



Josep Olu Creus, Chairman

Dear shareholder,

Ordinary banking business performed well in 2017, coupled with sound management of the customer spread, control of recurring operating costs, and a steady reduction in non-performing assets. The Banco Sabadell group ended the year with €801.5 million in net profit, 12.8% more than the previous year and in line with the targets for the period.

The year was marked by major geopolitical events. After the change of government in the United States early in the year, the focus shifted to Europe, where Brexit negotiations commenced and there were elections in France, the UK and Germany. A stronger global economy and higher inflation than in previous years drove the central banks to take steps — incipient in the case of the European Central Bank — towards monetary normalisation. The financial markets performed well in a climate of considerable complacency. The markets will continue to be exposed to the outcomes of events such as Brexit, the United States and NAFTA, although the prospects are now clearer.

Global economic growth became more robust and more synchronised in the main developed economies during the year. The Euro area registered significant growth. The UK economy benefited from a favourable global economic environment, which helped to alleviate the economic effects associated with Brexit uncertainties. The UK achieved close to 2.0% growth in the year as a whole, similar to the previous year. The unemployment rate reached a 42-year low.

The Spanish economy proved very dynamic once again, achieving over 3% growth for the third consecutive year. Economic activity benefited once again from favourable funding conditions and also from private agents' improved financial situation. The political uncertainty in October had a limited and temporary impact on the economy. The labour market is benefiting from the good economic situation, and unemployment is at its lowest since the end of 2008.

The European banking system enhanced its capital position, improved asset quality and increased profitability in 2017. The Single Supervisory Mechanism continued to consolidate its position as supervisor during the year, applying high regulatory standards aligned with international best practices.

The Group's core banking revenues increased by 5.5% year-on-year in 2017 in constant consolidation scope terms. The customer spread remained strong, at 2.8%, as a result of intense commercial activity. Net interest income increased by 4.9% year-on-year in like-for-like terms, or 2.9% excluding TSB. Fees and commissions performed very well, rising 7.4% at constant exchange rates in 2017.

Recurring costs were contained as a result of proactive action. The year-on-year increase was due mainly to extraordinary technology costs at TSB. The Group's cost-to-income ratio reached 50% at year-end, in line with the target.

The NPL ratio continued to decline, reaching 5.1% at 31 December 2017, an improvement on the previous year.

A number of corporate transactions were completed successfully during the year, and the resulting extraordinary gains were allocated to increasing NPA coverage, which reached 49.8% at year-end, or 54.7% pro-forma IFRS 9.

Banco Sabadell ended the year with a strong capital position: a Common Equity Tier 1 ratio of 12.8% in fully-loaded terms. After the implementation of IFRS 9, the Common Equity Tier 1 fully-loaded ratio will be 12.0% (pro-forma).

Commercial activity performed very satisfactorily throughout the year and the volume of outstanding loans and advances increased despite fierce competition. The Group's outstanding loans and advances increased by 4.6% year-on-year adjusting for changes in consolidation scope, driven by strong growth in SMEs, combined with intense enrolment of new customers, both companies and individuals. That increase in customer numbers was achieved with a quality of service that exceeds the industry average. Banco Sabadell improved market share in its various products in Spain and strengthened its lead in customer experience among both SMEs and large corporates.

Customer funds, both on- and off-balance sheet, expanded during the year: by 5.0% in constant consolidation scope terms.

Banco Sabadell's firm commitment to digital transformation led to a number of initiatives in the distribution model, simplification of commercial and operational processes with customers, development of new capacities in the digital offering to enhance the user experience and create value for customers, and improvements in business decision-making.

The primary goal in the UK was to develop and implement TSB's new banking systems. TSB unveiled its new platform in November 2017, making it the first bank in the United Kingdom with a leading-edge platform adapted to the challenges of the digital era. TSB will occupy a distinctive position after the migration. The new platform will provide TSB with greater technological autonomy, drive new businesses and constitute an essential element in generating value for the franchise and shareholders.

Business in Mexico exceeded the targets for the year in both corporate and business banking. Early in November, Banco Sabadell announced plans to commence banking for individuals in Mexico in January 2018 using a 100% digital model that offers new prospects for business development in that country with the goal of continuing to create value for the franchise.

The market recognised the Bank's good performance in 2017, as reflected in upgrades to investment grade by the credit rating agencies and in the share's good performance in the year. Banco Sabadell attained the number-one position in terms of SME and large corporate customer experience, and TSB was recognised in the 2017 Banking Technology Awards.

The General Meeting of Shareholders will be asked to approve a €0.07 cash dividend out of 2017 profit, which represents an increase in the payout to 49%, from 40% in 2016. That €0.07 dividend per share includes the €0.02 interim dividend paid in December 2017 and a €0.05 supplementary dividend that will be paid once it has been approved by the General Meeting.

As a result of the goals attained in 2017, the Bank is soundly placed to undertake its Master Plan 2018-2020. The plan seeks to improve profitability while assuring business sustainability and value-creation for shareholders. To achieve the objectives set for the coming years, we can count on our employees, whose contribution, dedication and professionalism, demonstrated on a daily basis, enable us to take on future challenges with enthusiasm and affirm Banco Sabadell's position as a core component of the Spanish financial system.

Josep Oliu
Chairman