

## Anticipate and engage.

### Highlights

- Improvement in fee and commission revenues.
- Increase in the preferred customer base.
- Substantial increase in insurance business, especially in combined insurance products.
- Greater production of home and consumer loans and a sharp increase in business investment.

### 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 personal customers. 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.

Earnings before taxes

**1,192.0** €M

Fees and commissions (net)

**+11.3%**

#### **Commercial Banking**

##### **Company Banking Network**

- Tourism
- Agriculture
- Employer Providential Schemes

##### **Commercial Network**

- Corporate
- SMEs
- Businesses
- Franchising
- Individuals
- Retail Banking
- Personal Banking
- Expatriates
- Sabadell Colaboradores

##### **Institutional Businesses**

- Public Institutions
- Public Administrations
- Public Sector
- Company Agreements
- Groups and Associate Banking
- Religious Institutions
- Financial Institutions and Insurers

##### **Commercial Products**

- Medium- /long-term finance
- International trade
- Savings and Investment
- Financial services

##### **Commercial brands**

- SabadellHerrero
- SabadellGallego
- SabadellGuipuzcoano
- ActivoBank

##### **Bancassurance**

##### **BStartup**

##### **Sabadell Consumer Finance**

# Management priorities in 2018

2018 was the first year of the 2020 Master Plan, with a special focus on increasing customer loyalty, digitalisation and new insurance production. Transforming the business, strengthening the brand and consolidating leadership in customer experience are the main axes on which the business management goals are based.

Notable among the results so far is the improvement in net fees and commissions (11.3%), as a result of an ambitious profit plan. The insurance business expanded notably, especially in combined insurance, as did lending: consumer loans (12.8%), home loans (11.8%) and corporate loans (7.1%).

In 2018, the Institutional Businesses division was created to group relations with all types of public and private institutions.

## Key business data

Net profit amounted to €866 million in December 2018, a 4.0% year-on-year decrease. Excluding the sales of Mediterráneo Vida and Exel Broker and the fee collected by BS Vida for the reinsurance contract signed with Swiss Re Europe in 2017, there would have been an increase of 34.7% (T1).

Gross income decreased by 5.3% to €3,054 million; adjusting for the aforementioned effects, it increased by 3.1%.

Core revenue increased by 0.7% to €3,166 million, or by 1.8% on a constant consolidation scope basis (excluding Mediterráneo Vida and Exel Broker).

Net interest income amounted to €2,227 million, down 3.1% on the same period of 2017. It decreased by 1.7% on a constant consolidation scope basis.

Net fees and commissions totalled €939 million, i.e. 11.3% higher than in the previous year, due to sound performance by commissions from services and asset management.

Income from financial transactions and exchange differences in 2017 were impacted by the sale of non-performing loan portfolios.

Administrative expenses and depreciation and amortisation charges totalled €1,473 million, in line with the same period of the previous year.

Provisions and impairments amounted to -€389 million and are lower than in the previous year due to the extraordinary provisions in that year.

Profit and loss on asset disposals and others in 2017 includes the capital gains from Mediterráneo Vida and Exel Broker.

€M

T1 Key figures —  
Commercial Banking

	2017	2018	% 18/17
<b>Net interest income</b>	<b>2,299</b>	<b>2,227</b>	<b>(3.1)</b>
Equity-accounted affiliates and dividends	304	44	(85.5)
Fees and commissions (net)	844	939	11.3
Net income from financial transactions, and exchange differences	(37)	6	(116.2)
Other operating income/expense	(185)	(162)	(12.4)
<b>Gross income</b>	<b>3,225</b>	<b>3,054</b>	<b>(5.3)</b>
Administrative expenses and depreciation and amortisation	(1,468)	(1,473)	0.3
<b>Operating profit/(loss)</b>	<b>1,757</b>	<b>1,581</b>	<b>(10.0)</b>
Provisions and impairments	(632)	(389)	(38.4)
Gain/(loss) on derecognition of assets, etc.	22	—	—
<b>Profit/(loss) before tax</b>	<b>1,147</b>	<b>1,192</b>	<b>3.9</b>
Income tax	(245)	(326)	33.1
<b>Profit/(loss) after tax</b>	<b>902</b>	<b>866</b>	<b>(4.0)</b>
Non-controlling interest	—	—	—
<b>Net attributable profit</b>	<b>902</b>	<b>866</b>	<b>(4.0)</b>

**Ratios (%)**

ROE (profit / average shareholders' equity)	19.2%	17.1%	—
Cost: income (general administrative expenses / gross income)	45.0%	47.4%	—
NPL ratio (%)	6.4%	5.5%	—
Stage 3 exposure coverage ratio (%)	40.5%	48.4%	—

<b>Assets</b>	<b>162,618</b>	<b>170,249</b>	<b>4.7</b>
Loans and advances to customers (net), excluding repos	76,346	81,319	6.5
<b>Liabilities</b>	<b>157,994</b>	<b>165,355</b>	<b>4.7</b>
On-balance sheet customer funds	82,172	86,822	5.7
<b>Assigned capital</b>	<b>4,624</b>	<b>4,894</b>	<b>5.8</b>
<b>Off-balance sheet customer funds</b>	<b>23,797</b>	<b>24,223</b>	<b>1.8</b>

**Other indicators**

Employees	11,427	11,336	—
Branches	1,868	1,852	—

# Solid growth in outstanding loans driven by robust activity in Large Corporations and SMEs.

Banco Sabadell offers specialist services to major corporations via its network of 40 corporate banking branches distributed throughout Spain, leading the way in this segment through growth in outstanding loans and accompanying the increase in the corporations' economic activity.

This degree of specialisation has enabled Banco Sabadell to maintain its leadership in the Large Corporations segment for yet another year, as acknowledged by the net promoter survey score and embodied by Banco Sabadell's ongoing commitment to companies. This relationship model evolved over the course of the year towards a consultancy approach, as a feature differentiating the Bank from its competitors, in which the Bank's 360° knowledge of companies and its expertise in the large corporations segment underpin its ability to offer customers specifically tailored solutions in a proactive and forward-looking manner.

Once again this year, Banco Sabadell accompanied major corporations on their journeys of growth and consolidation, providing global credit lines enabling companies to plan their capital expenditure with the certainty that they will always have access to the credit they need. New funding production increased by 8.8% compared with the previous year.

The planning visit resulted in agreements for initial credit amounting to €6,703 million, of which 67% has been approved and €4,382 million formally arranged, boosting the lending share 1.6% and the CIRBE share by +23bp.

Banco Sabadell's positioning as a source of credit for companies is based on knowledge of customers and a rigorous application of its pricing policy. This has enabled it to reduce non-performing exposures.

Despite the negative interest rate situation, the Bank increased new deposits by 16.4%.

## Tourism

During 2018, Banco Sabadell's Tourism Business Department in Spain expanded from 4 to 11 Territorial Managers, and became the first Business Department of a financial institution to receive the "Q" seal for Tourism Quality, consolidating its position as a standard-bearer in the sector that offers more expert, immediate and comprehensive advice.

The activity focuses mainly on offering specialist financial solutions to a diverse and fragmented group of customers, based on three main pillars: expert advice, a

specialised product catalogue (means of payment services and products, specialist cards and bancassurance products) and fast response. The offering is aimed at the acquisition of hotels, international expansion of chains, refurbishment projects, corporate image renewal and energy efficiency.

Moreover, over the course of the year, the Tourism Business Department took part in various events like the ITH conferences (refurbishment and energy efficiency), the UNWTO Conference, the ITH Innovation Summit and FITUR (the flagship international trade fair in the tourism sector, in which Banco Sabadell took part for the third consecutive year). The Department also serves on two committees in the most important Chambers of Commerce: those of Spain and the OECD. Lastly, it has agreements with the main bodies in the sector (ITH, CEAV, FEEC, ANBAL, etc.)

The department logged more than €3,639 million in business volume, i.e. 14.5% more than in 2017, and managed transactions amounting to €1,347 million, a 26.5% year-on-year increase.

## Agriculture

In the agriculture segment, which includes the farming, livestock, fishing and forestry sub-sectors, Banco Sabadell, which has more than 500 branches and more than 700 specialist managers, has completed the range of products tailored to customers' requirements and increased its customer base. The Bank's strong commitment to, and support for, this sector resulted in a business volume in excess of €4,380 million, an increase of 4.2% compared to 2017, and it earned the trust of 45,000 customers, a 6% increase on the previous year. In 2018, Banco Sabadell's Agriculture Segment took part in 13 agro-food sector fairs and sponsored 33 seminars throughout Spain.

## Employer Providential Schemes

2018 marked a turning point for Providential Schemes, establishing action plans and customer acquisition plans with the Bank's various units, with products and services tailored to the needs of major corporations and developing solutions for SMEs. This business unit, with funds under management amounting to €850 million and 600 customers, focuses on providing solutions and managing the

providential systems in the corporate sphere throughout Spain through pension plans, collective insurance policies and EPSV. We highlight the award, received for the third consecutive year, for the Nestlé pensions plan as the best employer pension plan in Spain — an award granted by Economista.es — and Unilever's decision to choose Banco Sabadell to manage and administer its new providential scheme, including implementation of a new life cycle model. The new customer acquisitions and development of these life cycle models in the customer portfolio further strengthen Banco Sabadell's position as a standard-bearer in the management of these systems, which are set to grow sharply in the next few years. Furthermore, agreements were signed with social agents and customers to implement SRI/ESG criteria in investment strategies, and cooperation was ongoing with Spain's first cross-disciplinary university program for members of supervisory committees.

## Banco Sabadell led the way again this year in customer experience in the SME segment, opening an even wider gap on its nearest rival.

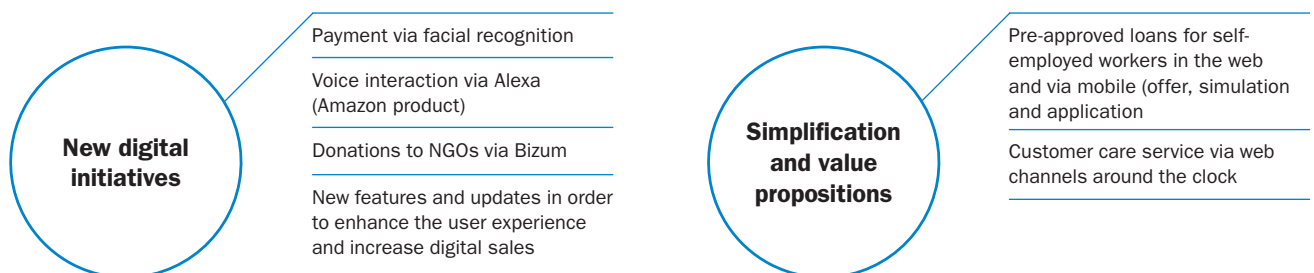
### Commercial Network

For yet another year, Banco Sabadell maintained its leadership in the corporations business, as acknowledged by the net promoter score and embodied by Banco Sabadell's ongoing commitment to companies (G1).

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 — in international, structured financing, cash management, insurance, etc. — enabling the Bank to achieve excellence in customer service.

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 is the creation of the new position of digital expert for enterprises, the developments in remote banking and the digital support service offered to new business customers.

#### G1 New digital initiatives



## Corporate

### SMEs

As ever, Banco Sabadell stands shoulder-to-shoulder with companies in their growth and consolidation processes. Unquestionably, funding is one of the main concerns for SMEs. In this business segment, the Bank's ambition is materialised through general financing lines, enabling companies to plan their annual investments knowing that they will have access to the necessary credit at all times. New funding production to SMEs by Banco Sabadell increased by 7.0% in 2018 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.

### Businesses

In order to continue growing in customer acquisition and loyalty, and focusing commercial activity, Banco Sabadell maintained its Enterprise Plan in 2018. The Bank has configured a new professional position, that of Enterprise Director, in order to manage entrepreneurs, retail establishments and micro-enterprises on a personalised basis. A strong commercial range of products has been developed through the Cuenta Expansión Negocios Plus account, using the Proteo Mobile tool to perform the entire commercial process via a tablet computer at the customer's

facilities. In addition, the specific offering for retailers includes the Kelvin Retail value-added for POS terminals.

In order to attract retailers, in 2018 the Bank continued the "Creemos" (We believe) campaigns in 29 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 local area the campaign was supported by press, radio and billboard advertisements, giving it widespread distribution and a resounding media impact.

### Franchising

With regard to franchising, the Bank has considerable experience in facilitating the development of all kinds of business activities, tailoring solutions to each business model. To this end, it establishes cooperation agreements with franchisers, offering them a distinctive specialised service, as well as financial products and services that future franchisees will need to set up and develop their business. The Bank provides a single liaison person to process funding transactions for new franchisees and monitor the operations centrally, with swift responses and brand knowledge that make for uniform assessment criteria.

This has boosted volumes and the profit margin in a sector that continues to have high potential. In 2018, the number of franchisers totalled 1,500, an 8% increase on the previous year. Asset and liability volumes grew by 4% and 7%, respectively. Profit rose by 8.5% and the business logged excellent NPL ratios, below 1%.

## Individuals

# The Expansión range is growing and developing to ensure we remain our customers' main bank.

In 2018, the commitment is ongoing to establish long-term relationships with the goal of being a leader in customer experience; accordingly, the value propositions have evolved for each segment.

In 2018, the Bank set the goal of offering solutions for all kinds of households and, consequently, it launched the "Soluciones Cuenta Expansión" campaign, which has consolidated its position as the best such integrated offering in the market, the Expansión Range being the main lever for customer acquisition and loyalty, all accompanied by a specific relationship model for each segment.

The stringent regulations in savings and investment posed a challenge that was surmounted using a new advisory model through qualified managers who can provide proposals tailored to the customer's specific profile.

In 2018, the Individuals segment again managed to increase its customer base, by 2%, and the customer spread

improved by 3.8% in Personal Banking and 6.2% in Retail compared with the previous year.

### Retail Banking

In order to acquire households and secure their loyalty, Banco Sabadell launched "Soluciones Cuenta Expansión", which is establishing a reputation as the best option for households' daily banking requirements, and also offering them integrated savings, financing and protection solutions adapted to their specific life stage.

Consequently, another 140,000 customers with Expansión accounts were added, bringing the total to 2 million loyal customers, a 2.4% increase in the customer base to over 3.5 million customers, accompanied by 6.2% year-on-year growth in the customer spread.

## Personal Banking

Banco Sabadell distinguishes itself by its specialisation in the financial management of this segment, comprising 317,500 customers, with €25,324 million of assets and €3,669 million of liabilities.

To rise to the challenge of becoming the standard-bearer and a leader in customer experience, the Integrated Personal Banking Commitment was further developed, pivoting upon the figure of the qualified, specialised manager and the comprehensive interview, which provides a 360° picture of the customer's needs. All of this through channels adapted to their lifestyle, such as those offered by Gestión Activa Afluent, an active management solution for the most digital customers.

The consolidation of the Integrated Personal Banking Commitment, and the change in the savings and investment management model, to transition from marketing to advising through Sabadell Inversor, enable the Bank to offer a comprehensive investment proposal that is convenient for customers, adapted to their profile and accompanied by improved information quality through new account statements, enabling the customer to gain a more complete and transparent vision of their investments.

## Expatriates

Foreign customers account for 18.6% of Banco Sabadell's customers and 24.9% of all mortgages, and the average loan principal is 24% higher than that of Spanish customers.

A network of 210 specialist branches (13% 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: 8.89. Customers, mainly British, German and French, appreciate that we are able to speak their language, that we provide a personalised service and that our range of products suits their needs.

Banco Sabadell meets the needs of foreign customers with a value proposition based on the specific features of its two main targets: residential tourists and expatriates. Customers in both these segments are highly digitalised and tend to bank on-line.

Based on these needs and on the customer profile, the Bank developed the Card Transfer service, which won this year's Actualidad Económica award for one of the "Best Ideas of the Year". Card Transfer is a fully online alternative to domestic and international transfers, enabling Spanish and foreign customers to send money immediately from their home bank to an account in euros at Banco Sabadell.

It is a priority for the Bank to continue to distinguish itself among international customers, and to do so it is implementing a specialisation project in the Foreign Banking segment, both internally and externally, to be the go-to bank for this community in its links with Spain.

## Sabadell Colaboradores

Sabadell Colaboradores is a lever for acquiring customers and business for the Commercial and Private Banking networks via cooperation agreements with referrers. Referrers contribute business in exchange for a commission and for meeting the financial and services requirements of their customers, helping to fulfil the commercial plan without increasing fixed costs.

2018 ended with more than 49,255 new customers acquired through this channel, and the volumes exceeded €10,814 million, mainly mortgages. 6,145 new mortgages were acquired through the Sabadell Colaboradores channel, 22.9% of transactions in the commercial network.

## Institutional Businesses

The Institutional Businesses unit was created in 2018 to enhance business related to public and private institutions and position Banco Sabadell as a key player in this segment.

In order to become the chief provider to public institutions, financial institutions, insurers and religious institutions, it is necessary to have a sophisticated, specialised offer of products and services.

The relationship with professional and business associations and both official and unofficial bodies gives the Bank access to professionals, self-employed workers, businesses and SMEs so as to be able to offer them the best range of products and services adapted to each group's specific needs.

This department plays a fundamental role by creating synergies and coordinating with numerous areas of the Bank to offer the best value proposition for each segment and facilitate processes between branches and their customers.

## Public Institutions

### Public Administrations

The economic performance of the government sector in 2018 was consistent with previous years, with certain Spanish regions being dependent upon the Regional Liquidity Fund (Fondo de Liquidez Autonómico — FLA) or the Central Government Financing Facility Fund (Fondo de Facilidad Financiera Estatal), which provide long-term funding to cover the deficit. Conversely, other regions with access to the market and that were not using the FLA maintained cost containment policies; as a result, demand for long-term financing remained lower than in previous years.

Market shares stood at 10.3% in lending and 8.1% in funding (data at 2018 year-end). With regard to lending, 80% is to customers with a high credit rating and maximum solvency, and the remaining 20% to customers with a satisfactory rating.

### Public Sector

This unit manages accounts with public agencies and companies dependent on the Kingdom of Spain, the Autonomous Community of Madrid, the Government of Catalonia and dependent companies, the city councils of Madrid and Barcelona and large insurance companies and other social institutions.

The high level of liquidity in the system in 2018 resulted in downward pressure on asset pricing and strong competition between financial institutions.

Having a competitive comprehensive offer that includes global solutions to customers, with products from Capital Markets, Treasury, Structured Financing, International Business, which often need require complex customisation, enabled the Bank to greatly expand assets and liabilities.

### Company Agreements

The Agreements department's mission is to manage agreements with agencies that enable the Bank to provide solutions to the financing needs of customers, basically companies.

This unit maintains the relationship with the agencies, manages any funding lines that are arranged and develops new opportunities to enhance the Bank's offer of funding for its customers.

Official agreements have been reached with supranational, national and regional agencies and with Mutual Guarantee Societies, which provide guarantees in transactions to fund companies and entrepreneurs with the greatest difficulties in accessing credit. In particular, this area has agreements signed with Spain's Official Credit Institute (ICO), the European Investment Bank (EIB) and the European Investment Fund (EIF).

Non-official agreements are used to manage arrangements with entities that support business interests, such as employers' associations and chambers of commerce. Banco Sabadell provides its financial expertise, products and services, supporting these entities on their mission.

### Groups and Associate Banking

Banco Sabadell is a key player nationwide in managing arrangements with professional associations and groups. It distinguishes itself in this area by its close relationship with the associations, catering at all times for the specific needs of their members through a range of tailored products and services.

This unit's priority objective is to attract new customers among private individuals, shops, SMEs, self-employed workers and professional firms, and to increase the loyalty of those who already have an account with the Bank, based in all cases on an attractive offer tailored to each group.

In 2018, there were 3,308 partnership agreements with professional associations and occupational groupings, covering a total of more than 3,400,000 individual members, of whom 767,400 are already customers of the Bank. The business generated in this area amounted to more than €24,500 million.

### Religious institutions

This department gained in strength in 2018. It rounded out its value proposition for this customer segment to include asset management, financing of investments and the provision of financial services adapted to their specific needs.

In line with innovation and digitalisation trends, the Bank launched Project Done, a pioneering Contactless POS terminal for donations which is suitable for churches, foundations and large companies, making it possible to make donations quickly and simply while reducing the use of cash. It was welcomed by users and received considerable media coverage.

The Bank maintained its relationship with congregations, dioceses and bishoprics by signing agreements with a range of religious institutions, enabling it to acquire numerous new customers.

### Financial Institutions and Insurers

This department's team was expanded to complete its value proposition to this segment with treasury, capital markets, custody and depository products, research services and venture capital vehicles, consolidating the commercial relationship through products and services that meet customers' needs in the short and long term.

Against the backdrop of negative interest rates, current accounts and deposits expanded considerably in 2018.



# Commercial Products

## Medium- /long-term finance

With regard to medium- and long-term finance products, and since the real estate and mortgage market continued to see a positive trend, new home loan production increased by 18%. Customer demand is still predominantly for fixed-rate mortgages, which account for 60% of the total. Moreover, innovation continued with the transformation of the contracting process, as customers are now accompanied throughout the process of arranging their home loan by a mortgage specialist who fields all their queries and outlines all the procedures they must complete before signing the mortgage.

In consumer lending, the buoyant trend persisted in 2018, with a sizeable increase in loan applications by remote channels (loans arranged online increased by 32%, compared with a 20% increase in 2017), and this trend is expected to continue. The focus is on digital transformation to meet customers' demands for immediacy, as well as expediting analysis and enhancing customer experience.

The uptake of pre-approved loans continued to increase, from 47% in 2017 to 52% in 2018, and the "Línea Expansión" range continues to be promoted (a 100% online pre-approved loan without fees or commissions).

The Bank also promoted pre-approved loans for entrepreneurs and microenterprises by expediting and reducing paperwork in this approach to accepting risk with these customers. In line with the digital transformation, customers can now obtain information on their pre-approved limit through online channels.

## International trade

In International Business, the Bank focused in 2018 on improving the services it offers customers, including enhancing the product/service by including immediate international transfers; this initiative was welcomed by customers interested in being able to process their international transactions urgently and immediately online.

At the same time, explicit training was provided throughout the year in documentary credit to companies in all territories in order to showcase the latest developments in documentary transactions and resolve doubts by visiting companies.

In order to be able to support companies in their international expansion, personal interviews were arranged in all territories between customers and directors of the representative offices and branches abroad; this very successful initiative supplements the Sabadell Link service, through which companies can connect via videoconference with representatives abroad.

Along the same lines, the second cycle of training commenced for companies in the Sabadell International Business Programme, focused on helping companies to devise a plan to nurture their international business; all places were filled for the second year running. This year the initiative

offered a new development: the course can be taken on-line or on-site.

In reference to the Export to Grow programme led by Banco Sabadell, a number of events were held in Spain to discuss the Middle East and North African markets, outlining the best way to approach these markets.

In terms of products, the Bank's share of the issuance of documentary letters of credit continued to exceed 30.3% in exports and 14.7% in imports.

It was a year of sharp growth in working capital funding, for import/export, international factoring and reverse factoring for customers, in line with the development of their foreign trade activities.

## Savings and Investment

In 2018, the regulatory environment had a significant impact on savings and investment activity. MiFID II (Markets in Financial Instruments Directive), which is aimed at boosting safeguards for investors, especially retail investors, and the Insurance Distribution Directive (IDD), affecting savings insurance and protection products, signalled a paradigm shift in retail banking, requiring greater customer knowledge and transparency in information on products.

Banco Sabadell has implemented a new service model for savings and investment products that offers advice on all products for all customers with the aim of contributing greater value and enhancing investor protection. This new model is customer-centric, so the conversation with customers starts with their needs and goals. With this in mind, the Bank set up Sabadell Inversor, a new technological solution for providing advisory services and recommending the most suitable products in accordance with market opinion and with each customer's stated expectations.

The new regulation, coupled with other factors that shape the current environment, such as the extraordinarily low interest rates, has obliged financial institutions to devise a comprehensive and highly diversified range of products that fulfils customers' expectations and is adaptable to the market and to the customer's life cycle.

In this connection, a continuous range of products has been maintained, such as structured deposits, savings insurance and annuities, pension plans and mutual funds, to ensure there is an adequate range to adapt to customers' needs for each investment.

The catalogue of mutual funds focuses on profiled funds. During the year, the focus broadened to include equity funds, socially responsible funds and the InverSabadell range of funds, so as to have a broad range with good prospects of returns. A range of guaranteed mutual funds was also maintained in accordance with market opportunities.

Moreover, to meet the expectations of all customer segments, the initial minimum contribution in Profiled Mutual Funds and the Inversabadell range was reduced, and customers were helped to save steadily via periodic contributions.

An annuity product with declining capital was launched,

guaranteeing the customer a lifelong income, and their beneficiaries the amount of capital not consumed in the event of the policy-holder's death.

For pension plans, the percentages of investment in equities were reviewed throughout the Sabadell Planes Futuro range of life cycle pension plans to better suit the customer's profile. These plans tap into the expected higher returns on equities in the long term, and adapt to customers based on two variables: their planned retirement date and their risk profile.

## Financial services

### Payment

The EFTPOS business showed a substantial increase on the previous year. There was a 17.3% increase in turnover. The Bank maintained its market-leading position in handling payments, especially for online sales, with e-commerce turnover growing by 39.4%. Part of this growth is underpinned by the partnership agreements with payment processing fintechs, half of which provide services to shops and major retailers in other countries (cross-border business).

Means of payment business continued to expand, in line with the trend of recent years. The number of debit and credit cards in use totals 5.3 million, and credit card turnover rose by 13.8%. Banco Sabadell cards now support Apple Pay, Samsung Pay and SabadellWallet to fill out range of mobile payment options. The inclusion of new services such as immediate online transfers, the deposit card and payments with Bizum are all examples of the commitment to broadening and improving the retail range.

### Working Capital and Cash Management

In 2018, Banco Sabadell remained the standard-bearer in managing receipts and payments as part of companies' working capital. In order to simplify customers' day-to-day business, e-banking tools for managing receipts and payments have been improved, to achieve enhanced usability and customer experience. Moreover, Banco Sabadell was one of the first entities to adhere to the new immediate payment system, a new form of transfers enabling customers to make payments in a matter of seconds.

With regard to financing, specialist working capital financing products such as factoring and confirming expanded during the year. These products, used to manage and finance companies' receipts and payments, have grown significantly in all segments, including SMEs and large corporations.

Factoring is now firmly established as a core product for financing receipts and hedging default risk, in both domestic and international operations. Assignments grew by 7.9% year-on-year. The Bank also pursues specialisation of this product range, focusing on specific sectors such as tourism.

Reverse factoring logged 12% growth, in both managed and advanced amounts. Product quality improved, focusing on the customer experience, such as digital support in all the new operations.

### Cash Management Service

Banco Sabadell offers a cash management service with specific solutions adapted to the needs of the various customers, according to the operations and size of the retailer. It can be integrated into most of the management systems at retail establishments and the Bank's payment systems. Moreover, there is a cash collection service, so that any amounts stored in the machine are immediately deposited in the retailer's account and are collected when necessary by a security firm.

### Digital Services

The process to transform companies is evolving the relationship model with customers, making it highly digital-oriented, so it is critical to incorporate specialists to enhance digital adoption among managers and customers. Consequently, in the second half of 2018, the new post of director of enterprise digitalisation was created. This new post is defined as the go-to person for the entire Commercial and Company Banking Network for enhancing and promoting knowledge of the Bank's digital range among managers and customers.

The director of digitalisation's short-term role is to increase customers' digital transactionality through online training and support visits. In the medium term, the idea is that this position becomes firmly established as a horizontal opinion leader in recommending the digital service so that companies that have not yet made the digital leap or are having difficulties in doing so see Banco Sabadell as their closest ally.

### Commercial brands

Banco Sabadell, the Group's flagship brand, operates in most of Spain's regions except Asturias and León, an area served by the Group's SabadellHerrero brand; the Basque Country, Navarra and La Rioja, where the Group is represented by its SabadellGuipuzcoano network; and Galicia, where it operates under the SabadellGallego brand. The SabadellSolbank brand caters primarily for resident expatriates from other European countries, through a network of specialist branches operating exclusively 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 in terms of margins and customer (businesses and individuals), 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 2018 are described below:

## SabadellHerrero

SabadellHerrero saw out another year of growth at its 140 branches in Asturias and León. The business has expanded in parallel to the transformation of the service, leveraging the new digital capabilities to respond efficiently to customers' new demands. Similarly, growth and transformation are interconnected and mutually strengthening in a process that scales and renews the Bank on the basis of adaptation to new digital technologies and to customer demands.

In 2018, SabadellHerrero expanded its balance sheet by 1.6% to end the year with €11,214 million. New customer numbers also increased, with more than 15,000 additions during the year, including close to 12,000 individuals and more than 3,000 companies.

Especially important to understanding the depth of the transformation process in which the Bank is immersed is the number of digital customers, encompassing customers who relate to the Bank and contract its services through digital channels, because of the speed, convenience and suitability to their needs. Digital customers represented 40% of the total at SabadellHerrero at the end of 2018, a percentage that rises to 60% in the case of new customers.

Branches respond to this customer demand by digitalising internal processes — boosting the efficiency of the services rendered — and by building its own internal capacity to market the Bank's new digital offering.

Progress in business growth and the digital transformation are explained by two essential factors: a field-leading customer experience and people management.

In Asturias and León, the Bank sets itself apart from its closest rivals by providing a clearly differentiated customer experience. In the objective quality assessment conducted by consultancy firm STIGA, Spain's leading customer satisfaction surveyor, SabadellHerrero received a global score of 8.08 out of 10, the highest achieved by any institution involved in the survey.

Lastly, with regard to significant sponsorships, we highlight the agreement for the “Covadonga Centenarios 2018” centenary celebrations, organised by the Asturias regional government. The Bank devoted its annual exhibition at Feria Internacional de Muestras de Asturias to the Picos de Europa National Park, which in 2018 celebrated its centenary and which, together with the centenary of the Catholic Coronation of Our Lady of Covadonga and the thirteenth centenary of the founding of the Kingdom of Asturias, completed a very special year of commemorations.

## SabadellGallego

In 2018, the SabadellGallego brand, resulting from the merger of Banco Sabadell's Galicia branch network with that of the former Banco Gallego in that region, celebrated its fifth anniversary. In 2013, Banco Sabadell made a significant quantitative and qualitative leap in Galicia when it took over Banco Gallego, creating a new brand, SabadellGallego, which has enabled it to build an especially close relationship with the region and to boost its financing activity to the region as a whole.

Over the last five years, SabadellGallego has doubled its lending to households and enterprises in Galicia, as well as the business volume. Today it has a competitive retail network that has increased penetration in the Galicia market.

At the end of 2018, 25% of enterprises in Galicia were SabadellGallego customers. Among large corporations, this figure rises to 74%, while 7% of individual Galicians are SabadellGallego customers, evidencing the considerable degree of acceptance of the Bank's commercial proposal.

2018 was another year of robust growth for SabadellGallego. This growth was also balanced, since both sides of the balance sheet saw similar progress: lending rose by 12.6% and customer funds by 10%.

The Bank's commercial offering won it more than 15,000 new customers, 11,000 of them individuals and around 4,000 companies.

This business growth was accompanied by a significant boost in transformation which, based on new digital technologies, enhances efficiency and responds to emerging needs in connection with the relationship with the Bank and convenience. 46% of customers now use digital channels to connect to the Bank in Galicia, and the figure exceeds 60% among new customers added in the year. This swift progress was due to both customer demand and the branches' readiness to respond to that demand. More than 85% of branches in the SabadellGallego network have now been transformed and equipped with proven digital capabilities, clearly underpinning the strength of the ongoing transformation process.

The foundation for these robust results, in both growth and transformation, is SabadellGallego's commitment to providing a superior customer experience, distinguished from that offered by its peer group, delivered by people who are happy and motivated in their work. Both these aspects, customer experience and people and talent management, are key pillars and priorities for SabadellGallego.

## SabadellGuipuzcoano

This year, satisfactory business results were achieved once again due to the intense commercial activity conducted by the retail branches and the network of branches specialising in enterprises in the territory where this brand operates. These results were very positive and were achieved through strict application of the commercial system; the commercial transformation targets outlined in

the "ONficina challenge" were exceeded, outstripping the Bank's average, as 80% of the branches are now classified as "transformed".

Various aspects came into play in meeting this challenge, all of which are vital to compete successfully in view of the recent technological and methodological advances in the sector, which look set to intensify going forward. These aspects range from digital activation through satisfaction scores to reducing operating functions at branches, and they constitute a set of indicators which at SabadellGuipuzcoano were 118% fulfilled with respect to the targets set at the beginning of the year.

Moreover, the brand's branches once again achieved an excellent score of 8.31 in the Mystery Shopper quality control system, outperforming the general quality targets established by the Bank.

For several years now, SabadellGuipuzcoano has been implementing a specific territorial plan devised as part of the Bank's strategy of supplementing the general business lines by designing and rolling out region-specific plans. The current version of this programme, Plan Norte 2.0, expires in 2020, and it encompasses initiatives in various lines of action.

Once again this year, the Bank joined forces with all kinds of public and private entities, as embodied in 20 new agreements signed with professional groups and associations. Of particular note are agreements to improve funding for enterprises, and the involvement as a collaborating bank in the exciting new INNOVA innovation fund, led by the Bizkaia provincial government, aimed at channelling individuals' savings to business innovation projects.

Especially notable is the brand's presence and dynamism in boosting the startup and entrepreneurial ecosystem, as it took part in a number of meetings and congresses, some of which are flagship events in Spain, such as B-Venture in Bilbao.

As usual, specific management of the brand's presence and relevance in the territory is embodied in constant communication activities, sponsorships and institutional relations, areas in which the brand maintains very high standards of frequency and recognition.

The biggest event was once again sponsorship of Tour of the Basque Country cycling race, which in 2018 had stages in both the Basque Country and Navarra, thereby increasing support for the brand to include the latter region. The Bank also sponsored and collaborated in other sporting events, such as the Annual Gipuzkoa Sports Press Gala, where the best local sports personality of the year is chosen — this year the winner was internationally renowned handball player Kauldi Odriozola.

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 Euskadi Avanza awards, which recognise novice entrepreneurs and notable entrepreneurial careers and single out the best company of the year.

Lastly, there has been increasing nurturing and support for cultural activities implemented through Sabadell Foundation.

## ActivoBank

ActivoBank ended the year with 49,000 customers and continued to focus on its wealth management business with volumes totalling €505 million. Account balances were up 18% to €200 million, and off-balance sheet funds amounted to €192 million. Mutual fund assets totalled €107 million and pension fund assets totalled €33 million.

This business is in the midst of growth and transformation based on customer orientation.

## BanSabadell Vida

Premiums and contributions in 2018

**2,419.6€M**

Casualty insurance premiums in 2018 (y/y change)

**324.4€M (+15%)**

Savings under management in 2018

**8,407.2€M**

Profit contributed to the Group in 2018

**34.3€M**

## BanSabadell Pensiones

Funds under management in 2018

**3,176.4€M**

Of which personal and collective pension plans in 2018 (y/y change)

**1,770.9€M**

Workplace pension plans in 2018 (y/y change)

**1,405.5€M**

Profit contributed to the Group in 2018

**0.6€M**

## BanSabadell Seguros Generales

Premiums in 2018 (y/y change)

**264.0€M (+11%)**

Profit contributed to the Group in 2018

**5.8€M**

## BanSabadell Previsión, E.P.S.V.

Savings under management in 2018

**283.4€M**

## BanSabadell Mediación

Fee and commission revenues in 2018

**148.9€M**

Premiums brokered in 2018

**2,859.0€M**

Profit contributed to the Group in 2018

**4.3€M**

As of 31 December 2018, 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 is the Bank's insurance brokerage subsidiary. It operates as a tied agent for bancassurance products, distributing insurance through the branches.
- BanSabadell Previsión E.P.S.V. distributes pension/retirement plans within the Basque Country.

In 2018, Banco Sabadell continued 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 personalised loyalty programme, and digitalisation of business processes.

In 2018, Sabadell Vida's business volumes ranked it second in Spain in terms of total life insurance premiums and fifth in terms of insurance premiums and savings under management, according to the latest figures published at year-end. Net profit amounted to €68.6 million.

Furthermore, the volumes managed by BanSabadell Pensiones rank the Bank tenth in the entire system, according to data published at the end of the year. BanSabadell Pensiones logged a profit of €1.2 million in the year.

BanSabadell Seguros Generales increased total premiums by 11% year-on-year, mainly in home-owners policies and a new product for retailers.

## BStartup has gained traction as a business and positioning priority for Banco Sabadell.

In its fifth year, BStartup, a programme created to support young innovative and technology companies, achieved its dual objective: on the one hand, to position the Bank as the institution that most supports young innovation and tech companies that contribute to the digital transformation, and, on the other hand, to boost the Bank's relationship with these young companies in the conviction that they will be the major corporations of the future.

Customers are approached through a proposal including:

- Specialised banking products and services for startups. The model and pace of development and funding at startups are unlike those of traditional companies. Accordingly, as well as the 50 BStartup branches throughout Spain and a specific risk circuit, with a view to making further progress in specialisation, in 2018 a new distribution model was devised for launch on 1 January 2019, providing cities with a high concentration of this kind of customer (for now, Barcelona, Madrid and Valencia) with seven BStartup SME offices whose portfolios will consist solely of startups. A number of products were also launched in 2018: the RC BStartup insurance policy (in partnership with AXA), Rent-Tech BStartup, the Marketing BStartup card and the Media4Equity VAT loan.
- Investment in equity. BStartup invests in startups with a philosophy focused on supporting entrepreneurs, without overlooking brand recognition and profitability. The BStartup10 investment vehicle focuses on Spanish tech and digital companies with considerable growth potential and scalable, innovative business models. 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. In this regard, it serves as a nursery for future investments by Sabadell Venture Capital, which has already invested in seven BStartup10 companies in subsequent rounds.

Moreover, this year BStartup commenced a strategy of investing in verticals, launching BStartup Health, a round of investment and support for health projects which was very well received in the sector. Three companies — all spin-offs from major hospitals and universities — were chosen from among 144 candidates. BStartup Health signed off on an investment in Admit Therapeutic, a spin-off of Hospital de Bellvitge with the mission of devising a tool for the early diagnosis of Alzheimer's Disease, a need not yet met in clinical practice. The other two companies chosen are still fine-tuning the

final details to be able to sign the partners' agreement. One plans to manufacture a medical device to detect and monitor kidney diseases and the other is devising a solution (exo-skeleton) to enable people with spinal injuries to walk.

At this time, BStartup is invested in 40 companies. Investment proposals are approved by an investment committee.

- Open innovation. BStartup is an innovation radar due to its privileged position, with a presence in all the business innovation forums in Spain, agreements with a number of companies that support the creation of new initiatives, and because it is fully integrated into the Spanish entrepreneurial ecosystem. With 14 new agreements added this year, there are now a total of 93 agreements with significant companies. Accordingly, it identifies and receives proposals that, from an open innovation standpoint, may help accelerate the Bank's pace of innovation. BStartup filters and refers potential opportunities to other divisions. In this connection, the Bank was acknowledged by the Startup Europe Partnership as one of Europe's Corporate Startup Stars of 2018 at an official ceremony attended by European Commission Vice-President Jyrki Katainen.

In 2018, BStartup organised and was actively involved in 190 entrepreneurial events in 20 cities throughout Spanish territory.

As a result, BStartup strengthened its media impact in 2018 (1,033 mentions in print and online press) and social media impact (9,858 Twitter followers), and it was among the trending topics in the Bank's social media most months, always with positive coverage.

With regard to direct business production, BStartup managed €556.8 million (€132.1 million in assets and €424.7 million in liabilities), a 67.4% increase on the previous year, and generated a profit of €12.4 million, (a 53.8% year-on-year increase), with a total of 2,895 customers.

## Enhanced positioning through sustained growth.

Gross income in 2018

**68.6**€M

Change in gross income

**+13.6%**

Profit contributed to the group

**13.9**€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 retailers.

The company continues to improve processes and to boost the commercial offering, ensuring a rapid response to customers' needs.

Activity continued to expand in 2018, triggering an increase in customer volume and new operations compared with the previous year, and boosting market share. There were sharp increases in spreads and profit margins.

Ongoing rigour with regard to prudence in granting loans, investing and improving smart (automated) decision-making models, coupled with efficacy in recoveries, enabled Consumer Finance to keep non-performing exposures at excellent levels. The loan loss ratio was 4.5%, while the loan loss coverage ratio was 100.4%

During the year the company stepped up promotion of the new inventory credit product, enhanced loyalty ties with car showrooms, and increased the number of credit cards by means of commercial agreements with well-known brands. The foundations were also laid for commercialisation via e-commerce and increasing the sale of additional products.

Overall, the company performed 245,390 new transactions through more than 10,000 points of sale distributed throughout Spanish territory, resulting in €831 million of new loan production in 2018, bringing the company's total outstanding exposure to above €1,330 million.

To support further business growth, the company continued to promote the use of digital systems and tools. These included more widespread use of digital signatures on loan agreements using mobile phones or tablets, bringing the proportion of digitally signed loans up to 71%. These improvements helped the company to keep its cost: income ratio to 31%.