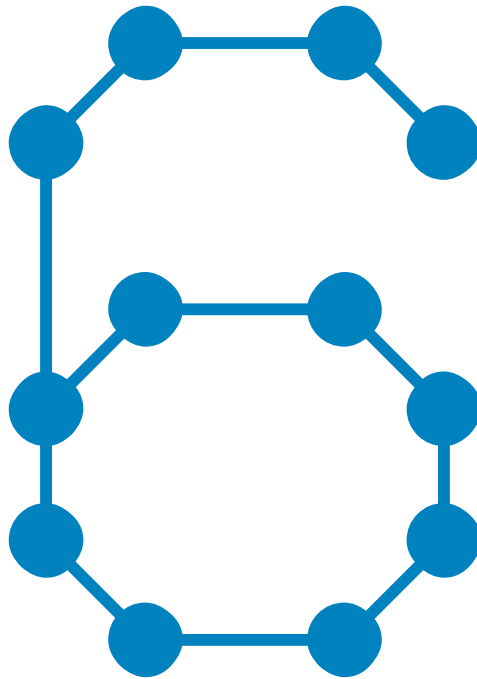


Businesses

89	Commercial Banking
102	Markets and Private Banking
110	United Kingdom
114	Corporate & Investment Banking
119	Other Regions
122	Asset Transformation



The Group is organised into the following business areas and has six autonomous regional divisions.

Banco Sabadell offers a full range of banking and financial services through its financial institutions, brands, subsidiaries and affiliates.



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 (TI).

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
Net interest income	2,292	2,279	(0.6)
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)
Gross income	2,927	3,202	9.4
Administrative expenses and depreciation	(1,480)	(1,468)	(0.8)
Operating profit/(loss)	1,447	1,734	19.8
Provisions and impairments	(317)	(632)	99.4
Gain/(loss) on derecognition of assets, etc.	15	22	—
Profit/(loss) before tax	1,145	1,124	(1.8)
Income tax	(327)	(238)	(27.2)
Profit/(loss) after tax	818	886	8.3
Minority interest	—	—	—
Profit/(loss) attributable to the group	818	886	8.3
Ratios (%)			
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%	—
Assets	161,286	158,697	(1.6)
Loans and advances to customers (net), excluding repos	74,760	75,121	0.5
Liabilities	156,922	154,718	(1.4)
On-balance sheet customer funds	79,543	79,475	(0.1)
Assigned capital	4,365	3,979	(8.8)
Off-balance sheet customer funds	21,989	23,691	7.7
Other indicators			
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 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%.

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.



Customers continue to recommend TSB, with an NPS score of +25 points in 2017.

Highlights

- Increase in the share of bank accounts, capturing more than 6% of the gross flow in 5 years.
- Increase of more than 40% in lending in the 5 years since flotation.

Business overview

The TSB franchise (TSB Banking Group PLC) conducts a high-street banking business in the UK which includes current and savings accounts, personal loans and credit/debit cards.

TSB has a multi-channel distribution model nationwide, comprising 551 branches in England, Wales and Scotland. At the end of the year, it had 5.1 million customers and 8,287 employees. Its business was previously divided in three segments:

- The Franchise, comprising the multichannel banking business.
- Mortgage enhancement, comprising a set of mortgages assigned to TSB in 2014 in the context of the restructuring of Lloyds Banking Group.
- The *Whistletree* portfolio, a set of loans, primarily mortgages, acquired from *Cerberus* in 2015.

Following the early call of the mortgage enhancement portfolio from Lloyds Banking Group in June 2017, TSB has operated as a single business segment within the franchise segment, including the *Whistletree* loan portfolio.

Management priorities at TSB in 2017

TSB launches its new banking platform.

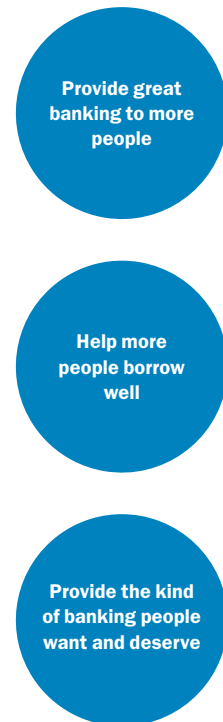
Priorities in the year were developing its digital capacity, promoting the TSB brand and offering a stand-out service to customers. In 2017, TSB continued to fulfil its mission of boosting competition in the UK banking business following its relaunch four years ago. It continues to grow and its technological transformation made strides in 2017. For the fourth year running, it exceeded its goal of attracting 6% of all customers seeking to change their bank account or open a new account in the UK. Lending has more than doubled since TSB's relaunch, and now exceeds £30,000 million; TSB is still the country's top rated high-street bank. Figure 2 shows TSB's three strategic pillars.

In 2017, TSB continued to invest to become a nimbler digital business through a process of technological transformation. In April, the new mobile app was launched, following development in direct response to customer feedback. TSB's customers were the first in Europe to benefit from iris-scanning security to access the mobile app, and the first in the world to use Apple's new facial recognition technology, unlocking their accounts with just a glance at their mobile handset. The final phase in the migration programme and customer platform roll-out will be executed in 2018.

The franchise was ranked among the top 10 companies to work for in the UK — it was the only bank on the list — and has been acknowledged as a great place to work. More than ever, customers recommend TSB to their friends and family, and it remains the top ranking high-street bank, with a solid NPS (net promoter score) of 25 points, compared with 23 in 2016.

In 2017 it attracted 6.2% of all customers changing their bank account or opening a new account in the UK, equivalent to 1,000 customers per day, exceeding its target of 6.0% for the fourth year running.

G2 TSB strategic pillars



Key business data

Net profit in December 2017 amounted to €90.3 million, down 49.8% year-on-year due mainly to the envisaged increase in outsourcing expenses paid to Lloyds Banking Group, and the recognition in 2016 of non-recurring revenues from the sale of the shareholding in Visa Europe after its acquisition by Visa Inc as well as adjustments as a result of the purchase price allocation (T5).

Nevertheless, the expected decline in profit was largely mitigated by the 6.5% increase in core revenues at constant exchange rates, not counting mortgage enhancement (constant consolidation scope) and reflecting mainly growth in the average balances of mortgage loans. Average interest rates on loans in the franchise and in the *Whistletree* portfolio in 2017 fell to 3.22% (3.56% in 2016), due to the increased weighting of secured loans compared with more lucrative unsecured loans, and the impact of competition policy. Customer deposit costs shrank notably to 0.40% in 2017 (0.66% in 2016). Interest expenses on bank accounts were down to 0.24% (0.53% in 2016), evidencing the changes in the Classic Plus account effective from January 2017.

Gross income amounting to €1,223.3 was up 0.9% (up 7.3% in constant consolidation scope terms). Administration expenses and amortisation and depreciation charges increased by 9.0% to -€1,002.0 million on the back of planned extraordinary technology costs at TSB; excluding these, expenses were generally stable.

TSB's capitalisation remained positive, and its CET1 ratio was up 160bp to 20.0% in December 2017.

TSB adopted IFRS 9 "Financial Instruments", effective from 1 January 2018, which entails a planned increase in NPL provisions and a reduction in equity, although the impact on capital was not material since the effect of the increase in NPL provisions was amply offset by the lower expected losses and the transitory regulatory frameworks.

Loans to customers increased by 4.9% in 2017, and now exceed £30,000 million, having more than doubled since the launch. This increase was underpinned by mortgage lending, in which the franchise increased its balance by 15.1% to £26,000 million, due mainly to higher gross mortgage production, which amounted to £7,000 million in 2017 (£6,600 million in 2016). Unsecured personal loans at TSB were marketed in 2017 through its high-street branches and digital channels to customers who do not currently have a bank account at TSB. This pushed the balance of unsecured loans up by 11.3%.

The support and trust of TSB customers is reflected in balance sheet growth in 2017, with customer deposits on the rise. This contributed funds to support the third pillar of TSB's strategy, namely to help more people to borrow well, with an increase in the balance sheet balances of £1,400 million (+4.9%) to £30,900 million. This was driven by the £3,700 million increase in the balance of loans at the franchise, partly offset by the early call from Lloyds Banking Group of the mortgage enhancement portfolio in the amount of £1,900 million, and the estimated reduction in the *Whistletree* portfolio, acquired in 2015.

	2016	2017	% 17/16
Net interest income	1,051	1,034	(1.6)
Equity-accounted affiliates and dividends	—	—	—
Fees and commissions (net)	126	96	(24.0)
Net income from financial transactions and exchange differences	54	110	104.5
Other operating income/expense	(18)	(16)	(11.6)
Gross income	1,213	1,223	0.9
Administrative expenses and depreciation and amortisation	(919)	(1,002)	9.0
Operating profit/(loss)	293	221	(24.6)
Provisions and impairments	(28)	(89)	—
Gain/(loss) on derecognition of assets, etc.	(4)	7	—
Profit/(loss) before tax	261	139	(46.7)
Income tax	(81)	(49)	(39.9)
Profit/(loss) after tax	180	90	(49.8)
Minority interest	—	—	—
Profit/(loss) attributable to the group	180	90	(49.8)
Ratios (%)			
ROE (profit / average shareholders' equity)	8.0%	5.8%	—
Cost:income (general administrative expenses / gross income)	69.8%	79.5%	—
NPL ratio (%)	0.5%	0.4%	—
NPL coverage ratio (%)	52.7%	55.9%	—
Assets			
Assets	43,720	48,145	10.1
Loans and advances to customers (net), excluding repos	34,361	35,501	3.3
Liabilities			
Liabilities	42,200	46,597	10.4
On-balance sheet customer funds	34,334	34,410	0.2
Wholesale funding in the capital markets	3,882	1,920	(50.5)
Assigned capital	1,521	1,548	—
Off-balance sheet customer funds	—	—	—
Other indicators			
Employees	8,060	8,287	2.8
Branches	587	551	(6.1)

The exchange rate applied for 2017 was GBP 0.887 for the balance sheet and GBP 0.875 (year average) for the income statement.

The exchange rate applied for 2016 was GBP 0.856 for the balance sheet and GBP 0.816 (year average) for the income statement.

Banco Sabadell is leading MLA in syndicated loans and project finance in the Spanish market.

Highlights

- Ranks 4th among syndicated loan and project finance MLAs In the Spanish market.
- Bond issuance activity on behalf of customers has been strengthened.

Earnings before taxes

200€M
(+7.5%)

Key figures in the Structured Financing business

Financing portfolio in 2017

12,608.3€M

New business in 2017

6,340.5€M

Number of transactions in 2017

250

Business overview

Corporate & Investment Banking offers financial solutions and advisory services to large companies and financial institutions, both Spanish and foreign, through branches throughout Spain and in 16 other countries. Its activities embrace corporate banking, structured finance and global financial institutions.

- Corporate Banking is the unit in charge of large corporates which, because of their size, complexity and unique features, require a customised service in which transactional banking services are supplemented by specialised units such as Structured Finance, Corporate Finance and Treasury and Capital Markets; the result is a comprehensive solution model for their needs. The business model is based on close strategic relations with customers, providing them with global solutions that are tailored to their needs while also taking account of the specific features of their business and the markets in which they operate.
- Structured finance consists of origination and structuring of corporate and acquisition finance and project finance deals. In addition to traditional forms of bank

Main business activities in Corporate & Investment Banking

Corporate Banking

Structured finance

Global Financial Institutions

lending, it is specialised in corporate bond issuance, enabling it to cover the full range of options in long-term business finance. Banco Sabadell's structured finance team operates worldwide from offices in Madrid, Barcelona, Bilbao, Alicante, Oviedo, Paris, London, Lima, Bogota, Miami, New York and Mexico City, and has more than 20 years' experience.

- In Global Financial Institutions, the business model is built around two central pillars: providing optimal support to our corporate customers as they expand abroad, in coordination with the Group's network of branches, subsidiaries and investees in other countries, and managing the business with the "bank" customer segment (over 3,000 financial institutions worldwide) with which Banco Sabadell has cooperation agreements to provide Group customers with the best possible coverage worldwide.

Management priorities in 2017

In 2017 Banco Sabadell maintained its policy of supporting customers and adapting to meet their emerging needs within Spain's macroeconomic context amid changing credit market conditions. The Bank is a leader in the Spanish Middle Market segment and is exporting its know-how to other regions. Corporate & Investment Banking ranks 4th among syndicated loan and project finance MLAs in the Spanish market (T6 & T7).

Fees in international markets where the unit operates accounted for 47.2% of total Structured Finance revenues in 2017, and we acted as agent bank in various financing operations outside Spain.

Bond issuance on behalf of customers has also been strengthened. This business, conducted together with the Treasury division, has increased the Bank's ability to offer customers a wide range of long-term finance options.

In 2017, Global Financial Institutions handled more than 350 bilateral trades in the international markets segment and business was stepped up with other financial institutions on the international stage.

During the year, Sabadell Corporate Finance closed a major deal in the food service sector and worked together with teams in Mexico and the US to provide M&A advisory services in that region.

Global Financial Institutions – market shares

LC share in 2017

30.03

€M

Position	Mandated Lead Arranger	Amount	Number
1	Santander	656	25
2	CaixaBank	699	23
3	BBVA	503	23
4	Banco de Sabadell SA	414	19
5	Bankia	501	16
6	BNP Paribas	269	11
7	Bankinter	191	6
8	Credit Agricole CIB	174	6
9	ING	164	5
10	SG Corporate & Investment Banking	254	4

T6 Syndicated loan
MLA — Spanish
market 2017

€M

Position	Mandated Lead Arranger	Amount	Number
1	Santander	865	21
2	CaixaBank	528	17
3	BBVA	399	15
4	Banco de Sabadell SA	403	13
5	Bankia	180	9
6	BNP Paribas	298	6
7	ING	388	5
8	Natixis	227	4
9	ICO	65	4
10	Credit Agricole CIB	351	4

T7 Project finance
MLA — Spanish
market 2017

Key business data

Net profit amounted to €139.5 million in 2017, a 7.7% year-on-year increase, due mainly to the decrease in provisions and impairments. Gross income rose 1.0% to €302 million and not including the revenues recognised under income from financial transactions in 2016, the increase would have been 5.0% (T8).

Net interest income rose 9.1% year-on-year to €192.3 million. Net fees and commissions totalled €116.7 million, i.e. 3.5% higher than in the previous year due to higher commissions on syndicated loans.

Income from financial transactions and exchange differences decreased by -81.3% as a result of extraordinary sales of loan portfolios in 2016.

Administrative expenses and depreciation and amortisation charges totalled -€33.5 million, stable on the same period last year.

Provisions and impairments amounted to -€68.6 million, a reduction of 13.7%. Net lending slipped by 0.9% and customer funds on the balance sheet rose by 57.5% as demand deposits, deposits with agreed maturity and off-balance sheet funds increased by +15.4% mainly as a result of employer pension plans.

Corporate Banking

Corporate & Investment Banking had an excellent year in 2017, against a backdrop of normal market operation and ample liquidity, especially in the Eurozone, in accordance with the monetary policy in place. This environment of surplus liquidity, coupled with the sound performance in issuance markets, exerted huge competitive pressure (falling prices for underwriting, early cancellation of bank loans, etc.).

Despite this environment, the policy on approving new financing transactions in Corporate Banking remained unchanged, following strict risk and profitability criteria (the NPL ratio was below 1% at year-end). In this regard, a highly positive development in 2017 was the deployment of a new tool to simulate the return on capital, for either standalone operations or for a customer's positions as a whole, regardless of the region in which they operate with Banco Sabadell.

This business achieved solid growth in 2017, with lending volume up 6%, buoyed by the activity of our customers outside Spain, which increased by 23.6% (growth was spearheaded by Mexico, with 43.5%, and the UK, with 37.2%); this ongoing trend in the last few years has enabled the Bank to significantly diversify the risk in geographic terms, with 44.5% of this kind of business coming from other countries.

	2016	2017	% 17/16
Net interest income	176	192	9.1
Equity-accounted affiliates and dividends	—	—	—
Fees and commissions (net)	113	117	3.5
Net income from financial transactions and exchange differences	16	3	(81.3)
Other operating income/expense	(6)	(10)	66.7
Gross income	299	302	1.0
Administrative expenses and depreciation and amortisation	(33)	(33)	—
Operating profit/(loss)	266	269	1.1
Provisions and impairments	(80)	(69)	(13.7)
Gain/(loss) on derecognition of assets, etc.	—	—	—
Profit/(loss) before tax	186	200	7.5
Income tax	(56)	(60)	7.1
Profit/(loss) after tax	130	140	7.7
Minority interest	—	—	—
Profit/(loss) attributable to the group	130	140	7.7
Ratios (%)			
ROE (profit / average shareholders' equity)	15.4%	16.2%	—
Cost:income (general administrative expenses / gross income)	11.1%	11.1%	—
NPL ratio (%)	5.5%	4.1%	—
NPL coverage ratio (%)	75.5%	94.0%	—
Assets			
Assets	13,255	15,879	19.8
Loans and advances to customers (net), excluding repos	8,850	8,773	(0.9)
Liabilities			
Liabilities	12,377	15,069	21.8
On-balance sheet customer funds	3,526	5,555	57.5
Assigned capital			
Assigned capital	878	810	(7.7)
Off-balance sheet customer funds	540	623	15.4
Other indicators			
Employees	150	140	—
Branches	2	2	—

With regard to customer funds managed (on- and off-balance sheet, and securities operations, including custody), the increase was even sharper, 146% (at constant exchange rates) as a result of our relationship as a strategic partner for our customers, a strategy that secured us more than fifty mandates in the year to take part in their most valuable transactions, such as issuance, equity, structured financing, asset divestment, M&A, etc.

The standardised methodology used by the Corporate & Investment Banking teams in all 17 countries where the division operates, a commercial policy benefiting our customers, and having not only specialist commercial teams but also an exclusive middle office for major corporate customers, enabled the Bank to maintain the highest

service quality standards, as evidenced by the various indicators monitoring service performance, such as customer satisfaction surveys conducted by the independent consultancy Stiga (score of 8.74 out of 10 in 2017).

Structured Finance

Structured finance offers specialist solutions and advice to customers, providing global coverage with local teams.

From the financing standpoint, customers are offered structuring and the execution of operations in corporate and acquisition finance, as well as project and asset finance, commercial real estate and global trade finance.

This area has the capacity to syndicate and underwrite, and to purchase and sell stakes in syndicated loans in the secondary market. In addition to traditional forms of bank lending, the Bank is specialised in corporate bond issuance, enabling it to offer the full range of options in long-term business finance.

Sabadell Corporate Finance is also intensely involved in mergers and acquisitions advisory, and the Bank is a member of Terra Alliance (T9).

Banco Sabadell's structured finance team operates worldwide from offices in Madrid, Barcelona, Bilbao, Alicante, Oviedo, San Sebastián, Paris, London, Lima, Bogota, Miami, New York and Mexico City, and has more than 20 years' experience.

Activity	
Specialist Finance	Advisory services/OTD
Corporates	Syndication
Project Finance	M&A
Asset Finance	ECM
Trade Finance	DCM/PP
Commercial Real Estate	GFI

T9 Structured
Finance business

Highlights

- Consolidation of the corporate finance business.
- Development of business finance.
- Gearing up to providing funding to individuals.

Business overview

The Other Regions business comprises mainly Mexico, offices in other countries and representative offices that offer all kinds of banking and financial services in corporate banking, private banking and commercial banking.

As part of the internationalisation process that commenced under the TRIPLE plan, the Bank decided to focus on Mexico, a country that represents a clear opportunity as an attractive market for the banking business and one in which Sabadell has been operating since 1991, first by opening a representative office and then through its interest in Banco del Bajío, held for 14 years (from 1998 to 2012).

The business was established in Mexico through an organic project with the creation of two financial vehicles, starting with a SOFOM (Mexican multi-purpose financial company), which commenced operations in 2014, followed by a bank. The banking licence was obtained in 2015 and the Bank commenced operations in early 2016.

Both vehicles operate using a customer-focused approach, with agile processes, digital channels and no branches. The roll-out of commercial capacities is based on the aforementioned two vehicles and the following business lines:

- Corporate Banking, with the focus on companies and major corporations: 3 branches (Mexico City, Monterrey and Guadalajara) and sector-specific specialisation.
- Banking for Companies, which reproduces the Group's original business relationship model: launched in 2016 with 13 branches and in the growth phase over the next few years.
- Personal Banking, based on a disruptive digital model initially focused on capturing customer funds. Launch is scheduled for early 2018.

Earnings before taxes

130€M

Management priorities in 2017

2017 was a year of considerable challenges and achievements for Sabadell in Mexico with the priority of continuing to build the banking business.

To consolidate the corporate banking business and develop banking for companies, progress was made with integrating a multi-channel range of products and services through a sales team with vast experience of the local market, and the focus was on developing a stand-out customer services model based on the Group's values: commitment, quality and proximity.

Furthermore, Banking for Companies has focused on strengthening its sales force, by expanding the team and its territorial presence, increasing from 6 to 13 centres for companies.

Meanwhile, Corporate Banking increased the return for its customers through cross selling products and achieved a leading position in specialised sectors like hotels and renewable energies.

Actions in those two business lines enabled Sabadell to rank tenth by lending volume to companies, and sixth in terms of annual growth in this business, competing with institutions that have been operating in the Mexican market for decades.

2017 was also a year of preparation for the launch of Personal Banking in 2018. A predominately digital model, without precedent in the local market, aimed at becoming the first Mexican bank to offer 100% digital sign-up and management of customers' needs. All of this is based on a savings products proposal with an attractive return backed by an agile, straightforward service using a mobile app, the channel through which we relate to our customers on a day-to-day basis.

Key business data

€M

T10 Key figures
Other Regions

	2016	2017	% 17/16
Net interest income	300	293	(2.4)
Equity-accounted affiliates and dividends	3	3	(2.0)
Fees and commissions (net)	64	50	(22.4)
Net income from financial transactions and exchange differences	23	9	(60.1)
Other operating income/expense	3	3	—
Gross income	394	358	(9.1)
Administrative expenses and depreciation and amortisation	(206)	(205)	(0.4)
Operating profit/(loss)	188	153	(18.7)
Provisions and impairments	(29)	(24)	(14.6)
Gain/(loss) on derecognition of assets, etc.	(0)	1	—
Profit/(loss) before tax	160	130	(18.5)
Income tax	(54)	(37)	(31.1)
Profit/(loss) after tax	105	93	(12.1)
Minority interest	(0)	4	—
Profit/(loss) attributable to the group	105	89	(16.0)
Ratios (%)			
ROE (profit / average shareholders' equity)	13.2%	8.8%	—
Cost:income (general administrative expenses / gross income)	49.1%	54.5%	—
NPL ratio (%)	0.5%	0.9%	—
Coverage ratio (%)	174.8%	113.0%	—
Assets			
	20,740	15,298	(26.2)
Loans and advances to customers (net), excluding repos	12,083	8,836	(26.9)
Real estate exposure (net)	22	23	3.5
Liabilities			
	19,629	14,431	(26.5)
On-balance sheet customer funds	9,116	5,024	(44.9)
Assigned capital			
	1,111	866	(22.0)
Off-balance sheet customer funds			
	988	1,033	4.5
Other indicators			
Employees	1,059	765	(27.8)
Branches	61	42	(31.1)

The average exchange rate in 2017 was USD 1.132, MXN 21.303 and MAD 11.597 for the income statement, and the exchange rates for the balance sheet were USD 1.199, MXN 23.661 and MAD 11.426.

The average exchange rates in 2016 were USD 1.105, MXN 20.736 and MAD 10.666 for the income statement, and the exchange rates for the balance sheet were USD 1.054, MXN 21.771 and MAD 10.652.

Net profit in 2017 amounted to €88.6 million, a 16.0% year-on-year decrease following the sale of Sabadell United Bank (SUB), which was previously included in this business unit (T10). Excluding this sale, net profit would have increased by 25.4%, due mainly to the sound performance by net interest income and fees and commissions and to judicious control of administration and development expenses.

Net interest income fell by 2.4% to €292.7 million. Not counting the SUB sale, growth was 21.8%, mainly due to Mexico.

Net fees and commissions declined by 22.4% due to lower commissions on securities and mutual funds and a decline in corporate banking transactions in Mexico.

Gross income fell 9.1% to €358.0 million, but would have increased by 9.9% but for the SUB sale.

Administration expenses and amortisation and depreciation charges fell by 0.4%. Not counting the SUB sale, this item would have increased by 22.3%, due mainly to the costs of expansion in Mexico.

Net lending amounted to €8,836 million, down 26.9% due to the SUB sale, but would have increased by 9.2% due to performance in Mexico if the impact of SUB is not included. Loan loss levels remained very low, evidencing healthy risk management at this unit.

Customer funds on the balance sheet amounted to €5,024 million, having decreased by 44.9% due to the Sabadell United Bank sale. Excluding that sale, customer funds would have fallen by 3.8% while off-balance sheet funds would have risen 4.5% to €1,033 million.

The two subsidiaries in Mexico are rated by Standard & Poor's and by the Mexican agency HR Ratings. Due to the positive performance by the subsidiaries, S&P upgraded the rating by three notches and HR Ratings by one notch in 2017. At present, both SabCapital and Banco Sabadell have a long-term rating of A- from Standard & Poor's, with positive outlook (formerly stable), and AA from HR Ratings.



Non-performing assets decreased in the year, and there was considerable rotation and an improvement in the composition of foreclosed assets.

Highlights

- In 2017, the Group adapted to ECB recommendations outlined in its Guidance to Banks on Non-Performing Loans, a process that notably included the approval of a Strategic Plan and Operating Plan specifically focusing on reducing non-performing assets; the results are visible in the excellent progress made in reducing non-performing assets, in line with the trend of the last few years, coupled with positive performance by real estate assets. In 2017, the Group reduced the volume of NPAs by c.€3,500 million (including €1,252 million in NPAs) in the carve-out for the new Solvia Desarrollos Inmobiliarios business line), exceeding the initial objectives.
- Real estate sales started contributing a positive net return (profit) from the second half of the year.
- Solvia continues to post solid performance, most notably in real estate asset sales.

Business overview

The Asset Transformation and Industrial and Real Estate Holdings Department horizontally manages non-performing and real estate exposures, as well as establishing and implementing the strategy for real estate investees, including Solvia.

With regard to non-performing and real estate exposures, the Department focuses on implementing the asset transformation strategy and on an integrated approach to the Group's real estate assets with a view to maximising their value.

Management priorities in 2017

In 2017 Banco Sabadell adapted to the recommendations contained in the ECB's Guidance to Banks on Non-Performing Loans, most of which were already part of the asset transformation strategy established in previous years and of the guiding principles for the Asset Transformation business unit, whose main goal is to improve the non-performing asset recovery and transformation processes with a view to maximising their value potential, either by optimising their management or divesting them, whichever is the best option.

Consequently, the Bank has approved ambitious goals to reduce non-performing assets in the next few years, and it has formally established two strategic priorities that govern the management of this kind of assets:

- Continuous reduction of non-performing assets (doubtful exposures and foreclosed real estate assets) until the balances are normalised.
- Focus on managing non-performing assets through the specialised services of the Asset Transformation and Industrial and Real Estate Holdings Department, which was one of the first banking workout units in Spain focusing specifically on managing assets of this kind.

The defined strategy is built on five pillars that have been identified as being critical in the process of managing non-performing assets (NPAs):

- Globality, understood as segmented management of all problematic and potentially problematic exposures: end-to-end vision of the process to transform problematic exposures, with special emphasis on timely management. Reducing the flow of assets being classified as non-performing and in default is vital to normalise non-performing assets.
- Specialisation and segmentation of responsibilities by processes and portfolios to underpin the management approach, so that each type of NPA is treated in the most adequate manner with a view to reducing them as far as possible.
- Maximisation of recovery and monetisation of NPAs, boosting efficiency of management processes in terms of time and cost.
- Multi-channels and transactional capacity: Banco de Sabadell has developed specific channels that afford it considerable transactional capacity to recover its exposure to NPAs.
- Alignment of the entire organisation in managing and controlling NPAs under the principle of three lines of defence, ensuring the independence of the Asset Transformation and Industrial and Real Estate Holdings Department from the rest of areas that took part in granting the non-performing exposures.

The following aspects provide fundamental support in the process of managing non-performing assets:

- Business intelligence and continuous process improvement, in order to develop and deepen capacities to segment and predict recovery actions, so as to systematise, continuously improve, corporatise and optimise processes throughout the recovery cycle.
- Financial capacity to ensure the proper present accounting coverage of the incurred and expected losses associated with these assets and the capacity to generate future revenues with which to cover potential impairments and solid capitalisation levels to cover potential unexpected losses from NPAs.
- Governance system based on three lines of defence, in which, after the first line of defence, featuring the specialised independent workout unit (Asset Transformation and Industrial and Real Estate Holdings Department), and the business units that approved the exposures, there is a second independent line of oversight, comprising the Risk Control and Compliance Departments, followed by a third line of defence, namely Internal Audit, which reviews the adequacy and quality of the entire process.

To implement this strategy, the Asset Transformation and Industrial and Real Estate Holdings Department is structured into various units, each focusing on one stage of the recovery process and the administration, management and transformation of NPAs, having considerable experience and expert knowledge of the various areas of the

process. This organisational structure, which has changed over the years to adapt and better respond to the needs and priorities as driven by the established goals, and which has proven its worth, as evidenced by the steady continuous improvement in the reduction of the Group's doubtful and non-performing exposures in the last few years, comprises the areas listed below at 2017 year-end, each of which focuses on specific aspects of the process. The loan loss recovery and default management process involves the following areas:

The main mission of Delinquency Prevention and Management is to implement the policies and decisions on the transformation of non-performing exposures, fostering a mutual approach wherever this is the most suitable way to resolve the specific case, and paying special attention to the social exclusion risks in some of these situations.

Technical Recoveries manages external collection, bankruptcy and litigation, aimed at optimising the recovery of credit risk through external channels and/or litigation, when mutual negotiation is not sufficient or is not considered to be suitable.

The Corporate Loan Restructuring Department specialises in dealing with issues surrounding the recovery of corporate, property and developer exposures and focuses on loan restructuring, recovery and loss minimisation within that borrower category.

The Business Intelligence, Control and Asset Protection Scheme Department is a Group-wide servicing unit tasked with optimising and continually improving the Group's recovery processes and with overseeing the management of those processes. Its responsibilities include the development and exploitation of existing information on the Group's various NPAs to facilitate optimum financial decision-making with regard to the various transformation alternatives.

As for the management of Real Estate Exposure and of Real Estate Assets received as payment of debts, the Asset Transformation and Industrial and Real Estate Holdings Department uses the Sabadell Real Estate and Institutional Markets Department, which is in charge of horizontally managing the Group's real estate exposure and its transformation, with the clear goal of reducing doubtful exposures by optimising their value, improving the return on non-problematic exposures and the orderly growth of new investment, all under the focus of portfolio risk and return (G3 & G4). This department also manages the divestment of NPA portfolios through processes aimed at institutional and wholesale investors with perimeters chosen as a function of the needs and policies of the Sabadell Group and it analyses and reviews the strategies and models for managing NPAs in order to maximise the efficiency of recovery processes. Notable among the real estate subsidiaries is Banco Sabadell's real estate services provider: Solvia.

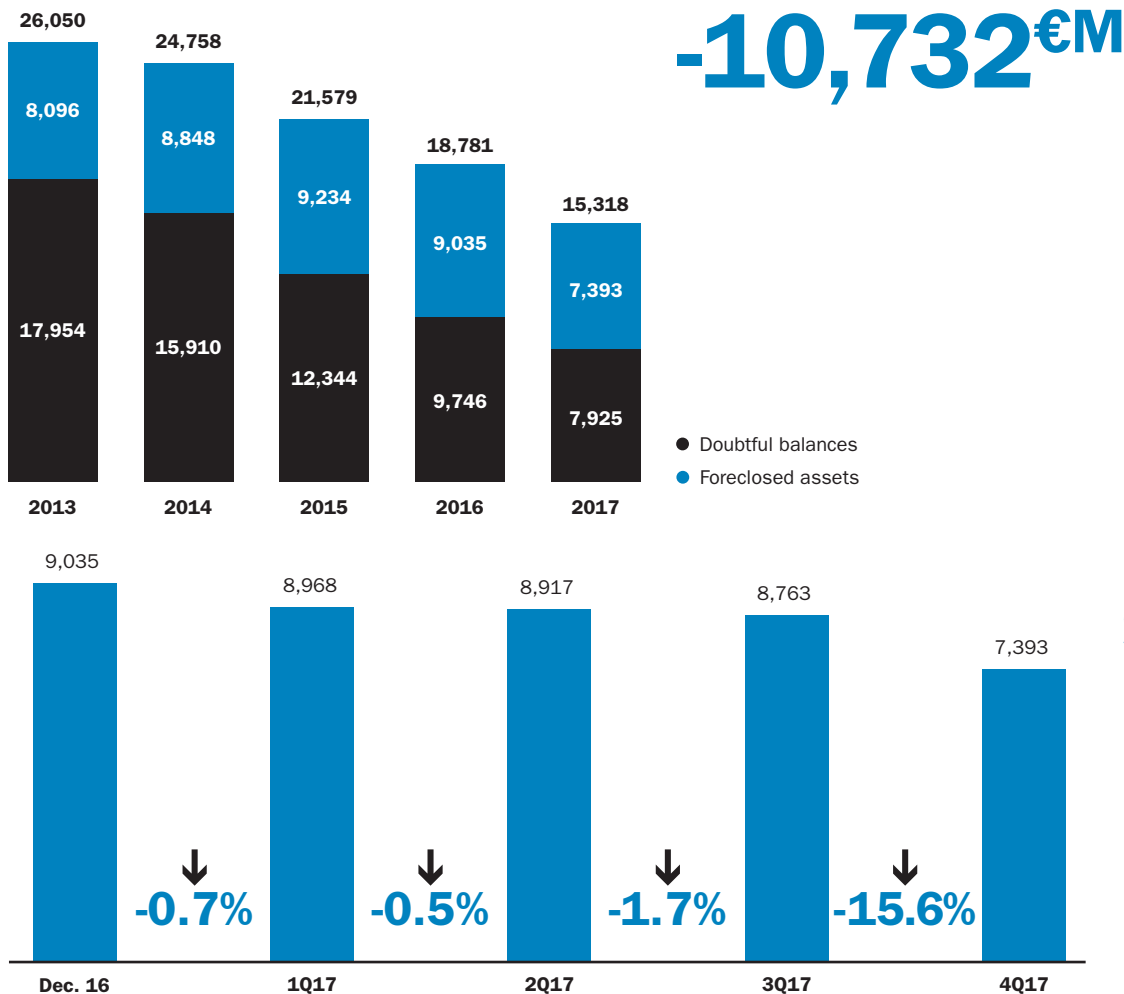
With regard to past due debt recovery actions in 2017, it is especially important to note that Banco Sabadell has continued to proactively manage mortgage defaults on customers' main residences, seeking solutions that avoid

litigation and avoiding evictions in any event. Consequently, 2,592 dation in payment transactions amounting to €420 million were arranged. As a result of offering housing solutions to customers at risk of social exclusion who affected by mortgage litigation proceedings or dation in payment processes, the Bank has close to 7,500 low-rent homes, including those contributed to the Social Housing Fund and more than 850 homes with affordable rent.

In 2017, assets totalling €2,751 million were transacted, with a positive contribution to the income statement, resulting in a net reduction in the total volume of problematic properties compared with the start of the period and intensifying the trend commenced in the previous year, with the prospect of ongoing positive performance in 2018. In this connection, professional asset sales (plots, land and unfinished non-residential product) increased for the second consecutive year. The year-on-year increase in the volume of professional assets sold was 16.4%, boosted by the notable rise in interest among foreign professional investors in this product type. The Group has continued to develop the institutional sales channel to maximise the divestment volume and price, as well as to enhance customers' experience.

Furthermore, in the fourth quarter, as a result of the increase in land development and proprietary development activity, embodied in the creation of Solvia Desarrollos Inmobiliarios, land and plots with specific potential and scope for appreciation were identified and transferred to this new subsidiary.

G3 NPLs and foreclosed assets



Key business data

Net profit in 2017 amounted to -€943.4 million, affected by the extraordinary provisions in the year (T11).

Net interest income amounted to -€52.1 million, less than the previous year due to the decline in the loan book that is in run-off mode.

Income from financial transactions was impacted by the sale of non-performing loans. Gross income amounted to €30.1 million, down 38.4% on the previous year.

Administrative expenses and depreciation and amortisation charges increased by 7.6% year-on-year to -€162.7 million as a result of the expansion of the servicer and increase in the portfolio of hotels managed by Hotel Investment Partnership.

Provisions and impairments amounted to -€1,215.8 million, due to the extraordinary impairments in the year. Disposals produced a net loss of -€14.1 million, i.e. an 85.4% improvement on the previous year. Real estate disposals in the last two quarters of the year produced €8.5 million and €5.1 million, respectively, in profit.

€M

	2016	2017	% 17/16
Net interest income	(26)	(52)	98.8
Equity-accounted affiliates and dividends	(1)	(1)	(49.9)
Fees and commissions (net)	(1)	2	—
Net income from financial transactions and exchange differences	(50)	(37)	(25.7)
Other operating income/expense	128	118	(7.6)
Gross income	49	30	(38.4)
Administrative expenses and depreciation and amortisation	(151)	(163)	7.6
Operating profit/(loss)	(102)	(133)	29.5
Provisions and impairments	(801)	(1,216)	51.9
Gain/(loss) on disposals	(96)	(14)	(85.4)
Gain/(loss) on derecognition of assets, etc.	—	41	—
Profit/(loss) before tax	(903)	(1,307)	44.8
Income tax	263	364	38.3
Profit/(loss) after tax	(640)	(943)	47.5
Minority interest	—	—	—
Profit/(loss) attributable to the group	(640)	(943)	47.5

T11 Key figures —
Asset Transformation

Ratios (%)

ROE (profit / average shareholders' equity)	—	—	—
Cost:income (general administrative expenses / gross income)	—	—	—
NPL ratio (%)	31.7%	32.2%	—
Coverage ratio (%)	54.2%	49.9%	—

Assets	17,956	15,384	(14.3)
Loans and advances to customers (net), excluding repos	6,663	3,865	(42.0)
Real estate exposure (net)	4,716	3,372	(28.5)
Liabilities	15,886	13,728	(13.6)
On-balance sheet customer funds	172	104	(39.7)
Intercompany funding	14,057	12,627	(10.2)
Assigned capital	2,069	1,656	(20.0)
Off-balance sheet customer funds	15	27	83.0
Other indicators			
Employees	825	1,018	23.4
Branches	—	—	—

Capital gains on asset disposals include mainly the sale of hotel management subsidiary HI Partners Holdco Value Added via Hotel Investment Partners.

Sound management of real estate assets continued and net lending fell by 42.0% year-on-year, while net real estate exposure declined by 28.5%.

The recovery in the Spanish real estate market has enabled Solvia to develop new businesses.

Solvia

Solvia, Banco Sabadell's real estate services provider, was very active in 2017. Solvia is one of the main real estate solution platforms, covering a broad range of services: from property development to asset management and sales. In addition, it provides loan management and settlement services for some customers.

Solvia continued to develop its business by diversifying its customer portfolio. This year new customer assets were added to the development portfolio, and new customers acquired to which advisory services were provided in selecting assets for development and in managing the marketing developments. Furthermore, Solvia provides real estate consultancy services for foreign funds acquiring portfolios in Spain.

In 2017 work was ongoing to develop the range of agent services (sale and rental) for individuals and companies. In this connection, Solvia has boosted the capacity of its team and, in particular, is in the process of expanding its own network of agents and consultants for companies, as well as raising its profile through the franchise network. At the end of 2017, it had 18 own offices and had signed contracts with 41 franchisees in the main Spanish cities. The company continued to invest in its marketing capability and in 2017 continued to lead the market in brand recognition.

In 2017, Solvia property sales amounted to €1,778 million and the loan recovery activity which Solvia executes for Sareb remained highly dynamic, generating €191 million in liquidity. Solvia managed and marketed 101 real estate developments in the year, starting with plots belonging to its customers, and sales of developments exceeded €83 million in the year.

BS Capital

BS Capital is the department that manages the Bank's industrial holdings. It focuses on taking up temporary holdings in companies, with the main goal of maximising the return on investment.

In 2017, it continued to actively manage its portfolio of investees, continuing with a divestment programme going back several years. New projects under way include notably fundraising for Aurica III, FCR in the amount of €160 million, exceeding the target amount of €150 million; this fund has made its first two investments. Another new project was the incorporation of Sinia Capital, the Mexican subsidiary of Sinia Renovables, through which seed capital and mezzanine debt investments were made in two wind power projects in Mexico; additionally, the Bank invested in more than 8 digital or technological startups through Sabadell Venture Capital, including the very first investment in venture debt, and the arrangement, management and sale of holdings from debt restructuring and capitalisation processes continued.