

Banco Sabadell retains its 5th position among Spanish banks in terms of both asset volume and the number of SICAVs.

Highlights

- Sharp increase in net interest income and fees and commissions.

Earnings before taxes

137€M
(+15.1%)

Net interest income

+28.9%

Business overview

Banco Sabadell has a comprehensive range of investment products and services for customers wishing to place their savings and investments under its management. These range from researching investment alternatives to trading in securities, active wealth management and custodian services.

Markets and Private Banking showed once again that it was well equipped to create and supply value-added products and services with which to deliver good returns to customers, and to increase and diversify the customer base. It also ensured that its business processes remained consistent with its rigorous research and renowned service quality, while moving towards a relationship model based on multi-channel interactions. It encompasses the following businesses:

- SabadellUrquijo Private Banking is the division of Banco Sabadell that concentrates on offering integrated solutions to customers requiring a specialised service tailored to their particular requirements, combining the value of advisory services in Private Banking with the financial strength and product capabilities of a general bank. The division's sales team can offer support and assistance from people with expertise

Markets and Private Banking

SabadellUrquijo Private Banking

Asset Management and Research

Treasury and Capital Markets

Securities Trading and Custodian Services

Savings and Investment Strategy

in products, taxation and wealth management who are there to provide efficient, customised solutions to private banking clients.

- Asset Management and Research is a separate area aimed at investment guidance and recommendations and at managing, on a discretionary or collective basis, the investments of individual customers, companies and institutional investors. Within its remit are two other, even more specialised, areas: Sabadell Asset Management, parent company of a group of companies operating as managers of collective investment undertakings; and Banco Sabadell's Research Department. This area is responsible for deciding on all content, publications and recommendations produced by Banco Sabadell's Research Department. Part of its mission is to establish a framework for the investment management business, which is conducted through collective investment management companies and unrelated asset managers.
- Treasury and Capital Markets is the division in charge of providing customers with funding solutions, investment products and financial risk mitigation and hedging. These solutions are offered both through the branch network and by the division's team of specialists. Furthermore, Treasury manages the risks generated by customer positions in the market. Treasury also provides tactical support to the Finance Division, and is responsible for managing the Bank's liquidity and for management and compliance with its regulatory coefficients and ratios, managing interest and foreign exchange rate risk stemming from the Group's activities.
- The Securities Trading and Custodian Services Department performs the functions of broker for Banco Sabadell as a stock market member. These functions are to handle and execute sale and purchase orders directly via its trading desk, and, as Product Manager, it is responsible for the Group's equities. It also designs and manages the Bank's offering of custodian and depository services.
- The Savings and Investment Business Strategy Division is aimed at responding to the new regulatory environment from a business standpoint, tapping the opportunity to establish a differential advantage in the value proposal of products, considering the emergence of new channels and technological solutions to usher in the necessary changes in the marketing of savings and investment products and the provision of related advisory services.

Management priorities in 2017

The Bank has a product and service design and approval process 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 market needs. Constantly reviewed identification and "know your customer" procedures and practices ensure that products are offered and investments are selected with customers' profiles firmly in mind and that all investor protection measures are complied with as required by the Markets in Financial Instruments Directive (MiFID II) and its provisions as transposed into domestic law.

Stringent new regulations are bringing about changes in the way we sell and the advice we give on savings and investment products. The Bank intends to tackle and respond to the new regulatory environment from a business standpoint, tapping the opportunity to establish a differential advantage in the value proposal of products considering the emergence of new channels and technological solutions.

The effort put into designing a range of products and services to meet the needs of each customer continued to strengthen and enhance the Bank's position as a broker providing access to new markets and its ability to offer new services to customers, create new investment opportunities and raise the profile of the brand under which it operates in this business: SabadellUrquijo Banca Privada.

In the year, subscriptions to Sabadell Asset Management mutual funds was predominated by "profiled" funds, whose volume of assets under management increased 1.8-fold to €5,067.7 million, continuing the trend of strong demand seen in previous years for these funds. These funds are managed in such a way as to maintain a constant level of risk despite adverse market movements. One of investors' favourites in this area is the Sabadell Prudente mutual fund, with 85,388 investors and assets totalling €4,463.9 million at 2017 year end.

To achieve the goal of developing and expanding the Capital Markets business, the unit continues to focus on strengthening the relationship with customers (both corporate and business), thereby contributing value to the Bank's global customer relations.

Trading in equities in the Spanish stock market amounted to €1,283,813.28 million in 2017, a 0.04% increase on the previous year's figure.

Banco Sabadell managed to end the year as leader in the Spanish stock exchange (BME), with a 14.77% share.

In 2017, the Savings and Investment Business Strategy Division focused on defining and implementing Banco Sabadell's value proposal in savings and investment.

The entry into force of MiFID II was a pivotal element in defining this proposal, but the developments took into account the changing context for the banking business in general and for savings and investment products in particular. Other key factors such as structurally low interest rates and digitalisation were also taken into account.

Key business data

€M

T3 Key business data —
Markets and Private Banking

	2016	2017	% 17/16
Net interest income	45	58	28.9
Equity-accounted affiliates and dividends	—	—	—
Fees and commissions (net)	178	188	5.6
Net income from financial transactions and exchange differences	10	1	(90.0)
Other operating income/expense	(2)	(2)	—
Gross income	231	245	6.1
Administrative expenses and depreciation and amortisation	(112)	(105)	(6.3)
Operating profit/(loss)	119	140	17.6
Provisions and impairments	—	(3)	—
Gain/(loss) on derecognition of assets, etc.	—	—	—
Profit/(loss) before tax	119	137	15.1
Income tax	(35)	(41)	17.1
Profit/(loss) after tax	84	96	14.3
Minority interest	—	—	—
Profit/(loss) attributable to the group	84	96	14.3
Ratios (%)			
ROE (profit / average shareholders' equity)	37.8%	38.2%	—
Cost:income (general administrative expenses / gross income)	47.8%	42.5%	—
NPL ratio (%)	1.4%	0.5%	—
NPL coverage ratio (%)	41.7%	71.0%	—
Assets			
	9,210	8,858	(3.8)
Loans and advances to customers (net), excluding repos	1,853	2,175	17.4
Liabilities			
	8,988	8,631	(4.0)
On-balance sheet customer funds	6,880	6,367	(7.5)
Assigned capital	222	227	2.3
Off-balance sheet customer funds	14,064	17,213	22.4
Other indicators			
Employees	533	531	—
Branches	12	10	—

In December 2017, some 5,000 discretionary portfolio management mandates were in place with an overall volume of more than €2,000 million. Assets held in mutual funds totalled €7,629 million. There were 178 SICAVs in December 2017, with €2,138 million in funds, an increase of €116 million (or 5.7%) on December 2016; the market share in terms of assets under management and the number of SICAVs was 6.67% in December 2017. The unit's business volume totalled €26,396 million as of December 2017 and it had 30,000 customers.

Net profit amounted to €96.0 million in December 2017, a 14.3% year-on-year increase. Gross income rose

by 6.1% to €245.1 million, and core revenues increased by 9.8% to €245.8 million (T3).

Net interest income amounted to €57.8 million, up 28.9% year-on-year due to the sound results obtained in Treasury and Capital Markets.

Net fees and commissions totalled €188 million, i.e. 5.6% higher than in the previous year, due to the higher commissions on mutual funds and securities.

Administrative expenses and depreciation and amortisation charges totalled -€105.4 million, down -6.3%.

Provisions and impairments amounted to -€2.7 million.

Net lending increased by 17.4%, mainly in jointly supervised customers; customer funds on the balance sheet fell by 7.5% due to the shift towards off-balance sheet funds, which rose by 22.4%, mainly as a result of growth in mutual funds.

SabadellUrquijo Banca Privada

The unit's business volume totalled €26,396 million with a base of 30,000 customers.

Sales team

Bankers

178

Specialist branches

10

Customer service centres

20

The key business premise was maintained in 2017: individually tailored service to the customer, who is at the core of all day-to-day activities under the unit's two existing business models, namely Joint Supervision and 360°. In the Joint Supervision model, full commercial support and professional advice is provided to Banco Sabadell's branch network and customers. In the 360° model, the 10 existing offices are managed on a comprehensive basis.

From the standpoint of the offering, the unit designed the most profitable products that are best-suited to customers' risk profiles. Mutual funds, discretionary portfolio management and structured products continue to dominate.

Hedge funds and venture capital funds were added to the range, with designer funds and very specific, limited-liquidity niches making it possible to diversify and respond to the demands of sophisticated investors. All of this enabled further progress in asset allocation while offering full details of the main characteristics.

In this period, the focus was maintained on Customer Segments, since identifying homogeneous groups with common characteristics makes it possible to fine-tune the offer design. In this regard, commercial efforts were maintained vis-à-vis the financial advisory firms, Religious Institutions and Sports & Entertainment segments, generating agreements and commercial relations that continued to unlock value in the service offer as well as broadening the existing range by including new categories of funds, such as Socially Responsible Investing (SRI).

2017 was a year of adaptation to MiFID II, which came into force in January 2018. This represents a step forward in the quality of data protection and full transparency with regard to data and prices, better equipping customers to make decisions more quickly and easily. This led to both the adaptation and development of IT systems and the definition of the commercial policy to be made available to customers.

There is also the foreseeable trend towards higher market volatility and changes in the yield curve which, already in 2017, made it necessary to conduct a detailed review of portfolio performance, especially for portfolios with a more conservative approach.

Our commitment to service excellence led to continued training of the network of specialist bankers, and in 2017 new EFPA certifications were awarded, guaranteeing compliance with the new regulatory requirements.

Mobile customer management and the need to adapt to technological developments enabling customers to sign up for products and services while on the move continue to be crucial for SabadellUrquijo's day-to-day business, aligning us, along with the rest of the Bank, with the premise "There, wherever you are".

Profiled mutual funds under management at Sabadell Asset Management expanded 1.7-fold in asset terms.

Assets under management in 2017

290.0€M

The business model in Asset Management and Research prioritises accuracy in investment recommendations resulting from the research conducted on listed equities and public and private-sector debt instruments, as well as recommendations on investments in assets. Our analysts' recommendations are the linchpin of our investment proposals.

The model is also distinguished by excellence in mutual funds proposals and in discretionary and collective asset management services, with the aim of maintaining their high levels of reliability, sustainability, consistency and optimum profitability, always with investors' best interests in mind.

The offering is adapted to ensure investors obtain healthy returns based on their needs, financial experience, capacity to bear risks, liquidity requirements and ambitions in terms of returns. Accordingly, the aim is to improve investors' knowledge of the recommended method of using the proposed mutual funds and venture capital firms and also for the discretionary and collective asset management services.

It also introduces savers to investment solutions that offer access to the best opportunities to preserve or expand their savings through professional trust management and collective investment. The idea is to increase the use, not only among the more frequent and experienced investors, but also by more modest savers, of winning investment solutions in the current ultra-low interest rate environment by assuming an acceptable degree of risk and a certain maturity horizon.

During the year, the Bank's offering of new guaranteed funds with variable returns was further expanded, with

guarantees of returns being provided for four guaranteed funds amounting to €412.7 million. Guaranteed funds as a whole accounted for €3,782.0 million of assets at the close of 2017. Guaranteed funds decreased to account for 23.0% of total Spanish-domiciled mutual funds managed by Sabadell Asset Management, compared with 28.4% the previous year.

In 2017, Sabadell Asset Management carried out three mutual fund merger processes in which five mutual funds were absorbed into other funds with the same investment objectives, always in pursuit of investors' best interests. At the end of the year, there were 243 Spanish-domiciled funds managed by Sabadell Asset Management (64 mutual funds, a property investment vehicle and a variable capital investment firm—SICAV) and SabadellUrquijo Gestión (177 SICAV), and there were 2 venture capital funds managed by Sabadell Asset Management.

Sabadell Asset Management mutual funds earned some outstanding accolades. In 2017, Fitch Ratings recognised the excellent management quality of three fixed-income and two equities funds managed by Sabadell Asset Management, assigning them a qualitative rating of "Proficient".

Sabadell Asset Management ended the year with €16,434.8 million in assets under management in Spanish-domiciled mutual funds, 16.4% more than at 2016 year-end and far in excess of the 11.6% growth rate of the industry as a whole (T4). With this volume of assets under management, Sabadell Asset Management accounts for more than 6% of Spanish-domiciled mutual funds. Sabadell Asset Management ranked fourth among Spanish-domiciled fund managers in terms of volume

T4 Spanish-domiciled mutual funds

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Assets under management (€ million)	9,102.4	5,844.5	5,609.6	4,312.4	4,203.3	4,443.2	6,356.7	9,952.6	13,091.3	14,122.7	16,434.8
Market share (%)	3.81	3.49	3.44	3.12	3.29	3.63	4.13	5.11	5.95	6.01	6.25
Number of investors	374,522	217,360	218,761	195,140	192,282	197,954	270,552	438,582	608,858	623,749	705,682

managed in 2017, and continues to improve from one year to the next. There were 81,933 new investors in the year, a 13.1% year-on-year increase.

Sabadell Asset Management makes the most of its experience and capabilities in discretionary portfolio management for Banco Sabadell customers. This is configured as a repertoire of investment solutions, either modelled or customised, i.e. a broad service response tailored to the needs of the Bank's existing and potential customers. In discretionary management services, BS Fondos Gran Selección had another successful year, with 19,675 contracts under management and assets totalling €2,081.3 million in 2017, compared with 18,468 contracts and €1,800.5 million at 2016 year end.

Sabadell Asset Management also provides portfolio management and administration services for other institutional investors. Assets in this connection amounted to €6,618.9 million at the end of 2017.

The research service is aimed at helping to guide investors' position-taking through a process of prospecting, identification, selection and recommendation of investment opportunities.

In 2017, our research service stepped up its production of reports, including recommendations on equities and public- and private-sector debt instruments. This unit expanded the number of Spanish and European shares that it covers. It also produced a larger number of reports on corporate bond issues, both investment grade and high yield. The catalogue of reports has been expanded, making progress on the research and tracking of equity indices and sectors and the analysis of debt issued by sovereign governments, government agencies, companies and supranational bodies.

The reports, in both text and audiovisual format, attained a readership of more than seven thousand in 2017. We contribute our research vision to the specialist and general press as a timely source of expert financial opinion for general distribution.

Banco Sabadell's Research Department earned a number of accolades and distinctions. In 2017 it was ranked fourth best analyst (stock picker and earnings estimator) in Iberia by Thomson Reuters – StarMine.

Treasury and Capital Markets

Focused on reinforcing customer relations.

The volume of foreign exchange hedges increased by 32% compared with the previous year.

Treasury and Capital Markets business performance is shaped by the macroeconomic environment. 2017 was a positive year for many financial assets, especially those of higher risk. This was driven by: (i) sounder economic growth, with a highly synchronised global pattern; (ii) the announcement of the start of monetary policy normalisation in Europe and the UK and ongoing tightening in the US; and (iii) dispelling of some geopolitical risks in both the US and the UK. This resulted in very low volatility levels and a high correlation between assets, translating into sound performance by equities indices, commodities and non-investment-grade assets.

In Capital Markets, the macroeconomic environment —with unusually low interest rates and surplus liquidity in the system — led companies to prefer commercial paper over bonds as a source of funding in the short term.

The current macroeconomic environment has enabled a significant increase in currency transactions and foreign exchange hedges. Meanwhile, low interest rates and low

volatility led to a market with diminishing volumes in certain investment services as the year progressed, most notably in fixed-income.

It is worth noting the impact in the year of the process to adapt to the new market environment as a result of regulatory changes that have posed a real challenge and a great opportunity. Treasury and Capital Markets worked tirelessly with various of the Bank's units during the year to ensure the proper implementation of the new regulatory framework resulting from MiFID II and to ensure customers' requirements are met.

This year, the Bank was again one of the main actors in the Alternative Fixed Income Market (MARF), evidencing both its commercial leadership in this sector and the connection achieved with issuers. In this regard, Sabadell was an active player in the commercial paper market, where it has assisted with 16 placements. The Capital Markets team also saw an increase in the number of domestic corporate issues, most notably private

placements involving major corporations, and was involved in the two green bond issues in the year.

Structured investment also played a pivotal role in the year, due mainly to the liquidity levels in European markets coupled with low interest rates. The number of tailored structured products increased by a massive 120% compared with the previous year, enabling the Bank to offer its customers more added value.

We highlight the proactive approach to the opportunities arising in the currency market, which resulted in a significant increase in the volume in foreign exchange hedges, up 17% compared with 2016, and the increase in operations with corporate customers.

Both the market management of risk originating in operations with customers and the interest rate risk in currencies and collateral positions helped boost income in this segment by 14% compared with the previous year.

Securities Trading and Custody

Banco Sabadell ended 2017 as the leading brokerage house in the Spanish equities market, in terms of trading volume.

Market position in terms of trading volume in 2017

Share

15.07%

Ranking

#1

The year 2017 was characterised by a recovery in business following the decline in 2016, attaining a 25% year-on-year increase in volume.

The Bank worked hard to prepare for the regulatory changes in both 2017 (Reform Phase II and T2S) and 2018, in particular to gear up for the new obligations and requirements pursuant to MiFID II.

There was also an increase in activity with issuers in 2017. In this connection, Banco Sabadell successfully participated in the placement of several significant holdings in listed companies as well as IPOs, such as those of Neinor Homes and Aedas Homes.

It was also involved in market-making, own shares, road shows and other activities for listed companies.

The Bank continued to add retail clients during the year, particularly through the eBolsa account. Since its launch in 2014, this account has won the Bank some 59,000 new customers with assets totalling €1,650 million (of which €1,130 million in Spanish equities and the rest distributed among international equities, and international and domestic fixed-income and mutual funds).

In 2017, the Bank stepped up its involvement as an agent bank in a range of transactions, most notably dividend payments, capital increases, bond issuance, promissory note programmes and shareholder register bookkeeping. At present, more than 20 issuers use the Bank's services and that figure is increasing steadily.

These services are increasingly important to the Bank and aimed at positioning it as a leading player in the eyes of issuers. The chart shows market share and ranking in 2017.

Implementing MiFID II.

Definition of the Bank's new savings and investment proposal:

- New management platform.
- New advisory model.
- Adapted to the new regulatory requirements.

G1 Headline targets in 2018

Sabadell Investor platform

Industrialisation



A platform for accessing savings and investment services that guides customers to the most appropriate product or service

Sabadell Markets

Self-service



A site offering self-service access to savings and investment solutions

Specialised manager

Specialisation



A manager with specific training in investment and savings products and services who interfaces with customers face-to-face or via remote channels

Investment Unit

Centralisation



This centre agglutinates BS's market opinions, product guidelines and the portfolio tracking and internal control

Behavioural segmentation

Classification



Customer classification as a function of their behaviour and objectives

The Savings and Investment Business Strategy Division sought to respond to the new regulatory environment from a business standpoint, tapping the opportunity to establish a differential advantage in the value proposal of products considering the emergence of new channels and technological solutions, ushering in the necessary changes in the marketing of savings and investment products and the provision of related advisory services.

This division is eminently customer-focused. In 2017, progress continued on the infrastructure to ensure compliance with regulatory obligations. At the same time, a new platform for branch services was developed to get to know our customers better and be able to offer them recommendations in line with their characteristics, goals and needs, based on a standard methodology. This platform has been integrated into Sabadell Inversor, which is currently the entry point for both account managers and customers, to provide access to information on value-added markets. In addition, the newly-created Savings and Investment Advisory Department will initially act as a supervisory pool for MiFID II requirements and provide support to the branch network in all aspects relating to savings and investment. In short, the entire project is focused on service excellence and customer experience (G1).

Support was also provided to the commercial activity, by helping to define the product range and approving more than 350 new investment product proposals. Among the more important products were families of structured deposits with return of capital and the issuance of Bonos Simple BS bonds, which accounted for some 62% of projected product sales.

Through Sabadell Inversor, Banco Sabadell maintains its commitment to enhancing communications with regard to its investment approach, with personalised mass mailings being sent out via new communication channels. In 2017, more than 100 messages were issued, of which 70 were sent to customers via email, and customers with access to Sabadell Inversor viewed more than 150,000 pages, with an average of more than 13,500 logins per month.