Financial information
Banco Sabadell Group

5

Key figures in 2018

		2017	2018	% 18/17	T1
Balance sheet (€M)	**(A)**				
Total assets		221,348	222,322	0.4	
Outstanding gross lending		137,522	139,366	1.3	
Loans and advances to customers, gross		147,325	146,420	(0.6)	
Funds on the balance sheet		159,095	161,678	1.6	
Of which: On-balance sheet customer funds		*132,096*	*137,343*	*4.0*	
Mutual funds		27,375	26,379	(3.6)	
Pension funds and insurance brokerage		13,951	14,059	0.8	
Funds under management		204,420	205,711	0.6	
Equity		13,222	12,117	(8.4)	
Shareholders' equity		13,426	12,545	(6.6)	
Income statement (M€)	**(B)**				
Net interest income		3,802.4	3,675.2	(3.3)	
Gross income		5,737.3	5,010.2	(12.7)	
Pre-provisions income		2,612.1	1,736.8	(33.5)	
Profit attributable to the Group		801.5	328.1	(59.1)	
Ratios (%)	**(C)**				
ROA		0.38	0.15		
RoRWA		1.03	0.41		
ROE		6.10	2.60		
ROTE		7.27	3.18		
Cost:income		50.15	58.29		
Capital management	**(D)**				
Risk weighted assets (RWA) (€M)		77,505	80,279		
Common Equity Tier 1 (phased-in) (%)		13.4	12.0		
Tier I (phased-in) (%)		14.3	13.4		
Total capital ratio (phased-in) (%)		16.1	15.5		
Leverage ratio (phased-in) (%)		5.0	4.9		
Risk management	**(E)**				
Exposures classified as stage 3 (€ '000)		7,925	6,554		
Total NPAs (€M)		15,318	8,279		
NPL ratio (%)		5.14	4.22		
Coverage ratio for assets classified as stage 3 (%)		45.7	54.1		
NPA coverage ratio (%) (*)		49.8	52.1		
Liquidity management	**(F)**				
Loan-to-deposit ratio (%)		104.3	101.6		
Share data (period end)	**(G)**				
Number of shareholders		235,130	235,523		
Average number of shares (million)		5,570	5,565		
Share price (€)		1.656	1.001		
Market capitalisation (€M)		9,224	5,568		
Earnings per share (EPS) (€)		0.14	0.05		
Book value per share (€)		2.41	2.25		
Price/Book value		0.69	0.45		
Price/earnings ratio (P/E)		11.85	20.11		
Other information					
Branches		2,473	2,457		
Employees		25,845	26,181		

(*) 2017 figures exclude interest-rate floor clauses.

(A) This table of key figures provides an overview of year-on-year changes in the main items in the Group's consolidated balance sheet, focusing particularly on data related to loans and advances and customer funds.
(B) This section sets out key margins from the income statement for the last two years.
(C) The ratios in this section of the table have been included to give a meaningful picture of profitability and the cost:income ratio in the last two years.
(D) The ratios in this section of the table have been included to give a meaningful picture of the capital position in the last two years.
(E) This section gives some key balances and ratios related to the Group's risk management.
(F) This section gives a meaningful picture of liquidity in the last two years.
(G) This section provides data on the share price and other stock market ratios and indicators.

See list, definition and purpose of the APMs used by the Banco Sabadell Group at:
www.grupbancsabadell.com/INFORMACION_ACCIONISTAS_E_INVERSORES/INFORMACION_FINANCIERA/MEDIDAS_ALTERNATIVAS_DEL_RENDIMIENTO

Two major milestones were attainedin 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

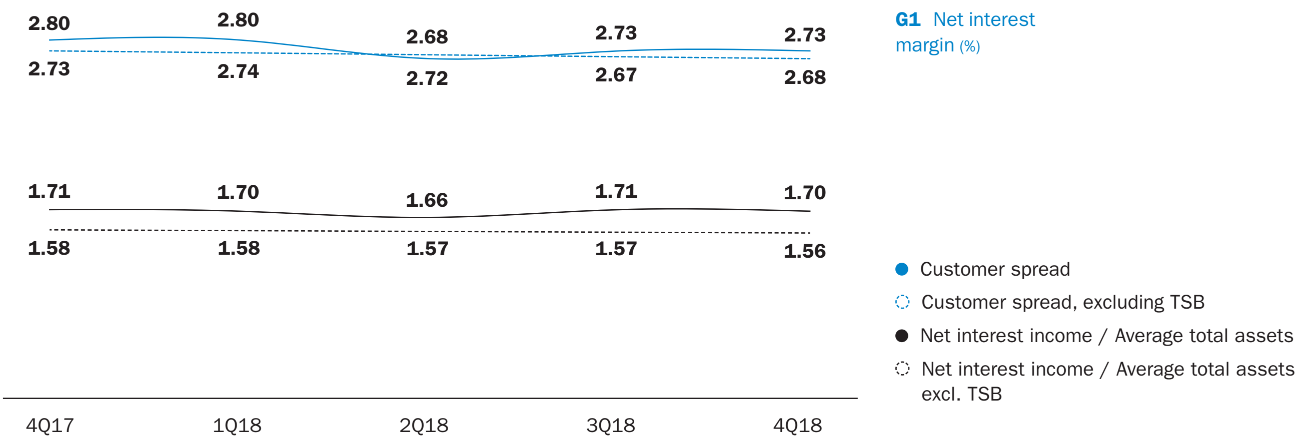
+1.5%

T3 Revenues and expenses

€M

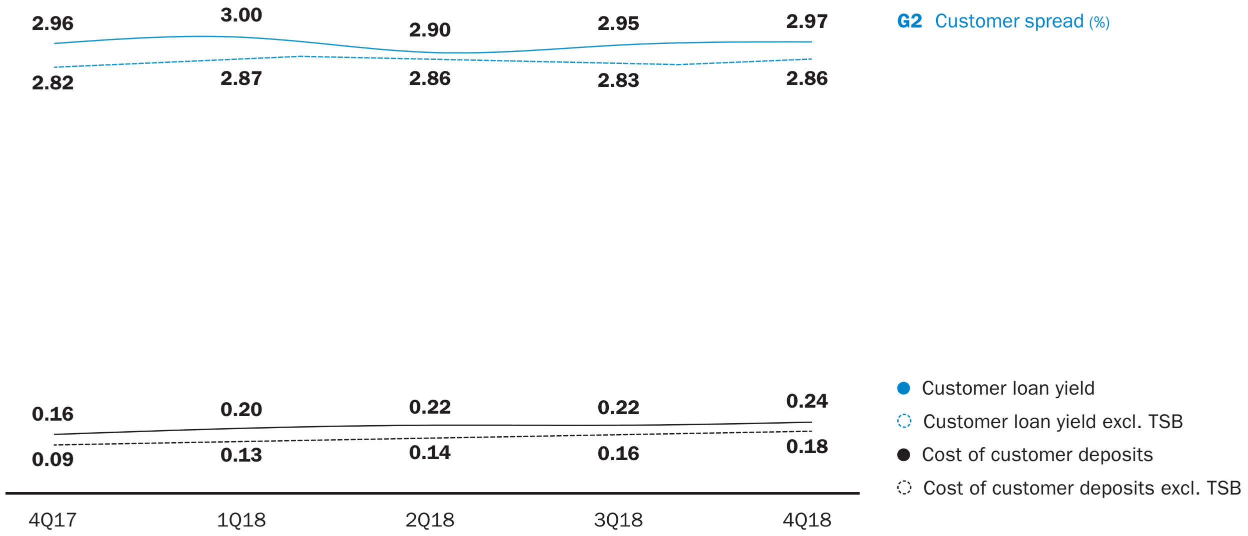
	2017			2018			Change		Effect	
	Average balance	Results	Rate %	Average balance	Results	Rate %	Average balance	Results	Rate	Volume
Cash on hand and at central banks and credit institutions	18,512,411	2,925	0.02	28,583,832	23,299	0.08	10,071,421	20,374	22,012	(1,638)
Loans to customers	136,937,930	4,102,112	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.



G1 Net interest margin (%)

G2 Customer spread (%)



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%

T4 Fees and commissions

€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**

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

G3

Personnel expenses (YoY)

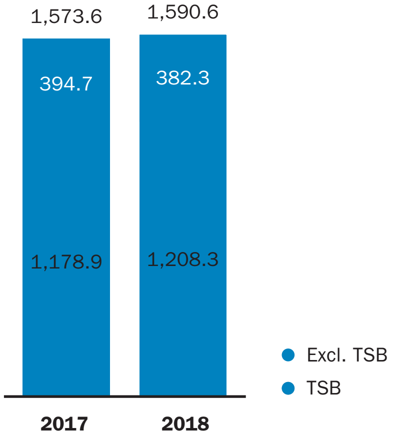
M€

Group

+1.1%

Excl. TSB

+2.5%



Other general administrative expenses (YoY)

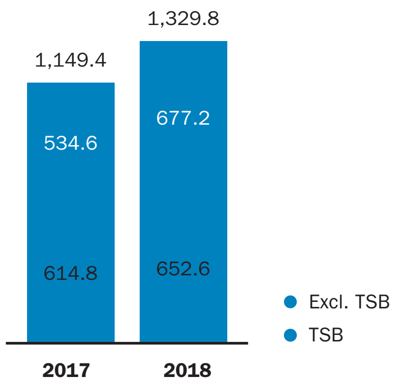
M€

Group

+15.7%

Excl. TSB

+6.1%



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

T5 Operating expenses

€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**

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

TSB), mainly due to extraordinary trading income and the receipt by BanSabadell 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%.

The proforma CET1 ratio is 12.2% phased-in and 11.3% fully-loaded.

€M

T6 Balance sheet

	2017	2018	% 18/17
Cash and cash balances at central banks and other demand deposits	26,363	23,494	(10.9)
Financial assets held for trading	1,573	2,045	30.0
Financial assets not intended for trading, which are obligatorily measured at fair value through profit or loss	40	141	257.5
Financial assets at fair value through profit or loss	—	—	—
Financial assets at fair value through other comprehensive income	13,181	13,247	0.5
Financial assets at amortised cost	160,724	164,416	2.3
Debt securities	11,747	13,132	11.8
Loans and advances	148,977	151,284	1.5
Investments in joint ventures and associates	576	575	(0.1)
Tangible assets	3,827	2,498	(34.7)
Intangible assets	2,246	2,461	9.6
Other assets	12,821	13,445	4.9
Total assets	**221,348**	**222,322**	**0.4**
Financial liabilities held for trading	1,431	1,738	21.5
Financial liabilities at fair value through profit or loss	40	—	(100.0)
Financial liabilities at amortised cost	204,045	206,077	1.0
Deposits	177,326	179,878	1.4
Central banks	27,848	28,799	3.4
Credit institutions	14,171	12,000	(15.3)
Customers	135,307	139,079	2.8
Debt securities issued	23,788	22,599	(5.0)
Other financial liabilities	2,932	3,601	22.8
Provisions	318	466	46.9
Other liabilities	2,293	1,924	(16.1)
Total liabilities	**208,127**	**210,205**	**1.0**
Shareholders' equity	13,426	12,545	(6.6)
Accumulated other comprehensive income	(265)	(491)	85.2
Non-controlling interests	61	64	3.9
Equity	**13,222**	**12,117**	**(8.4)**
Total equity and total liabilities	**221,348**	**222,322**	**0.4**
Financial guarantees provided	1,983	2,041	2.9
Loan commitments provided	20,906	22,646	8.3
Other commitments provided	9,917	8,233	(17.0)
Total memorandum accounts	**32,806**	**32,920**	**0.3**

The EUR/GBP exchange rate used for the balance sheet is 0.8945 as of 31 December 2018.

Assets

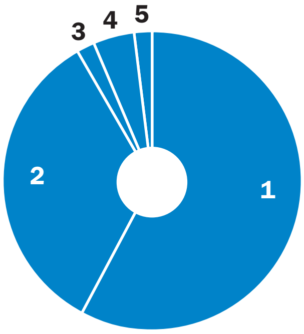
At the end of 2018, the total assets of Banco Sabadell and its Group amounted to €222,322 million (€176,14 million excluding TSB), compared with €221,348 million (€173,203 million excluding TSB) at the end of 2017.

T7 Loans and advances to customers

€M

	2017	2018	Change YoY (%)	Excl. TSB 2017	Excl. TSB 2018	Change YoY (%)
Mortgage loans & credit	84,267	80,872	(4.0)	52,259	49,833	(4.6)
Other secured loans & credit	2,315	2,767	19.5	2,315	2,766	19.5
Commercial loans	5,802	6,186	6.6	5,802	6,186	6.6
Leasing	2,316	2,565	10.7	2,316	2,565	10.7
Overdrafts and sundry accounts	42,822	46,976	9.7	39,427	44,383	12.6
Outstanding gross lending	**137,522**	**139,366**	**1.3**	**102,119**	**105,732**	**3.5**
Assets classified as stage 3	7,867	6,472	(17.7)	7,723	6,024	(22.0)
Accruals	(66)	(13)	(79.7)	(100)	(83)	(16.9)
Gross loans and advances to customers, excluding repos	**145,323**	**145,824**	**0.3**	**109,742**	**111,673**	**1.8**
Repos	2,001	596	(70.2)	2,001	596	(70.2)
Loans and advances to customers, gross	**147,325**	**146,420**	**(0.6)**	**111,743**	**112,269**	**0.5**
NPL and country-risk provisions	(3,727)	(3,433)	(7.9)	(3,646)	(3,211)	(11.9)
Loans and advances to customers	**143,598**	**142,987**	**(0.4)**	**108,097**	**109,058**	**0.9**

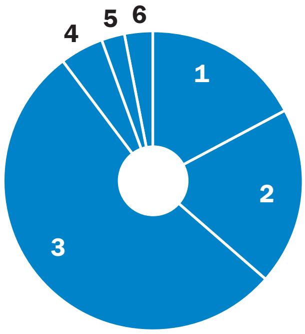
The EUR/GBP exchange rate used for the balance sheet is 0.8945 as of 31 December 2018.



G4
Loans and advances to customers, by product type
31.12.2018 (%) (*)

1	Mortgage loans & credit	58.0
2	Overdrafts and sundry accounts	33.7
3	Other secured loans & credit	2.0
4	Commercial loans	4.4
5	Leasing	1.9

(*) Excluding NPLs and accrual adjustments



G5
Loans and advances to customers, by customer profile
31.12.2018 (%) (*)

1	Companies	17.3
2	SMEs	19.3
3	Individuals	53.4
4	Public Sector	4.7
5	Real estate developers	2.4
6	Other	2.9

(*) Excluding NPLs and accrual adjustments

Gross loans and advances amounted to €139,366 million at 2018 year-end (€105,732 million excluding TSB), a 1.3% increase year-on-year (3.5% excluding TSB). The largest component of gross loans and receivables was mortgage loans, which amounted to €80,872 million as of 31 December 2018 and accounted for 58% of total gross loans and advances (T7) (G4 & G5).

The ratio of non-performing loans continues to fall, having reached 4.2% (5.0% excluding TSB).

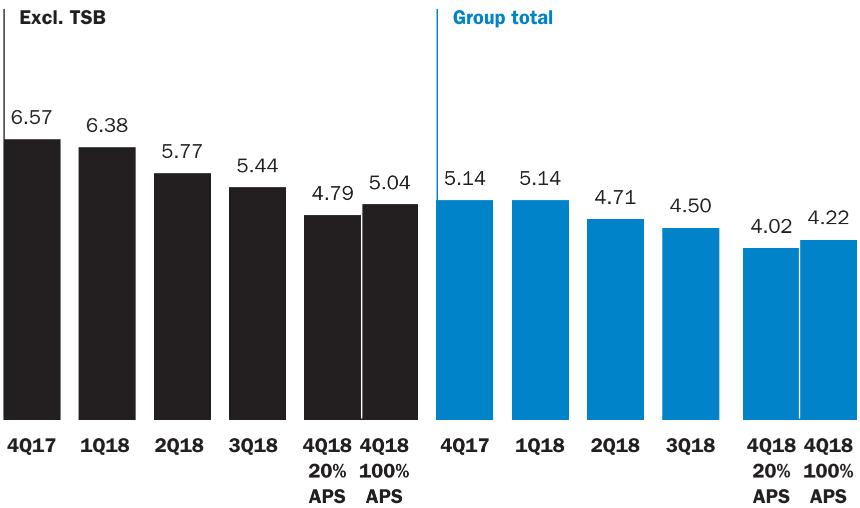
The Group's ratio of non-performing loans (G6 and T8) continues to decline due to the steady reduction in NPAs (NPLs and foreclosed properties). Additionally, the NPL coverage level is comfortable, standing at 54.1%, while coverage of foreclosed assets was 44.5% at 2018 year-end.

At the end of December 2018, the balance of the Banco Sabadell Group's exposures classified as stage 3 amounted to €6,554 million, having decreased by €1,689 million during the year.

The balance of foreclosed assets amounted to €1,726 million, having been reduced by €5,854 million in the year, including €5,800 million of institutional sales of portfolios, which were reclassified as non-current assets available for sale.

The balance of non-performing exposures at Group level stood at €8,279 million at 2018 year-end.

G6 NPL ratio (*) (%)



*Includes contingent exposures. In 4Q18, institutional portfolios were reclassified as non-current assets available for sale; accordingly, those assets are excluded from the data.

T8 Loan loss ratio, by segment

%

Excl. TSB	**4Q17**	**1Q18**	**2Q18**	**3Q18**	**4Q18 20% APS**	**4Q18 100% APS**
Real estate development and construction	21.37	19.80	17.66	16.16	12.81	15.68
Non-real-estate construction	6.87	7.17	6.42	5.58	5.63	5.68
Companies	3.33	3.53	3.12	2.60	2.32	2.32
SMEs and self-employed workers	8.09	7.88	7.40	7.05	6.26	6.48
Mortgage loans to individuals	6.88	6.50	6.04	5.89	5.52	5.82
NPL ratio	**6.57**	**6.38**	**5.77**	**5.44**	**4.79**	**5.04**

Includes contingent risks.

The quarter-on-quarter performance of these assets, excl. TSB, is shown in table T9.

€M

T9 NPL and real estate exposure excl. TSB

	2017				2018			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Assets classified as NPAs in the year	636	526	513	617	481	330	385	354
Recoveries (1)	(897)	(1,067)	(706)	(956)	(539)	(573)	(600)	(1,053)
Removed from consolidation scope (2)	—	—	(10)	—	—	—	—	—
Ordinary net increase in NPAs	**(261)**	**(541)**	**(203)**	**(339)**	**(58)**	**(243)**	**(215)**	**(699)**
Assets classified as NPAs in the year	312	304	148	254	294	176	129	209
Sold or otherwise derecognised (1) (3)	(379)	(355)	(302)	(1,624)	(271)	(419)	(264)	(5,706)
Change in real estate	**(67)**	**(51)**	**(154)**	**(1,370)**	**23**	**(244)**	**(135)**	**(5,497)**
Net increase in NPAs	**(328)**	**(592)**	**(357)**	**(1,709)**	**(35)**	**(487)**	**(350)**	**(6,196)**
Defaults	(178)	(61)	(152)	(66)	(216)	(268)	(187)	(106)
Quarterly change in NPLs and real estate	**(506)**	**(653)**	**(509)**	**(1,775)**	**(251)**	**(755)**	**(538)**	**(6,302)**

Net variations, including as a non-performing exposure the 20% of exposure retained since it was not transferred to the FGD.
(1) In 4Q18, €5,800 million of institutional portfolios were reclassified as non-current assets available for sale (€279 million of non-performing loans and €5,521 million of foreclosed assets).
(2) Removal of Sabadell United Bank (SUB) from the consolidation scope.
(3) In 4Q17, a new business line (Solvia Desarrollos Inmobiliarios) was created to focus on real estate development, with €1,252 million in assets under management.

The trend in the Group's coverage ratios is shown in the next table (T10).

€M

T10 Group coverage ratios

	2017				2018				
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q 20% APS	4Q 100% APS
Exposures classified as stage 3	9,307	8,703	8,345	7,925	7,898	7,386	7,036	6,236	6,554
Provisions	4,548	4,100	4,069	3,625	4,467	4,209	4,036	3,419	3,544
Stage 3 coverage ratio	**53.1**	**51.0**	**51.4**	**48.3**	**56.6**	**57.0**	**57.4**	**54.8**	**54.1**
Real estate assets	8,968	8,917	8,763	7,393	7,416	7,171	7,036	1,539	1,726
Provisions	4,299	4,264	4,746	3,998	3,979	3,991	3,932	691	767
Real estate coverage ratio (%)	**47.9**	**47.8**	**54.2**	**54.1**	**53.7**	**55.7**	**55.9**	**44.9**	**44.5**
Total NPAs	18,275	17,619	17,108	15,318	15,314	14,557	14,072	7,775	8,279
Provisions	8,847	8,364	8,814	7,623	8,446	8,200	7,968	4,111	4,311
NPA coverage ratio (%)	**50.6**	**49.4**	**52.8**	**51.1**	**55.2**	**56.3**	**56.6**	**52.9**	**52.1**

NOTE: Includes contingent exposures. In 4Q18, institutional portfolios were reclassified as non-current assets available for sale; accordingly, those assets are excluded from the data.

Non-performing assets coverage ratio

+52.1%

On-balance sheet customer funds

+4.0%

Off-balance sheet customer funds

−2.8%

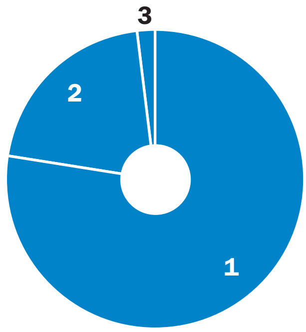
Liabilities

At the end of 2018, customer funds on the balance sheet amounted to €137,343 million (€104,859 million excluding TSB), compared with €132,096 million at the end of 2017 (€97,686 million excluding TSB), i.e. an increase of 4.0% (7.3% excluding TSB).

Off-balance sheet customer funds amounted to €44,034 million, a decline of -2.8% year-on-year. In particular, funds in collective investment institutions (CII) declined by -3.6% year-on-year to €26,379 million at 31 December 2018, mainly as a result of financial market performance, but this trend was offset by growth in brokered insurance, which rose 5.0% year-on-year to €10,465 million (T11 & G7).

The balance of demand accounts amounted to €107,665 million (€77,736 million euros excluding TSB), a 9.8% increase year-on-year (14.3% excluding TSB) (G8).

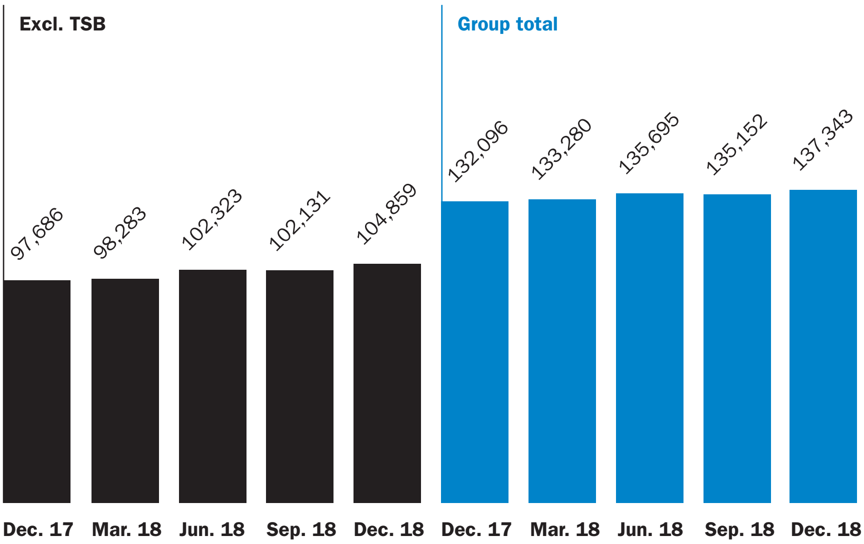
Outstanding debt securities (bonds and other negotiable securities and subordinated liabilities) amounted to €22,599 million at the end of 2018 (€20,889 million excluding TSB), compared with €23,788 million as of 31 December 2017 (€21,845 million excluding TSB).



G8
Customer deposits
31,12,2018 (en %)

1	Demand accounts	77.5
2	Deposits with agreed maturity	20.7
3	Repos	1.8

(*) Excluding accrual adjustments and hedging derivatives.



G7 Customer-based funding on balance sheet (€M)

T11 Customer funds

€M

	2017	2018	Year-on-year change (%)	Excl. TSB 2017	Excl. TSB 2018	Year-on-year change (%)
On-balance sheet customer funds (*)	**132,096**	**137,343**	**4.0**	**97,686**	**104,859**	**7.3**
Customer deposits	135,307	139,079	2.8	99,277	105,353	6.1
Current and savings accounts	98,020	107,665	9.8	68,039	77,736	14.3
Deposits with agreed maturity	32,425	28,709	(11.5)	27,996	26,154	(6.6)
Repos	4,750	2,533	(46.7)	3,119	1,321	(57.7)
Accrual adjustments and hedging derivatives	113	172	52.3	123	142	15.7
Bonds and other tradable securities	21,250	19,568	(7.9)	19,764	18,313	(7.3)
Subordinated liabilities (**)	2,537	3,031	19.4	2,081	2,586	24.3
Funds on the balance sheet	**159,095**	**161,678**	**1.6**	**121,122**	**126,251**	**4.2**
Mutual funds	27,375	26,379	(3.6)	27,375	26,379	(3.6)
Equity funds	1,929	1,681	(12.9)	1,929	1,681	(12.9)
Balanced funds	6,490	6,469	(0.3)	6,490	6,469	(0.3)
Fixed-income funds	4,488	4,027	(10.3)	4,488	4,027	(10.3)
Guaranteed return funds	3,829	4,074	6.4	3,829	4,074	6.4
Real estate funds	125	115	(8.3)	125	115	(8.3)
Venture capital funds	38	46	21.1	38	46	21.1
Investment companies	2,192	1,886	(13.9)	2,192	1,886	(13.9)
UCITS sold but not managed	8,283	8,081	(2.4)	8,283	8,081	(2.4)
Asset management	3,999	3,595	(10.1)	3,999	3,595	(10.1)
Pension funds	3,987	3,594	(9.8)	3,987	3,594	(9.8)
Personal schemes	2,476	2,168	(12.4)	2,476	2,168	(12.4)
Companies	1,498	1,416	(5.5)	1,498	1,416	(5.5)
Collective schemes	13	11	(14.6)	13	11	(14.6)
Third-party insurance products	9,965	10,465	5.0	9,965	10,465	5.0
Off-balance sheet funds	**45,325**	**44,034**	**(2.8)**	**45,325**	**44,034**	**(2.8)**
Funds under management	**204,420**	**205,711**	**0.6**	**166,447**	**170,285**	**2.3**

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: mandatory convertible bonds, non-convertible bonds of Banco Sabadell, commercial paper, etc.
(**) Subordinated liabilities in connection with debt securities.
The EUR/GBP exchange rate used for the balance sheet is 0.8945 as of 31 December 2018.

Equity

At 2018 year-end, the Group's shareholders' equity amounted to €12,117 million (T12).

T12 Equity

€M

	2017	2018	% 18/17
Shareholders' equity	13,426	12,545	(6.6)
Capital	703	703	—
Reserves	12,107	11,732	(3.1)
Other equity	32	35	9.2
Less: own shares	(106)	(143)	34.9
Profit attributable to the Group	801	328	(59.1)
Less: dividendos y retribuciones	(112)	(111)	(0.8)
Otro resultado global acumulado	(265)	(491)	85.2
Non-controlling interests	61	64	3.9
Equity	**13,222**	**12,117**	**(8.4)**

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

€M

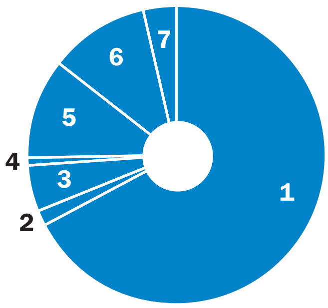
	Excl. TSB 2017	Excl. TSB 2018	Group total 2017	Group total 2018
Gross loans and advances to customers, excluding repos	109,742	111,673	145,323	145,824
NPL and country-risk provisions	(3,646)	(3,211)	(3,727)	(3,433)
Loan brokerage	(3,110)	(2,426)	(3,835)	(2,808)
Adjusted net loans and advances	**102,986**	**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.

T13 Loan-to-deposit ratio

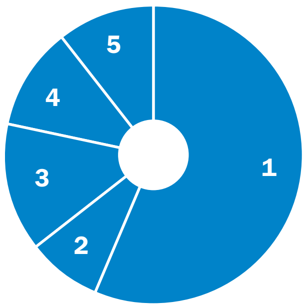
UK banks could borrow for a four-year term against eligible collateral. As a member of the Sterling Monetary Framework (SMF), TSB participated in the TFS throughout 2017, having drawn €6,283 million by 2017 year-end, and it drew an additional €950 million in February 2018. As a result, it had drawn a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

The Group maintains a solid capital profile after implementing IFRS 9

Capital management

Capital management is the result of an ongoing capital planning process. This process considers expected economic, regulatory and industry performance, as well as adverse scenarios. It factors in projected capital consumption in the various businesses under a number of scenarios as well as market conditions that may determine the efficacy of the measures that may be taken. The process is conducted in line with the bank's strategic goals and the pursuit of attractive returns for shareholders, while ensuring that own funds are sufficient to attend to the risks inherent in the banking business.

As for capital management, it is general Group policy to adapt capital availability to overall risks incurred.

The Group follows the guidelines established by CRD-IV and secondary legislation to determine the capital requirements inherent in the risks that are actually incurred by the Group, based on internal risk measurement models that have been validated independently. The supervisor has authorised the Group to use most of its internal models to calculate regulatory capital requirements.

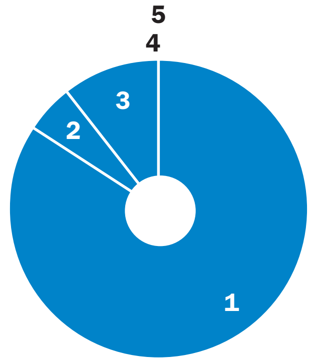
The capital map by risk type at 2018 year-end is shown in figure G11.

The Group back-tests its IRB models regularly: at least once per year. Those tests are reviewed independently by the internal validation unit and reported to the established internal governance bodies, namely the Technical Risks Committee and the Risk Committee (a sub-committee of the Board of Directors). Additionally, the annual Pillar III disclosures present the results of back-tests that are germane to the risk parameters and their main conclusions based on the EBA's disclosure guidelines.

Also, based on the risk metrics provided by these new methodologies, the group has a comprehensive risk measurement model under an internal measurement unit in terms of assigned capital.

The Group has a complex measurement system in place for each type of risk that it incurs as well as integration methodologies for each of them, all of which apply on an end-to-end basis and take into account possible stress scenarios and the pertinent financial planning. These risk assessment systems conform to best practices.

The Group performs a capital self-assessment each year. This process is based on a broad inventory of previously identified risks and on a qualitative internal assessment of policies, procedures, risk acceptance, measurement and control systems and their corresponding mitigation techniques.
An overall quantitative assessment then determines capital needs based on internal parameters using models employed by the Group (e.g. borrower credit rating or scoring systems), as well as other internal estimates suited to each type of risk. The assessments of each risk type are subsequently combined and an amount of allocated capital is determined. Furthermore, business and financial plans and stress tests are taken into account in order to ascertain whether business trends and possible adverse scenarios may endanger the institution's capital when compared with available equity.



G11 Capital map by risk type 31.12.2018 (%)

1	Credit risk	81.0
2	Structural risk	5.0
3	Operational risk	10.0
4	Market risk	1.0
5	Other	3.0

The assessment of risk in terms of the necessary allocated capital enables it to be compared with the returns, from transaction and customer level up to the business unit level.The group has implemented a system to analyse Risk-Adjusted Return On Capital (RaRoC) provided by this assessment, allowing homogeneous comparisons to be made and enabling them to be factored into transaction pricing.

The amount and quality of capital are metrics used in the Risk Appetite Statement within the Group's Risk Appetite Framework, as described in the chapter on "Risk management".

For further information on capital management, refer to the annual "Pillar 3 Disclosures", available on the bank's website in the section "Shareholder and Investor Information/Financial Information".

Qualifying capital and capital ratios

Regulatory framework

The new regulatory framework under which the European Union implemented the Basel III capital accords of the Basel Committee on Banking Supervision (BCBS) came into force on 1 January 2015 and was to be phased in until 1 January 2019.

This framework, structured in three pillars, regulates minimum own funds that credit institutions need to maintain, both at an individual and a consolidated level, and the way in which these own funds are to be calculated (Pillar 1), an internal capital assessment and oversight process (Pillar 2), and the public information to be disclosed to the market (Pillar 3).

This regulatory framework is comprised of the following legal documents:

— Directive 2013/36/EU of the European Parliament and of the Council of 26 June, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (generally referred to as CRD-IV).

— Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (generally referred to as CRR).

The CRD-IV directive has been transposed into Spanish law by means of:

— RD-Act 14/2013, of 29 noviembre, on urgent measures to adapt Spanish law to European legislation in connection with the supervision and solvency of financial institutions.

— Act 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions.

— Royal Decree 84/2015, of 13 February, implementing Act 10/2014 of June 26, on the regulation, supervision and solvency of credit institutions, which completes the regulatory implementation of that Act while also consolidating all the secondary legislation on the regulation and supervision of credit institutions into a single text.

— Bank of Spain Circular 2/2016, of 2 February, whose main objective is to complete, with respect to credit institutions, the transposition of Directive 2013/36/EU (supervision of credit institutions) into Spanish law.

The CRR, which is directly applicable to Member States and, therefore, to Spanish credit institutions, gives the competent national authorities certain regulatory options.

In this regard, by virtue of the authorisation granted by Royal Decree-Act 14/2013, the Bank of Spain released Circulars 2/2014 and 3/2014, of 31 January and 30 July, respectively, and recently Circular 2/2016, through which it uses and elaborates upon those regulatory options.

In accordance with the requirements established in the CRR, credit institutions must have a total capital ratio of 8% at all times. However, under the new regulatory framework, regulators are empowered to require banks to have additional levels of capital.

As a result of the SREP process, during 2018 the Banco Sabadell Group was required at all times to have a Common Equity Tier I ratio (CET1 phased-in) of at least 8.3125% and a phased-in total capital ratio of at least 11.8125%. Those ratios include the minimum required under Pillar 1 (4.50%) and Pillar 2 (1.75%), the capital conservation buffer (1.875%) and the requirement deriving from the bank being classified as systemic (0.1875%).

The Group must also comply with the requirements derived from calculating its specific countercyclical capital buffer, which, when calculated on a quarterly basis in 2018, varied from 0% during the first quarter of the year to 0.14% in December.

This requirement establishes the minimum level of CET1 below which the Banco Sabadell Group would be forced to curtail the distribution of dividends, variable remuneration, and payments related to Additional Tier 1 capital instruments. This level, referred to as the Maximum Distributable Amount (MDA), was set at 8.3125% in 2018 (to which the aforementioned countercyclical buffer must be added).

The Banco Sabadell Group exceeded the required minima throughout 2018 and, consequently, experienced no limitations as to distributions.

On 8 February 2019, the Banco Sabadell Group was notified of the result of the 2018 SREP process, which established the minimum requirements for the Group for 2019.Following the review, the Banco Sabadell Group is required to maintain at all times in 2019 a Common Equity Tier 1 (CET1 phase-in) ratio of at least 9.64% and a total capital ratio (phase-in) of at least 13.14%. Those ratios include the minimum required under Pillar 1 (4.50%) and Pillar 2R (2.25%), the capital conservation buffer (2.50%), the requirement deriving from the bank being classified as systemic (0.25%) and the countercyclical buffer (0.14%). Under these requirements, the MDA is 9.64%.

Additionally, the Group must comply with the requirement derived from the calculation of the countercyclical capital buffer that is specific to it, which was 0.14% as of 2018 year-end.

In aggregate, this is the level of consolidated CET1 below which the Group would be required to calculate the Maximum Distributable Amount (MDA), which would constitute a limit on the payment of dividends, variable remuneration, and coupons to holders of additional Tier 1 capital instruments.

At 31 December 2018, the Group had a phased-in CET1 capital ratio of 12% and, accordingly, did not incur any of the limitations referred to above in connection with capital requirements.

In 2018, the Banco Sabadell Group participated in the stress test carried out by the European Banking Authority (EBA) in cooperation with the Bank of Spain, the European Central Bank (ECB) and the European Systemic Risk Board (ESRB).

— In the baseline scenario, the Banco Sabadell Group was found to have significant capacity for organic capital generation: +86 basis points in the three-year period 2018-2021.
— In the adverse scenario, the Group would have a CET1 ratio of 8.40% (phase-in) or 7.58% (fully-loaded) in 2020. This adverse scenario was established by the ECB and the ESRB with a time horizon of 2020, applying the projections to an assumed static balance sheet as of December 2017 and, therefore, without considering the actions and business strategies taken by the Group after that date. Of the total 446 basis point reduction in the Group's CET1 fully-loaded ratio in the adverse scenario:
    (i) 180 basis points (40% of the total) are related to the United Kingdom where, in particular, the adverse macroeconomic scenario defined for the stress test was particularly severe in comparison with other geographies.

(ii) This impact includes the effect of maintaining constant throughout the test period, 2018-2020, the amount of an increase established by contract between TSB and Lloyds in the cost of IT services paid by TSB to Lloyds, which was applicable only from January 2017 until the migration was completed in April 2018. In the stress test, that amount remained constant during the three years, in accordance with the test methodology, although it was actually applicable only for four months of the period. That represented a 45 basis point reduction in the CET1 fully-loaded ratio.
(iii) Similarly, the costs of Sabadell United Bank incurred in 2017 before the sale of the subsidiary in July of that year were factored into the projections for three-year test period (2018-2020), while neither that subsidiary's revenues or balance sheet were included. That represented a 15 basis point reduction in the CET1 fully-loaded ratio.

Those two factors had a combined anomalous negative impact of 60 basis points on the CET1 fully-loaded ratio.

The test results revealed the Group's resilience and its ability to weather the adverse scenario.

Directive 2014/59/EU of the European Parliament and of the Council, establishing a framework for the recovery and resolution of credit institutions and investment firms, was published on 15 May 2014, and Regulation (EU) No 806/2014 of the European Parliament and of the Council (BRRD), which established the Single Resolution Mechanism, whose goal is to ensure the orderly resolution of failed banks while minimising the cost for taxpayers and the real economy, was published on 15 July 2014.

In order to achieve those objectives, the BRRD provides a number of instruments for use by the competent resolution authority, including internal recapitalisation (or bail-in). To this end, the BRRD introduced a Minimum Requirement for own funds and Eligible Liabilities (MREL) that institutions must comply with at all times in order to ensure they have sufficient loss-absorption capacity so that effective implementation of the resolution tools is guaranteed.

In the context of bank restructuring and resolution, Banco Sabadell is subject to the Single Resolution Board (SRB) as the resolution authority and to the competent Spanish authorities:

— The Bank of Spain, which acts as the resolution avoidance authority.
— Fondo de Reestructuración Ordenada Bancaria (FROB), which is Spain's executive resolution authority.

In May 2018, Banco Sabadell was notified by the Bank of Spain of the decision adopted by the Single Resolution Board (SRB) regarding the minimum requirements for own funds and eligible liabilities (MREL) that apply to it. That decision established a minimum MREL requirement at consolidated level of 22.7% of risk-weighted assets calculated as of 31 December 2016 and a transition period for compliance that expires on January 1, 2020. The decision was based on current legislation, will be updated each year, and may be amended subsequently by the resolution authority. The *MREL* decision is aligned with Banco Sabadell's forecasts and is factored into the funding plan contained in the 2020 strategic plan.

The pro-forma fully-loaded CET1 ratio is now 11.3%, while the pro-forma phased-in CET1 ratio is 12.2%.

As of 31 December 2018, the group's qualifying capital amounted to €12,434 million, i.e. a surplus of €6,012 million, as shown in table T15.

Common Equity Tier 1 (CET1) accounts for 77.4% of qualifying capital. The deductions consist mainly of goodwill and intangibles.

Under Basel III, Tier I comprises CET1 plus mainly Additional Tier 1 funds (9.3% of capital), i.e. equity holdings.

Tier 2 funds, accounting for 13.3% of the BIS ratio, consist basically of subordinated debt.

In its strategic business plan, the Group envisages continuing to manage capital so as to maintain the ample capital position that it has held to date, as evidenced in the results of the Supervisory Review and Evaluation Process (SREP).

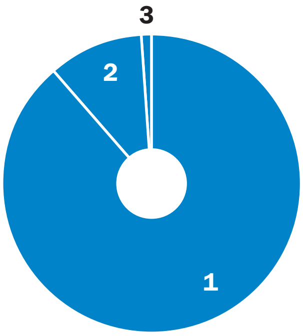
Risk-weighted assets (RWA) are broken down by risk type as shown in figure G12; the largest single component is credit risk.

The breakdown of risk-weighted assets within the largest single category (credit risk), by geography and sector, is shown in figures G13 and G14.

Figures G15 and G16 show the breakdown of regulatory exposure (EAD) and risk-weighted assets (RWA) by segment.

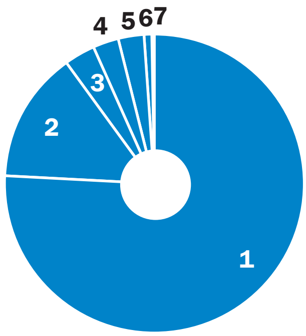
In addition to the capital ratios, the leverage ratio seeks to enhance capital requirements with a supplementary metric unrelated to the level of risk. It is defined as the ratio between Tier 1 qualifying capital and exposure calculated as established for that ratio in Delegated Regulation (EU) 62/2015. Table T16 shows the leverage ratio as of 31 December 2017 and 2018 and 2017, evidencing that the institution amply exceeds the minimum required by the supervisor.

Calculation and disclosure requirements are set out in part seven of the CRR, while the ratio disclosure is covered in article 451 in part eight. No minimum requirements are established, although the European Commission's proposal dated 23 November 2016 to amend the CRR sets a mandatory minimum of 3%. This is currently reported to the supervisor every quarter.



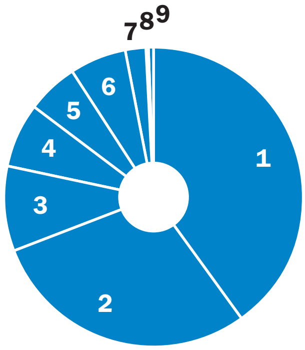
G12
Capital requirements, by exposure type
31.12.2018 (%)

1	Credit risk	88.7
2	Operational risk	10.4
3	Market risk	0.9



G13
Capital requirements, by region
31.12.2018 (%)

1	Spain	75.9
2	UK	14.2
3	Rest of EU	3.3
4	Latin America	2.8
5	North America	2.7
6	Rest of the world	1.0
7	Rest of OECD	0.1



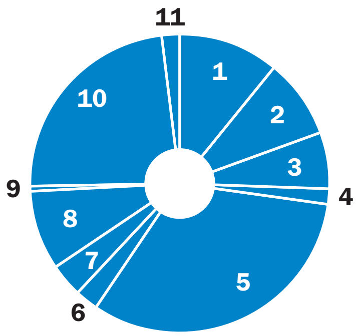
G14
Exposure, by segment
31.12.2018 (%)

1	Finance, commerce and other services	40.2
2	Individuals	29.2
3	Transport, distribution and hospitality	9.0
4	Real estate	7.1
5	Manufacturing industries	5.6
6	Energy production and distribution	6.1
7	Construction	2.0
8	Agriculture, livestock and fishing	0.5
9	Extractive industries	0.3

T15 Composition of the capital ratios

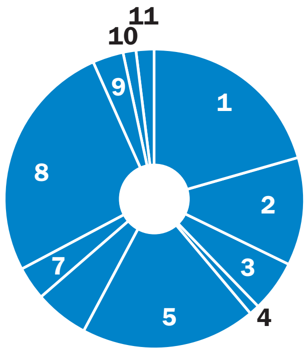
€M

	2017	2018	% 18/17
Capital	703.4	703.4	—
Reserves	12,106.6	11,732.2	(3.1)
Convertible bonds	—	—	—
Non-controlling interests	16.6	11.4	(31.3)
Deductions	(2,411.9)	(2,828.3)	17.3
CET1 capital	**10,414.7**	**9,618.7**	**(7.6)**
CET1 (%)	13.4	12.0	—
Preference shares, convertible bonds and deductions	696.1	1,152.6	—
AT1 capital	**696.1**	**1,152.6**	**—**
AT1 (%)	0.9	1.4	—
Primary capital	**11,110.8**	**10,771.3**	**(3.1)**
Tier I (%)	14.3	13.4	—
Secondary capital	**1,348.0**	**1,662.6**	**23.3**
Tier II (%)	1.7	2.1	—
Total capital	**12,458.8**	**12,433.9**	**(0.2)**
Minimum capital requirement	6,200.4	6,422.3	3.6
Capital surplus	**6,258.4**	**6,011.6**	**(3.9)**
Total capital ratio (%)	**16.1**	**15.5**	**(3.8)**
Risk weighted assets (RWA)	**77,505.0**	**80,278.8**	**3.6**



G15
EAD by segment
31.12.2018 (%)

1	Companies	11.1
2	Corporate SME	8.4
3	Retail SME	6.3
4	Retailers and sole proprietors	1.5
5	Mortgage loans	32.4
6	Loans	2.4
7	Other retail	3.7
8	Other	8.6
9	Equities	0.4
10	Public sector	23.3
11	Financial institutions	1.9



G16
RWA by segment
31.12.2018 (%)

1	Companies	20.6
2	Corporate SME	11.8
3	Retail SME	5.5
4	Retailers and sole proprietors	1.2
5	Mortgage loans	18.9
6	Loans	5.7
7	Other retail	3.6
8	Other	26.3
9	Equities	3.1
10	Public sector	1.4
11	Financial institutions	1.9

T16 Leverage ratio

€M

	2017	2018
Tier 1 capital	11,110.8	10,771.3
Exposure	223,445.0	221,104.3
Leverage ratio	**4.97 %**	**4.87 %**

Capital-raising

In the last five years, the bank has increased the capital base by more than €5,000 million through organic generation of profits and through issues that qualify as top tier capital, including the €1,607 million rights issue in 2015 as a result of the TSB acquisition (T17).

In 2017, there were two issues of AT1 perpetual contingently convertible securities in the amount of €750 million and €400 million, which helped to optimise Banco Sabadell's capital structure. In December 2018, €500 million of subordinated debt (Tier 2) were issued.

The changes in the period 2017-2018, which resulted in eligible CET1 amounting to €9,619 million, reflect basically two effects: the conclusion of the transition period for the deduction of intangibles and goodwill, which are now deducted in full from CET1, whereas in 2017 20% was deducted from AT1; and the implementation of IFRS 9 although, since the Group decided to apply the transitional arrangements provided in Regulation (EU) 2017/2395, the effect was split into a number of items, affecting not only capital but also capital requirements. Additionally, there was the impact of adjusting the portfolio to fair value, the impairment of the holding in SAREB, and the impact of institutional sales of NPAs (extraordinary provisions booked in the consolidated income statement).

Risk weighted assets (RWA) amounted to €80,279 million, a 7.7% increase year-on-year, reflecting the change in asset quality and organic business growth.

All of these capital-related events, which impacted both available capital and risk-weighted assets, enabled Banco Sabadell to reach a phased-in common equity tier 1 (CET1) ratio of 12% in December 2018, and a total capital ratio of 15.5%, amply exceeding the standards required by the regulatory framework.

T17

€M

		Amount	Impact on capital
February 2011	Debt-for-equity swap (equity raised through accelerated book building, and repurchase of preferred securities and subordinated debt)	411	+68 bp of Core Tier I
February 2012	Preference shares swapped for ordinary shares	785	+131 bp of Core Tier 1
March 2012	Capital increase	903	+161 bp of Core Tier I
July 2012	Preferential debt instruments and Banco CAM subordinated shares swapped for ordinary shares	1,404	+186 bp of Core Tier 1
September 2013	Accelerated bookbuilding and rights issue	1,383	+178 bp of Core Tier I
October 2013	Mandatorily convertible bonds issued and exchanged for B. Gallego hybrids	122	+17 bp of Core Tier I
April 2015	Rights issue - TSB	1,607	+181 bp of Core Tier I

Note: The impact on capital (in basis points) is calculated using the year-end data for each year; these figures have varied significantly due to the increase in the Group's consolidation scope in the last few years.