

### Results of the first half of 2018

## Banco Sabadell profit amounts to €120.6 million after derisking its balance sheet and TSB's migration



CEO for Banco Sabadell Jaime Guardiola, during his meeting with the press.

- **Recurring net profit, excluding TSB's extraordinary costs and portfolio sales, increased by 24.4% to €456.8 million.**
- **After the sale of non-performing assets amounting to €12.2 billion, NPAs represent just 1.7% of the balance sheet.**
- **Strong commercial activity with loan growth of 4.6%\* ex-TSB, driven by the solid performance of the SME segment and positive growth in mortgages to individuals in Spain.**

Banco Sabadell ended the first half of 2018 with net profit of €120.6 million, 67.2% less than in the same period last year, after assuming provisions for the reduction of €12.2 billion in non-performing assets, which has allowed it to eliminate practically all of its problematic real estate exposure. Costs associated with TSB's migration will be absorbed this year. Excluding these one-off items, recurring net profit increased by 24.4% year-on-year to €456.8 million.

In terms of the capital position, after closing the institutional sales of non-per-

forming assets, which have had a positive impact, the fully-loaded CET1 ratio stands at 11.2% and the phase-in ratio at 12.2%.

The Group's core banking business (net interest income + net fees and commissions) has performed well, with a year-on-year growth of 3.6% ex-TSB. Note should be taken of the customer spread which, excluding TSB one-offs, stood at 2.77%, remaining stable during the last quarter. Net interest income ex-TSB grew by 1% between March and June, underpinned by strong volumes and resilient

SME yields. In year-on-year terms, the Group NII has remained stable, recording a 1.3% growth ex-TSB to €1,323.5 million.

Recurring operating expenses fell by 2.3% in the quarter. As at the end of June, they amounted to €1,336 million, 2.4% higher than one year ago. Non-recurring expenses during the year amounted to €143.2 million, mainly due to TSB migration costs.

## Balance sheet clean-up

Following the sale of a number of portfolios of NPLs and foreclosed assets, which overall amounted to €12.2 billion, the ratio of net NPAs to total assets has fallen to 1.7%.

Taking into account institutional portfolio sales, non-performing assets have been reduced by €7,012 mil-

lion in the quarter and by €9,547 million over the last 12 months, placing the balance at €7,911 million (€6,669 million in non-performing loans and €1,242 million in foreclosed assets).

Furthermore, organic sales in Solvia have increased by 55% during the quarter, resulting in a reduction in terms of the gross value of foreclosed assets of €439 million (3,943 units).

Provisions for NPLs and other impairments amounted to €806.3 million and included two provisions: one provision of €92.4 million for customer remediation in TSB and another of €177.1 million in provisions for institutional portfolio sales. The NPL ratio has been reduced to 4.71%. When considering portfolio sales, the NPL ratio has declined even further, to 4.50%.

## Commercial strength

In terms of commercial strength, it is worth highlighting the year-on-year growth of 3.7% in performing loan volumes, driven by the solid performance of the SME segment and positive growth in mortgages to individuals in Spain. Total customer funds increased by 3.7%. On-balance sheet funds, in constant FX, increased by 2.8%, while off-balance sheet funds increased by 6.6%.

New loans and credit lines to SMEs grew by 11% year-on-year, while consumer and mortgage loans increased to 16%. The rate at which Expansión accounts have been opened grew by 15% and cards turnover increased by 14%, the same as new insurance premiums, while POS turnover increased by 16%.

Furthermore, the fast pace of commercial activity enabled the acquisition of a total of 244,597 customers during the first six months of the year, including 57,332 new corporates and 187,265 individuals. In terms of the latter, the bank successfully acquired 136,448 payrolls.

NOTE: Information calculated on a like-for-like basis, assuming constant FX and excluding Sabadell United Bank, Mediterráneo Vida and TSB's Mortgage Enhancement portfolio.

\*The growth of performing loans excludes the impact of the APS NPL run-off (80% of the problematic exposures covered by the APS, which are presented as performing in the loans and receivables account).

	30.06.2017	30.06.2018
<b>RATIOS</b>	%	%
Cost-to-income <sup>1</sup>	51.33	57.11
Core capital / Phase-in Common Equity	12.7	11.9
NPL ratio	5.49	4.71
NPL coverage	47.1	57.0
<b>RESOURCES</b>		
Number of branches	2,548	2,471
Number of employees	26,384	25,915

Note: Data shown on a like-for-like basis, i.e. excluding figures from Sabadell United Bank, Mediterráneo Vida and Mortgage Enhancement.

<sup>(1)</sup> To calculate this ratio, gross income is adjusted to consider recurrent net trading income and the linear accrual of contributions to the Deposit Guarantee Fund and the Single Resolution Fund.

Cumulative data in million euro	30.06.2017	30.06.2018	Change considering	YoY change constant exchange rate
<b>KEY BALANCE SHEET FIGURES</b>				
Total assets	212,802	215,935	1.5%	1.8%
Performing gross loans	137,666	140,667	2.2%	2.5%
Performing gross loans ex APS	131,446	135,877	3.4%	3.7%
Customer-based funding on balance sheet	132,323	135,695	2.5%	2.8%
Customer-based funding off balance sheet	43,997	46,901	6.6%	6.6%
<b>RESULTS</b>				
Net interest income	1,810.9	1,810.1	0.0%	0.8%
Gross operating income	2,884.0	2,631.0	-8.8%	-8.3%
Net income before provisions	1,349.0	975.1	-27.7%	-27.6%
Profit before tax	514.0	172.9	-66.4%	-66.3%
Consolidated net profit	369.7	124.4	-66.4%	-66.3%
Attributable net profit	368.1	120.6	-67.2%	-67.2%

Note: Data shown on a like-for-like basis, i.e. excluding figures from Sabadell United Bank, Mediterráneo Vida and Mortgage Enhancement.

## SAB share and the market during the first half of 2018

The performance of equities markets during the second quarter of the year has been characterised by high volatility, particularly in the banking sector. Although 2018 started with expectations that the ECB would approach the normalisation of its monetary policy with greater impetus, it moderated its discourse ahead of the cooling down of the old continent economies, delaying the start of the expected interest rate hikes. Thus, prices in the banking sector underwent a new correction, as a result of the delay to interest rate hikes, also affected by an environment of increasing uncertainty.

Generally, although market performance in April was positive, May saw the start of declines in European share prices, mainly triggered by difficulties in forming a new Italian government, as the relevant parties showed themselves to be in disagreement with EU policies. This significantly affected sovereign bonds, as well as the stock exchange, particularly periphery countries in the Euro Zone.

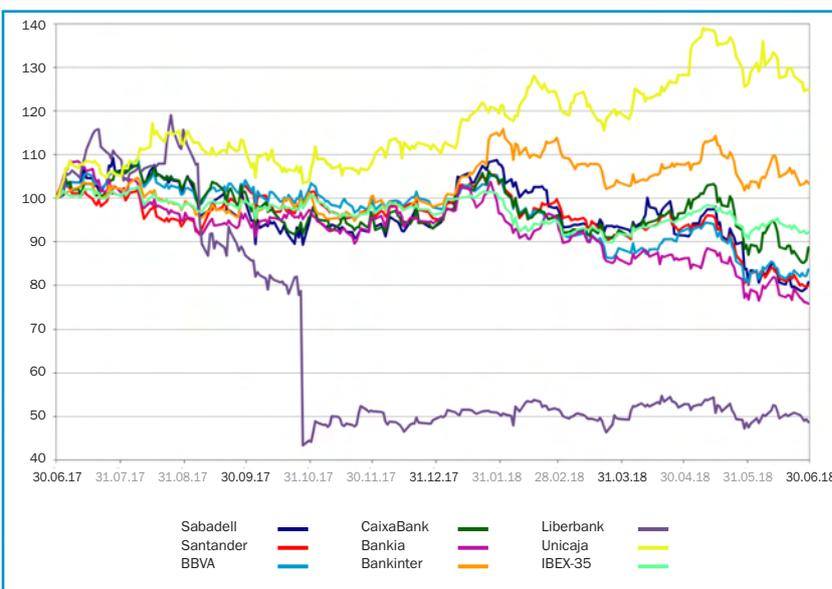
The motion of censure in Spain, which resulted in a change in government, caused a spike in the volatility of capital markets in the run up to voting. These factors, coupled with a resurgence of U.S. trade tensions with China and Europe, dragged share prices downwards, meaning that they ended the first half of the year with a largely negative performance on an annual basis.

On average, Spanish banks listed in the IBEX-35 fell by -10.47% at the end of the first half of the year. Banco Sabadell share price closed the first half of the year at -13.32%. Even so, the entity recorded the third best performance amongst banking institutions listed in the mentioned index.

### SAB share price and volumes

		Final price €	Maximum price €	Minimum price €	Average daily volume (securities)
<b>2017</b>		1.6560	1.9600	1.2950	27,237,193
<b>2018</b>	January	1.9140	1.9445	1.6470	24,253,028
	February	1.7255	1.9325	1.7110	23,534,045
	March	1.6610	1.7165	1.6255	18,614,260
	April	1.6265	1.7800	1.5980	52,110,515
	May	1.4380	1.7495	1.4220	32,992,634
	June	1.4355	1.5290	1.3655	28,419,911
Change					
Dec. 2017 - Jun. 2018		-13.32%			

### Share price performance



### Technical information \*

Number of shares	5,626,964,701
Number of shareholders	234,009
Average daily trading (January-June, in securities)	29,841,376
Average daily trading (January-June, in euros)	49,962,420
Capitalisation	8,077,507,828 €
Book value per share	2.23 €
P/BV (price/book value)	0.64 x
Dividend yield (with closing price at end of December 2017)	4.23%
Dividend yield (with closing price at end of June 2018)	4.88%

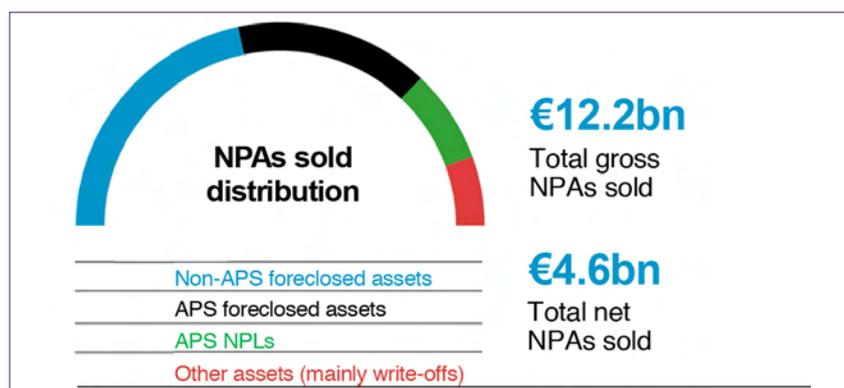
\* As at 30 June 2018.

## Banco Sabadell cleans up real estate assets on its balance sheet

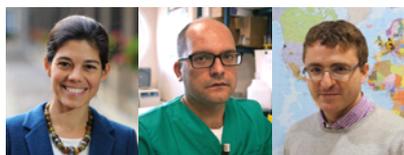
Banco Sabadell cleans up real estate assets on its balance sheet, having agreed the sale of four institutional portfolios - Galerna, Challenger, Coliseum and Makalu, which together, have an overall gross value of €12,200 million. In the short term, these operations imply additional provisions effort, which shall be offset in the medium term through the improvement of the bank's profitability, a stronger balance sheet and the positive impact of this on the capital ratio. Moody's credit rating agency publicly positively valued the sale of these portfolios, considering that this sale accelerates the reduction of the risk profile. Thanks to these operations the bank has been



able to reduce its net NPA to total assets ratio to just 1.7%.



## The Foundation grants economic, biomedical and science and engineering awards

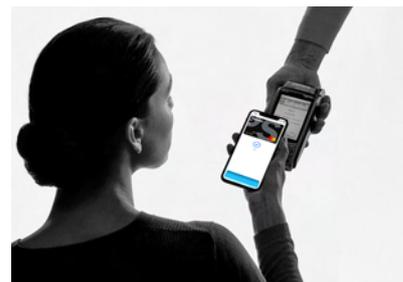


Laura Díaz, Borja Daniel López, Rubén Martín

For another year, Banco Sabadell Foundation has rewarded the hard work and talent of three young professionals in the fields of economic research, biomedical research and science and engineering. With a PhD in economics, Laura Díaz, has won the XVII Award for Economic Research, winning total prize money of €30,000 for her research into climate change in the development of public policies. Holder of a PhD in biochemistry, Daniel López, has won the XIII Award for Biomedical Research thanks to his inno-

vative contribution in the field of bacterial resistance to antibiotics. With a PhD in biochemistry, Rubén Martín, has been awarded the II Science and Engineering Award, for his creative vision of chemical catalysis. The Science and Engineering award, which is supported through the collaboration of the Barcelona Institute of Science and Technology (BIST), as well as the Biomedical Research award, each include €50,000 prize money.

## Green light to use Apple Pay for our costumers



Banco Sabadell customers can now use Apple Pay. Banco Sabadell has implemented the innovative payment system through mobile devices, combining speedy and easy, with full security and privacy guarantees. The service is available for Mastercard and Visa issued by the bank. More than 50,000 cards were activated during the first few days, exceeing the cumulative two year figure in other wallets.

## Bank's investment in the health sector



Banco Sabadell has launched the BStartup Health program, aimed at health business projects in their early stages, where investment is granted to test and validate the technology and business. The aim is to select three young companies who will each receive an investment of €75,000, as well as advice and guidance from a scientific committee. The bank and Asabys Partner have created a new venture capital fund to channel investments in the innovation sector in the health industry, with the aim of raising €60 million.

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Sena, 12 · 08174 Sant Cugat del Vallès (Barcelona)