users of remote channels already number 4.4 million. Those who access the bank's services through their mobile have increased by 17% to 3.3 million, and 20% of sales in Spain are already carried out through digital channels, with this percentage rising to 59% in the UK.

These figures are the result of the bank's firm commitment to digital transformation, which has brought 750,000 customers to the Active Management programme in Spain, and the provision of a digital offering with new capabilities to provide the best possible user experience, as well as Face ID for iPhoneX and multiple transfers of money made using Bizum.

According to the Study on the Financial Behaviour of Individuals in Spain 2017 (Informe de Comportamiento Financiero de los Particulares en España), prepared by FRS Inmark, 44.4% of the customers included in the study are digital financial customers (users of mobile or internet banking) i.e. users that use their primary bank's internet or mobile banking services. Banco Sabadell ranks above the sector average, with half of its customers classed as digital financial customers.

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Key developments during the quarter

Banco Sabadell announces that the Board of Directors has agreed to transfer its legal domicile

On 5 October 2017, the Board of Directors of Banco Sabadell agreed, in an extraordinary meeting, to transfer its legal domicile to Avenida Óscar Esplá no. 37 in Alicante.

The Board of Directors agreed to distribute a final dividend of 0.05 euros

On 1 February 2018, the Board of Directors approved the distribution of a final dividend in cash of 0.05 euros per share, which will be added to the 0.02 euros already distributed. The payout has increased to 49% from 40% in 2016.

Presentation of Strategic Plan 2018-2020

Banco Sabadell will present the key targets of its Strategic Plan for 2018-2020 on 23 February in London. The main objective will be profitability, and its pillars will be the positive evolution of core banking business, a recognised brand with the best levels of service quality, improved efficiency in Spain, a good level of coverage of non-performing assets, leadership in SMEs, strong international growth, state-of-the-art technology and a good position from which to take advantage of the interest rate increase.

Issuance of €400 million in Additional Tier 1 capital

On 13 November, Banco Sabadell placed an issue of contingent convertibles, 'CoCos', of €400 million with a 6.125% coupon which is eligible as Additional Tier 1 (AT1) capital. This transaction allowed it to complete its 1.5% AT1 bucket and further strengthen the Group's solvency.

Launch of Retail Banking in Mexico

Early in November, Banco Sabadell announced the launch, beginning in January 2018, of its retail banking business in Mexico. This is a 100% digital model for which an investment of €54 million was announced.

Banco Sabadell discloses its prudential minimum capital requirements for 2018 required by the European Central Bank

On 14 December 2017, Banco Sabadell announced that it had received a notification from the European Central Bank in respect of prudential minimum capital requirements that are applicable for 2018, which are the result of the Supervisory Review and Evaluation Process (SREP), in which Banco Sabadell has exceeded the required limits, therefore it has no limitations to its distributions in the form of dividends, variable remuneration and coupon payments to holders of Additional Tier 1 (AT1) capital securities.



This requirement on a consolidated basis requires Banco Sabadell to maintain a minimum phase-in Common Equity Tier 1 (CET1) capital ratio of 8.3125% and a minimum phase-in Total Capital ratio of 11.8125%. These ratios include the minimum required by Pillar 1 (4.50%), the Pillar 2 requirement (1.75%), the capital conservation buffer (1.875%) and the requirement arising from its consideration as an O-SII (0.1875%).

As at December 2017, the phase-in CET1 capital ratio stood at 13.4% and the phase-in total capital ratio at 16.1%.

First investment of the digital business hub, InnoCells

InnoCells, Sabadell's hub of new digital business, co-led its first investment round in October. It took place in the British fintech start-up, Bud, the leading UK platform in aggregating financial services and products into a single marketplace. The start-up raised a total of £1.5 million (around €1.6 million) in seed capital from different investors. InnoCells carried out the investment through its corporate venture vehicle, InnoCapital, created to carry out strategic digital and technological series A and B investments in seed stage companies engaged in areas of interest for Banco Sabadell Group.

Banco Sabadell completes its sale of 100% of the share capital of HI Partners Holdco Value Added, S.A.U. to Halley Bidco, S.L.U.

On 22 December 2017, Banco Sabadell announced that its subsidiary company Hotel Investment Partners, S.L. had completed the sale of 100% of the share capital of HI Partners Holdco Value Added, S.A.U., its hotel management platform, to Halley Bidco, S.L.U., a company controlled by funds advised by The Blackstone Group International Partners LLP.

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BancoSabadell Profit & loss account (consolidated)



Figures in € million	Total group				ExTSB		
	31.12.2016	31.12.2017	Change YoY	Change at fixed FX	31.12.2016	31.12.2017	Change YoY
Net interest income	3.837,8	3.802,4	-0,9%	1,0%	2.786,9	2.768,8	-0,6%
Income from equity method and dividend	84,6	315,9	273,4%	273,6%	84,6	315,7	273,2%
Net fees and commissions	1.148,6	1.223,4	6,5%	7,4%	1.022,8	1.127,8	10,3%
Results from financial transactions (net)	609,7	614,1	0,7%	1,6%	556,2	504,5	-9,3%
Foreign exchange (net)	16,9	8,4	-50,1%	-49,3%	16,9	8,4	-50,1%
Other operating income / expense	-226,9	-227,0	0,1%	0,6%	-209,1	-211,3	1,1%
Gross operating income	5.470,7	5.737,3	4,9%	6,6%	4.258,3	4.514,0	6,0%
Operating expense	-2.663,3	-2.723,0	2,2%	4,4%	-1.816,7	-1.793,6	-1,3%
Non-recurrent	-87,1	-59,3	-31,8%	-30,6%	-49,3	-15,8	-67,9%
Recurrent	-2.576,3	-2.663,6	3,4%	5,6%	-1.767,4	-1.777,8	0,6%
Amortization & depreciation	-395,9	-402,2	1,6%	2,9%	-323,2	-329,6	2,0%
Net income before provisions	2.411,5	2.612,1	8,3%	9,6%	2.118,4	2.390,8	12,9%
Provisions for NPLs and other impairments	-1.427,1	-2.196,4	53,9%	53,9%	-1.399,0	-2.107,6	50,6%
Gains on sale of assets and other results	35,1	432,6	--	--	39,5	425,9	--
Profit before tax	1.019,4	848,3	-16,8%	-14,6%	758,9	709,1	-6,6%
Income tax	-303,6	-43,1	-85,8%	-85,8%	-222,4	5,8	--
Consolidated net profit	715,9	805,2	12,5%	15,8%	536,5	714,9	33,2%
Minority interest	5,4	3,7	-31,5%	-31,5%	5,4	3,7	-31,5%
Attributable net profit	710,4	801,5	12,8%	16,1%	531,1	711,2	33,9%

Balances in € million	Total group				ExTSB		
	31.12.2016	31.12.2017	Change YoY	Change at fixed FX	31.12.2016	31.12.2017	Change YoY
Total assets (2)	202.916	221.348	9,1%	10,2%	161.355	173.203	7,3%
Gross loans and advances to customers (1) (2)	143.799	145.323	1,1%	1,9%	111.511	109.742	-1,6%
Customer-based funding on balance sheet (2)	129.562	132.096	2,0%	2,9%	95.229	97.686	2,6%
Customer-based funding off balance sheet	40.606	45.325	11,6%	11,6%	40.606	45.325	11,6%
Shareholders' equity	12.926	13.426	3,9%				

RATIOS	Total group		ExTSB	
	31.12.2016	31.12.2017	31.12.2016	31.12.2017
Cost / income (ex amortisation) (%) (3)	48,68	50,15	42,66	42,10
Core capital / Common equity phase in (%)	12,0	13,4	--	--
NPLs / Gross loans (%) (2)	6,14	5,14	7,72	6,57
NPLs coverage excluding mortgage floor provisions (%) (2)(4)	47,3	45,7	47,3	45,6
Number of branches	2.767	2.473	2.180	1.922
Number of employees	25.945	25.845	17.885	17.558

(1) Excluding repos and deposits in credit institutions. (2) Sabadell United Bank, Mediterraneo Vida and Mortgage Enhancement data excluded in order to be comparable with previous periods. (3) To calculate these ratios, gross operating income was adjusted considering recurrent trading income and linear accrual of the Deposit Guarantee Fund contribution. Additionally, excluding reinsurance commissions received by BanSabadell Vida (value in-force)(4) As of December 2017, the group coverage ratio, including the mortgage floors provisions, stands at 48.3% and 48.1% ex TSB.

See list and definition of Alternative Performance Measures in the Quarterly Financial Report:
https://www.grupbancsabadell.com/es/XTD/INDEX/?url=/es/INFORMACION_ACCIONISTAS_E_INVERSORES/INFORMACION_FINANCIERA/INFORMACION_TRIMESTRALES/A_O_2016/?menuid=39324&language=es



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