

Profit performance

Profit was on target, supported by strong growth in banking revenues (net interest income and net fees and commissions).

Net interest income has increased steadily in like-for-like terms, while the customer spread remained stable.

Fees and commissions performed very well, boosted by service fees and asset management commissions.

€M

	2016	2017	% 17/16	Excl. TSB 2016	Excl. TSB 2017	% 17/16
Interest and related income	5,170.1	4,839.6	(6.4)	3,820.5	3,605.9	(5.6)
Interest and related charges	(1,332.3)	(1,037.3)	(22.1)	(1,033.6)	(837.1)	(19.0)
Net interest income	3,837.8	3,802.4	(0.9)	2,786.9	2,768.8	(0.6)
Dividend income	10.0	7.3	(27.7)	10.0	7.1	(29.7)
Share of profit or loss of entities accounted for using the equity method	74.6	308.7	313.9	74.6	308.7	313.9
Fees and commissions (net)	1,148.6	1,223.4	6.5	1,022.8	1,127.8	10.3
Gains (losses) on financial assets and liabilities (net)	609.7	614.1	0.7	556.2	504.5	(9.3)
Exchange differences (net)	16.9	8.4	(50.1)	16.9	8.4	(50.1)
Other operating income/expense	(226.9)	(227.0)	0.1	(209.1)	(211.3)	1.1
Gross income	5,470.7	5,737.3	4.9	4,258.3	4,514.0	6.0
Personnel expenses	(1,663.1)	(1,573.6)	(5.4)	(1,235.6)	(1,178.9)	(4.6)
Recurring	(1,595.1)	(1,546.9)	(3.0)	(1,186.4)	(1,163.0)	(2.0)
Non-recurring	(68.0)	(26.6)	(60.8)	(49.3)	(15.8)	(67.9)
Other general expenses	(1,000.3)	(1,149.4)	14.9	(581.0)	(614.8)	5.8
Recurring	(981.2)	(1,116.7)	13.8	(581.0)	(614.8)	5.8
Non-recurring	(19.1)	(32.7)	71.5	—	—	—
Depreciation and amortization	(395.9)	(402.2)	1.6	(323.2)	(329.6)	2.0
Pre-provisions income	2,411.5	2,612.1	8.3	2,118.4	2,390.8	12.9
Provisions for NPLs and other impairments	(550.7)	(1,225.2)	122.5	(522.5)	(1,136.4)	117.5
Other provisions and impairments	(876.5)	(971.1)	10.8	(876.5)	(971.1)	(10.8)
Capital gains on asset disposals and other income	35.1	432.6	—	39.5	425.9	—
Negative goodwill	—	—	—	—	—	—
Profit/loss before tax	1,019.4	848.3	(16.8)	758.9	709.1	(6.6)
Income tax	(303.6)	(43.1)	(85.8)	(222.4)	5.8	—
Consolidated net profit	715.9	805.2	12.5	536.5	714.9	33.2
Minority interest	5.4	3.7	(31.5)	5.4	3.7	(31.5)
Profit attributable to the Group	710.4	801.5	12.8	531.1	711.2	33.9
Pro memoria:						
Average total assets	206,265.2	214,356.2	3.9	163,325.7	168,418.0	3.1
Earnings per share (€)	0.13	0.14	—	0.09	0.13	—

The average exchange rate applied to TSB's profit and loss account is 0.8759, the average of the monthly exchange rates in 2017 weighted by net interest income plus fees and commissions. The accumulated exchange rate in December 2016 was 0.8166.

Net interest income

Net interest income amounted to €3,802.4 million in 2017, -0.9% less than in 2016. Excluding TSB, net interest income amounted to €2,768.8 million in 2017, -0.6% less than in 2016 (T2 & T3).

In like-for-like terms (i.e. at constant exchange rates and excluding the contribution from SUB, Mediterráneo Vida and TSB's mortgage enhancement), this item increased by 4.9% year-on-year (2.9% excluding TSB).

Net interest income with constant consolidation scope (y/y change)

Banco Sabadell (excl. TSB)

+2.9%

Group

+4.9%

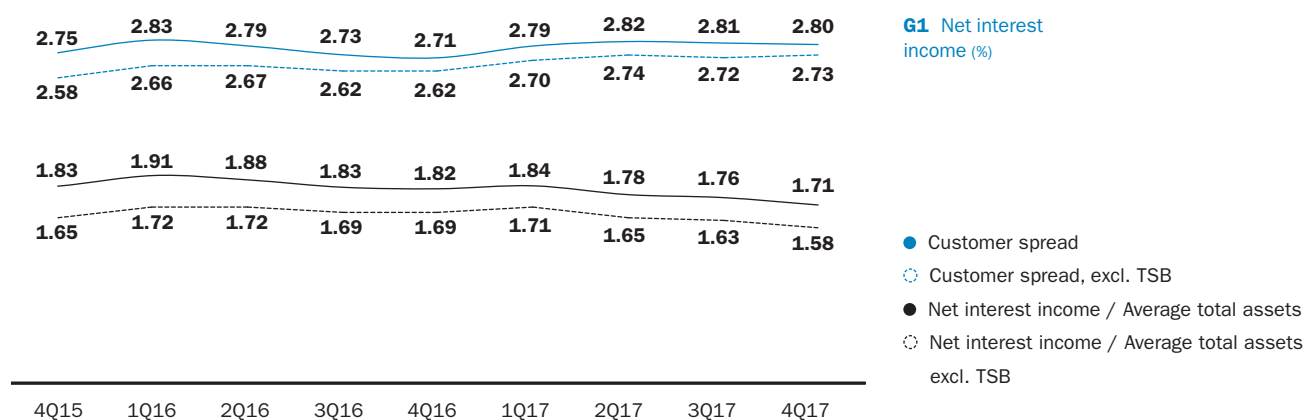
The margin on average total assets was 1.77% (1.86% in 2016). The average return on average total assets declined in spite of the increase in the customer spread (which was mainly attributable to the lower funding cost of customer deposits) because of a number of factors, principally the lower returns on fixed-income (G1 & G2).

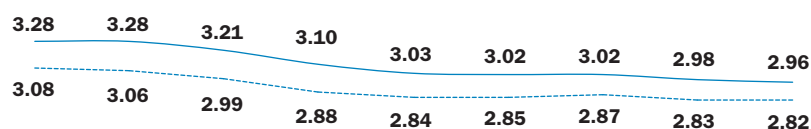
T3 Revenues and expenses

€M

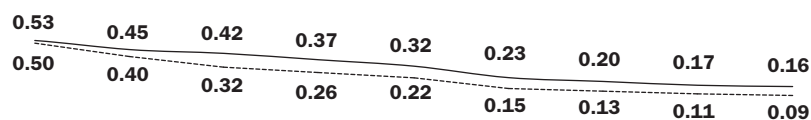
	2016			2017			17/16		Effect		
	Average balance	Results	Rate %	Average balance	Results	Rate %	Average balance	Results	Rate	Volume	Days
Cash on hand and at central banks and credit institutions	11,336.2	31.1	0.27	18,512.4	2.9	0.02	7,176.2	(28.2)	(33.4)	5.3	(100)
Loans to customers	138,202.2	4,361.3	3.16	136,937.9	4,102.1	3.00	(1,264.3)	(259.2)	(232.7)	(18.4)	(8,005)
Fixed-income securities	26,336.2	657.2	2.50	28,809.2	494.3	1.72	2,473.0	(162.9)	(187.2)	25.4	(1,171)
Subtotal	175,874.6	5,049.6	2.87	184,259.5	4,599.4	2.50	8,385.0	(450.3)	(453.3)	12.3	(9,276)
Equity securities	1,004.4	—	—	1,079.2	—	—	74.8	—	—	—	—
Property, plant and equipment and intangible assets	4,030.9	—	—	4,268.3	—	—	237.4	—	—	—	—
Other assets	25,355.3	84.2	0.33	24,749.2	88.6	0.36	(606.1)	4.4	—	4.4	—
Total capital employed	206,265.2	5,133.9	2.49	214,356.2	4,688.0	2.19	8,091.0	(445.9)	(453.3)	16.7	(9,276)
Credit institutions	18,046.2	(78.4)	(0.43)	28,553.5	(29.6)	(0.10)	10,507.3	48.8	44.7	33.9	(29,827)
Customer deposits	134,792.3	(525.0)	(0.39)	138,258.3	(266.3)	(0.19)	3,466.1	258.7	226.1	1.4	31,165
Capital market	30,214.3	(585.8)	(1.94)	26,020.3	(386.9)	(1.49)	(4,193.9)	198.9	110.5	86.7	1,708
Subtotal	183,052.7	(1,189.2)	(0.65)	192,832.2	(682.8)	(0.35)	9,779.5	506.4	381.3	122.1	3,046
Other liabilities	10,280.2	(107.0)	(1.04)	8,438.1	(202.8)	(2.40)	(1,842.1)	(95.9)	—	(95.9)	—
Own funds	12,932.3	—	—	13,086.0	—	—	153.7	—	—	—	—
Total funds	206,265.2	(1,296.1)	(0.63)	214,356.2	(885.6)	(0.41)	8,091.0	410.5	381.3	26.2	3,046
Average total assets	206,265.2	3,837.8	1.86	214,356.2	3,802.4	1.77	8,091.0	(35.4)	(72.0)	42.9	(6,230)

Financial revenues or costs deriving from the application of negative interest rates are recognised as a function of the nature of the related asset or liability. The credit institutions line under liabilities refers to negative interest on the balance of liabilities with credit institutions, the most significant item being TLTRO II revenues.





G2 Customer spread (%)



- Customer loan yield
- Customer loan yield excl. TSB
- Cost of customer deposits
- Cost of customer deposits excl. TSB

Gross income

Dividends received and income from equity-accounted undertakings together amounted to €315.9 million, compared with €84.6 million in 2016. Those revenues are due mainly to the insurance and pension fund business and the net commission collected by BanSabadell Vida for the reinsurance contract signed with Swiss Re Europe in the third quarter of 2017.

Net fees and commissions amounted to €1,223.4 million (€1,127.8 million excluding TSB), a year-on-year increase of 6.5% (10.3% excluding TSB). This increase was attributable mainly to positive performance by service fees, which increased by 11.5% (16.2% excluding TSB), and by asset management fees, which increased by 8.6% year-on-year.

Net fees and commissions (y/y change)

Banco Sabadell (excl. TSB)

+10.3%

Group

+6.5%

€M

	2016	2017	% 17/16	Excl. TSB 2016	Excl. TSB 2017	% 17/16
Asset transactions	215.7	206.1	(4.5)	119.8	121.1	1.0
Guarantees	101.0	98.7	(2.2)	101.0	98.7	(2.2)
Commissions from risk transactions	316.7	304.8	(3.7)	220.8	219.8	(0.5)
Cards	191.2	205.7	7.6	156.1	174.4	11.7
Payment orders	50.4	54.0	7.1	50.4	54.0	7.1
Securities	50.4	60.4	19.9	50.4	60.4	19.9
Demand accounts	89.9	130.8	45.6	76.0	119.3	57.0
Rest	138.2	129.1	(6.6)	157.2	161.3	2.6
Commissions for services	520.0	580.0	11.5	490.1	569.4	16.2
Mutual funds	145.7	158.4	8.7	145.7	158.4	8.7
Pension funds and insurance brokerage	140.9	152.8	8.5	140.9	152.8	8.5
Asset management	25.3	27.4	8.2	25.3	27.4	8.2
Asset management fees and commissions	311.9	338.6	8.6	311.9	338.6	8.6
Total	1,148.6	1,223.4	6.5	1,022.8	1,127.8	10.3

T4 Fees and commissions

Income from financial transactions amounted to €614.1 million (€504.5 million excluding TSB), including the early call of TSB's mortgage enhancement in the second quarter. In 2016, income from financial transactions amounted to €609.7 million (€556.2 million excluding TSB), including notably €109.5 million from the sale of the entire stake in Visa Europe.

Exchange differences amounted to €8.4 million, compared with €16.9 million in 2016.

Other operating revenues and expenses amounted to -€227 million (-€211.3 million excluding TSB), compared with -€226.9 million (-€209.1 million excluding TSB) in 2016. Notable components of this item include the -€98.3 million contribution to the Spanish Deposit Insurance Scheme (-€94.9 million in 2016), the -€54.7 million levy on conversion of deferred tax assets into debt claims against the Spanish tax authorities (-€57.0 million in 2016), the -€50.6 million contribution to the National Resolution Fund (-€47.7 million in 2016), and the -€28.1 million tax on deposits at credit institutions (IDEC) (-€27.6 million in 2016).

Pre-provisions income

Operating expenses (personnel and general) amounted to €2,723.0 million in 2017 (€1,793.6 million excluding TSB), of which €59.3 million are non-recurring items (€15.8 million excluding TSB). In 2016, operating expenses amounted to €2,663.3 million (€1,816.7 million excluding TSB), including €87.1 million in non-recurring expenses (€49.3 million excluding TSB). The year-on-year increase was due to extraordinary technology costs at TSB that had already been planned (G3 & T5).

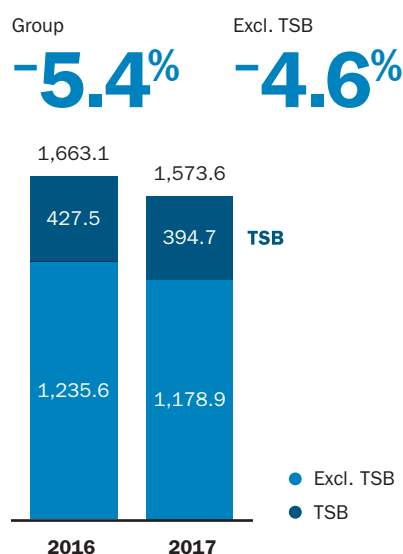
The cost:income ratio was 50.15% (42.10% excluding TSB) in 2017, compared with 48.68% (42.66% excluding TSB) in 2016.

Gross income in 2017 excludes the revenues from the early call of TSB's mortgage enhancement and the net commission received by Bansabadell Vida for the reinsurance contract with Swiss Re Europe.

As a result, profit before provisions amounted to €2,612.1 million (€2,390.8 million excluding TSB) in 2017, compared with €2,411.5 million (€2,118.4 million excluding TSB) in 2016, i.e. an 8.3% increase (12.9% excluding TSB).

Personnel expenses (y/y change)

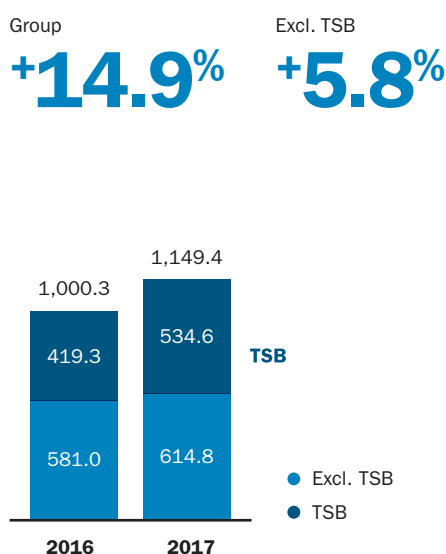
€M



Other general expenses (y/y change)

€M

G3



The figures for the year include extraordinary income on corporate transactions that strengthened the Group's capital and coverage position.

€M

	2016	2017	% 17/16	Excl. TSB 2016	Excl. TSB 2017	% 17/16
Recurring	(1,595.1)	(1,546.9)	(3.0)	(1,186.4)	(1,163.0)	(2.0)
Non-recurring	(68.0)	(26.6)	(60.8)	(49.3)	(15.8)	(67.9)
Personnel expenses	(1,663.1)	(1,573.6)	(5.4)	(1,235.7)	(1,178.9)	(4.6)
Technology and communications	(293.6)	(438.1)	49.2	(151.2)	(157.7)	4.3
Advertising	(111.1)	(106.7)	(4.0)	(38.7)	(39.2)	1.2
Property, fittings and office material	(249.7)	(229.7)	(8.0)	(145.7)	(138.3)	(5.1)
Taxes other than income tax	(95.7)	(106.9)	11.6	(95.7)	(106.6)	11.4
Other	(231.1)	(235.3)	1.8	(149.6)	(173.0)	15.6
Total recurring	(981.2)	(1,116.7)	13.8	(580.9)	(614.8)	5.8
Non-recurring	(19.1)	(32.7)	71.5	—	—	—
Other general administrative expenses	(1,000.3)	(1,149.4)	14.9	(580.9)	(614.8)	5.8
Total	(2,663.3)	(2,723.0)	2.2	(1,816.7)	(1,793.6)	(1.3)

T5 Operating expenses

Provisions and impairments totalled -€2.196.4 million (-€2,107.6 million excluding TSB) in 2017, compared with -€1,427.1 million (-€1,399.0 million excluding TSB) in 2016. The increase in 2017 was mainly due to the extraordinary profits on corporate transactions, which made it possible to recognise additional provisions in the amount of €900 million gross.

Capital gains on asset sales amounted to €432.6 million (€35.1 million in 2016) and include mainly the net gain from the sale of Sabadell United Bank, the sale of Mediterráneo Vida and the sale of 100% of HI Partners Holdco Value Added, SAU by subsidiary Hotel Investment Partners, SL (HIP). Capital gains on asset sales in 2016 referred mainly to the €52 million capital gain on the sale of the stake in Dexia Sabadell.

Cost:income ratio in 2017

Banco Sabadell (excl. TSB)

42.1%

Group

50.1%

The core cost:income ratio improved year-on-year excl. TSB.

Profit attributable to the Group

After deducting income tax and the share of profit attributed to non-controlling interests, net profit attributed to the group for 2017 was €801.5 million, a 12.8% increase compared with the previous year. Excluding TSB, net profit attributable to the group amounted to €711.2 million in 2017, 33.9% more than in 2016.

Attributable net profit in 2017

801.5M€

17/16

+13%

ROTE in 2017

7.3%

Balance sheet

Growth in outstanding loans and advances was driven by good performance in the SME segment.

Customer funds on the balance sheet were boosted by growth in demand deposits, while off-balance sheet funds increased mainly as a result of growth in mutual funds.

NPAs declined to 3.5% of total assets, with a coverage ratio of 49.8%. Under IFRS 9, they will amount to 3.2%, with 54.7% coverage.