



There, wherever the customer is.

## Highlights

- Improvement in net fees and commissions.
- Stronger relationships between the Bank and its customers.
- Substantial increase in insurance business, especially in insurance linked to products.
- Greater production of home and consumer loans and a sharp increase in mutual funds.

## Business overview

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, entrepreneurs and private individuals. Its high degree of specialisation ensures that customers receive a top-quality, personalised service that is fully oriented to meeting their needs, whether from expert staff throughout its extensive, multi-brand branch network or via other channels that support the customer relationship and give access to digital banking services. It includes the Group's Bancassurance and Sabadell Consumer businesses.

Commercial Banking comprises the company, business and public sector segments and the individual customer segment operating under the "Sabadell" brand (registered as "BSabadell").

Profit before taxes

**1,124.9€M**

Fees and commissions (net)

**+10.5%**

### Commercial Banking

#### Customer segments

Companies, businesses and public sector

Companies

Domestic market

International operations

Medium- and long-term finance

Businesses

Pre-approved loans

New customers - retailers

Franchising

Institutional clients

Agricultural sector

Tourism

Public sector

Individuals

Active Management

Personal Banking

Expatriates

Young people

#### Brands

SabadellHerrero

SabadellGallego

SabadellGuipuzcoano

#### BStartup

#### Bancassurance

BanSabadell Vida

BanSabadell Pensiones

BanSabadell Seguros Generales

BanSabadell Previsión, E.P.S.V.

BanSabadell Mediación

#### Sabadell Consumer Finance

# Management priorities in 2017

2017 was a transition year between the Group's Triple business plan, which prioritised an increase in profitability and transformation of the business model, and the new Sabadell 2020 business plan, focused on strengthening the existing business and growing in areas with potential. The aim is to continue advancing in order to become the bank we want to be based on transforming the business, strengthening the brand and consolidating leadership in customer experience and risk transformation.

Commercial Banking is structured into the company, business and public sector segment and the individual customer segment, operating under the "Sabadell" brand (registered as "BSabadell").

For companies, the focus has been on attracting customers and growing the loan portfolio. In 2017, this led to additional growth in market share, further reinforcing Banco Sabadell's position as a leading bank for business.

To attract customers, Banco Sabadell has continued to focus on micro-enterprises and retailers, training up managers to specialise in this segment and developing tailored products to generate differential value.

With regard to lending, and in a context of economic recovery, Banco Sabadell maintained its commitment to the customer, providing access to financing, partly based on agreements with regional, national and European administrations to help meet companies' borrowing requirements.

Banco Sabadell continues to be an acknowledged domestic leader in the franchising market and in strategic growth sectors, such as tourism, and has increased its presence in agriculture. In order to further hone this specialisation policy in order to enhance customer service, Banco Sabadell has set up a unit for religious institutions to meet this segment's specific needs. It also remains a leading specialist in banking services for public administrations.

More than 5.5 million individual customers, 4.2 million of whom are active, account for approximately half of the Bank's total retail margin. There has been a sharp increase (by more than 250,000) in the number of customers who consider Banco Sabadell to be their main bank.

The Cuenta Expansión account is the market-leading product, offering the best solutions for customers' day-to-day financial needs. The Cuenta Expansión account charges no commissions for account maintenance, credit and debit cards, cash withdrawals from ATMs and transfers, and gives cash back on household standing orders.

In addition to having the best range of transactional products, we are committed to providing an excellent customer experience. In this connection, the account opening process has been simplified, enabling the account manager to devote more time to customers and less time to paperwork.

The Bank is fundamentally committed to commercial transformation in order to adapt to customers' needs. This is embodied in the development of digital services (the app, SabadellWallet, Bizum, Instant Money, etc.) and consolidation of the Active Management service with all the necessary capacity to operate and sign up for products remotely.

Banco Sabadell leads the way in serving professional/occupational associations throughout the country. Its services for this segment are based on a close relationship with associations, enabling it to be aware at all times of the specific needs of their members and to provide the financial products and services best suited to their needs.

The Banco Sabadell unit that manages agreements with professional and occupational associations focuses primarily on winning new business with individuals, retailers, SMEs and professional practices. In 2017, there were 3,113 partnership agreements in place with professional associations and occupational groupings, covering a total of 2,926,000 individual members, of whom more than 772,000 were customers of the Bank and accounted for over €24,000 million in business.

The Bank's agent network is seen as an efficient channel for capturing new business; in 2017, more than 45,300 new customers were acquired in this way, Business from this source amounted to more than €9,420 million,

## Key business data

In 2017, net interest income attributable to Commercial Banking amounted to €2,278.9 million and profit before tax amounted to €1,124.9 million. The ROE was 21.3%, and the cost:income ratio was 45%. Net lending increased by +0.5%, customer funds on the balance sheet were stable and off-balance sheet funds rose by +7.7%, mainly as a result of growth in mutual funds (T1).

In 2017, net profit attributable to Commercial Banking amounted to €886.0 million, a year-on-year increase of 8.3% taking into account the disposals of Mediterráneo Vida and Exel Broker, the net commission received by BanSabadell Vida for the reinsurance contract with Swiss Re Europe and the extraordinary increase in provisions and impairments. Gross income increased by 9.4% to €3,202.4 million. Core revenue increased by 2.2% to €3,120.2 million, or by 4.0% on a constant consolidation scope basis (excluding Mediterráneo Vida and Exel Broker).

Net interest income amounted to €2,278.9 million, stable with respect to 2016. It increased by 1.7% in constant consolidation scope terms.

Equity-accounted affiliates and dividends include a net commission received by BanSabadell Vida for the reinsurance contract signed with Swiss Re Europe.

Net fees and commissions totalled €841.3 million, i.e. 10.5% higher than in the previous year, due to sound performance by commissions on demand accounts and credit cards.

Income from financial transactions and exchange differences was impacted by the sale of non-performing loan portfolios.

Administration expenses and amortisation and depreciation charges amounted to -€1,467.6 million, a 0.8% decrease on the same period in the previous year, and the cost:income ratio was 45%.

Provisions and impairments amounted to -€631.5 million, including the extraordinary provisions recognised in the year.

With regard to the key balance sheet figures, net lending increased by +0.5%, customer funds on the balance sheet were stable and off-balance sheet funds rose by +7.7%, mainly as a result of growth in mutual funds.

€M

	2016	2017	% 17/16
<b>Net interest income</b>	<b>2,292</b>	<b>2,279</b>	<b>(0.6)</b>
Equity-accounted affiliates and dividends	52	304	484.6
Fees and commissions (net)	761	841	10.5
Net income from financial transactions and exchange differences	20	(37)	(285.0)
Other operating income/expense	(198)	(185)	(6.6)
<b>Gross income</b>	<b>2,927</b>	<b>3,202</b>	<b>9.4</b>
Administrative expenses and depreciation	(1,480)	(1,468)	(0.8)
<b>Operating profit/(loss)</b>	<b>1,447</b>	<b>1,734</b>	<b>19.8</b>
Provisions and impairments	(317)	(632)	99.4
Gain/(loss) on derecognition of assets, etc.	15	22	—
<b>Profit/(loss) before tax</b>	<b>1,145</b>	<b>1,124</b>	<b>(1.8)</b>
Income tax	(327)	(238)	(27.2)
<b>Profit/(loss) after tax</b>	<b>818</b>	<b>886</b>	<b>8.3</b>
Minority interest	—	—	—
<b>Profit/(loss) attributable to the group</b>	<b>818</b>	<b>886</b>	<b>8.3</b>
<b>Ratios (%)</b>			
ROE (profit / average shareholders' equity)	18.2%	21.3%	—
Cost:income (general administrative expenses / gross income)	49.6%	45.0%	—
NPL ratio (%)	7.7%	6.4%	—
Coverage ratio (%)	39.7%	40.5%	—
<b>Assets</b>	<b>161,286</b>	<b>158,697</b>	<b>(1.6)</b>
Loans and advances to customers (net), excluding repos	74,760	75,121	0.5
<b>Liabilities</b>	<b>156,922</b>	<b>154,718</b>	<b>(1.4)</b>
On-balance sheet customer funds	79,543	79,475	(0.1)
<b>Assigned capital</b>	<b>4,365</b>	<b>3,979</b>	<b>(8.8)</b>
<b>Off-balance sheet customer funds</b>	<b>21,989</b>	<b>23,691</b>	<b>7.7</b>
<b>Other indicators</b>			
Employees	11,865	11,427	—
Branches	2,105	1,868	—

T1 Commercial Banking

# Customer segments

## Companies, businesses and public sector

### Companies

# Solid growth in performing loans driven by robust activity in companies and SMEs.

New customers	129,160
Market share of sole proprietors	19.74%
Market share of micro-enterprises	33.75%
Market share of SMEs	51.10%
Market share of large corporations	74.07%
Market share of companies (*)	35.90%

(\*) Excluding sole proprietors.

### T2 Key indicators for the Companies segment

For yet another year, Banco Sabadell maintained its leadership in the SMEs and Large Corporations business, as acknowledged by the net promoter score obtained in surveys and embodied by Banco Sabadell's ongoing commitment to companies (T2).

The account manager is the pivotal element in the Bank's relationships with customers; to respond to their every need, Banco Sabadell provides its customers with access to a range of specialists — international, structured financing, cash management, insurance, etc. — in a bid to achieve excellence in customer service. Banco Sabadell offers specialist services to major corporations via its network of 40 corporate banking branches distributed throughout Spain.

Against a backdrop of inexorable digital evolution, Banco Sabadell has commenced a transformation process to make customers' relations with the Bank even easier. Evidence of this are the changes in remote banking and the digital support service offered to the Bank's new customers in a context of e-banking.

Unquestionably, obtaining funding is one of the main concerns for major corporations and SMEs alike. In this business segment, the Bank's ambition is materialised through general financing lines for companies, enabling them to plan their annual investments knowing that they will have access to the necessary credit at all times. As ever, Banco Sabadell stands shoulder-to-shoulder with companies in their growth and consolidation processes. New funding production by Banco Sabadell increased by 10.13% in 2017 compared with the previous year. Banco Sabadell's positioning as a lender to companies has always been grounded in the principle of "knowing the customer" and rigorously applying the Group's risk policy at all times; as a result, the Bank has been able to lend

more while reducing its loan loss ratios at the same time.

The Bank stepped up new deposit capture by 1.22% year-on-year despite the extraordinary complexity of the year and the negative rates context.

The Companies sub-segment is structured by product type, differentiating domestic transactions, international transactions, and medium and long-term financing.

Domestic transactions comprise factoring and reverse factoring products. In 2017, the Bank focusing actively on adding value, service and accompaniment to products aimed at companies.

It worked to enhance the reverse factoring product to afford customers greater flexibility, for example with the option of choosing invoices or establishing a standard deferral period to adapt to customers' needs. The Bank has also set up international reverse factoring in the currencies most widely used by our customers. Banco Sabadell also launched a reverse factoring product for wineries, providing specialised funding for the purchase of wine and cava.

In factoring, the Bank increased product functionality by introducing the option of pre-financing and subsequent factoring with a hedge. This makes it possible to provide integrated financing solutions that range from funding capital goods to payment collection, covering all the customer's needs and incorporating a commercial guarantee. Foreign exchange transactions automatically include exchange insurance. In the area of syndicated factoring, it is now possible to arrange syndicated transactions in any listed currency, enabling the Bank to manage complex operations as the agent bank.

As for international operations, the Bank maintained a high share of Spain's foreign trade business, having expanded in terms of both customer numbers and business

# In 2017, we maintained our drive to offer more up-to-date, more specialised products and services.

volume. It also continued to pursue its innovation policy, having released the international business app, the first specialist app that includes an agenda of events and international service resources. It also includes Sabadell Go Export, enabling importing and exporting companies to benefit from information and services of interest to them. The Bank has developed a survey tool to ascertain customers' preferences and a market intelligence area *to pinpoint the best markets for Spanish companies*.

In the final part of the year, Banco Sabadell successfully launched Sabadell International Business Program, under which the bank offers to actively devise an international business development plan for customers based on support services and professional coaching by external instructors and others from the Bank itself with a university qualification.

At the same time, progress continued on the Export to Grow program, aimed at providing companies interested in expanding abroad with information on essential aspects; specific sessions on the US and India were held in the main Spanish cities.

Another example of innovation is the creation of Sabadell Link, related to the network of representative offices in more than 14 countries, which offers a value-added service for customers by organising individual, tailored sessions in line with customers' needs. By video-link, Sabadell Link provides macroeconomic data about the country, as well as its political and financial situation, its main industries and commercial opportunities for customers, efficiently facilitating initial contacts with the various markets via digital channels.

Banco Sabadell has introduced a number of product enhancements in the area of medium and long-term financing products, specifically leasing. It introduced flexible-installment leasing products to adapt the product to the cash flow and/or business projections of companies in any industry. At the same time it launched a tool for comparing the tax impact of loans, leases and self-financing to enable customers to choose the best possible funding option, based on a table showing depreciation tables allowed for tax purposes and the advantages in each case. The Bank accounts for one out of every four property leasing transactions in Spain.

The vehicle and equipment leasing business is gaining in strength, with 24% year-on-year growth expected. That growth is based on maintaining profitability and on the improvement in the internal customer assessment score, placing the product among the top 20 in commercial banking.

## Businesses

In order to continue strengthening our capacity to attract customers and secure their loyalty, and to focus our commercial activity, in 2017 Banco Sabadell continued to implement its "Plan Negocios", a plan for business with a strong product range made available through the Cuenta Expansión Negocios Plus account, using the Proteo Mobile tool with enhanced functionalities to support account managers when they visit customers in their offices and enabling them to perform the entire commercial process in a single visit, and with the Kelvin Retail value-added service for retailers.

In 2017, Banco Sabadell updated and improved its support plan for this segment with a view to strengthening the capacity to secure early customer loyalty through centralised actions, prioritising the digital channel.

In the final quarter of 2017, a new operating account manager role was approved with the aim of attracting customers and securing their loyalty in this segment, to be fully rolled out in early 2018.

In terms of recognition in 2017, the Cuenta Expansión Negocios account was voted the best business account in 2016 by Rankia, one of the leading online financial portals. The Kelvin Retail service was also listed as one of the top 100 ideas in the banking category by Actualidad Económica.

The Businesses sub-segment encompasses pre-approved loans and focuses on adding customers in the retail, franchise, institutional, and agricultural and tourism segments.

The Bank has upgraded its loan pre-approval model, which is now automated. This constitutes a qualitative leap in how this segment and its borrowing requirements are managed, speeding up the process of obtaining financing. During the year, the Bank offered €4,000 million in pre-approved loans to a portfolio of 146,000 customers, resulting in €900,000 million of new loan production.

In order to attract retailers, in 2017 the Bank continued the "Creemos" (We believe) campaigns in 24 towns and cities all over Spain. The aim of the campaign is to encourage people to visit shops in their town, spend some money and give a boost to business in the area, while encouraging account managers to make out-of-branch visits. In each town, the campaign is supported by press, radio and billboard advertisements, giving it widespread publicity and a resounding media impact.

In the area of franchises, the Bank seeks to leverage franchisers' strong influence on franchisees to bring them on board as customers. This has boosted volumes and the profit margin in a sector that continues to have high



potential. In 2017, the number of franchisers totalled 1,387, a 5.4% increase on the previous year, with almost €30,000 million in overall turnover and around 300,000 employees. Franchises account for 11.1% of retail trade in Spain, and over 30% in the rest of Europe. Their share of retail turnover is growing steadily, while their bad debt ratios are below the average for retail outlets.

Among institutional customers, the Bank's specialist unit has continued to address the negative rates scenario in financial markets in the short term. This led to a decrease in business as customers have sought to avoid negative returns where possible. Demand deposits remained stable under the system that exempts certain amounts from negative rates. Fixed-income, equities and mutual fund brokerage services expanded among Banco Sabadell's customers and it has continued to distribute alternative investment products such as the venture capital fund, corporate finance proposals and property solutions.

In mid-2017 Banco Sabadell set up a new unit to deal with religious institutions, in order to offer this customer segment the specialised services that it requires. During the year, Banco Sabadell worked to adapt the range of products and services based on customer needs in this segment.

In the agricultural sector, meanwhile, the Bank has more than 500 branches and more than 700 specialised account managers. It has expanded its customer base in the farming, livestock, forestry and agro-food sub-sectors and has broadened the product range to better adapt to customers' needs. This has enabled the Bank to respond efficiently to customers and to greatly increase customer capture and loyalty rates. At present, the agro business arm Sabadell Negocio Agrario manages a turnover of more than €3,400 million, a 4% increase on the previous year, and has earned the trust of more than 42,300 customers, a 9% increase year-on-year.

The tourism industry has posted healthy figures in the last few years, especially in hotel development projects, which have become one of the top targets for lenders. This segment is booming, setting records in terms of revenues and occupancy; more than 82 million foreign tourists visited Spain in 2017, providing total revenues of €86,000 million. Through its unit specialising in the tourism industry, Banco Sabadell has consolidated its position as a key player in the segment through specialist advice, transaction support, and a global catalogue of products and services specifically tailored to the business.

## Public Sector

In 2017 the performance of the public sector continued to be shaped by two distinguishing factors: Spain's autonomous regional liquidity fund (Fondo de Liquidez Autonómico — FLA) and the sound financial position of most municipal governments as a result of the measures adopted by the central government to contain spending. This initial situation led to sizeable surplus liquidity at these bodies, slowing the demand for credit to support their investment plans.

In the first half of the municipal legislative term, investments undertaken using own funds. In mid-2017, the volume of tender notices for investment projects in infrastructure, environment and energy efficiency began to rise.

In addition, benchmark interest rates remained negative, and the entire public sector continued to follow the prudential financial criteria set on a monthly basis by the Finance, Industry and Competitiveness Ministry (maximum/regulated prices), making it difficult to maintain margins in this customer segment. The decline in interest rates did not prevent the Bank from expanding market shares and margins. By introducing fees for treasury services, the Bank managed to ramp up its market share in investment and resources to 7.59% and 7.67%, respectively. It also increased its share of customers, to 19.40%.

Banco Sabadell has continued to pursue a commercial policy based on the high degree of fragmentation among public sector entities, enabling it to expand treasury services and transactions and consolidate its position as a leading player in this segment.

## Individuals

The Individuals business contributes around half of the Bank's total profit.

It pivots upon three main axes: the Cuenta Expansión account, as market leader, a broad selection of transactional products and a commitment to commercial

transformation as evidenced by the digital transformation (app, BS Wallet, Bizum, Instant Money, etc.) and the consolidation of Active Management, with strong distance banking features.

The Individuals segment also encompasses the Active Management, Personal Banking, Expatriates and Young People sub-segments.

# Links with customers as a lever to build long-term relationships.

## Active Management

Active management is a new form of interaction with customers that allows us to "be wherever the customer is". Each customer is assigned an account manager equipped with tools and capabilities to interact with the customer in a closer, more flexible and more timely way without requiring a visit to the branch.

It has successfully added eight new direct management branches throughout the territory, as a pilot deployment ahead of the forthcoming roll-out, in addition to the nine branches already open for business.

Active Management obtains good results in terms of production, with sales exceeding expectations, and excellent levels of activity in consumer lending.

In terms of capacities, solutions were implemented to improve assisted management and self-service, in applying for loans and mortgages and arranging pension and savings plans. Furthermore, progress was made to improve the administrative management of branches by deploying horizontal tools.

# Consolidation of the new customer relation model.

## Personal Banking

In Personal Banking, in 2017 the Bank unveiled its Integrated Personal Banking Commitment, as the pivotal axis of our relationship with customers, to whom we offer the assistance of a specialised account manager, an offer tailored to their needs and an annual interview to provide thorough coverage of all their needs. The offer also includes a personalised year-end report with the tax benefits applicable to the specific customer, as well as proactive management of their satisfaction in the process of switching account manager. All of this with the commitment to maximum availability through all our channels.

We have also enhanced the value proposal for customers who are shareholders, so as to reward their loyalty and commitment to the Bank, through the Cuenta Expansión Premium account, which gives cash back on household standing orders and an exclusive shareholders' gold card. Furthermore, the Executive Contract has been redesigned to give prominence to a customer profile that has traditionally been highly significant.

We continue to rank second in customer experience, with a score of 8.46, underpinned by our customers' satisfaction with their account manager. In 2017, the Bank had more than 258,000 customers, a 0.5% increase on the previous year.

## Committed to customers.

## Expatriates

Expatriates are a key segment of the Individuals business and totalled more than 770,000 customers in 2017, accounting for 11.4% of revenues and 18% of total mortgage production.

A network of 198 specialist branches (12% of the total), half of which come from the Solbank brand, offers high-quality customer service, resulting in the top branch satisfaction score as ranked by individual customers, of 8.63. Customers, mainly British, German and French, appreciate that we are able to speak their language and that our range of products suits their needs.

Banco Sabadell meets the needs of foreign customers with a value proposition based on the reality of its two main targets: residential tourists and expatriates. Customers in both these segments are highly digitalised customers and tend to bank on-line.

Based on these requirements and on the customer profile, in the past year the Bank launched its Welcome Service, an online platform to welcome and accompany expats and residential tourists in which they can find expert assistance in both financial and non-financial solutions, and card transfer, a currency transfer service using their bank card from their country of origin to their account at the Bank, using either the app or the web interface.

## Banco Sabadell is strongly committed to the international customers segment.

### Young people

For young people, includes children and adults up to age 30, the product range was improved and the Bank launched its Mi Primer Sabadell (My First Sabadell) programme, aimed at forging a lasting relationship that will adapt to customers' financial requirements over their lifetime.

In 2017, the Cuenta Expansión account was adapted to offer all young people aged between 18 and 30 the advantage of not paying commissions, receiving cash back for bills and obtaining free services without having the need for regular income.

The Mi Primer Sabadell programme helps each age group, with the support of their families, to embark on their first financial experience: their first savings, their first card payment and their first pay check. Each of these experiences is rewarded with up to €80.

Moreover, the commitment to supporting families in the financial education of their youngest members is embodied by the website [www.paraquesirveidiner.com](http://www.paraquesirveidiner.com) and the annual solidarity contest, in which families can learn the value of money and pick up financial ideas through games, competitions and downloadable material.

The key products in the Individuals business have been shaped by the very low interest rate environment; consequently, we have continued to offer products such as structured deposits, mutual funds and non-convertible bonds, depending on market opportunity. The inflow of funds into mutual funds continued to increase and

carried the Bank's share of the mutual fund market to 6.25% in December 2017, its highest level in the last few years. The Bank refined its mutual fund offering to focus on profiled funds and introduced a new range of guaranteed funds that enable investors to opt for higher returns and the full recovery of their principal on maturity.

The home purchase loan market continued to see an upturn both in property sales and in mortgages, as reflected in a 12% increase in new production in value terms. Customers continue to apply primarily for fixed-rate mortgages, which account for 68% of the total. Moreover, innovation continued with the launch of the new "Hipoteca Fija Bonificada", a mortgage that benefits from discounts on the interest rate as a function of the other products that the customer acquires.

In consumer lending, the buoyant trend persisted in 2017, with a sizeable increase in remote loan applications (loans arranged online increased by 20%, compared with a 14% increase in 2016), and it is expected to continue in the same vein. Accordingly, the focus is on the digital transformation to meet customers' demands for immediacy in response and analysis time and an enhanced customer experience.

The percentage of pre-approved loan uptake increased slightly, to 47% from 44% in 2016, and the Línea Expansión (100% online pre-approved loan free of commissions), and Préstamo Puntual (a non-pre-approved loan at 0% interest) continue to be promoted in seasonal drives to finance small household expenses.

Means of payment business continued to expand, in line with the trend of recent years. The number of debit

*Mi Primer Sabadell* is the best programme for children and young people.



and credit cards in use increased by 6.5%, with card turnover up 16.9%. SabadellWallet is an innovative app for making payments by mobile phone, checking account balances and card use or sending or receiving funds to and from smartphone contacts using the Bizum service.

The EFTPOS business showed substantial increases on the previous year, with turnover up 18.7%, bringing the market share in Spain to 14.62%. The Bank maintained its market-leading position in handling payments for online sales, with e-commerce receipts growing by 30.96%. Part of this growth is underpinned by the 30-plus partnership agreements with payment processing fintechs and escrow companies, half of which provide services to retailers in other countries (cross-border business).

## Commercial brands

Banco Sabadell, the Group's flagship brand, operates in most of Spain's regions except in Asturias and León, an area served by the Group's SabadellHerrero brand; in the Basque Country, Navarra and La Rioja, where the Group is represented by its SabadellGuipuzcoano network; and in Galicia, where it operates under the SabadellGallego brand. The SabadellSolbank brand caters primarily for resident expatriates from other European countries, through a chain of specialist branches located only in the Canary Islands, the Balearic Islands and the southern and south-eastern coastal areas of mainland Spain.

The Bank's trading brands continued to show improved performance across all business and new customer (businesses and individuals) metrics, as well as in market share, attaining leading positions in a number of market segments.

All brands play an especially prominent role in their communities thanks to their social and cultural sponsorship programmes. Some landmark achievements by other Group brands in the course of 2017 are described below:

### SabadellHerrero

2017 signalled further progress for Sabadell Herrero on its road to transformation, with the ultimate goal of boosting efficiency in its processes and providing a better customer experience, maintaining its leadership in the regions of Asturias and León in terms of service quality and as foremost provider of financial services to enterprises.

At year-end, more than 28,000 customers had received personal remote assistance from the Active Management service, enjoying the convenience of having an account manager available for their transactions during longer working hours and from any location, avoiding branch visits. The retail network was also upgraded, with new multi-location centres under common management with shared resources, in order to gain efficiency and capacity for expert assistance; this approach enable the

bank to continue to serve all the communities in which the brand has historically been present. 27% of customers were being served at these new branches by the end of the year. The new mobile branches are another initiative to upgrade the Bank's network in rural areas. Small rural communities without enough critical mass to support a conventional branch have found a solution in these new mobile branches, equipped with cutting-edge technology, that provide full banking services and visit different rural locations to serve communities in which the Bank had hitherto not had a presence. In 2017, 3 new routes were launched, covering 15 communities, 3 of which had not previously been served by the Bank.

The transformation is also underpinned by the latest digital technologies to respond to customers' evolving demands. At 2017 year-end, SabadellHerrero had 153,155 digital customers using computers and mobile devices to interact with the Bank.

Once again, new customer additions were among the key aspects in the year. A revamped convenient service has resulted in 19,897 new customers signing up for Sabadell Herrero, 4,067 enterprises and 15,830 individuals were added to the customer base in the year.

The award granted to the Bank by the Asturias Business Federation (FADE) in recognition of the best human resources management in 2016 bears testimony to the account managers' capabilities and skills in providing the best possible customer service. The awards jury applauded the implementation of the Bank's human resources policy and its shared value creation, including the promotion of more than 150 activities relating to sport, health and solidarity.

SabadellHerrero's business volumes increased to €3,573 million in lending and €7,522 in funds at the end of the year, notching up year-on-year growth rates of 0.6% and 3.3%, respectively.

Notable developments in the year included the latest drive in property development financing, with 8 new lending operations that brought 333 homes to the market, overcoming the stagnation of the crisis years, the introduction of a new service focusing on tourism, with new lending production in the sector amounting to €8 million, as well as complex structured financing in the shipping industry.

SabadellHerrero renewed its sponsorship and patronage support. This year's Álvarez-Margaride prize for distinguished business careers was awarded to Doctor Luis Fernández Vega, a university professor and Medical Director of Instituto Oftalmológico Fernández-Vega.

### SabadellGallego

Banco Sabadell's Galician brand has consolidated its leadership in Galicia in just three years. Rising brand recognition among customers makes it one of the most notable institutions in the region. Customer experience surveys rank the brand well above the average in its market, and inflows of new customers, with 21,692 additions in 2017

(15,261 individuals and 6,431 companies) reflect its commercial dynamism.

The Bank has managed to combine robust commercial growth with a profound transformation in the way it provides, distributes and delivers services to customers and its innovative approach to the digital space.

With 95,342 digital customers connecting remotely to the Bank from their computers, tablets and other mobile devices, and with an increasing frequency and penetration of digital services, the Bank has transformed its service, leveraging the new technological possibilities to meet customers' evolving demands. Its branch network also incorporates the new multi-location formats, which now serve 30% of customers, and new mobile branches for rural communities, which established their first route in Galicia in 2017.

Lending increased by 12% year-on-year to €2,493 million and customer funds amounted to €3,751 million; mutual funds were the star performers, logging 13.58% year-on-year growth.

The Bank has made considerable progress in the enterprise and business segment, in which traditional financing formulae were supplemented with new offers specialising in property financing, tourism and structured financing for the shipping sector. Agriculture, where the Bank has an extensive branch network throughout rural Galicia, was also earmarked for priority attention and a specialised range of products and services.

Evidence of the Bank's commitment to Galician enterprise is SabadellGallego's ongoing partnership with the Regional Department for Economy and Industry, to develop Galicia Industria 4.0 - Agenda de Competitividad Industrial, an industrial competitiveness initiative to help plan the regional government's industrial policy for 2015-2020. The Bank belongs to the working group of executives of large companies that seeks to identify and define new measures to continue modernising Galicia's business fabric and to boost competitiveness and create quality industrial employment.

In the social and cultural spheres, Banco Sabadell approved the loan of much of Banco Gallego's historical collection to the Galicia regional government to be kept in the Galician Regional Archive, an institution under the umbrella of the Department of Culture, Education and Universities, located in the City of Culture, in Santiago de Compostela. The documents, which have been restored and inventoried by Banco Sabadell's Historical Archive (AHBS), cover the period from 1760 to 1900.

## **SabadellGuipuzcoano**

Service quality scores given by SabadellGuipuzcoano customers improved in 2017, beating both the established targets and the average for the entire branch network.

Results at SabadellGuipuzcoano, under the main headings of the Business Plan and including a comparison with the previous year, were as follows: Under the Plan

Norte, all the Bank's business indicators improved, with strong growth in new additions of both individuals and enterprises, sharp increases in volumes and revenues, and excellent adaptation to the new business model and to the digital process. In 2017, 23,843 new customers were added (17,574 individuals and 6,269 enterprises), lending increased by 4.8% and mutual funds rose 8.12%, while brand recognition in the region improved to around 29.7% at year-end.

Given the economic backdrop, these results are very good, and it is worth noting that they were obtained through the strict application of the commercial system and with special emphasis on one of the main commercial hallmarks of the Bank, namely customer service quality, in which SabadellGuipuzcoano's branches performed strongly once again.

The branch network obtained a score of 8.66 in the Mystery Shopper quality control system, and an overall branch satisfaction score of 8.63, in both cases outperforming the general quality targets established by the Bank.

Specific management of the brand's presence and recognition in the region hinges on communication, sponsorship and institutional relations.

This intense activity is deployed in various spheres, but stems from a single policy of well defined and expertly executed institutional presence, business support and appropriate resource allocation.

As in previous years, the main event is still the sponsorship of the Tour of the Basque Country cycling race, which in 2017 had stages in both the Basque Country and Navarra, thereby increasing its influence and support for the brand to include the latter region. The Bank also sponsored and collaborated in other sporting events, such as the Bilbao Mendi Trail, the golf tournament at Real Club de Pedreña, and the Annual Gipuzkoa Sports Press Gala where the best local sports personality of the year is chosen — this year the winner was slalom canoeist Maialen Chourraut, Olympic gold medallist at Rio.

On the socio-economic front, in 2017 SabadellGuipuzcoano took part in the organisation and promotion of a number of fora, most notably the Economic Forum under the auspices of regional newspaper El Correo; Foro Diario Montañés; and Foro de Colegios Profesionales de Aragón, involving Presidents and Directors of the main professional associations of the Aragón region.

SabadellGuipuzcoano also continued to support and promote a number of awards and distinctions, such as the Gipuzkoa Business Awards (Premio a la Empresa Guipuzcoana) under the auspices of the Chamber of Commerce, the Aragonese Person of the Year in partnership with newspaper Periódico de Aragón, and the Arts and Letters Awards (Premio a las Artes y las Letras) organised by the newspaper Heraldo de Aragón.

## ActivoBank

ActivoBank ended the year with 49,500 customers and continued to focus on its wealth management business with volumes totalling €757.2 million. Account balances were up 14.4% and off-balance sheet funds by 5%. Mutual funds grew by 13.5%, with assets reaching a total of €135 million; pension fund assets totalled €40.5 million.

## BStartup

# In the four years since its launch, the BStartup programme has positioned Banco Sabadell as a leading financial institution in the Spanish entrepreneurial sector.

BStartup is the programme created by Banco Sabadell in November 2013 to support young innovative and technological companies in their development. The goal is two-fold: to gain recognition and positioning for the Bank as the institution that most supports young tech companies, innovation and the digital transformation, and, in the longer term, to build a relationship with these young companies in the conviction that they will be the major corporations of the future. The Bank wants to be there, supporting them from the outset. With this aim in mind, it offers a holistic programme to provide everything a startup might need from a bank:

- Specialised bank products and services for startups. Startups have different development and financing models to traditional companies, so we offer them services in 50 specialised branches throughout Spain, with account managers who understand these companies' needs and how they operate, offering them specific products and a special risk circuit. In 2017, the Bank developed a new distribution model to be launched in 2018, and new tailored products, of which it has already started marketing Seguro RC BStartup insurance, in partnership with AXA.
- Investment in equity: BStartup invests in startups with a philosophy focused on supporting entrepreneurs and increasing brand recognition, without forgetting profitability. Moreover, the Bank now has two more instruments for investing in startups: Sabadell Venture Capital, which focuses on financial returns, aimed at startups in phases subsequent to BStartup10, and InnoCapital from InnoCells, with the focus on strategic investments. The BStartup10 investment vehicle is aimed at digital businesses in the early stages. Ten projects are chosen per year to receive investment of €100,000 each plus personalised support to help them become established in the marketplace and gain access

to additional rounds of investment. There are currently 33 investees. The selection procedure was changed in 2017; instead of two selection rounds each year, the process is now conducted continuously.

- Collaborative innovation: BStartup is an innovation radar due to its privileged position, with a presence in all the business innovation forums, agreements with a number of companies that support the creation of new initiatives, and because it is fully integrated into the Spanish entrepreneurial space. Accordingly, it identifies and receives proposals that, from an open innovation standpoint, may help fast-track the Bank's pace of innovation. BStartup filters and refers potential opportunities to other divisions. In 2017, we structured these flows in the BS Open to Innovation programme.

Furthermore, this year BStartup was actively involved in 163 entrepreneurial events in 31 cities throughout Spanish territory. A total of 30 new collaboration agreements were signed with companies that support entrepreneurs and are in a position to recommend the Bank's services. BStartup's media impact was strengthened in 2017 (954 mentions in print and online press) as was its impact in social media (with 7,853 Twitter followers), always with positive coverage.

BStartup has generated a brand with traction, positioning the Bank as a leader in the segment as perceived by the business sector itself. With regard to direct business production, BStartup managed €332.73 million (€111.31 million in assets and €221.42 million in liabilities), a 9.46% increase on the previous year, and generated a profit of €8.06 million, with a total of 2,732 customers (a 17.66% year-on-year increase).

## A business aimed at securing customer loyalty.

### BanSabadell Vida

Life insurance premiums in 2017

**2,669.4€M**

Death benefit insurance premiums in 2017  
(y/y change)

**281.84€M (+11%)**

Savings under management in 2017

**7,850.2€M**

Profit contributed to the Group in 2017

**302.0€M**

### BanSabadell Pensiones

Funds under management in 2017

**3,515.5€M**

Of which personal and collective pension  
plans in 2017 (y/y change)

**2,028.0€M (-5%)**

Workplace pension plans in 2017 (y/y  
change)

**1,487.4€M (+1%)**

Profit contributed to the Group in 2017

**-4.0€M**

### BanSabadell Seguros Generales

Premiums in 2017 (y/y change)

**226.8€M (+5%)**

Profit contributed to the Group in 2017

**6.3€M**

### BanSabadell Previsión, E.P.S.V.

Savings under management in 2017

**315.4€M**

### BanSabadell Mediación

Fee and commission revenues in 2017

**133.3€M**

Premiums brokered in 2017

**3,097.6€M**

Profit contributed to the Group in 2017

**32.4€M**

As of 31 December 2017, Banco Sabadell's insurance and pensions business was structured as follows:

- BanSabadell Vida, BanSabadell Pensiones and BanSabadell Seguros Generales, operating as a joint venture with Zurich since 2008.
- BanSabadell Mediación, the Bank's insurance brokerage subsidiary. It operates as a tied agent for bancassurance products for distributing insurance through the branches.
- BanSabadell Previsión E.P.S.V. distributes pension/retirement plans within the Basque Country.

In 2017, Exel Broker de Seguros, S.A. an insurance brokerage firm acquired as part of the Banco Guipuzcoano takeover, and Mediterráneo Vida, S.A de Seguros y Reaseguros, acquired as part of the Banco CAM deal, were sold. In addition, BanSabadell Vida signed a reinsurance contract with Swiss Re Europa S.A., Spanish branch, concerning the bulk of the death benefit insurance portfolio in July 2017, obtaining an advanced commission of €684 million, i.e. net revenue of approximately €253.5 million for the Group.

Banco Sabadell continues to lay the strategic groundwork to transform the insurance and pensions business, adapting to the new market challenges. These challenges are based on a more customer-oriented approach, offering customers extensive coverage through Sabadell Protección, a new personalised loyalty programme, in addition to digitalisation of business processes.

In 2017, Sabadell Vida's business volumes ranked it second in the Spanish sector in terms of total life insurance premiums and fifth in the sector in Spain in terms of insurance premiums and savings under management, according to the latest figures published at year-end. Net profit increased compared with previous years due mainly to the commission received on the reinsurance operation with Swiss Re.

Furthermore, the volumes managed by Sabadell Pensiones rank the Bank ninth in the entire system, according to data published at the end of the year. Sabadell Pensiones posted a loss of €7.5 million in the year, including an impairment deriving from the exclusivity agreements with Zurich in 2014. Sabadell Seguros Generales increased total premiums by 5% year-on-year, mainly in home-owners' policies.

## Sabadell Consumer Finance

### Transformation into a credit institution.

Gross income in 2017

**60.4 €M**

Change in gross income

**+7.5%**

Profit contributed to the group

**17.5 €M**

Sabadell Consumer Finance is the Group company specialising in point-of-sale consumer financing, and it conducts its business through various channels, by establishing collaboration agreements with various retailers.

In order to hone the company's capacities and implement a more banking-oriented model that unlocks the value of specialisation in the consumer financing business, following authorisation from the European Central Bank, Sabadell Consumer Finance was converted into a bank in 2017.

This will enable the company to avail itself of additional specialised capabilities that are necessary to tap into new business opportunities, improve processes and increase the commercial range while guaranteeing a swift response to our customers' needs.

The steady rise in consumer spending and consumer lending helped this business to expand customer numbers and the volume of outstanding loans compared with the previous year, as well as increase market share.

Business performance in 2017 showed further improvement compared with previous years, with significant increases in interest spreads and operating income.

Efficient debt recovery processes also kept loan delinquencies low, bringing the loan-loss ratio to 3.5%. The loan-loss coverage ratio was 128.0%

During the year, credit card marketing was enhanced through commercial agreements with major brands, and the groundwork was laid to market cards through e-commerce and increase cross selling. Overall, the company performed 314,057 new transactions through ten thousand points of sale distributed throughout Spanish territory, resulting in €708 million of new loan production in 2017, bringing the company's total outstanding risk to above €1,000 million.

To support further business growth, the company continued to promote the use of digital systems and tools. That include promoting the use of electronic signatures for loan agreements on mobile devices or tablets, which now account for 58% of the total.

As a result, the cost:income ratio was kept at a healthy 31.8%.