

Earnings performance

Two major milestones were attained in 2018: TSB completed the IT migration and now has a sound technology platform; and the balance sheet was normalised following the announcement of the sale of institutional portfolios.

Group profit was impacted by the extraordinary migration and post-migration expenditure at TSB and the provisions for the sale of institutional portfolios.

Net interest income excl. TSB expanded due to strong growth in volume.

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

€M

	2017	2018	Year-on-year change (%)	Excl. TSB 2017	Excl. TSB 2018	Year-on-year change (%)
Interest and related income	4,839.6	4,861.9	0.5	3,605.9	3,652.7	1.3
Interest and related charges	(1,037.3)	(1,186.8)	14.4	(837.1)	(977.3)	16.7
Net interest income	3,802.4	3,675.2	(3.3)	2,768.8	2,675.5	(3.4)
Dividend income	7.3	8.2	12.8	7.1	8.0	13.8
Equity-accounted profit	308.7	56.6	(81.7)	308.7	56.6	(81.7)
Fees and commissions (net)	1,223.4	1,335.3	9.1	1,127.8	1,250.1	10.8
Trading gains (losses) (net)	614.1	226.7	(63.1)	504.5	209.3	(58.5)
Exchange differences (net)	8.4	(1.3)	—	8.4	(1.6)	—
Other operating income/expense	(227.0)	(290.4)	27.9	(211.3)	(230.1)	8.9
Gross income	5,737.3	5,010.2	(12.7)	4,514.0	3,967.7	(12.1)
Personnel expenses	(1,573.6)	(1,590.6)	1.1	(1,178.9)	(1,208.3)	2.5
Recurring	(1,546.9)	(1,529.6)	(1.1)	(1,163.0)	(1,168.1)	0.4
Non-recurring	(26.6)	(61.0)	129.2	(15.8)	(40.2)	154.1
Other general expenses	(1,149.4)	(1,329.8)	15.7	(614.8)	(652.6)	6.1
Recurring	(1,116.7)	(1,099.3)	(1.6)	(614.8)	(652.6)	6.1
Non-recurring	(32.7)	(230.5)	—	—	—	—
Depreciation and amortisation	(402.2)	(353.1)	(12.2)	(329.6)	(264.5)	(19.7)
Pre-provisions income	2,612.1	1,736.8	(33.5)	2,390.8	1,842.3	(22.9)
Provisions for NPLs and other impairments	(1,225.2)	(916.8)	(25.2)	(1,136.4)	(685.8)	(39.7)
Other provisions and impairments	(971.1)	(403.6)	(58.4)	(971.1)	(403.6)	(58.4)
Capital gains on asset disposals	432.6	2.5	(99.4)	425.9	1.2	(99.7)
Negative goodwill	—	—	—	—	—	—
Profit/(loss) before tax	848.3	418.9	(50.6)	709.1	754.1	6.3
Income tax	(43.1)	(83.6)	94.2	5.8	(179.0)	—
Consolidated net profit	805.2	335.2	(58.4)	714.9	575.2	(19.5)
Minority interest	3.7	7.1	92.0	3.7	7.1	92.0
Profit attributable to the Group	801.5	328.1	(59.1)	711.2	568.0	(20.1)
Pro memoria:						
Average total assets	214,356	217,168	1.3	168,418	170,502	1.2
Earnings per share (€)	0.14	0.05	—	0.12	0.09	—

The average exchange rate applied for TSB's income statement is 0.8851. The accumulated exchange rate in December 2017 was 0.8759.

Net interest income

Net interest income amounted to €3,675.2 million in 2018, -3.3% lower than in 2017, since the 2017 figure included Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros, Sabadell United Bank, N.A. and the Mortgage Enhancement portfolio, whereas the 2018 figure was affected by customer management action at TSB. Excluding TSB, net interest income amounted to €2,675.5 million in 2018, -3.4% less than in 2017 (T2 & T3). In constant consolidation scope terms and excluding customer management expenditure at TSB, net interest income increased by 1.5% year-on-year (1.1% excluding TSB).

The total margin on average total assets declined due to the narrower customer spread, which was attributable to customer management expenditure at TSB, lower returns on the fixed-income portfolio due to churn, and the higher liquidity position. As a result, the return on average total assets was 1.69% in 2018 (1.77% in 2017). (G1 & G2).

Net interest income on a constant consolidation scope basis excluding one-offs at TSB (YoY)

Banco Sabadell (excl. TSB)

+1.1%

Group

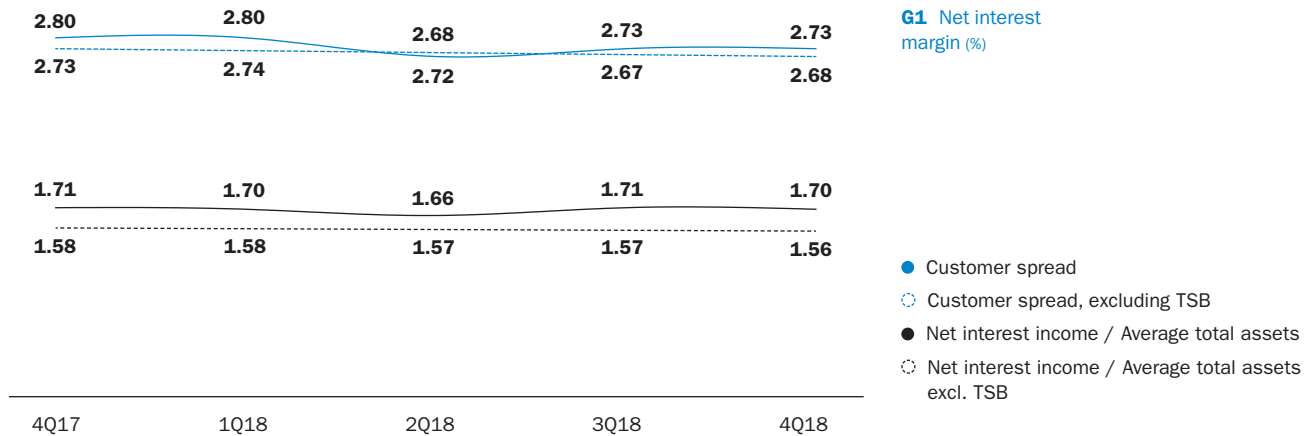
+1.5%

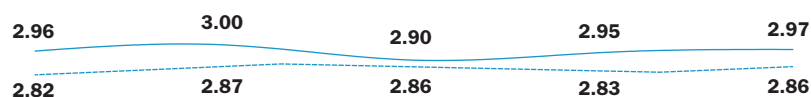
T3 Revenues and expenses

€M

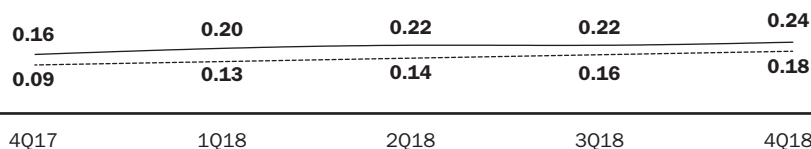
	2017			2018			Change		Effect	
	Average balance	Results	Rate %	Average balance	Results	Rate %	Average balance	Results	Rate	Volume
Cash on hand and at central banks and credit institutions	18,512,411	2,925	0.02	28,583,832	23,299	0.08	10,071,421	20,374	22,012	(1,638)
Loans to customers	136,937,930	4,102,112	3.00	135,903,483	4,016,686	2.96	(1,034,447)	(85,426)	(70,169)	(15,257)
Fixed-income securities	28,809,194	494,316	1.72	25,950,163	352,466	1.36	(2,859,031)	(141,850)	(98,278)	(43,572)
Subtotal	184,259,535	4,599,353	2.50	190,437,478	4,392,451	2.31	6,177,943	(206,902)	(146,435)	(60,467)
Equity securities	1,079,233	—	—	933,848	—	—	(145,385)	—	—	—
Property, plant and equipment and intangible assets	4,268,271	—	—	4,084,833	—	—	(183,438)	—	—	—
Other assets	24,749,190	88,612	0.36	21,712,189	274,307	1.26	(3,037,001)	185,695	—	185,695
Total capital employed	214,356,229	4,687,965	2.18	217,168,348	4,666,758	2.15	2,812,119	(21,207)	(146,435)	125,228
Credit institutions	28,553,497	(29,558)	(0.10)	32,033,556	(35,690)	(0.11)	3,480,059	(6,132)	(39,265)	33,133
Customer deposits	138,258,332	(266,315)	(0.19)	141,060,307	(309,436)	(0.22)	2,801,975	(43,121)	(52,330)	9,209
Capital market	26,020,323	(386,885)	(1.49)	24,614,108	(323,015)	(1.31)	(1,406,215)	63,870	50,044	13,826
Subtotal	192,832,152	(682,758)	(0.35)	197,707,971	(668,141)	(0.34)	4,875,819	14,617	(41,551)	56,168
Other liabilities	8,438,119	(202,837)	(2.40)	7,134,507	(323,433)	(4.53)	(1,303,612)	(120,596)	—	(120,596)
Own funds	13,085,958	—	—	12,325,870	—	—	(760,088)	—	—	—
Total funds	214,356,229	(885,595)	(0.41)	217,168,348	(991,574)	(0.46)	2,812,119	(105,979)	(41,551)	(64,428)
Average total assets	214,356,229	3,802,370	1.77	217,168,348	3,675,184	1.69	2,812,119	(127,186)	(187,986)	60,800

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





G2 Customer spread (%)



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

Gross income

Dividends received and equity-accounted profits amounted to €64.7 million in 2018, compared with €315.9 million in 2017, which included the net commission received by BanSabadell Vida for the reinsurance contract signed with Swiss Re Europe. Those revenues are due mainly to the insurance and pension fund business.

Net fees and commissions amounted to €1,335.3 million (€1,250.1 million excluding TSB), a year-on-year increase of 9.1% (10.8% excluding TSB) (T4). On a constant consolidation scope basis and excluding the impact of waiving overdraft fees at TSB, net fees and commissions increased by 10.1% year-on-year (11.3% excluding TSB). This was due to good performance by services fees and asset management fees.

Net fees and commissions on a constant consolidation scope basis excluding one-offs at TSB (YoY)

Banco Sabadell (excl. TSB)

+11.3%

Group

+10.1%

€M

	2017	2018	% 18/17	Excl. TSB 2017	Excl. TSB 2018	% 18/17
Asset transactions	206.1	138.0	(33.1)	121.1	134.2	10.8
Guarantees	98.7	102.6	4.0	98.7	102.6	4.0
Commissions from risk transactions	304.8	240.6	(21.1)	219.8	236.8	7.7
Cards	205.7	224.9	9.3	174.4	193.9	11.2
Payment orders	54.0	61.6	14.1	54.0	56.2	4.1
Securities	60.4	61.1	1.1	60.4	61.1	1.1
Demand accounts	130.8	221.0	69.0	119.3	149.9	25.6
Rest	129.1	153.8	0.2	161.3	193.1	0.2
Commissions for services	580.0	722.3	24.5	569.4	654.3	14.9
Mutual funds	158.4	157.7	(0.4)	158.4	157.7	(0.4)
Pension funds and insurance brokerage	152.8	185.5	21.4	152.8	172.1	12.6
Asset management	27.4	29.2	6.6	27.4	29.2	6.6
Asset management fees and commissions	338.6	372.4	10.0	338.6	359.0	6.0
Total	1,223.4	1,335.3	9.1	1,127.8	1,250.1	10.8

T4 Fees and commissions

The average exchange rate applied for TSB's income statement is 0.8851. The accumulated exchange rate in December 2017 was 0.8759.

Trading income and exchange differences totalled €225.4 million (€207.7 million euros excluding TSB). This item amounted to €622.5 million in 2017 (€512.9 million excluding TSB), and included the sale of fixed-income portfolios and the early call of TSB's Mortgage Enhancement.

Other operating revenues and expenses amounted to -€290.4 million (-€230.1 million excluding TSB), compared with -€227.0 million (-€211.3 million excluding TSB) in 2017. Notable components of this item include the -€106.3 million contribution to the Spanish Deposit Insurance Scheme (-€98.3 million in 2017), -€55.8 million in losses due to fraud at TSB, the -€49.7 million contribution to the Single Resolution Fund (-€50.6 million the previous year), -€45.0 million of the levy on conversion of deferred tax assets into debt claims against the Spanish tax authorities (-€54.7 million in 2017), and the -€30.7 million tax on deposits at credit institutions (IDEC) (-€28.1 million in 2017).

Pre-provisions income

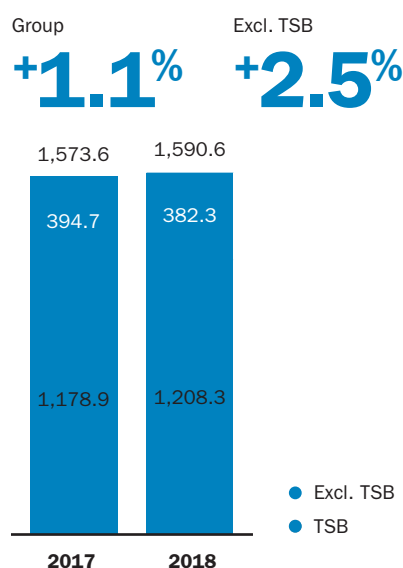
Operating expenses (personnel and general) amounted to -€2,920.4 million in 2017 (-€1,860.9 million excluding TSB), of which -€291.5 million are non-recurring items (-€40.2 million excluding TSB). In 2017, operating expenses amounted to -€2,723.0 million (-€1,793.6 million excluding TSB), of which -€59.3 million were non-recurring items (-€15.8 million excluding TSB). The year-on-year increase is due mainly to the extraordinary migration and post-migration costs at TSB (G3 & T5).

The cost:income ratio was 58.3% (46.9% excluding TSB) in 2018, compared with 50.2% (42.1% excluding TSB) in 2017. The increase was due to extraordinary expenses incurred at TSB during the year.

As a result, pre-provisions income amounted to €1,736.8 million in 2018 (€1,842.3 million excluding TSB), compared with €2,612.1 million in 2017 (€2,390.8 million excluding TSB); that is a -33.5% decline (-22.9% excluding

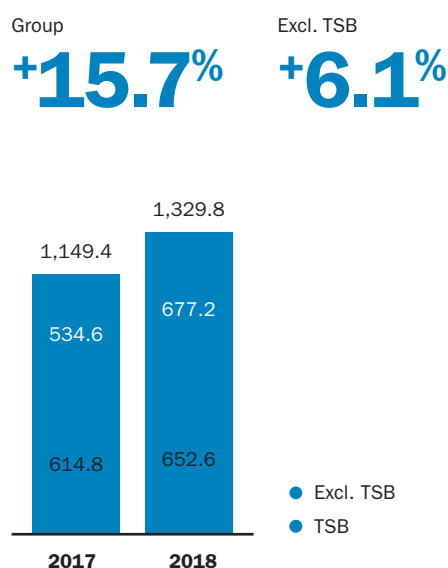
Personnel expenses (YoY)

M€



Other general administrative expenses (YoY)

M€



G3

The income statement for 2018 includes the extraordinary migration and post-migration impact at TSB, and the institutional sale of portfolios.

€M

	2017	2018	% 18/17	Excl. TSB 2017	Excl. TSB 2018	% 18/17
Recurring	(1,546.9)	(1,529.6)	(1.1)	(1,163.0)	(1,168.1)	0.4
Non-recurring	(26.6)	(61.0)	129.2	(15.8)	(40.2)	154.1
Personnel expenses	(1,573.6)	(1,590.6)	1.1	(1,178.9)	(1,208.3)	2.5
Technology and communications	(414.4)	(360.1)	(13.1)	(157.7)	(164.8)	4.5
Advertising	(106.4)	(107.0)	0.6	(39.2)	(51.2)	30.4
Property, fittings and office material	(210.0)	(216.6)	3.1	(132.1)	(136.8)	3.5
Taxes other than income tax	(106.9)	(114.9)	7.5	(106.6)	(114.9)	7.8
Other	(279.0)	(306.3)	9.8	(179.1)	(184.9)	3.2
Total recurring	(1,116.7)	(1,099.3)	(1.6)	(614.8)	(652.6)	6.1
Non-recurring	(32.7)	(230.5)	—	—	—	—
Other general administrative expenses	(1,149.4)	(1,329.8)	15.7	(614.8)	(652.6)	6.1
Total	(2,723.0)	(2,920.4)	7.2	(1,793.6)	(1,860.9)	3.7

T5 Operating expenses

The average exchange rate applied for TSB's income statement is 0.8851.

TSB), mainly due to extraordinary trading income and the receipt by Banco Sabadell Vida of the fee on the reinsurance agreement with Swiss Re Europe in 2017, and the extraordinary migration and post-migration impacts at TSB in 2018.

Provisions and impairments totalled -€1,320.4 million (-€1,089.4 million excluding TSB) in 2018, compared with -€2,196.4 million (-€2,107.6 million excluding TSB) in 2017. This year's figure included provisions for claims for indemnity by TSB customers, and the provision for the institutional sale of portfolios.

Capital gains on asset sales amounted to €2.5 million, contrasting with €432.6 million booked in 2017, which included mainly the net gain from the sale of Sabadell United Bank, the sale of Mediterráneo Vida and the sale of 100% of HI Partners Holdco Value Added, SAU by subsidiary Hotel Investment Partners, SL (HIP).

Cost:income ratio in 2018

Banco Sabadell (excl. TSB)

46.9%

Group

58.3%

Profit attributable to the Group

After deducting income tax and the part of profit corresponding to non-controlling interests, Group net profit amounted to €328.1 million in 2018, affected by the extraordinary migration and post-migration impacts at TSB and the extraordinary provisions for the Institute sale of portfolios. Excluding those impacts, net profit on a constant consolidation scope basis and at constant exchange rates increased by 9.6% year-on-year. Excluding TSB, the Group's attributable net profit amounted to €568.0 million in 2018. Excluding the extraordinary provisions for institutional sales of portfolios, profit increased by 2.0% year-on-year on a constant consolidation scope basis.

Attributable net profit in 2018

328.1 M€

Balance sheet

Outstanding lending increased due to good performance by the SME and large corporate segments in Spain, and to strong growth in Mexico.

The increase in customer funds on the balance sheet was driven by growth in demand accounts and in deposits with agreed maturity.

The decline in off-balance sheet funds was attributable mainly to mutual funds because of poor performance by the financial markets.

NPAs declined to 1.8% of total assets, with a coverage ratio of 52.1%.