

## Group Businesses



Banco Sabadell is at the head of Spain's fourth largest privately owned banking group. The group offers a full range of banking and financial services through its different financial institutions, brands, subsidiaries and associates. The group's development objectives are strongly focused on profitable growth and delivering shareholder value through a strategy of business diversification based on high returns, efficiency and quality of service together with a conservative risk profile, while maintaining high standards of ethics and professional conduct combined with sensitivity to stakeholders' interests.

The Bank has a business model that fosters long-term customer relationships through constant efforts to promote customer loyalty and by adopting an initiative-based, proactive approach. The Bank offers a comprehensive range of products and services, competent, highly qualified personnel, an IT platform with ample capacity to support future growth and a relentless focus on quality. The group has four main areas of business: Commercial Banking; Corporate Banking and Global Businesses; Markets and Private Banking, and BS America. It has six regional divisions with full responsibility for their local areas, and several business-focused support teams.

## Commercial Banking

Commercial Banking is the largest of the group's business lines. It focuses on providing financial products and services to large and medium-sized businesses, SMEs, retailers and sole proprietors, professional groupings and individual customers, and bancassurance. Its high degree of market specialization ensures that customers receive a personalized service of the highest quality tailored to their needs, whether from expert staff throughout its extensive branch network or via other channels that support the customer relationship and give access to remote banking services.

SabadellAtlántico, the group's flagship brand, operates in most of the country's regions except for those served by other group brands. These are Asturias and León, an area served by the group's SabadellHerrero brand; the Basque Country, Navarre and La Rioja, where the group is represented chiefly through its SabadellGuipuzcoano network; and the Valencia and Murcia regions, where the Bank operates under the SabadellCAM brand. Last year saw the SabadellGallego name being incorporated into the group's multi-brand strategy to identify its branches in the Galicia region, following the recent acquisition of Banco Gallego by Banco Sabadell. The group's SabadellSolbank branches have the primary aim of meeting the needs of non-resident expatriates from other European countries. It does this through a chain of specialist branches operating only in the Canary Islands, the Balearic Islands and the country's southern and south-eastern mainland coastal areas. Finally, ActivoBank is there to serve customers who prefer to do their banking exclusively by telephone or online.

## Corporate Banking and Global Businesses

Corporate Banking and Global Businesses offers a range of products and services to large corporates and financial institutions, both domestic and foreign. Its activities embrace corporate banking, structured finance, corporate finance, development capital, international trade and consumer finance.

The Bank's large corporate clients are served by a team of expert managers working from its offices in Madrid, Barcelona, London, Paris and Miami. The group's business model in serving these clients is based on a comprehensive offering of specialized financing services and solutions, ranging from cash management to more sophisticated, tailor-made solutions in such areas as finance (whether bank loans/credit or bond origination), hedging products, international trade services and the like.

In the area of structured finance Banco Sabadell has a team that operates from offices in Madrid, Barcelona, Alicante, Bilbao, Miami and New York and has more than 20 years' experience in originating and structuring deals in the areas of corporate finance and project finance.

Sabadell Corporate Finance is a group subsidiary that specializes in advising on mergers and acquisitions. It advises corporate transactions such as company sales and acquisitions and assists companies in finding new or replacement partners and providing independent value appraisals.

Banco Sabadell's development capital business focuses on taking temporary equity positions in non-financial companies and/or projects.

In its international business the Bank aims to be present in markets that are of most interest to companies actively engaging in foreign trade. It does this by having a network of foreign branches, subsidiaries and associates to support its customers' operations in other countries; it also maintains working arrangements with more than 2,800 correspondent banks all over the world, thus providing customers with a further assurance of genuinely global coverage.

Sabadell Fincom is a group subsidiary specializing in consumer finance. Its principal business is providing point-of-sale finance for the purchase of cars, computer equipment, domestic appliances, health care and other products.

## Markets and Private Banking

Banco Sabadell offers a comprehensive offering of products and services for customers wishing to leave the management of their savings and investments to the Bank. These range from researching investment alternatives to trading in securities, and include active management of assets and custodian services. These activities are carried on, in a fully integrated way, by the following divisions: SabadellUrquijo Private Banking, the group's private banking arm; Investment, Products and Research; Treasury and Capital Markets; and Securities and Custodian Services.

Markets and Private Banking is thus well equipped to offer high value products and services designed to deliver the best possible returns for customers, thanks to optimized investment and investment management processes that depend on expert analysis and professionalism of a high order.

The Bank has a design and approval process for products and services which ensures that the full range of offerings available to customers more than meets their requirements in terms of quality, returns and ability to meet the needs of the market. Continually reviewed procedures and practices for identifying customers' risk profiles ensure that products are offered and investments are managed with those risk profiles firmly in mind and that all investor protection measures are complied with as required by the Markets in Financial Instruments Directive (MiFID) and its provisions as transposed into domestic law. The effort put into designing a range of products and services to meet the needs of each customer has enabled the Bank to strengthen and enhance its position as an intermediary and a provider of access to new markets, offer customers new services, create new opportunities in collective investment and give a new prominence to the SabadellUrquijo Private Banking brand.

## Asset Management

In 2012 the division took a fresh approach to the management of its real estate and non-performing assets and restructured its real estate organization. Solvia, the company now tasked with managing the group's real estate assets, boasts a wealth of expertise in every phase of the property development cycle. In 2013 it set up a dedicated unit to handle resolutions of mortgage loans to individual borrowers by taking early action when borrowers fell into arrears.

## BS América

The Banco Sabadell America operation comprises a number of business units, associated undertakings and representative offices which together provide financial services in the corporate banking, private banking and commercial banking fields. The business is managed from Miami,

where Banco Sabadell has a full-service international branch which has been in operation since 1993. In 2012 Sabadell opened a branch in New York which handles a large part of the group's structured finance business.

During the year 2013 Banco Sabadell continued to pursue its aim of growing its domestic banking operation in the state of Florida through its subsidiary Sabadell United Bank, mainly through its developing associate network and improvements in operating efficiency.

In December it entered into an agreement to purchase JGB Bank, and in November it acquired the international private banking business of Lloyds TSB Bank in Miami, which will be merged into the balance sheet of the International Full Branch. This was Banco Sabadell's sixth corporate action in Florida in the last five years, and followed the acquisition of TransAtlantic Bank in 2007, the absorption of BBVA's private banking business in 2008, the purchase of Mellon United National Bank in 2010, and purchase of the assets and liabilities of Lydian Private Bank in 2011 and of the Miami branch of Caja de Ahorros del Mediterráneo in 2012. To assist customers in the Americas region Banco Sabadell has representative offices in Mexico, Venezuela, Brazil and the Dominican Republic.

## Commercial Banking in 2013

In a highly complex operating environment, Commercial Banking worked hard all through the year to develop its business and particularly to increase lending, win customers and increase deposit-taking. This was helped by a branch network that had increased in size due to recent acquisitions and the results were more than satisfactory, particularly so given that business development had to be combined with the additional task of integrating the new additions to the branch network. The major achievement under this heading was the full integration of the former branches of the BMN group in Catalonia and Aragon as well as the former branches of Banco Gallego in Galicia. The latter have been operating under the supervision of Commercial Banking since the last quarter of 2013 and will be operationally integrated in the first quarter of 2014 along with the Spanish branches of Lloyds Bank International.

	2013	2012*	% 13/12
<b>Net interest income</b>	<b>1,321,702</b>	<b>1,278,303</b>	<b>3.4</b>
Fees and commissions (net)	590,438	488,774	20.8
Other income	(48,835)	(79,921)	(38.9)
<b>Gross income</b>	<b>1,863,305</b>	<b>1,687,156</b>	<b>10.4</b>
Operating expenses	(1,255,472)	(1,124,270)	11.7
<b>Operating profit/(loss)</b>	<b>607,833</b>	<b>562,886</b>	<b>8.0</b>
Impairment losses	(353,013)	(398,995)	(11.5)
<b>Profit/(loss) before tax</b>	<b>254,820</b>	<b>163,891</b>	<b>55.5</b>
<b>Ratios (%):</b>			
ROE (profit / average shareholders' equity)	5.6%	4.6%	
Cost:income (general administrative expenses / gross income)	67.4%	66.6%	
Loan loss ratio	11.4%	9.0%	
Loan loss coverage ratio	57.4%	76.1%	
<b>Business volumes (€Mn.)</b>			
Loans and advances	83,255	73,752	12.9
Customer accounts	89,657	70,669	26.9
Securities	7,556	8,022	(5.8)
<b>Other information</b>			
Employees	12,180	10,924	11.5
Branches in Spain	2,356	1,839	28.1

\* Figures for 2012 include performance data for Banco CAM from 1 June onwards.

## In 2013, 67% of the division's customers were large corporates.

### Customer segments

#### Companies, businesses, government and local authorities

Once again a key aspect of the work done by the Bank's chain of dedicated business branches, as envisaged in the group's strategic plan for the years 2011 to 2013, was the campaign to win new business customers. During the year 91,695 companies were added as new customers of Banco Sabadell, 25.4% more than in the previous year. Large corporate clients increased by 15.6%. Especially noteworthy was the 67.0% of the total formed by large corporates. This is a clear sign of the added value afforded by the possession of a chain of dedicated business branches specializing in serving large corporate clients. At the end of the

year the group had 70 business branches covering every part the country. To support the work of winning customers in the SME and large corporate segments, a new "Cuenta Expansión Empresas" business account was launched in the second quarter of the year. This completed the competitive offering of products designed specially for this market segment. The new account makes banking easier for any business, whether domestic or international, and offers value-added services such as free online banking software that provides an excellent tool for cash management and control. Timed to coincide with the launch of the "Cuenta Expansión Empresas" account, a support scheme for businesses was set up with the aim of helping to familiarize new customers with the group's range of products and services. Thanks to its success in capturing new customers, the Bank's share of the business banking market saw

substantial growth during the year, increasing by 13.4% over 2012. “Cuenta Expansión Negocios” continued to be the main tool in winning and keeping customers and in helping users to manage their day-to-day banking operations. By the end of the year a total of 96,848 new accounts of this type had been opened. A year after the start of the business support programme in 2012, the programme was successfully expanded to maximize the business opportunities provided by the large number of new business customers and assure them of a quality service, thereby forging links with these customers at an early stage in the relationship through centrally planned initiatives. Action was taken throughout the year to strengthen procedures for setting and reviewing agreed overdraft limits to help meet the financing needs of sole proprietors, retail outlets and other small businesses. The Bank continued to play a vital role as a lender to the franchise industry, financing for which saw a considerable increase thanks to the rapid growth in franchisee start-ups.

With regard to public sector clients, in 2013 satisfactory results were achieved in every area of the business and especially in treasury management contracts for public sector bodies awarded in competitive bidding procedures, with customer numbers and customer deposits rising by 11.6% and 28.0% respectively compared with the previous year. Banco Sabadell was again actively involved in the Regional Liquidity Funds and Supplier Payment Funds set up by the Spanish Government to provide liquidity to the country’s regional governments and to help them manage payments to their suppliers.

Making it easier for businesses to obtain credit was once again a key priority for Banco Sabadell throughout the year. This aim was reflected in a major sales effort focused on lending to sole proprietors and businesses, and was realized through the group’s “Plan Crecimiento” scheme. The Bank has set itself the aim of increasing lending to customers, subject always to knowing the customer and their needs and to using its customary care and diligence when approving a loan — a differentiating factor for which the group has long been recognized. New medium- and long-term loans to business customers reached €5,292,000 by the end of the year. In working capital finance the group decided to anticipate new SEPA regulations due to come into effect in 2014 by introducing two new products, B2B and Core direct debits, which provide further safeguards for customers in their business transactions. For another year more specialized forms of financing such as factoring and “confirming” (discounted payments of invoices presented by a customer’s named suppliers), usually in cross-border transactions, provided customers with additional solutions for their global payments and collections. Financing schemes organized by Spain’s Official Credit Institute (ICO) were, for another year, a key vehicle for the provision of business finance. Much effort was put into offering financing solutions to businesses and sole proprietors, with Banco Sabadell taking second place among participating banks with a 20.5% share of the total amount disbursed. The amount of lending by the Bank under ICO schemes and its

proportional share of the total increased by 108.8% and 67.5% respectively, compared with the previous year. The ICO schemes for which take-up was highest were the “Business and Entrepreneur” schemes with a total of €2,434 million, and the “Exporter” scheme with €335 million. In the last-named scheme Banco Sabadell ranked in first place with a 23.9% share of the total, as it did in the “International” and “SGR Guarantee” schemes, with shares of 19.9% and 30.0% respectively.

In international trade the Bank maintained its firm commitment to supporting Spanish companies in their business ventures outside the country by providing them with tools to obtain finance, services and training. Banco Sabadell’s “Export to Grow” programme is there to help exporters and importers find solutions to practically every need, financial and non-financial, with a full range of utilities to obtain information and practical help. With the increase in cross-border banking operations in Spain, Banco Sabadell showed a strong performance in the export and import documentary credits market, where its market shares at the end of the year stood at 24.0% and 14.8% respectively.

In 2013 Banco Sabadell was once again a leading provider of medium and long-term finance in the areas of leasing, non-property finance and finance for additional and replacement plant and equipment. One indication of this was the group’s growing shares of the vehicle and plant leasing markets which were up by 40.1% and 36.4% respectively. It was also a key player in the market for energy-efficient solutions. A noteworthy development was the creation of a special leasing product for the tourist industry. This comprised a financing solution specially designed for the industry featuring a fixed rental payment throughout the term of the lease, on any goods and services specified by the customer.

The year 2013 also saw significant progress being made in the group’s approach to, and pricing policy for, institutional clients. Key developments from the commercial viewpoint were the acquisition and winning back of some major clients (which make the largest contributions to funding), and the use of sales levers such as cash and securities management, Banco Sabadell fund management, custodian and depositary services and other services calculated to increase business and strengthen relationships with institutional clients.

The last month of the year saw a fresh development in the group’s policy of differentiated approaches to particular market segments: the creation of a special section to cater for the needs of firms operating in agriculture-related businesses.

Thousand euro

	2013	2012	% 13/12
Net interest income	700,767	732,406	(4.3)
Fees and commissions (net)	221,664	207,099	7.0
Other profits/(losses)	55,779	49,868	11.9
<b>Gross income</b>	<b>978,210</b>	<b>989,373</b>	<b>(1.1)</b>
<b>Business volumes (€Mn.)</b>			
Loans and advances	44,983	41,428	8.6
Customer funds	40,443	32,226	25.5
Securities	4,897	5,053	(3.1)
<b>Loan loss ratio</b>	<b>12.49%</b>	<b>10.06%</b>	<b>—</b>

T2 Businesses

## Individuals

Record growth figures  
for individual customers were achieved  
for the third year in succession.

Thousand euro

	2013	2012	% 13/12
Net interest income	620,927	545,896	13.7
Fees and commissions (net)	368,773	281,676	30.9
Other profits/(losses)	14,446	10,008	44.3
<b>Gross income</b>	<b>1,004,146</b>	<b>837,580</b>	<b>19.9</b>
<b>Business volumes (€Mn.)</b>			
Loans and advances	38,271	32,301	18.5
Customer funds	49,214	38,397	28.2
Securities	2,659	2,969	(10.5)
<b>Loan loss ratio</b>	<b>10.44%</b>	<b>8.32%</b>	<b>—</b>

T3 Individuals



2013, the final year of the “CREA” strategic 3-year plan, was of particular significance in terms of meeting growth targets set at the beginning of the plan for the individual customer segment. It was a year that saw the bedding in of Banco CAM, integrated in December 2012; the completion of the integration of the Catalonia and Aragon branches of BMN-Penedès in October 2013, bringing in over a million new customers; and the acquisition of Banco Gallego and of SabadellSolbank (formerly the Spanish operations of Lloyds Bank International). In addition to the inorganic growth resulting from these acquisitions, the group’s continuing efforts to capture new business were rewarded with the enrolment of more than 372,430 new individual customers — a rise of 9.9% on the previous year — breaking Banco Sabadell’s own record in customer acquisition for the third year in succession.

This extraordinary performance in 2013 can be attributed to three basic factors: a high level of brand recognition, a competitive product offering and a high quality service, and the sharply focused orientation of our branch network that more than met the challenge posed by the co-existence of two different business models: one directed at middle-income customers and focusing on products and efficiency; and one targeted on “personal banking” customers and emphasizing customization and differentiation.

The strategy to increase brand recognition was the same as that used in previous years and comprised three broad brand awareness campaigns. Two of these were themed on attitudes and responses to change and entitled “Change for those who think the time has come for a change” and “Talking to Julia Otero about change”. The third, product-focused campaign was entitled “Personal plans for the future” and introduced a range of pension and retirement plans. These campaigns were reinforced by promotional initiatives run in particular areas or regions, such as the “Crecemos” (We’re growing) campaign coinciding with the launch of the new SabadellGallego brand in Galicia, or a campaign themed on the Catalan word “seny” (shrewd good sense) conducted a year earlier in Catalonia. Finally, numerous local campaigns in major towns and cities were effective in increasing visits to branches and raising the profile of the brand.

Once again this year the “Cuenta Expansión” account proved to be an excellent “visiting card” for the Bank and an effective instrument for winning and retaining new customers. Offered on highly competitive terms that make it a clear market leader, the Cuenta Expansión is now well established at branch level and among customers.

The Bank remained committed to offering its customers a service of the highest quality, a key feature in the Banco Sabadell value proposition. This is confirmed by objective ratings of service quality at bank branches in 2013 as set out in an independent survey by the Stiga organization, which named Banco Sabadell as a market-leading bank — a fact that is particularly significant in a year of consolidation after the integration of branches transferred from Banco CAM.

A key development in the group’s activities directed at the personal customer segment was the roll-out of its differentiation-based approach across all SabadellCAM branches, which had hitherto focused on the middle-income segment targeted by Banco CAM. Its product offering to attract and retain customers continued to be based on the “Cuenta Expansión Premium”, an account designed for customers with high incomes or owning substantial assets. At the same time the Bank continued its campaign to attract deposits and in 2013 efforts were also directed at bringing in off-balance sheet funds through the distribution of investment products. This resulted in a 16.7% rise in the value of assets under management in mutual funds compared with the previous year.

For middle-income customers the main focus was on offering a product, the “Cuenta Expansión”, that would be both competitive and an effective management tool. The hard work done by branches to generate new business resulted in 234,928 enrolments, 35.1% more than in 2012. This in turn produced a very substantial inflow of recurring payments (a contractual requirement to open a “Cuenta Expansión” account), as well as direct debit payments, which were up by 23.0% on 2012. The increase in customer numbers was reflected in a rising volume of on- and off-balance sheet customer funds, which reached a total of €27,426.0 million, up 10.3% on the previous year.

In mortgage loans the main effort was directed at home loans for owner-occupiers, which accounted for 43.4% of all residential property loans. The group’s share of new housing loans in the year to September 2013 stood at 5.0% by volume and 4.8 % by number of transactions. The corresponding figures for the year to September 2012 were 5.2% and 3.7% respectively.

In a context of slowly recovering demand, consumer loans arranged during the year 2013 showed a very positive trend. Factors responsible for this were intensified promotional efforts at branch level; the impact of the widespread use of remote-access channels in facilitating the use of agreed overdraft limits; the facilities offered by the Expansión account to enable families to obtain cash for everyday purchases; and fresh agreements to finance courses of study at universities and business schools, an area in which Banco Sabadell was once again an industry leader.

The group’s credit and debit card business continued to see the healthy growth of the last few years, with the number of cards in issue reaching a total of 4.1 million and accounting for 6.1% of total card billing. EFTPOS billing increased by 17.9% on the previous year, bringing the group’s share of the total to 12.3% at the end of 2013. During the year a number of pilot tests were run for payments by smartphone and a standardized system for the distribution of contactless cards was introduced. Another novelty was the development of new payment collection solutions using mobile devices (“TPV móvil” and “Instant TPV”), in which the Bank showed itself to be a leading innovator.

With regard to the group’s non-resident expatriate customers, most of whom are served through its SabadellSolbank branches, Banco Sabadell strengthened its position with the takeover of Banco CAM in December 2012

and the purchase of Lloyds Bank International's Spanish operation in July 2013. These acquisitions confirm Banco Sabadell as the leading provider of financial services to Spain's non-resident expatriate community. The purchase of Lloyds Bank International's Spanish operation included an agreement for the introduction of, and giving preferential treatment to, customers of Lloyds Banking Group in the UK (which has a 25% share of the UK market) looking to open an account in Spain. The agreement should prove to be a reliable source of new UK customers for the Bank. The number of customers in the expatriate customer segment reached a year-end total of 411,700, a 82.5% increase over 2012. Assets under management for this segment stood at €6,822.0 million.

Finally ActivoBank, with more than 56,340 customers at the close of the year, continued to focus on wealth management, generating business volumes of more than €1,411.3 million. Off-balance sheet funds were up 11.1% on the previous year.

### SabadellHerrero

The year started with the launch of "SabadellHerrero" as the new brand for the Bank's branches in the Asturias and León region. The new brand follows the naming pattern of other group brands: the first half of the name conveys the notions of solid strength, professionalism and scale associated with the Sabadell brand; the second half, Herrero, retains the qualities of closeness and familiarity of a bank with over 100 years of trading and a strong local affinities. The reaction to the new name was magnificent. Customers and local media were appreciative of the Bank's timely action and its expressed wish that its connections and engagement with the Asturias and León region should continue.

The key priority for 2013 was to increase market share in deposits and customers. Lending growth followed the trend of the last few years, constrained by the weak economic climate; it nonetheless performed better than the market as a whole as some competitors reduce their level of activity as a result of restructuring. As part of its intensified efforts to boost lending, SabadellHerrero was once again a leader in arranging finance under ICO-sponsored schemes, taking shares of 39.30% in Asturias and 22.22% in León. These numbers are a good indication of its vital role in channelling credit to businesses in both provinces, where the ICO schemes are highly prized by business borrowers for their versatility and affordability. These efforts to promote lending did not mean any less care or attention in the selection and monitoring of borrowers and the loan loss ratio at the end of the year, at 5.45%, was one of the industry's lowest. SabadellHerrero maintains partnership agreements with employers' federations in Asturias and León and with Chambers of Commerce and a large number of trade and industry associations in both provinces. These agreements, as well as the special terms offered on financing products, were a good basis for the holding of seminars at which the Bank could talk to business people

about innovative financing solutions and offer them support in their efforts to become more international.

On the deposit taking side, SabadellHerrero was able to report a €303 million increase, a year-on-year rise of 3.53%. A change in the pattern of the last few years was a new interest in mutual funds, which increased by 16.7% on 2012 — the first sign of a switch to investing in these products driven by prospects of an upturn in the economy and low returns on time deposits.

One reason for the growth in business at SabadellHerrero has been the steady inflow of new customers year after year thanks to the strength of the brand, its pioneering range of products and its impressive sales capability. During the year its customer base was boosted by the addition of 25,000 new individual customers and 3,700 business customers, further enlarging the SabadellHerrero franchise in its home territory.

Early in 2013 SabadellHerrero's Consultative Board appointed Francisco Vallejo as its new Chairman on the retirement of Juan Manuel Desvalls, who had held the post since 2002 and performed brilliantly in the role. SabadellHerrero received yet more accolades confirming the high degree of brand acceptance it enjoys within Asturias and León; these included the Distinction of Honour award from the Gijón Chamber of Commerce, which cited the support given to local businesses in line with the policy of its predecessor, the former Banco Herrero. Another milestone in 2013 was the award of the Álvarez-Margaride prize, a joint initiative by SabadellHerrero and the APQ (Asturias Patria Querida) Association. The prize is awarded to people, firms and organizations for business success. In this third year of the prize, the award went to Juan Cueto Sierra, a native of Asturias who built one of the world's biggest airline groups, Latam, following a merger of the Chilean airline Lan with Brazil's Tam.

Other activities in the cultural and social spheres included exhibitions at the Banco Herrero Hall in Oviedo, organized as part of an agreement between the bank and the Asturian Government's Department of Culture, and an agreement with the Oviedo Opera Foundation in which SabadellHerrero sponsored one of the season's productions. Each year the Banco Herrero Foundation awards a prize to an economist below the age of 40 judged to have done outstanding work in the economic, business or social arenas. This year's prize was won by Gerard Padró i Miquel for his research work in the field of Political Economy. Gerard Padró i Miquel holds a degree in Economics from Pompeu Fabra University and a PhD in Economics from the Massachusetts Institute of Technology (MIT). The Banco Herrero Foundation continued to support the Príncipe de Asturias Foundation and increased its sponsorship of the Príncipe de Asturias Awards for the second year running

### SabadellGallego

On the completion in October 2013 of arrangements for the acquisition of Banco Gallego by Banco Sabadell, the



new SabadellGallego brand was launched in the Galicia region. The new brand reflects the group's commitment to preserving the link with Galicia and the region's long tradition of sound banking by becoming a premier local bank under the Sabadell umbrella. Simultaneously with the launch of the SabadellGallego brand, the staffs of the former Banco Gallego and SabadellAtlántico branches were merged pending a full operational integration planned for March 2014. The organization of the new brand consists of a regional directorate covering seven areas with a total of 145 branches making up 8% of bank branches in Galicia.

### SabadellGuipuzcoano

If 2012 was the year of branch integration and rationalization for SabadellGuipuzcoano, 2013 was the year of consolidation. The 129 retail and business banking branches spread across the Basque Country, Navarre and La Rioja regions, after rising to the challenge of a rapid and well-coordinated integration, in 2013 successfully completed the full consolidation of their business operations and thus prepared the way for increasingly vibrant growth both as part of the group and in the wider market. Following an efficiently conducted implementation of the group's operating procedures, the branches increased their intake of new customers by 8.9% compared with the previous year, adopting a particularly proactive stance with business customers in a highly uncertain economic climate which saw severe damage being done to the region's traditionally solid industrial base. Their successful campaign to win customers, allied to a superb effort to increase lending and attract deposits, enabled them to increase their contribution margin by 14.6%, supported by a further initiative to bring down costs, which fell by 3.2%.

It is especially significant that while all this hard work was being done, loan delinquency was being held at 5.02% of the loan portfolio and was not affected by a number of major insolvencies that afflicted the region in the second half of the year.

Meanwhile SabadellGuipuzcoano, having consolidated its operations, continued to grow and become ever more widely recognized. It is now one of the best-known financial services franchises in the market, thanks not only to the promotional campaigns being run from group head office but also to the constant promotional efforts being made and the links with other organizations being developed at local level.

There was a major increase in the number of local agreements and alliances, including 24 agreements with public bodies, reciprocal guarantee societies and business associations including those made with the Bizkaia Business Confederation (CEBEK) and the Guipúzcoa Entrepreneurs' Association (AEG) on international trade. One of the promotional factors that most clearly established the historical link with and commitment to the region was, without a doubt, the deployment of initiatives in external communication, sponsorship and event organization. These activities involved the cultural, social, economic and

sporting life of the region and brought public recognition and awareness of SabadellGuipuzcoano to hitherto unprecedented levels.

Noteworthy actions in the social and business spheres included its sponsorship of Basque Enterprise Evening, the Guipuzcoan Industry Awards, a USA Week in Bilbao's Guggenheim Museum and the award of a Scientific Research Grant to the BioDonostia Health Research Institute. In the area of sports sponsorship, for the second consecutive year it supported the Basque Country Tour cycle race that made such an impact the previous year, and also the Guipúzcoa Sports Gala. Other event and cultural sponsorship highlights included support for books on such subjects as the "Tamborrada Donostiarra" drumming festival in San Sebastián or Our Lady of Begoña, patron saint of Vizcaya province; and sponsoring musical events such as the all-Basque Country Bertsolaris Championship and the San Sebastián Music Festival.

### SabadellCAM

December 2013 marked the end of the first year since the Banco Sabadell and Banco CAM branch networks were merged. The main challenge in that first year was to relaunch the business after integration, raising questions on how best to transmit the group's culture and values, help employees joining the Bank to integrate into their new working environment and give them the right training to help them perform their tasks with complete assurance.

Once the IT and operational integration had been completed, it was time to merge work groups and to start using exclusively Banco Sabadell group channels, tools, systems and procedures. To facilitate the changeover, a programme of in-branch employee tutoring and support was put in hand. This required employees to show the utmost flexibility so as to arrive at a situation where employees from both organizations would be working side-by-side in as many branches as possible to bring about a rapid transfer of knowledge on procedures, and with as little impact as possible on employees in customer-facing roles. The most important of the training programmes carried out in 2013 were those centred on roles post-integration, the new business development programme, improved training on risk and training in sales, marketing and incentives.

The merger was the start of a complete rationalization and overhaul of the SabadellCAM branch network which came to an end in December and met all the conditions agreed with and imposed by Brussels. An organizational structure was created with four regional divisions subdivided into 33 area offices, with an additional 25 branches forming part of the business branch network. A total of 632 branches now made up the group's network in the Valencia and Murcia regions and the Balearic Islands. The regional division's entire management team was brought together for a convention held on 14 January 2013 in Alicante. Some 800 managers attended the event and were given coherent guidance on the most crucial parts

of the business plan for the year. In July another meeting for more than 150 senior regional and area managers took place in Alicante. The meeting reviewed performance in the first half-year and established basic guidelines to meet the division's end-of-year business targets.

Especially important from the standpoint of customer perceptions of branch service quality was an extensive post-merger programme to realign and reequip branches, resulting in some 1,700 separate alterations. These included installing or replacing cash dispensers, ATMs, passbook updating machines, waste classifiers, queue management systems, digital tablets and numerous other technological and self-service enhancements. The focus throughout was on a gradual alignment of branch services with customer requirements. Other improvements included changes of layout at some 70 branches and more than 165 direct workplace improvements for branch personnel. All this was in addition to the innumerable changes directly affecting customers and users, such as the provision of replacement passbooks and debit and credit cards.

The SabadellCAM brand undoubtedly gained in prominence during 2013 both in its home territory and elsewhere, thanks partly to campaigns promoting the Sabadell brand generally and more narrowly focused campaigns to raise awareness of the SabadellCAM brand as a new regional force. This was accompanied by a significant increase in its sponsorship and support activities, funding for prizes and participation in forums, conventions and other business, artistic, cultural, social and sporting events.

Numerous partnership agreements were signed with universities, professional associations, chambers of commerce, and business, trade and entrepreneur associations. All these activities were highly effective in getting the new brand better known, winning media attention, attracting customers and building long-term customer relationships.

2013's crowning achievement was to have moulded a team of highly professional, enthusiastic and committed people working together as part of the Sabadell group, united in their determination to continue to advance in standards of service and quality, product offering and closeness to the customer.

## Bancassurance

# Bancassurance, a major contributor to group performance.

At 31 December 2013, the total volume of funds under management in insurance and pension plans was €12,430.8 million. Issued premiums on life and non-life policies totalled €319.2 million.

In 2013 the group's Bancassurance business generated an overall net profit of €82.6 million and €64.6 million in commissions. This went hand-in-hand with a year-long exercise to reorganize its insurance undertakings.

The reorganization led to a merger of several insurance operators. On 14 December the group's distribution organization was restructured and Sabadell Mediación (previously known as Mediterráneo Mediación), became its tied bancassurance operator. The intention is that the company will be merged with the tied operators that were acquired along with Banco Gallego and SabadellSolbank (formerly Lloyds), so that the group ends up with a single tied bancassurance operator. This should happen in the first quarter of 2014.

On 19 July the Bank acquired Aegon's 49.99% shareholding in Mediterráneo Vida, of which the Bank already held the remaining shares. As a result Banco Sabadell became the sole shareholder of Mediterráneo Vida for a net outlay of €450.0 million.

On 12 November Banco Sabadell entered into an agreement with Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. ("CASER") to buy its 75% shareholding in Banco Gallego Vida y Pensiones, a life and pensions operation. The transaction resulted in Banco Sabadell becoming the sole shareholder in the business for a net outlay of €28.2 million. As of December 2013 completion of the transaction was subject to regulatory consents being obtained.

As a consequence of the acquisition of the Catalonia and Aragon branches of the former Caixa Penedès and under the terms of the agreement for the transfer of assets and liabilities from BMN-Penedès to Banco Sabadell, BanSabadell Mediación took over the life and pension contracts brokered by Caixa Penedès Vida, Caixa Penedès Pensiones, Caixa Penedès Assegurances Generals and CASER and sold to customers of the acquired branches. A total of 311,016 contracts were transferred. The premium income generated by the business was €27.0 million from general insurance and €19.5 million from life policies. Total savings and pension fund assets were €595.2 million and €288.3 million respectively.

The reorganized Banco Sabadell insurance and pensions business that resulted from these arrangements was as follows:

- Sabadell Vida, Sabadell Pensiones and Sabadell Seguros Generales, in a joint venture with the Zurich insurance group since 2008.
- Mediterráneo Seguros Diversos, in a joint venture with CASER since 2011.
- Mediterráneo Vida, Sabadell Mediación and Banco Gallego Vida y Pensiones, wholly-owned subsidiaries of Banco Sabadell.

### Sabadell Vida

Total premium income in life insurance for the year 2013 was €497.3 million, with Sabadell Vida ranking 13th among Spanish life offices according to recent data published by ICEA, a research organization for the insurance and pension industries.

In life insurance (including personal accident) premium income totalled €104.2 million, up 9% on the year-end figure for 2012. Freestanding life policies sold well, with the Life Care product generating €44.4 million in premium income, a 15% increase.

In life-with-savings policies, savings under management reached a year-end total of €5,447.5 million. This ranked Sabadell Vida in ninth place among its Spanish life industry peers according to most recent data from ICEA.

Sabadell Vida posted a profit of €64.7 million. Sale commissions paid totalled €33.6 million.

### Sabadell Pensiones

Funds under management by Sabadell Pensiones reached an end-2013 total of €2,946.1 million. Of this total, €1,909.8 million related to individual and group pension plans —up by 14% on 2012— and €1,036.3 million originated from company schemes, a rise of 4%.

On these measures Sabadell Pensiones ranked 11th in the industry as a whole according to recent data from Inverco.

Sabadell Pensiones posted a net profit for the year of €4.2 million, with sale commissions paid totalling €13.2 million.

### Sabadell Seguros Generales

Premium income for the group's general insurance provider in 2013 was €81.6 million. Sales of company policies did especially well, with premium income increasing by 10%.

Sabadell Seguros Generales reported a net profit for the year of €5.6 million with sale commissions paid totalling €11.7 million.

On 14 December a newly created subsidiary of Sabadell

Seguros Generales, Sabadell Servicios Auxiliares de Seguros (BSAS), started trading. The company is operating as a distributor and third-party manager of insurance policies for other insurers.

The company's two weeks of trading in 2013 brought in revenues of €77,000.

### Sabadell Previsión, EPSV

Sabadell Previsión, a voluntary social insurance society, distributes pension/retirement plans within the Basque Country.

In 2013 the society held €323.5 million in savings under management, a volume increase of 6%.

### Mediterráneo Vida

The company's insurance operations in 2013 generated premiums and contributions of €356.7 million, of which €30.5 million were life and disability policies.

In the life-with-savings business the company ended the year with provisions totalling €1,887.6 million.

Mediterráneo Vida posted a profit of €35.1 million. Sale commissions paid totalled €11.8 million.

Its pension fund management business had a total of €730.6 million under management at the end of the year. Of this amount €289.1 million related to individual and group pension plans and €441.5 million to employment-related schemes.

### Mediterráneo Seguros Diversos

The company's total issued premiums for 2013 amounted to €30.8 million. Its net profit was €4.1 million and sale commission payments were €5.7 million.

### Banco Gallego Vida y Pensiones

At 31 December 2013, the total volume of funds under management by Banco Gallego Vida y Pensiones was €184.5 million. The company made a net profit of €1.7 million and paid out €0.5 million in commissions.

### Sabadell Mediación

The company operates as Banco Sabadell's tied bancassurance operator for insurance sold through the Banco Sabadell branch network, whether written by Banco Sabadell group insurance undertakings or by insurers outside the group.

The company reported brokered premium income for 2013 of €425.9 million. The net profit for the year was €5.7 million. It is expected that SabadellSolbank Mediación (formerly Lloydessa) and Galebán, both tied insurance

operators, will be merged with Sabadell Mediación in the first quarter of 2014. The net profits of the two tied operators for 2013 were €0,5 million and €0,004 million respectively.

## Service channels

Banco Sabadell is an industry leader in harnessing technology to deliver innovative services that can be accessed via any channel. Our customers can connect to the Bank from anywhere, at any time, on any day of the week using BS Online, e-banking, mobile banking, the telephone, email, chat, help video clips, Twitter, Facebook, GooglePlus and via our large and very extensive ATM network.

They can easily navigate from one channel to another as all channels, including the branch network, interact with each other and will always provide a coordinated response to their needs. At Banco Sabadell we are committed to continuously improving our interaction with customers and broadening our range of multi-channel services by

adding personalized financial solutions while preserving the essence of our value proposition: quality of service.

Banco Sabadell is also working day by day to enhance the customer experience on the new channels and to make these channels work in ever greater harmony with the more traditional ones. More and more customers are talking about the Bank in blogs and on social networking sites or contacting the Bank on mobile devices. Our ambition is to make branches into a multi-channel network so that our employees and customers can interact in different ways; at the same time, we are making an easier and simpler type of banking where service is what really makes the difference.

## Branch network

At the end of the year Banco Sabadell had a total of 2,418 branches operating under different brands and serving different areas as follows:

Brand	Branches	Region/area of operation
SabadellAtlántico	1230	
SabadellCAM	508	Valencia & Murcia
SabadellHerrero	178	Asturias & León
SabadellGuipuzcoano	128	Basque Country, Navarre & La Rioja
SabadellGallego	117	Galicia
SabadellSolbank	101	
SabadellUrquijo	12	
Banco Gallego	66	Outside Galicia
SabadellSolbank (Lloyd's)	28	
Activo Bank	2	

## T4 Branch network

## Occupational groups and agent partners

The group's activities in relation to professional and occupational groupings and agent partners and associates continued to focus on winning new customers in 2013, whether individuals, retail establishments or professional practices. At the close of the year a total of 1,983 partnership agreements were in existence with professional associations and colleges with a combined membership of over 1,969,901, of whom 473,247 were already customers of the Bank. These partnerships brought in business worth more than €16,400 million. Banco Sabadell is an industry leader in the partnering of professional associations and other groupings all over the country. It achieves this by keeping in close touch with each association, becoming familiar with its special needs and thus being able to offer the most satisfactory solutions.

Banco Sabadell's network of agent partners once again proved to be an efficient channel for winning new business, with more than 28,000 new customers being added during the year. The business volumes generated by the end of 2013 amounted to over €4,700 million.

One action especially worthy of mention was the setting up of an Enterprise Department and the launch of the BStartup programme in the last four months of the year. The aim is to position Banco Sabadell as the bank that caters for individual entrepreneurs and new business ventures with a special focus on the kind of innovative, high-technology startups that offer the highest growth potential. The programme offers a full package of targeted products and services, with some branches taking on specialized functions to provide a better service to customers in this category. This includes "BStartup 10", a scheme under which the Bank will invest €1 million in ten selected high-tech, high potential start-ups all over Spain, as well as provide support for their growth through a business performance programme designed by leading experts.

## International network

At 31 December 2013 Banco Sabadell's branches and offices outside Spain were as follows:

### T5 International network

Country	Branch	Representative office	Subsidiary/associate
<b>Europe</b>			
Andorra			●
France	●		
Poland		●	
Portugal			●
Turkey		●	
United Kingdom	●		
<b>Americas</b>			
Brazil		●	
Dominican Republic		●	
Mexico		●	
USA	●	●	●
Venezuela		●	
<b>Asia</b>			
China		●	
Emiratos Árabes Unidos		●	
Singapore		●	
United Arab Emirates		●	
<b>Africa</b>			
Algeria		●	
Morocco	●		

## ATM network

During the year a total of 91.2 million transactions were performed, of which 61% were card transactions and the remaining 39% were passbook transactions. At the close of 2013 Banco Sabadell's network of self-service tills

totalled 3,222 ATMs and 358 passbook updating machines. There were 44 more ATMs and 21 more passbook updaters in service than in the previous year, after all branch mergers resulting from the Banco CAM and BMN-Penedès acquisitions had been completed. In 2013 the group continued its ATM upgrade programme by taking



action to upgrade or replace 1,168 ATMs (79 replacements and 1,089 processing capacity upgrades).

Action was also taken to ensure maximum operational availability of ATMs, including improvements to monitoring systems to trigger warning signals and remedial actions in the event of a communication failure. Cash availability was improved and support and maintenance teams were strengthened.

Banco Sabadell's cash machines now offer a choice of 15 languages and improved navigation for frequent transactions (cash withdrawals, passbook updates, account balance enquiries), thus ensuring a better customer/user experience. New or enhanced features on ATMs included "Instant Money" cardless withdrawals ordered by mobile phone. ATMs were also given increased capacity to handle product advertisements and personalized offers based on customer profiles.

## Remote-access channels

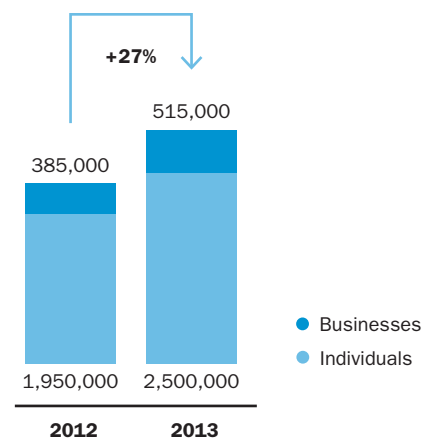
### BS Online

At the end of 2013 more than 2,500,000 individual customers and 515,000 businesses had signed up for the group's online banking service. The overall figure (including customers of the former BMN) was more than 27% up on the year before (F1). A total of 1,052 million transactions were performed online, a spectacular 118% annual increase.

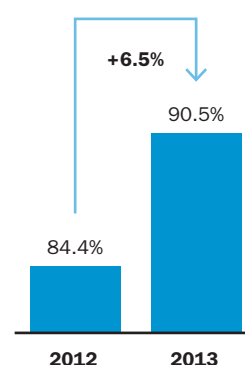
The EFT ratio (the number of transactions done on line as a proportion of the total) at year-end was 90.5%, a 6.5% improvement on the previous year's figure. BS Online continued the pattern of improving efficiency in the Bank's service to customers (F2).

At the end of the year BS Online was the highest-scoring online banking service for web service availability to individual customers of Spanish banks, according to metrics produced by Eurobits, a specialist online banking benchmarking organization. BS Online Empresa, the Bank's online banking service for businesses, finished the year in second place in business online services.

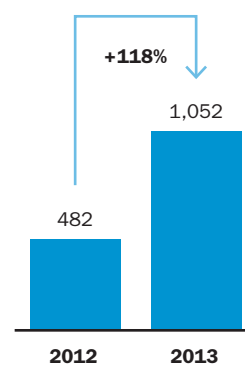
Projects carried out during the year included an "Explorer Plan" of enhancements to international online transfers and other changes to accommodate forthcoming SEPA rules and new functions such as transactions by individuals on joint accounts and debit card enquiries.



F1 BS Online enrolments



F2 Ratio Internet  
(online transactions as % of the total)



F3 Transaction volume  
(‘000 transactions)

The number of active users of BS Móvil at 2013 year-end was 691,867, a rise of 91% on the previous year.

During the year the Bank reviewed its policy on SMS messages with the aim of increasing efficiency and saving costs. This resulted in the start of a campaign using push messages in the second half of the year. The campaign was aimed at bringing about a very significant reduction in the cost of sending SMS messages to customers.

To improve customer service on the .mobi platform, towards the end of the year action was taken to adapt the application for use with the HTML5 language and make it possible for users to benefit from the full range of BS Móvil capabilities on a web application. Doing this placed full interaction with the Bank within reach of the many customers with more limited digital capabilities.

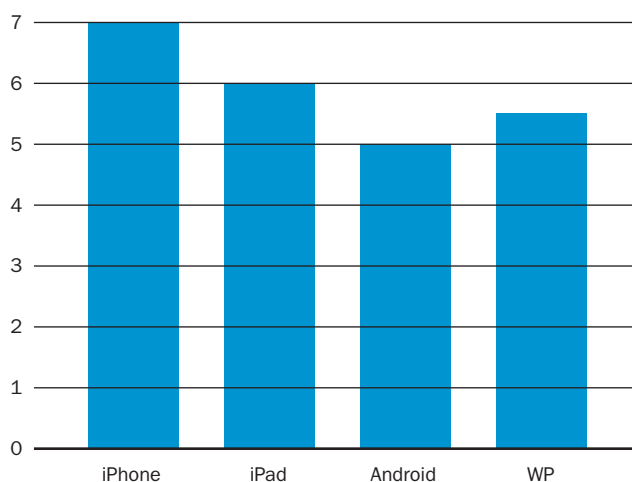
The BS Móvil application on its different platforms (Android, iPhone/iPad, Windows Phone and BlackBerry) has been undergoing a process of constant updating that has placed it firmly among the top eight most commonly downloaded applications in the Spanish market (F4).

Branch Direct continued its transformation to undertake a more commercial role. Its focus on winning new customers and selling consumer finance products led to a total of 13,000 customers being signed up and more than 6,100 new loans being arranged.

Its services also included dealing with customer enquiries and help requests, loyalty schemes and sales of tickets for events over a variety of channels (phone, email, social networking and chat sites). During the year Branch Direct received and handled more than 2,601,000 enquiries, 61% more than in the previous year. The telephone helpline achieved a service level (calls answered as a proportion of calls received) of 96.27% and a response rate (calls answered in less than 20 seconds) of 80%. The first-contact problem resolution rate was 94.48%. Users rated the service at 4.39 on a scale from 1 to 5, based on the more than 308,649 questionnaires sent.

Another innovation was the launch, contemporaneous with the integration of Banco CAM, of the Branch Direct service model (24/7 availability, one-number access, proactive customer contacts, etc.). Other developments were the fixing of employment terms for the newly acquired Alicante customer care centre, the integration of BMN-Penedès, new share offerings, the change to a new Banco Sabadell card and ATM servicing supplier, and across-the-board replacements of credit/debit cards for customers of BMN-Penedès, Banco CAM, SabadellSolbank (formerly Lloyds Bank) and Banco Gallego.

**F4** Downloads to mobile devices 2013 (averages)



## Banco Sabadell became the first Spanish bank to be the subject of a case study on Facebook.

In 2013 Banco Sabadell continued to see its presence on social networking sites grow and develop. The investment it has made in social networking and technological innovation has been a key success area for Banco Sabadell. The group also continued to invest in customer assistance, efficiency, and quality of service; this led to its being nominated on Twitter for best service in the Tweet Awards.

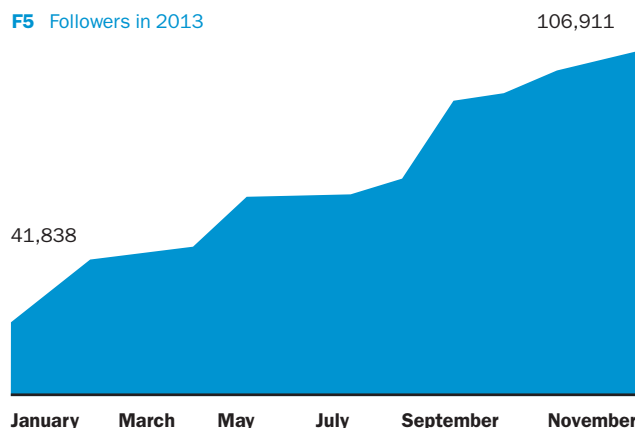
The number of channels on which Banco Sabadell is present increased further with the launch of the new customer assistance and relationship accounts. In May the @SabadellBank account was launched on Twitter and the SabadellBank page was launched on Facebook. The BStartup programme for young entrepreneurs was announced in the autumn. To coincide with the launch, @BStartup was activated as a new Twitter user. This has helped to develop relationships with the enterprise ecosystem, adding value and focus to the support for business that Banco Sabadell has been providing since its earliest days.

In 2013 Banco Sabadell began to use social networking sites as an additional marketing channel on which to give information and sell products. Banco Sabadell became the first Spanish bank to be the subject of a case study on Facebook. Marketing actions during the year included “Find your place”, in which three of our followers realized their dream of making a journey and reporting it on a blog as they went along. Another promotional first was an Instagram campaign consisting of a feature on local shops in Cartagena in the Murcia region. The “Som Sabadell” flashmob, an improvised outdoor concert to honour the Bank’s 130th anniversary, went viral with over 31 million viewings, making it one of the top 20 most viewed ads anywhere in the world.

In 2013 Banco Sabadell showed its increased ability to produce its own content by publishing 360 articles on its blog and making 70 videos. Having its own TV channel (bancsabadellTV) enabled it to transmit live events such as video demos and lectures.

Social networking sites were also brought in as tools of corporate communication. For example, the group’s more important press briefings and its shareholders’ meetings are broadcast in their entirety on Twitter using @bspress. Press releases to the media are redistributed on social networks on a regular basis, making it easy to access them instantly and in full. Thanks to these social media initiatives and the synergies that flowed from them, Banco Sabadell continued to grow its presence and expand its services on networking sites. Hardly surprising, then, that in 2013 it passed the 100,000 follower mark and reached 106,911 by the end of the year (F5).

F5 Followers in 2013



## Corporate Banking and Global Businesses in 2013

### Corporate Banking

2013 was a year of transformation for Corporate Banking, which saw changes both in its strategic focus and in its organizational structure. At the heart of the new approach is an aspiration to offer an unrivalled banking experience to large corporate clients. To meet this aim we are enhancing our ability to deliver an excellent service in an environment of increasing customer globalization enriched, in each case, with the specialist industry/market knowledge of our

customer service teams, thus ensuring our value contribution is tailored to suit the particular needs of each client and business sector.

With regard to business performance, Banco Sabadell was able to keep margin growth before provisions in positive territory (up 0.8%), helped by a good contribution from fee income (up 2.2%), despite loans and advances shrinking by 5.2% over the period as a result of Spanish market deleveraging. Loan defaults remained at a very low level (2.6%) thanks to large corporates' lower exposure to the performance of the Spanish economy, since exports make up a large proportion of their turnover.

Thousand euro

#### T6 Corporate Banking

	2013	2012*	% 13/12
<b>Net interest income</b>	<b>175,749</b>	<b>177,683</b>	<b>(1.1)</b>
Fees and commissions (net)	33,789	33,049	2.2
Other income	5,233	1,415	269.9
<b>Gross income</b>	<b>214,771</b>	<b>212,147</b>	<b>1.2</b>
Operating expenses	(27,170)	(26,116)	4.0
<b>Operating profit/(loss)</b>	<b>187,601</b>	<b>186,031</b>	<b>0.8</b>
Impairment losses	(108,479)	(38,131)	184.5
Other profits/(losses)	0	0	—
<b>Profit/(loss) before tax</b>	<b>79,122</b>	<b>147,900</b>	<b>(46.5)</b>
<b>Ratios (%)</b>			
ROE (profit / average shareholders' equity)	7.7%	13.9%	
Cost: income (general administrative expenses / gross income)	12.7%	12.3%	
Loan loss ratio	2.6%	1.2%	
Loan loss coverage ratio	98.9%	128.4%	
<b>Business volumes (€Mn.)</b>			
Loans and advances	10,920	11,519	(5.2)
Customer accounts	4,025	4,016	0.2
Securities	585	519	12.8
<b>Other information</b>			
Employees	96	95	1.1
Branches in Spain	2	2	0.0
Branches abroad	2	2	0.0

(\*) Figures for 2012 include performance data for Banco CAM from 1 June onwards.

## Banco Sabadell, once again, a Spanish market leader in Structured Finance.

Banco Sabadell continued to be a Spanish market leader in structured finance and was again one of the leading banks providing support to their customers through the origination and structuring of financial packages in project finance, corporate finance and acquisitions. During the year it continued to pursue its policy of supporting customers and responding to their changing needs in Spain's difficult economic environment.

In terms of international presence it strengthened its position in the US market where it increased its lending in terms of both transactions and amount, and embarked

on a project to become a participant in loan syndications in Mexico, thus furthering the group's new strategic aim of expansion on a global level.

To supplement more traditional, loan-and-credit forms of finance, in a joint initiative with our Treasury department we successfully launched a new business of raising finance on the bond market, enabling us to position ourselves as a leading player on the Alternative Fixed-Income Market (Spanish initials: MARF). This new business has increased our ability to offer our customers a wide range of options in long-term finance.

### Corporate Finance

## The Bank won awards from the British specialist corporate finance magazine *Acquisition International*

(being named "M&A Advisory Firm of the Year - Spain"  
and "Corporate Finance Firm of the Year - Spain").

In the area of advising mergers and acquisitions, 2013 was a very busy year for Banco Sabadell, which successfully completed four transactions in the aeronautical engineering, civil/harbour engineering, underground parking lot and real estate sectors. The group holds corporate finance mandates in the fields of logistics, health care, fluid handling mechanisms, sports complexes, mining, distance learning, motorway concessions and wineries, all at an advanced stage of execution. During the year the Bank received accolades for its corporate finance operations from the specialist publication *Acquisition International* — "M&A Advisory Firm of the Year - Spain" and "Corporate Finance Firm of the Year - Spain").

### Development capital

#### Aurica XXI, S.C.R. de Régimen Simplificado S.A.

Aurica XXI (a company subject to the "simplified regime" for share issues by venture capital companies) is the vehicle through which Banco Sabadell supports the growth of well-managed non-financial companies with strong, industry-leading positions and a good presence in foreign markets, by providing temporary capital and active assistance.

The key theme in 2013 was active management of the company's investment portfolio. No further acquisitions were made in the period.



Through its subsidiary Sinia Renovables (a company subject to the “simplified regime” for share issues by venture capital companies), Banco Sabadell acquires, manages and divests temporary shareholdings in companies in the renewable energy sector, with an emphasis on wind power and, to a lesser degree, photovoltaic and mini-hydraulic power generation. The main event in 2013 was an in-depth review of the portfolio of renewable energy projects and firms (which together produce an output of over 160 MW) in which Sinia Renovables has direct shareholdings.

### International trade

For the Bank’s international trade business 2013 was another very busy year, thanks partly to the growth in Spanish exports. Transactions were directly arranged with more than 425 correspondent banks in five continents. The group secured cross-border business amounting to some €1,275 million, gaining healthy market shares in documentary credits received from correspondent banks (24.0% in export documentary credits based on data for transactions handled by SWIFT). The Bank’s foreign branches continued to focus on, and adapt their services for, markets of special interest to Spanish companies engaging in foreign trade, whether as importers and exporters or as part of their projects or investment and implementation activities in foreign markets.

Banco Sabadell has long been a pioneer in building a presence in foreign markets. This is especially true of such key markets as China where it has two offices (in Shanghai and Beijing), India, Singapore, Turkey, the United Arab Emirates and Algeria. Its foreign branches and offices continue to bring significant added value to the international operations of Spanish businesses.

The Bank’s Casablanca branch, the first to be opened by a Spanish bank in Morocco, met all the targets set for it and continued to make solid progress. It is ideally positioned to assist Moroccan businesses with share-owning interests or trading links in Spain by providing them with transaction banking and financial solutions of the first order.

### Consumer Finance: Sabadell Fincom

The prolonged contraction of the private consumption sector did nothing to prevent SabadellFincom from increasing its business on the previous year or from growing its market share. Business activity continued to expand in 2013, with increases over previous years in both net revenue and operating income.

Further efficiency improvements were made in debt recovery, leading to a further reduction (4.99%) in loan delinquencies and with provision coverage totalling 105% of doubtful debts. During the year a total of 72,510 new loans were arranged through 4,000 points of sale in all parts of the country. This new business resulted in top-line

revenues for 2013 of €277.8 million.

The company continued its programme of operational enhancements and technology upgrades with the aim of continuing to drive down its cost:income ratio, which stood at 33.71% at the end of the year.

## Markets and Private Banking in 2013

### SabadellUrquijo Private Banking

SabadellUrquijo Private Banking is the division of Banco Sabadell that specialized in serving the group’s private banking clients.

The division comprises a team of 178 private bankers working from 12 specialized 360-degree service branches and 23 customer service centres covering seven of Spain’s regions. The division can also count on the support and assistance of expert product, tax planning and wealth management consultants.

In 2013, SabadellUrquijo Private Banking focused on strengthening its leading position in the high net worth individual segment, focusing on customers requiring a personalized service, providing products and services adapted to their risk profiles and constantly seeking to optimize clients’ investment returns.

The division’s sales team worked tirelessly during the year to boost personal contact with clients, increasing the frequency of personal visits and follow-up phone calls to ensure that clients felt that their needs were being fully met. These contacts were pursued even more diligently with new customers gained from recent acquisitions (BMN-Penedès, Banco Gallego and SabadellSolbank).

The private banking team concentrated on offering value-added investment alternatives and structuring personalized solutions in line with customers’ requirements and risk profiles, mainly using mutual funds, discretionary portfolio management and SICAVs. As of December 2013 the unit could point to a total of 1,323 new discretionary portfolio management mandates with an overall value of €367 million, bringing the number of agreements to some 2,500 with an aggregate value of over €800 million. Mutual fund and OEIC investments under management increased by over €940 million, 25.3% more than at the end of 2012. The number of OEICs was 166 with investments totalling €1,422 million, up 14.3% on the year-end figure for 2012. As a result the unit saw its revenues increase by 4.7% over the year to reach a total of €23,963 million as of December 2013. Its customer base rose to over 28,700.

The integration of assets from BMN-Penedès enabled the unit to extend its business approach even further within the regions of Catalonia and Aragon and to add 543 new private banking customers whose business was worth an additional €351 million. As a result of the integration the team was strengthened during the year by the addition of seven new private banking executives.

## In 2013 Banco Sabadell mutual funds earned outstanding accolades. Sabadell Inversión was the only Spanish-domiciled fund manager to be awarded a high qualitative grading by Standard & Poor's Capital IQ Fund Research.

Banco Sabadell continued to focus on financial market analysis and research to identify the right asset allocation strategies to guide investment and product planning. This last activity proved to be particularly important and beneficial in 2013 when we started to see the upturn in prospects for economic growth on the European periphery that had been anticipated and factored into our investment recommendations.

High global levels of liquidity and the easing of financial market conditions helped to boost business confidence in the eurozone and especially in the peripheral countries. These conditions were supportive of a rise in risk assets especially those, such as equities, that showed the most attractive valuations. To benefit from these investment opportunities Private Banking designed a new offering of investment products, including structured products with capital guarantees linked to equity market returns. Equity positions in mutual funds and portfolios under the unit's management were increased and the general advice given to investors was to gain more exposure to equity markets.

During the year the investment analysis unit continued to ratchet up its production of reports on equity market investments and corporate bonds. In its analysis of issuers in both the equity and bond markets, it increased its in-depth coverage of corporate and government issuers in Spain and the main European markets. It also extended its coverage of reports on strategy for different markets, sectors and regions and bond issues by corporate issuers, Spanish regional governments, sovereign issuers and other agencies.

In 2013 Banco Sabadell's research department earned a number of accolades and distinctions. The Thomson Reuters agency's investment research arm, Starmine, in a survey of all Spanish investment analysis firms, ranked Banco Sabadell's research team in second place for the soundness of its recommendations. This appraisal of Sabadell came as an endorsement to earlier awards which had ranked it among the best research teams in Spain,

where it has earned wide recognition for the individual quality of its analysts.

The group's Investment Management business is carried on by the units responsible for managing collective investment schemes (CIS's), and combines management of financial investments with the distribution and operation of CIS's. It also manages investments on behalf of other Banco Sabadell businesses that hold portfolios of assets.

At the close of 2013 total assets under management by the Spanish-domiciled mutual fund industry as a whole totalled €153,833.6 million, 25.8% higher than the previous year.

Assets held in Spanish-domiciled mutual funds under management by the Banco Sabadell group amounted to €6,255.5 million at the end of the year. This was 40.8% above the figure for the previous year and included the mutual funds added as a result of the integration of BMN-Penedès.

Thousand euro

**T7** SabadellUrquijo Private Banking

	2013	2012	% 13/12
<b>Net interest income</b>	<b>10,145</b>	<b>12,814</b>	<b>(20.8)</b>
Fees and commissions (net)	36,609	32,990	11.0
Other income	3,253	3,557	(8.6)
<b>Gross income</b>	<b>50,007</b>	<b>49,361</b>	<b>1.3</b>
Operating expenses	(38,319)	(39,715)	(3.5)
<b>Operating profit/(loss)</b>	<b>11,688</b>	<b>9,646</b>	<b>21.2</b>
Provisioning expense (net)	0	0	—
Impairment losses	(2,566)	(3,509)	(26.9)
Other profits/(losses)	0	0	—
<b>Profit/(loss) before tax</b>	<b>9,122</b>	<b>6,137</b>	<b>48.6</b>
<b>Ratios (%)</b>			
ROE (profit / average shareholders' equity)	20.7%	11.4%	
Cost: income (general administrative expenses / gross income)	76.6%	80.5%	
Loan loss ratio	4.5%	3.0%	
Loan loss coverage ratio	80.1%	91.5%	
<b>Business volumes (€Mn.)</b>			
Loans and advances	1,047	1,170	(10.5)
Customer accounts	14,285	13,899	2.8
Securities	7,464	6,985	6.9
<b>Other information</b>			
Number of employees	269	268	0.4
Branches in Spain	12	12	0.0

Thousand euro

**T8** Investment, Products and Research

	2013	2012	% 13/12
<b>Gross income</b>	<b>45,397</b>	<b>31,243</b>	<b>45.3</b>
Operating expenses	(20,046)	(18,548)	8.1
<b>Operating profit/(loss)</b>	<b>25,351</b>	<b>12,695</b>	<b>99.7</b>
Other profits/(losses)	(13)	(6)	97.3
<b>Profit/(loss) before tax</b>	<b>25,338</b>	<b>12,689</b>	<b>99.7</b>
<b>Ratios (%)</b>			
ROE (profit / average shareholders' equity)	80.5%	29.9%	
Cost: income (general administrative expenses / gross income)	44.2%	59.4%	
<b>Business volumes (millones de euros)</b>			
Assets under management in CIS's	8,069	6,997	15.3
Total assets in CIS's including schemes sold but not managed	11,019	8,585	28.3
<b>Other information</b>			
Number of employees	147	148	(0.7)
Branches in Spain	—	—	—

In the latter part of the year investments in balanced funds showed a sharp increase as investor preferences shifted, with assets rising by a factor of 2.4. The group's offering of guaranteed-return funds continued to be promoted during the year, with return guarantees being issued in respect of four guaranteed funds totalling €452.8 million at 31 December 2013. Guaranteed funds as a whole accounted for €2,775.0 million worth of assets at the close of the year. The proportion of assets held in guaranteed funds with respect to the total value of financial assets under management in funds subject to Spanish jurisdiction decreased from 53.4% in 2012 to 44.4% in 2013.

In 2013 Banco Sabadell mutual funds earned a number of accolades and distinctions. Standard and Poor's Capital IQ Fund Research, a mutual fund grading and analysis agency, reviewed and confirmed its Silver qualitative grading for three funds managed by Sabadell Inversión. A fourth fund had its rating upgraded to Gold. The agency awarded its 5-year long-term grading to all the funds for consistent results over the last five years. Sabadell Inversión is the only fund manager subject to Spanish jurisdiction that can boast a high quality grading from Standard & Poor's Capital IQ Fund Research. The British publishing group Citywire paid tribute to the performance of six fixed-income and equity fund managers at Sabadell Inversión, following a study of fund returns over the last three years. The fixed-income managers were awarded AA ratings and the equity fund managers were given A ratings.

In 2013 ten fund mergers were carried out in which 16 mutual funds were absorbed into others with the same investment objectives, having regard always to investors' best interests. Twenty-two funds were taken over by the group as a result of the acquisition of the BMN-Penedès branch banking business in the Catalonia and Aragon regions. Finally, two guaranteed equity funds, one euro fixed-income fund and one hedge fund were set up and registered with the CNMV during the year. By the end of the year the number of Spanish-jurisdiction collective investment schemes stood at 278 with management split between BanSabadell Inversión, S.A., S.G.I.I.C. Sociedad

Unipersonal (112 mutual funds, one REIC and one OEIC) and Urquijo Gestión, S.A., S.G.I.I.C. Sociedad Unipersonal (164 OEICs [SICAVs]).

## Treasury and Capital Markets

In 2013 despite the continued weakness of the economy and a financial environment characterized by interest rates falling to all-time lows, Treasury and Capital Markets was able to meet its targets thanks to persistent sales efforts and an increase in business activity by customers in foreign markets leading to a corresponding increase in income from foreign exchange products.

Banco Sabadell was again an active player in the capital markets and received support from foreign and domestic institutional clients. The levels of demand from investors was a reflection of more buoyant markets generally and of Banco Sabadell's recognized financial solvency.

Banco Sabadell was the first bank to be entered as a member and a registered advisor on Spain's newly established Alternative Fixed-Income Market (Spanish initials: MARF). This enables us to offer an additional, alternative source of finance to companies that require it and also an added-value service providing comprehensive coverage of every stage of the financing process. In 2013 Banco Sabadell also became the first Spanish bank to join Eurex, the German clearing house and Europe's foremost derivatives market. In practice, this meant becoming a member of EurexOTC IRS Clear, a clearing service for interest rate derivatives. By taking this step, the Bank anticipated the coming into effect of a regulation approved by the European Parliament in 2012 making it obligatory for all over-the-counter (OTC) derivative contracts to be registered with clearing houses in the course of the coming year. Activities in the Trading area were focused mainly on liquidity management and ongoing active management of the fixed-income portfolio, as well as FX trading as part of our service to customers.

## Securities trading and custodian services

**Banco Sabadell confirmed its position as a market leader by trading volume, taking second position among Spanish market members with a share of more than 9.5%.**

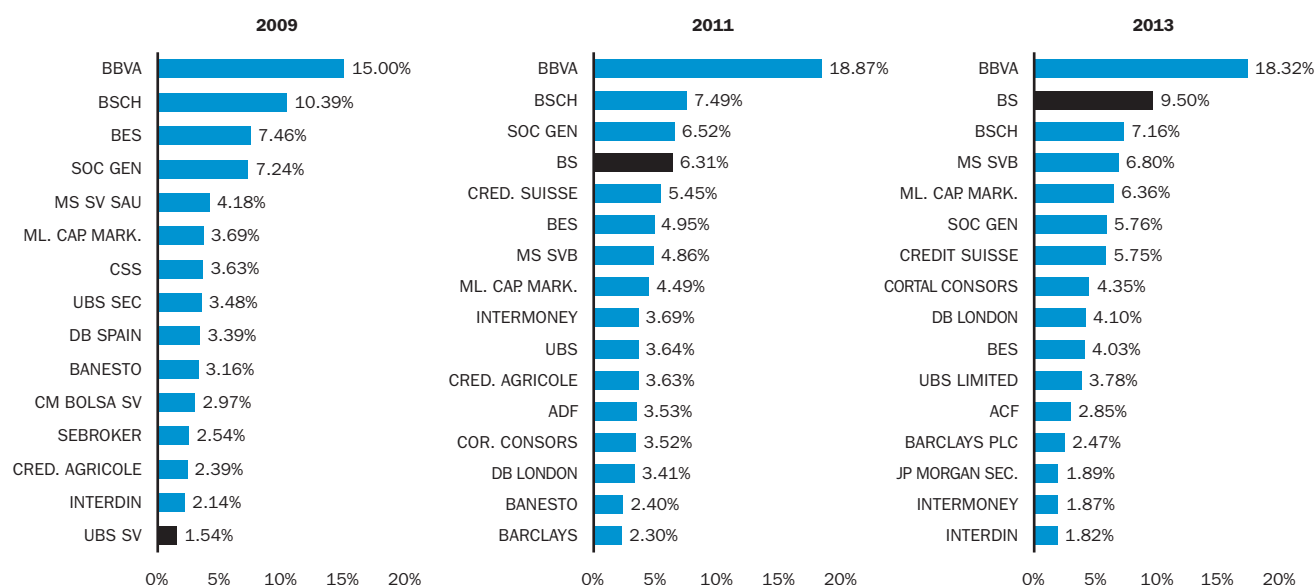
After five years of continual decline both in trading volumes and in asset values, 2013 was characterized by a first half in which the downward trend continued and a second half in which both indicators rallied strongly.

Confidence also showed some signs of recovery and this brought with it a return of institutional end clients and retail investors to higher-risk equity investments.

Banco Sabadell continued to see its share of the securities business follow the upward path that began in 2009,

bringing its share of the market up from 1.5% in 2009 to 9.5% in 2013. In 2012 Banco Sabadell ended the year with a 6.31% share; consequently, the increase in its market share in 2013 was more than 50%. It also moved up from fourth to second position on the list of banking members of the Spanish securities market (F6), confirming its role as a leading player in the market. In its custodian business it achieved results that were, again, above those for the preceding year.

**F6** Ranking of market members by share of turnover



## Asset Management in 2013

# Commercial sales of real estate more than met their targets in 2013 and continued to outpace the market.

Banco Sabadell sought from the outset to ensure a high degree of scalability in its approach to the management of real estate and non-performing assets and thus obtain a holistic view of asset portfolios and their associated costs from a real estate, financial and risk management perspective. This resulted in real estate assets being separated off from the rest of the asset management business and given their own dedicated customer relationship, portfolio and risk management structures. In 2013 the Bank set up a dedicated unit for the resolution of mortgage loans to individual borrowers. The unit's aim is to forestall defaults

by taking early action, adopting an amicable approach (including giving consideration to "datio in solutum" settlements) and being mindful of the problems that can arise in default situations.

The group has specialist real estate management and marketing units. These include a sales unit for the retail market, and sales teams specializing in the selling of portfolios of assets to institutional buyers and in disposing of properties with special or unique features. Sales of real estate assets in 2013 were up by 40% on the previous year. Banco Sabadell has a multi-channel retail



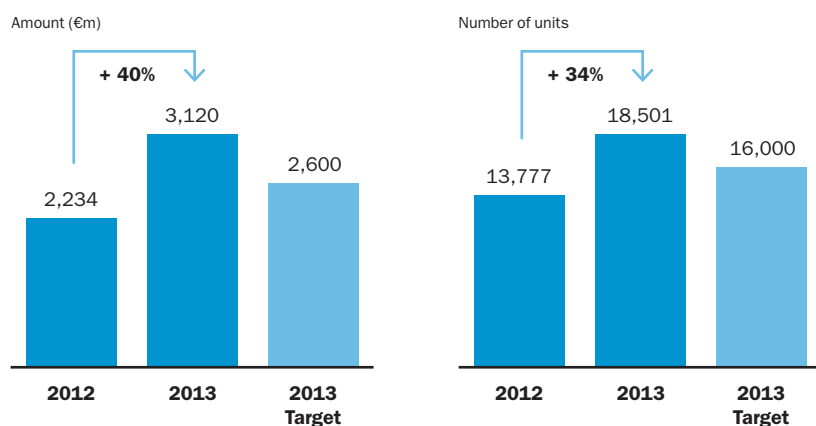
sales model which operates through both tied and third-party agents, including an international channel launched in 2013 that specializes in sales of property to persons resident outside Spain. The Bank recently set up an “open sales platform” to enable a single property to be marketed by more than one agent and thus maximize sales efficiency.

Solvia Inmobiliaria is currently Spain’s second largest bank-operated real estate portal and the ninth largest real estate web site. It is also the country’s second most widely recognized brand in the residential property and construction sectors, with a 40% brand awareness rate among potential purchasers. Recent marketing campaigns have taken a new approach to the way properties are marketed, focusing more on customer service and market opportunities and less on price. A number of measures were taken to add value to the properties being offered for sale and this made it possible to raise prices for the first time since 2007. For properties included in new construction projects, stock turnover targets were successfully used to secure higher sale prices in 19 projects. For individual properties an auction procedure was introduced where there was more than one buyer interested in the property. After this system was introduced in April, 11% of retail sales were by auction and average sale prices rose to 16% above the advertised selling price. In 2013 there was an upturn in investment in the wholesale real estate market. Banco Sabadell completed a number of transactions for the disposal of real estate

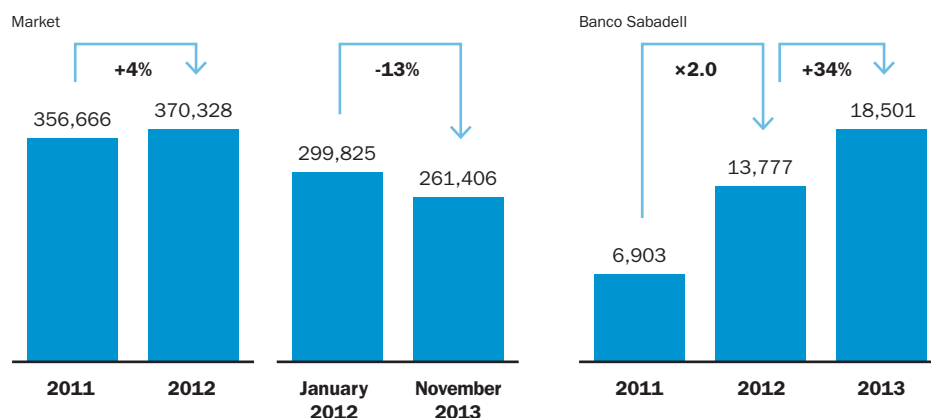
portfolios as part of a strategy of removing non-core assets from its balance sheet. These disposals evidenced its ability to get deals done and position itself in the institutional market. Completed real estate deals included the sale of a portfolio of some 1,000 residential properties, sales of portfolios of assets previously written off, sales of building plots and the development and sale of office buildings.

Advertising campaigns, as well as the group’s marketing strategy, were crucial in boosting property sales in the current state of the market. Property sales totalled 18,501 units worth €3,120 million, well above the sales targets set for 2013.

In 2013 a number of real estate transformation projects were put in hand as part of a programme to develop and add value to land and building plots with market potential. During the year Banco Sabadell started development work on 48 new projects on sites that showed potential, involving a total outlay of some €120 million over the life of the projects. An all-round approach to reducing real estate exposure and generating liquidity is essential from a property market, financial and risk perspective. Banco Sabadell can rely on some highly skilled experts with extensive experience of the banking and real estate sectors. At the same time it has mobilized every part of its organization, including the branch network and its sales/marketing teams, to ensure these aims are achieved.



**F7** Sales of real estate by the group  
(by value and number of sales)



**F8** Number of transactions (units)

	2013	2012	% 13/12
<b>Net interest income</b>	<b>67,835</b>	<b>121,389</b>	<b>(44.1)</b>
Fees and commissions (net)	(2,763)	(4,988)	(44.6)
Other income	(6,970)	(11,632)	(40.1)
<b>Gross income</b>	<b>58,102</b>	<b>104,769</b>	<b>(44.5)</b>
Operating expenses	(191,664)	(130,035)	47.4
<b>Operating profit/(loss)</b>	<b>(133,562)</b>	<b>(25,266)</b>	<b>428.6</b>
Provisioning expense (net)	(301)	(625)	(51.9)
Impairment losses	(362,216)	(345,490)	4.8
Other profits/(losses)	(520,861)	(429,794)	21.2
<b>Profit/(loss) before tax</b>	<b>(1,016,940)</b>	<b>(801,175)</b>	<b>26.9</b>
<b>Ratios (%)</b>			
ROE (profit / average shareholders' equity)	(44.7%)	(39.8%)	
Cost: income (general administrative expenses / gross income)	329.9%	124.1%	
Loan loss ratio	55.4%	48.7%	
Loan loss coverage ratio	44.9%	57.3%	
<b>Business volumes (€Mn.)</b>			
Loans and advances	18,623	21,892	(14.9)
Customer accounts	359	621	(42.2)
Securities	13,587	11,376	19.4
<b>Other information</b>			
Number of employees	807	795	1.5
Branches in Spain	—	—	

### Sabadell America in 2013

In 2013 Sabadell United Bank won another 5-star rating from Bauer Financial, the highest grade awarded by the independent US bank rating organization.

Banco Sabadell's business in the US amounts to more than USD 8,000 million. With total assets of USD 6,200 million, it is Florida's seventh largest local bank by that measure. It is one of the few financial institutions in the area with the capability and experience to provide a full range of banking and financial services, ranging from highly complex and sophisticated products for large corporate clients, including project finance, to products for individual customers and an extensive offering of products and

services commonly required by business and professional people and by companies of all sizes.

#### Banco Sabadell Miami Branch

At the close of the year Banco Sabadell's operating branch in Miami had some USD 5,500 million in deposits and funds under management. The value of securities under

management for clients was up 45%. Loans and advances were up 10% and reached USD 1,413 million as the bank met the needs of international corporations by arranging loan or credit facilities to provide medium- and long-term working capital finance. In 2013 Banco Sabadell Miami branch continued to provide finance for projects in the energy and tourism sectors, mainly in the US and Mexico.

In November it acquired certain assets and liabilities of the Lloyds TSB Bank's Miami branch, which accounted for a substantial part of the business growth seen during the year.

In December it signed an agreement to purchase Miami-based JGB Bank, whose total assets amount to some USD 500 million. It is expected that the transaction will complete and that JGB Bank will be merged with Sabadell United Bank and integrated on its systems in the course of 2014, once regulatory approval has been granted.

### **Sabadell United Bank**

During the year Sabadell United Bank made further progress in implementing its operating and sales efficiency drive, with particular emphasis on promoting its mortgage plan to its customer base and developing alternative sales and service channels. At the time of writing Sabadell United Bank had a total of 23 branches offering services within the State of Florida, mainly in Miami-Dade, Broward and Palm Beach counties but also in the West coast counties of Tampa, Sarasota and Naples. It is the seventh largest local bank by deposits. During the year 2013 Sabadell United Bank continued its programme to promote brand awareness among the market segments it serves. The campaign was specifically targeted on professional people and entrepreneurs, as well as high net worth individuals, to whom it provides private banking and wealth management services through its Wealth Management division, Sabadell Bank & Trust.

In the area of Corporate Banking, Sabadell United Bank expanded its business during the year by increasing syndicated loans to large corporate clients and project finance deals in the energy and infrastructure sectors, thus furthering its aim of diversifying its loan portfolio and capturing valuable new business for the bank.

As 2013 drew to a close, Sabadell United Bank was managing assets of some USD 3,866 million, with deposits close to USD 3,200 million and loans and advances approaching USD 2,900 million. It was serving more than 45,000 customers. Sabadell United Bank reported a net profit for 2013 of USD 45 million.

### **Sabadell Securities**

Sabadell Securities USA Inc., an SEC-registered investment consultancy, operates as a stockbroker and advisor to securities market investors. The business is both a complement to and a strengthening factor in the BS America strategy.

Sabadell Securities provides investment and wealth management services to commercial banking customers as well as to personal banking, corporate banking and private banking clients. Its business strategy is based on meeting customers' financial needs by providing advice on capital market investments.

Sabadell Securities is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). It uses the services of Pershing LLC, a Bank of New York Mellon subsidiary, for clearing, custody and administrative services.

### **Other businesses in 2013**

#### **BancSabadell d'Andorra**

BancSabadell d'Andorra is a financial institution operating in the Principality of Andorra. Incorporated in the year 2000, the company's principal shareholder is Banco Sabadell which holds a majority shareholding of 51%. Ownership of the remaining shares is spread across a broad base of Andorran shareholders.

The bank's principal target market consists of Andorran middle-to-high income individuals and businesses. Its mission is to support Andorra's economic development and recent initiatives to open up the country's economy based on its excellent potential as an international business centre. BancSabadell d'Andorra has a staff of highly qualified people committed to offering high value-added services and delivering a quality service to customers.

BancSabadell d'Andorra is today the bank of choice for private middle-to-high income individuals and businesses and the Andorran bank that has performed best since the onset of the financial crisis in 2008. Profits showed a steady upward trend and reached €6,900. The ROE was 11.5% and deposits increased (up 10.4%), while lending remained at a good level.