

Banco Sabadell continues to rank #5 among Spanish banks in terms of SICAV asset volume and number.

Highlights

- Sharp increase in net interest income and fees and commissions.

Business overview

Banco Sabadell designs and manages savings products and investment solutions for its customers, including analysis of options for investment and equities trading, active wealth management and custody services. It also ensures that its business processes remain consistent with its rigorous research to ensure the business's transformation in the new environment.

Markets and Private Banking creates and supplies value-added products and services to deliver good returns to customers, increase and diversify the customer base and ensure that investment processes remain consistent and are based on disciplined analysis and proven quality. There was also a move towards a multi-channel approach to customer relationship management. This division now comprises the following activities:

- SabadellUrquijo Private Banking is the division of Banco Sabadell that concentrates on offering integrated solutions to customers requiring a specialised service tailored to their particular requirements, combining the value of advisory services in Private Banking with the financial strength and product capabilities of a universal bank. The division's sales team can offer support and assistance from people with expertise in products, taxation and wealth management who are there to provide efficient, customised solutions to private banking clients.
- Asset Management and Research is a separate area aimed at managing collective investment and providing investment solutions for individual customers, companies and institutional investors. It is part of Sabadell Asset Management, the parent of a group of companies operating as managers of collective investment

Earnings before taxes

143.0€M

Markets and Private Banking

SabadellUrquijo Banca Privada

Asset Management and Research

Treasury and Capital Markets

Securities Trading and Custodian Services

Savings and Investment Strategy

undertakings. Its mission is to establish a framework for the investment management business, which is conducted through collective investment management companies and third-party asset managers.

- Treasury and Capital Markets is the division in charge of providing customers with funding solutions, investment products and financial risk mitigation and hedging. These solutions are offered both through the branch network and by the division's team of specialists. Furthermore, Treasury manages the risks generated by customer positions in the market. Treasury also provides tactical support to the Finance Division, and is responsible for managing the Bank's liquidity and for management and compliance with its regulatory coefficients and ratios, managing interest and foreign exchange rate risk stemming from the Group's activities.
- The Securities Trading and Custodian Services Department performs the functions of broker for Banco Sabadell as a stock market member. These functions are to handle and execute sale and purchase orders directly via its trading desk, and, as product manager, it is responsible for the Group's equities. Moreover, it also provides investment guidance and recommendations in equities and credit markets, and creates and manages the offering of custodian and depository services.
- The purpose of the Savings and Investment Business Strategy Department is to produce Banco Sabadell's investment opinions and ensure that its range of savings and investment products is in line with its customers' opinions and requirements. It offers strategic solutions to adapt the bank to the changing environment so as, bearing in mind the latest channels and technological solutions, to design a value proposal that sets its products apart and brings about the necessary changes in the supply of and guidance about savings and investment products.

differential advantage in the value proposal of products considering the emergence of new channels and technological solutions.

2018 saw an increase in economic and political uncertainty, which, along with tight asset valuations, resulted in an increase in market volatility. In this context, customers were advised to prioritise strict control of risk in their investments, matching their risk profile and time scale.

The effort put into designing a range of products and services to meet the needs of each customer continued to strengthen and enhance the Bank's position as a broker providing access to new markets and its ability to offer customers new services, create new investment opportunities and raise the profile of the brand under which we operate in this business: SabadellUrquijo Banca Privada.

Consistent with these efforts, the Bank is fostering globalisation, focusing on internationalisation and adopting a shared business strategy, specifically in private banking, corporate banking and brokerage.

Management priorities in 2018

The Bank has a product and service design and approval process which ensures that the full range of offerings available to customers more than meets their requirements in terms of quality, returns and conformity to market needs. Constant reviews of the customer identification and "know your customer" procedures and practices ensure that products are offered and investments are recommended on the basis of customers' profiles and that all investor protection measures, as required by the various savings and investment product regulations, especially the Markets in Financial Instruments Directive (MiFID II) and its provisions as transposed into domestic law, are complied with.

Stringent new regulations are bringing about changes in the way we sell and the advice we give on savings and investment products. The Bank intends to tackle and respond to the new regulatory environment from a business standpoint, tapping the opportunity to establish a

Key business data

€M

T2 Key business data — Markets and Private Banking

	2017	2018	% 18/17
Net interest income	58	74	27.6
Equity-accounted affiliates and dividends	—	—	—
Fees and commissions (net)	188	195	3.7
Net income from financial transactions, and exchange differences	1	4	300.0
Other operating income/expense	(2)	(16)	700.0
Gross income	245	257	4.9
Administrative expenses and depreciation and amortisation	(105)	(113)	7.6
Operating profit/(loss)	140	144	2.9
Provisions and impairments	(3)	(1)	—
Gain/(loss) on derecognition of assets, etc.	—	—	—
Profit/(loss) before tax	137	143	4.4
Income tax	(41)	(45)	9.8
Profit/(loss) after tax	96	98	2.1
Non-controlling interest	—	—	—
Net attributable profit	96	98	2.1
Ratios (%)			
ROE (profit / average shareholders' equity)	31.6%	55.6%	—
Cost: income (general administrative expenses / gross income)	42.5%	43.5%	—
NPL ratio (%)	0.5%	0.1%	—
Stage 3 exposure coverage ratio (%)	71.0%	435.8%	—
Assets			
	8,858	11,523	30.1
Loans and advances to customers (net), excluding repos	2,175	2,859	31.4
Liabilities			
	8,578	11,347	32.3
On-balance sheet customer funds	6,367	8,293	30.2
Assigned capital			
	280	176	(37.1)
Off-balance sheet customer funds			
	17,213	16,324	(5.2)
Other indicators			
Employees	531	504	—
Branches	10	10	—

Through December 2018, some 4,500 discretionary portfolio management mandates were in place with an overall value of over €1,900 million. Assets held in mutual funds totalled €7,196 million, and the number of SICAVs under management at the close of 2018 was 172, with managed funds totalling €1,803 million, and a market share of 6.4%. The unit's business volume totalled €27,300 million as of December 2018 and it had more than 29,700 customers.

Net profit amounted to €98 million in December 2018, a 2.1% year-on-year increase. Gross income rose by 4.9% to €257 million, and core banking revenues increased by 9.3% to €269 million (T2).

Net interest income amounted to €74 million, up 27.6% year-on-year due to the sound results obtained. Net fees and commissions totalled €195 million, i.e. 3.7% higher than in the previous year, due to the higher commissions on mutual funds and securities.

Administrative expenses and depreciation and amortisation charges totalled €113 million, up 7.6%. Net loans rose by 31.4%, mainly in jointly supervised customers: customer funds on the balance sheet grew by 30.2%, and off-balance sheet funds decreased by 5.2%, due mainly to the increase in mutual funds.

The unit's business volume totalled €27,300 million and it has 29,700 customers.

Sales team

Bankers

170

Specialist branches

10

Customer service centres

21

SabadellUrquijo Banca Privada is Banco Sabadell's private banking division, aimed at providing comprehensive solutions to customers who need customised service and attention because of their specific needs. In a complex economic and financial context, it has been able to respond to the demands of the market and fulfil its commitment to its customers, unleashing all its experience to provide them with a broad range of products and services to match their risk profile in order to optimise the financial and fiscal return on their investments.

This business continues to hinge on customised service to customers, who are at the core of all day-to-day activities under the unit's two existing business models. In the model involving sharing customers with their local branch, full commercial support and specialist professional advice is provided to Banco Sabadell's branch network and customers. Customers are managed on a comprehensive basis at the 10 existing offices.

In order to be fully aligned with the Bank's territorial structure, the Regional Department of Aragón, Navarra and La Rioja was merged with the Northern Regional Department to create a structure more focused on business growth strategies and operating in closer coordination with the Bank.

MiFID II entered into force in January, making 2018 a year in which commercial activity was fully aligned with the new regulatory requirements. This signified another step forward in improving service quality, enhancing protection and attaining full transparency in information and prices to customers, for which purpose the IT systems were adapted and developed and a new commercial policy was defined, the main service being non-independent advice, including two models: recurring advice and recurring advice plus. The latter enables us to offer customers the same service as an independent consultant.

Along with the creation and monitoring of portfolios under advisory services, the focus was placed on discretionary portfolio management, providing almost all customers with access to one of the two.

A considerable effort was made over the course of the year in order to provide all customers with new reports concerning portfolios in accordance with current regulatory standards, via mobile devices and the Bank's website. This contributed very positively to improving customer experience, another of the main goals in the year. For this purpose, all customers are now offered the option of signing documents electronically. These two improvements contributed to this digital transformation, which brought a significant technological boost and helped drive the business by adapting it to a new, more digitalised environment.

Linked to both MiFID II requirements and the aim of improving advisory services to customers, a continuous training plan was implemented for employees in the Private Banking division, culminating in a certification examination held by EFPA.

The unit worked on designing and deploying the most appropriate products for customers' risk profiles, offering the best returns, for which purpose Banco Sabadell's product factories used all the means at their disposal. Mutual funds, discretionary portfolio management and structured products continue to dominate. Coinciding with the entry into force of MiFID II, the repricing model for discretionary management portfolios was converted to an explicit fee model.

Hedge funds and venture capital funds were added to the range, with designer funds and very specific, limited-liquidity niches making it possible to diversify and respond to the demands of sophisticated investors.

During the year, in a complex environment characterised by volatility in financial markets, SabadellUrquijo Banca Privada responded to its customers' demands and fulfilled its commitments to them by providing them with support, and reviewing and providing detailed explanations of their portfolios' performance.

At the start of the year, the Segments and EAFI Department was created, bringing together the commercial management of EAFI (Independent Financial Advisory Firms), Religious Institutions and Sports &

Entertainment under a single umbrella, in order to grow the various segments horizontally in coordination with the Bank's strategy to generate synergies.

In 2018 further progress was made on the process to refocus management of the commercial team which commenced in the previous year, affording greater importance to project-based management. The projects that were launched in 2017 continued to be developed and deployed in 2018, alongside new projects to provide our customers with a highly focused and innovative range of products and services.

Lastly, this year the focus was placed on various actions in the commercial sphere, by means of holding events that were very well received by customers and which strengthened the brand and enhanced the commercial relationship in order to improve the Private Banking customer experience.

Asset Management and Research

Profiled mutual funds under management at Sabadell Asset Management saw assets grow by 4%.

The Asset Management and Research business model is also distinguished by excellence in mutual fund management and in collective asset management, portfolio management and investment solutions, with the aim of maintaining their high levels of reliability, sustainability, consistency and optimum profitability, always with investors' best interests in mind.

It also ensures investors obtain healthy returns based on their needs, financial experience, capacity to bear risks, liquidity requirements and ambitions in terms of returns. Accordingly, the aim is to improve investors' knowledge of the recommended method of using mutual funds and venture capital firms and also discretionary and collective asset management services.

It also introduces savers to investment solutions that offer access to the best opportunities to preserve or expand their savings in the long term through professional trust management and collective investment. The idea is to increase the use — not only among the more frequent and experienced investors, but also by smaller savers — of winning investment solutions in the current ultra-low interest rate environment by assuming an acceptable degree of risk and a certain maturity horizon that matches their goals and needs as to capital conservation or divestment in order to fund life goals.

In the year, subscriptions to Sabadell Asset Management mutual funds were predominated by "profiled" funds, whose volume of assets under management attained €5,251.6 million, continuing the trend of strong demand for these funds in previous years. These funds are

managed in such a way as to maintain a constant level of risk even in adverse market movements. One of investors' favourites in this area is the Sabadell Prudente mutual fund, with 87,948 investors and assets totalling €4,428.0 million at 2018 year end.

A wider range of new variable return guaranteed funds was offered during the year, with new guarantees of returns being issued for five guaranteed funds amounting to €867.4 million at 31 December 2018. Guaranteed funds as a whole accounted for €4,019.0 million worth of assets at the close of the year. Assets in guaranteed funds represented 25.2% of the total assets in Spanish-domiciled mutual funds managed by Sabadell Asset Management, up from 23.0% the year before.

In 2018, Sabadell Asset Management carried out three mutual fund merger processes in which three mutual funds were absorbed into other funds with the same investment objectives, always in pursuit of investors' best interests. At the end of the year, there were 237 Spanish-domiciled funds managed by Sabadell Asset Management (64 mutual funds, a property investment vehicle and a variable capital investment firm—SICAV) and Sabadell Urquijo Gestión (171 SICAVs), and there were 2 venture capital funds managed by Sabadell Asset Management.

Sabadell Asset Management mutual funds earned some outstanding accolades. In 2018, Fitch Ratings acknowledged the high quality of management of three Sabadell Asset Management fixed-income funds, one of its equity funds and one of its profiled funds. In total, two equity funds are assigned a Proficient qualitative rating,

and five funds a Strong rating: three fixed-income funds, one equity fund and one profiled fund.

Sabadell Asset Management ended the year with €15,930.5 million in assets under management in Spanish-domiciled mutual funds (T3), 3.0% less than at 2017 year-end. With this volume of assets under management, Sabadell Asset Management accounts for more than 6% of Spanish-domiciled mutual funds. Sabadell Asset Management ranked fifth among Spanish-domiciled fund managers in terms of assets under management in 2018. There were 52,818 fewer unit-holders in the year, a 7.5% year-on-year reduction. The number of investors decreased by 1,585, i.e. -0.7% compared with the previous year.

Sabadell Asset Management makes the most of its experience and capabilities in portfolio management for Banco Sabadell customers. This is configured as a repertoire of investment solutions, either modelled or customised, i.e. a broad service response tailored to the needs of Banco Sabadell's existing and potential customers. A major success in the area of fund management was "BS Fondos Gran Selección", with 17,186 contracts and €1,696.2 million in assets under management in 2018.

Sabadell Asset Management also provides portfolio management and administration services for other institutional investors. Assets in this connection amounted to €4,312.5 million at the end of 2018.

T3 Spanish-domiciled mutual funds

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Assets under management (€M)	9,102.4	5,844.5	5,609.6	4,312.4	4,203.3	4,443.2	6,356.7	9,952.6	13,091.3	14,122.1	16,423.0	15,930.5
Market share (%)	3.81	3.49	3.44	3.12	3.29	3.63	4.13	5.11	5.95	6.00	6.25	6.19
Number of investors	374,522	217,360	218,761	195,140	192,282	197,954	270,552	438,582	608,858	623,749	705,682	652,864

Treasury and Capital Markets

Providing customers with funding solutions, investment products and financial risk mitigation and hedging.

The volume traded in foreign exchange hedging products increased by 15% compared with the previous year.

Treasury and Capital Markets business performance in 2018 was shaped by a complex global political environment and a macroeconomic situation with very low interest rates in Europe. The ECB announced a future rate increase under certain macroeconomic conditions that could help boost turnover deriving from interest rate products.

Another notable factor is that 2018 was the first year under the new MiFID II regulatory framework, to which Treasury and Capital Markets adapted swiftly and efficiently by cooperating closely with other areas of the Bank.

This environment influenced currency markets by unleashing volatility which, along with the increase in the

customer base using this product, and operators' proactive approach to tapping market opportunities, boosted trading volume by more than 15%. This volume was due especially to a notable increase in currency hedges and forward transactions.

Over the course of 2018, this investment was well received, enabling 20% more than expected to be distributed. In equity derivatives, expectations were also exceeded, and the actual figure was close to 30% higher than expected. The various product launches in the commercial network were also warmly received and beat expectations by more than 45%.

In 2018, Treasury and Markets improved its position in currency products due to two complementary action lines. Firstly, the range of currency products was revised and completed and, in parallel, the Sabadell Forex online trading platform was further developed. Moreover, product trading flow was improved and projects were launched to continue enhancing our capacity to stay one step ahead

of our global customers' needs. Savings and investment products offered an appealing alternative to customers in this context of low rates.

The division also focused on exporting its successful model to other regions, taking advantage of the model's scalability and globality. During the year, a closer relationship was forged with other of the Bank's national and international areas, synergies were generated and new business opportunities created.

Securities Trading and Custodian Services

Banco Sabadell ended 2018 as the second-largest Spanish equity brokerage house by trading volume.

Market position in terms of trading volume in 2018

Share

13.2%

Ranking

2nd

2018 saw a decline in trading volume in the Spanish market, coinciding with the entry into force of mandatory regulatory changes under MiFID II.

The Bank was involved in market-making, own shares, roadshows and other customised activities for listed companies. There was also an increase in activity with issuers in 2018, continuing the trend seen in the previous year. In this connection, Banco Sabadell successfully participated in the placement of several significant holdings in listed companies as well as IPOs.

In financial research, we contribute our vision to the specialist and general press as a timely source of expert financial opinion for general distribution. Banco Sabadell's Research Department is known for its high standard, having earned a number of accolades and distinctions. In 2017 it was ranked fourth best analyst (stock picker and earnings estimator) in Iberia by Thomson Reuters – StarMine, and in 2016 it was ranked second best.

The Securities Trading and Custodian Services Department has adapted its structure to ensure strict compliance with the requirements of MiFID II, especially the regulations on incentives. The absence of conflicts of interest is guaranteed at every level and the invoicing model has been adjusted to differentiate between execution costs and financial research costs for investors.

In 2018, the Bank continued to step up its involvement as an agent bank in a range of transactions, most notably dividend payments, capital increases, bond issuance, promissory note programmes and shareholder register bookkeeping. At present, more than 80 issuers use Banco Sabadell's services, four times the figure at 2017 year-end, and that number is increasing steadily.

These services are increasingly important to the Bank and aim to position it as a leading service provider for issuers.

Focused on implementing Banco Sabadell's new value proposition in savings and investment.

The Bank's new savings and investment proposal:

- New Sabadell Investor platform.
- Universal advisory model.
- Adapted to the new regulation.

The entry into force of MiFID II was a pivotal element in defining this proposal, but the developments took into account the changing context for the banking business in general and for savings and investment products in particular. Factors such as structurally low interest rates, the new regulatory environment and digitalisation were also critical when defining the strategy.

This value proposal focuses firmly on customers: regardless of the segment to which they belong, they are offered advisory services, since this contributes the greatest protection and added value. Accordingly, Banco Sabadell offers advisory services to all customers for all products. To be able to provide this service, the Bank relies on existing elements such as the process for approving savings and investment products, a single investment opinion and the market information service to customers. Two additional elements were also needed. Firstly, a fully trained commercial network able to provide the advice, for which purpose an ambitious plan was launched to train staff in the network on MiFID II level 2. Secondly, a tool to help managers provide this service. The tool, Sabadell Inversor, is the port of entry into savings and investment and provides: (i) order, creating a uniform commercial system, (ii) simplification, shielding customers and managers from needless complexities, and (iii) regulatory compliance. In short, the entire project is focused on service excellence and customer experience.

The Savings and Investment Business Strategy Department has continued to support commercial activity in communicating market opinion. More than 175 sessions were held, including in-person meetings and conference calls, involving around 3,600 employees from all the territorial departments. Along these lines, the indispensable investment premises for adequate advisory services were strengthened, and market rationales were devised for the products marketed. Lastly, an Advisory Committee was created to oversee the list of savings and investment products recommended for each segment upon which Banco Sabadell bases its advice.

Among the initiatives to support commercial activity, and in application of the regulation establishing that

all employees providing information or advice on MiFID products must have the necessary knowledge and experience to offer these services, a centralised team of supervisors was set up to prevent commercial activity from being adversely affected, by enabling employees without the necessary skills and knowledge and who cannot be directly supervised from their branches to continue working under their supervision. In 2018, more than 20,000 operations were supervised.

With regard to product activity, in 2018 approval was given to 484 proposals for new investment products as part of a product process involving 36 heads of functional areas. Among the more important products were families of guaranteed funds and structured deposits with recovery of the principal, which accounted for some 64% of projected product sales. This volume of activity did not affect the speed of approval, since 75% of products were approved in less than ten business days.

Through Sabadell Inversor, Banco Sabadell maintains its commitment to enhancing communications with regard to its investment approach: firstly, in 2018, a new reporting system was rolled out that will enable all customers to view their savings and investment positions at any time using any channel; secondly, through mass deliveries of personalised information via the new channels. In 2018, more than 90 messages were issued, of which 60 were sent to customers via e-mail, a total of more than 3 million e-mails. Sabadell Inversor received over 45,000 monthly visits in the last few months.

Also notable was the monitoring and research regarding the regulatory initiatives affecting the Bank's business development in both the markets and investor protection areas. In this connection, a specific monthly committee was set up involving the main business divisions in order to adapt existing approaches to the new regulatory requirements, identify new opportunities and establish business opinion. In 2018, significant efforts were made to represent the Bank in conferences organised by the Treasury, the National Securities Market Commission and the Spanish Banking Association in the sphere of markets or regarding investor protection.