

Liquidity management

The adjusted loan-to-deposit ratio was 101.6% as of 31 December 2018, with a balanced retail funding structure.

The Liquidity Coverage Ratio (LCR) at 31 December 2018 was 168% excluding TSB and 298% at TSB.

The funding policy focuses on maintaining a balanced funding structure based mainly on customer deposits (principally demand accounts and deposits with agreed maturity, collected through the branch network), supplemented by financing through the interbank and capital markets, where the institution has several short and long-term funding programmes to achieve an appropriate level of diversification by product type, term and investor.

The institution also maintains a diversified portfolio of liquid assets, most of which are eligible as collateral for Eurosystem credit transactions.

Customer funds on the balance sheet amounted to €137,343 million, a 4.0% increase with respect to 2017 year-end (€132,096 million). As a result of prevailing low interest rates, balances continued to shift from deposits with agreed maturity to demand accounts during 2018. At 31 December 2018, the balance of demand accounts had increased by 9.8% to €107,665 million, whereas deposits with agreed maturity had declined by 11.5%.

During 2018, the funding gap continued to widen, as it had in previous years, which enabled the institution to continue its policy of partially refinancing maturities in the capital markets and, at the same time, to maintain the downward trend in the loan-to-deposit (LtD) ratio (from 147% at 2010 year-end to 101.6% at 2018 year-end). To calculate the loan-to-deposit (LtD) ratio, net customer loans (adjusted for subsidised funding) are taken as the numerator, and retail funding as the denominator (T13).

The institution took advantage of windows to issue into a market dominated in 2018 by volatility and widening spreads. €2,165 million in capital market funding matured in 2018. In contrast, Banco Sabadell made use of shelf registrations to issue €390 million of 8-year mortgage covered bonds, which were subscribed for in full by the European Investment Bank (EIB); six issues of senior preferred debt totalling €23 million and maturing between five and seven years; and two issues of structured bonds, also totalling €23 million. Additionally, on 7 September 2018, Banco Sabadell issued €750 million of senior debt under its EMTN Programme, maturing in 5 years and 6 months, and on 12 December it issued €500 million of Tier 2 subordinated debt maturing in 10 years, callable in the fifth year (G9 & G10).

In March 2017, Banco Sabadell participated in the ECB's last four-year targeted longer-term refinancing operation (TLTRO II), borrowing €10,500 million, in addition to the €10,000 million borrowed under the TLTRO in June 2016.

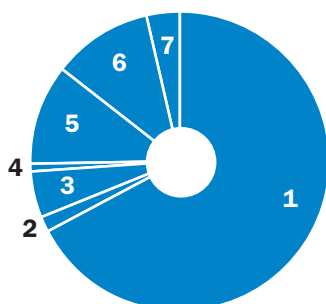
In 2016, the Bank of England also launched a package of measures to support economic growth, including the Term Funding Scheme (TFS), a programme to incentivise lending that was launched in August 2016, under which

	Excl. TSB 2017	Excl. TSB 2018	Group total 2017	Group total 2018
Gross loans and advances to customers, excluding repos	109,742	111,673	145,323	145,824
NPL and country-risk provisions	(3,646)	(3,211)	(3,727)	(3,433)
Loan brokerage	(3,110)	(2,426)	(3,835)	(2,808)
Adjusted net loans and advances	102,986	106,036	137,761	139,583
On-balance sheet customer funds	97,686	104,859	132,096	137,343
Loan-to-deposit ratio (%)	105.4	101.1	104.3	101.6

The EUR/GBP exchange rate applied to the balance sheet is 0.8945 as of 31 December 2018 and 0.8872 as of 31 December 2017.

UK banks could borrow for a four-year term against eligible collateral. As a member of the Sterling Monetary Framework (SMF), TSB participated in the TFS throughout 2017, having drawn €6,283 million by 2017 year-end, and it drew an additional €950 million in February 2018. As a result, it had drawn a total of €7,233 million against the TFS by 2018 year-end.

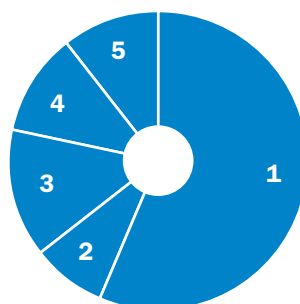
The institution maintained a liquidity buffer in the form of liquid assets to meet any liquidity needs. The Liquidity Coverage Ratio (LCR) came into force on 1 October 2015 and was phased in until 2018; the regulatory minimum requirement of 100% is now applicable. The Group's LCR remained well above 100% on a stable basis throughout the year; at year-end, it stood at 168% excluding TSB, and at 298% at TSB. The Net Stable Funding Ratio (NSFR) is still in the final definition phase, even though it was scheduled to be implemented in January 2018. Nevertheless, the institution's ratio exceeds 100%.



G9

Funding structure
31.12.2018 (%)

1	Deposits	67.3
2	Retail issues	1.6
3	Repos	5.1
4	ICO funding	0.8
5	Wholesale market	10.8
6	ECB	10.8
7	Bank of England	3.6



G10

Breakdown of institutional issues
31.12.2018 (%)

1	Mortgage covered bonds	56.4
2	Senior debt	8.3
3	Subordinated and AT1	13.9
4	ECP + institutional commercial paper	10.9
5	Asset-backed securities	10.5

Credit ratings

In 2018, the three rating agencies that assess Banco Sabadell's credit quality were Standard & Poor's, Moody's and DBRS. Table 14 details the current ratings and the last date on which they were affirmed.

On 6 April 2018, S&P Global Ratings upgraded Banco Sabadell's long-term credit rating to BBB (from BBB-) and its short-term rating to A-2 (from A-3). The outlook is stable. This upgrade was based on Banco Sabadell's improved credit quality in the context of lower industry risk in the Spanish banking system, fundamentally due to deleveraging, and on higher investor confidence.

On 19 September 2018, S&P Global Ratings affirmed Banco Sabadell's BBB long-term rating, its A-2 short-term rating, and the stable outlook.

On 19 September 2018, Moody's Investor Service (Moody's) confirmed the Baa2 long-term deposit rating and the Baa3 senior debt rating, as well as the P-2 short-term deposit rating and the P-3 senior debt rating of Banco Sabadell, and changed the outlook to stable, from positive.

On 16 July 2018, DBRS Rating Limited improved the outlook on Banco Sabadell to positive (from stable) and confirmed the long-term rating at BBB (high) and the short-term rating at R-1 (low). The change in outlook and the affirmation of the rating reflect the vision that Banco Sabadell is soundly capitalised and that asset quality continues to improve, as does the profitability of the core business in Spain.

During 2018, Banco Sabadell had contacts with the three agencies to discuss such issues as the Bank's strategy, TSB's performance, earnings, capital, liquidity, risks and credit quality, and management of non-performing assets.

T14 Credit ratings

Agency	Last review	Long term	Short term	Outlook
DBRS	16.07.2018	BBB (high)	R-1 (low)	Positive
S&P Global Ratings	19.09.2018	BBB	A-2	Stable
Moody's (*)	19.09.2018	Baa3 / Baa2	P-3 / P-2	Stable/Stable

(*) Senior debt and deposits, respectively.