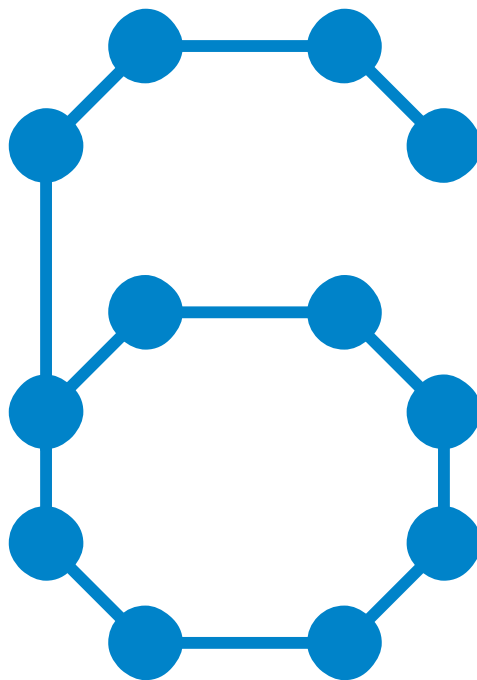


Businesses

91	Commercial Banking
106	Markets and Private Banking
114	United Kingdom
118	Corporate & Investment Banking
123	Other Regions
127	Asset Transformation



The Group is organised into the businesses below, and has six territorial departments with comprehensive and integrated responsibility.

Banco Sabadell offers a full range of financial services through its financial institutions, brands, subsidiaries and affiliates.



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
Net interest income	2,299	2,227	(3.1)
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)
Gross income	3,225	3,054	(5.3)
Administrative expenses and depreciation and amortisation	(1,468)	(1,473)	0.3
Operating profit/(loss)	1,757	1,581	(10.0)
Provisions and impairments	(632)	(389)	(38.4)
Gain/(loss) on derecognition of assets, etc.	22	—	—
Profit/(loss) before tax	1,147	1,192	3.9
Income tax	(245)	(326)	33.1
Profit/(loss) after tax	902	866	(4.0)
Non-controlling interest	—	—	—
Net attributable profit	902	866	(4.0)

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%	—

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

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.

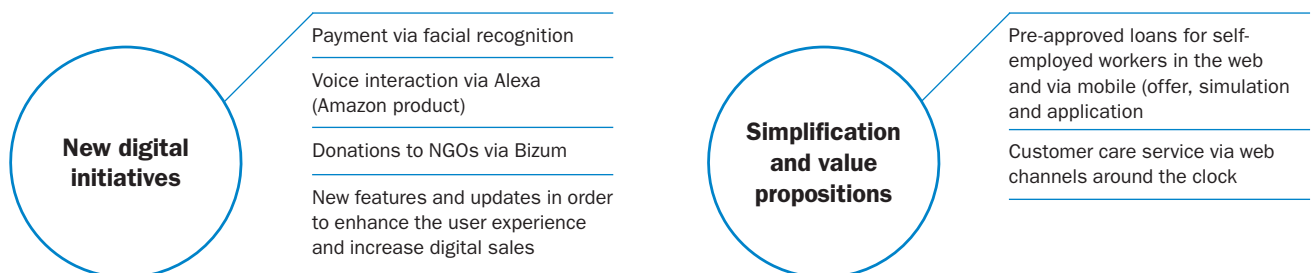
Commercial Network

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%.

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.



The new platform will provide numerous benefits to TSB and its customers.

Highlights

- TSB achieved the goals announced in September and is gearing up for a new era.
- Improvements in customer acquisition processes and an increase in the number of managers.

Business overview

TSB has a multi-channel distribution model nationwide, comprising 550 branches in England, Wales and Scotland. At the end of the year, it had 5 million customers and 8,353 employees. The TSB franchise (TSB Banking Group PLC), conducts a high-street banking business in the UK which includes current and savings accounts, personal loans, mortgages and credit/debit cards.

Its business was previously divided in three segments:

- The franchise: comprising the multichannel banking business.

- Mortgage enhancement: a set of mortgages assigned to TSB in 2014 in the context of the restructuring of Lloyds Banking Group.

- The Whistletree portfolio: a set of loans, primarily mortgages, acquired from Cerberus in 2015.

Following the early return of the mortgage enhancement portfolio to Lloyds Banking Group in June 2017, TSB has operated as a single business within the franchise segment, including the *Whistletree* loan portfolio.

Management priorities in 2018

TSB, a unique and credible proposition to swiftly increase competitiveness in the SME business.

In April 2018, TSB completed its phased migration to a new IT platform (G2). The new platform covers all customer systems and channels, as well as all back office systems, and is critical to TSB's long-term ability to deliver for customers.

When TSB was initially established, it used the platform of Lloyds Banking Group (LBG), one of its competitors, operating on legacy banking systems. This meant that

making changes to TSB's products and services was slow, and the cost, timing, design and pace of executing changes were set by a competitor. In June 2015, the acquisition of TSB provided the opportunity to leverage Sabadell's experience with migrating the Bank to a new system, which would enable TSB to provide better products and services more suited to its customers' needs.

Whilst the migration of all customer records took place

as planned, customers experienced problems in the initial period after migration in accessing their accounts online, with long wait times on the phone and slower transaction times in branches.

The immediate priority in the period following the migration was to resolve the service issues impacting customers, and move swiftly to identify and fix the causes of these issues. Internal analysis indicated that the design of the platform itself was sound, and that most of the issues were attributable to deployment onto the technical infrastructure. The underlying problems were linked mainly to three key areas: the initial configuration, the infrastructure capacity and some aspects of the code.

The TSB Board also commissioned an independent review, from Slaughter and May, a firm of UK lawyers, to understand why these problems occurred, and the FCA and PRA conducted their own joint investigation.

At the beginning of September, the TSB Board announced that Paul Pester was stepping down from his position as Chief Executive and leaving the Company. TSB set three immediate priorities and very significant progress has been, at a good pace.

- Incident resolution process: at 30 January 2019, circa 181,000 complaints from customers since migration have been resolved, i.e. around 90% of the 204,000 complaints, ensuring that no customer is left out of pocket. New complaints now being received are significantly lower in volume, closer to pre-migration levels, with the majority no longer connected to migration issues.
- Full functionality for customers: all critical and urgent IT incidents have been resolved and the most significant customer-facing issues have been dealt with. Although occasional IT issues and interruptions occur, the number of these incidents has been reduced significantly since the immediate post-migration period and IT services are now stable and in line with industry performance.

Customers have started to see the benefits of the new IT system, with a single platform and faster

processing times for some of our services. As a result, in December TSB received the largest number of mortgage applications of any week in its history.

Towards the end of 2018, customers also started to benefit from an increased number of products available through online channels for the first time since migration. Online current account sales have now returned to levels consistent with the most recent comparable pre-migration period and calls from customers needing help with their online applications are down 90% due to the significantly improved application process. Customers can also open a current account in branches in almost half the time compared with before migration.

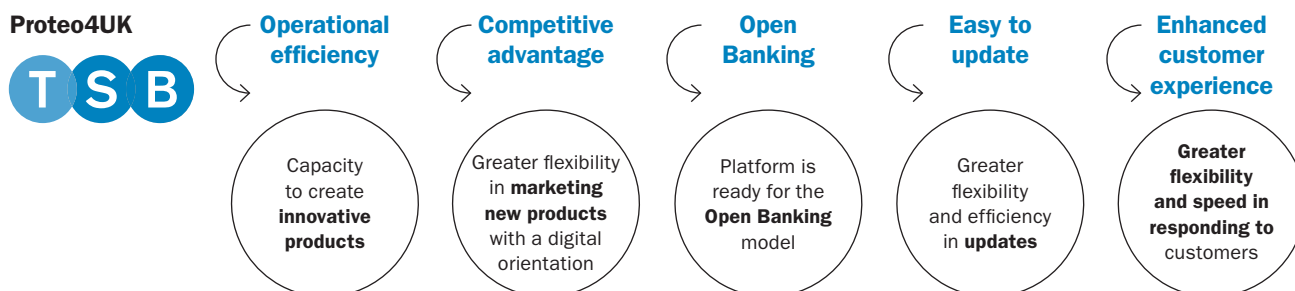
- New CEO for TSB: in November, it was announced that Debbie Crosbie would join the TSB Board as CEO, subject to regulatory approval. Debbie joins from CYBG PLC, bringing over two decades of experience in retail and SME banking, and an open and engaging leadership style. Debbie brings a clear innovative mindset to TSB and shares the vision of making banking better for all UK customers. She will join TSB in the Spring.

TSB remains one of the most strongly capitalised banks in the UK and, with an ample liquidity reserve, is well positioned both to weather economic uncertainty and shocks but also to deploy its financial reserves in further growth. While TSB remains confident in the relative strength of the UK economy, it is mindful of the challenges ahead, as economic and market conditions remain uncertain for a range of reasons, including Brexit.

Whilst the migration to the new platform caused considerable frustration and difficulties, looking forward, TSB remains confident that the platform is now delivering real benefits to customers and, importantly, also enables TSB to support more local businesses right across the UK.

TSB ushers in a new era.

G2 Benefits of the new platform



Key business data

Net income in December 2018 amounted to -€240 million, due mainly to the -€460 million in additional migration and post-migration expenses (T4).

Net interest income totalled €1,000 million, down 3.3% year-on-year due to the commercial drives at TSB following the IT migration.

Net fees and commissions fell 10.9% in year-on-year terms due mainly to lower services fees and to customer management actions at TSB following the IT migration. Income from financial transactions includes the results of fixed-income sales.

Administrative expenses and depreciation and amortisation charges increased by 14.6% year-on-year to -€1,148 million, including -€195 million in non-recurrent migration and post-migration expenses.

Provisions and impairments came to -€231 million, including a provision of -€142.1 million for total estimated compensation to customers, including extraordinary expenses for handling complaints linked to migration.

Net loans and advances to customers (excl. repos) amounted to €33,929 million, down 4.4% year-on-year. A constant exchange rates, the reduction on the previous year would have been 2.7% .

Customer funds on the balance sheet fell by 5.6% y/y to €32,484 million (down 4.7% at constant exchange rates). In 2018, they fell mainly because the maturity of time deposits (FRISA), while demand deposits (PCA) increased.

Financial performance was significantly affected by the IT migration, with costs incurred in preparing for migration and charges and waived income associated with the post-migration service disruption, partially offset by a provisional recovery of losses from Sabis under the MSA and OSA contracts.

Net interest income declined, due mainly to the impact on overdraft interest of the post-migration service disruption and the absence of earnings in 2018 from the Mortgage Enhancement portfolio. The decrease in net interest income in 2018 broadly reflects competitive pressures and interest waivers.

In 2018, the cost of customer deposits remained stable and included interest costs on savings that held steady in year-on-year terms, along with an increase in interest costs on bank accounts, following the rise in rates applicable to Classic Plus account balances.

Other revenues increased significantly, driven by the recognition of revenues from LBG as a result of exiting the outsourced services agreement upon migration to the new IT platform.

Payments deriving from service disruptions during migration including compensation to customers and additional operating costs: customer rectification costs, reimbursements and associated expenses, additional funding costs, consultancy costs to support the TSB reparations programme and anti-fraud and operating expenses.

Impairments decreased, reflecting an improvement in UK unemployment, a revised outlook for house prices

relative to 2017 and a downward revision to unsecured recovery valuations.

TSB's capital position remained strong, with a Common Equity Tier 1 (CET1) ratio of 19.5% and a leverage ratio of 4.4% on a fully-loaded basis.

€M

T4 Key figures — UK
business

	2017	2018	% 18/17
Net interest income	1,034	1,000	(3.3)
Equity-accounted affiliates and dividends	—	—	—
Fees and commissions (net)	96	85	(10.9)
Net income from financial transactions, and exchange differences	110	18	(83.8)
Other operating income/expense	(16)	(60)	283.2
Gross income	1,223	1,042	(14.8)
Administrative expenses and depreciation and amortisation	(1,002)	(1,148)	14.6
Operating profit/(loss)	221	(106)	(147.8)
Provisions and impairments	(89)	(231)	—
Gain/(loss) on derecognition of assets, etc.	7	1	—
Profit/(loss) before tax	139	(335)	(341.5)
Income tax	(49)	95	(295.2)
Profit/(loss) after tax	90	(240)	(366.5)
Non-controlling interest	—	—	—
Net attributable profit	90	(240)	(366.5)
Ratios (%)			
ROE (profit / average shareholders' equity)	5.8%	—	—
Cost: income (general administrative expenses / gross income)	79.5%	101.6%	—
NPL ratio (%)	0.4%	1.3%	—
Stage 3 exposure coverage ratio (%)	55.9%	50.4%	—
Assets			
	48,145	46,182	(4.1)
Loans and advances to customers (net), excluding repos	35,501	33,929	(4.4)
Liabilities			
	46,597	44,596	(4.3)
On-balance sheet customer funds	34,410	32,484	(5.6)
Wholesale funding in the capital markets	1,920	1,688	(12.1)
Assigned capital	1,548	1,586	—
Off-balance sheet customer funds	—	—	—
Other indicators			
Employees	8,287	8,353	0.8
Branches	551	550	(0.2)

The exchange rate applied for 2018 was GBP 0.8873 for the balance sheet and GBP 0.8945 (year average) for the income statement.

The exchange rate applied for 2017 was GBP 0.887 for the balance sheet and GBP 0.875 (year average) for the income statement.

Corporate & Investment Banking offers a global solution model fully aligned with its customers' needs.

Highlights

- Presence in Spain plus another 17 countries.
- Market Origination is a recently-created area encompassing debt capital markets, debt asset management and equity capital markets.

Earnings before taxes

120.0€M

Key figures in the Structured Financing business

Lending volume outside Spain

53%

Structured Financing fees earned in international markets

47.7%

Customer satisfaction score

8.81

Business overview

Corporate & Investment Banking offers financial solutions and advisory services to large companies and financial institutions, both Spanish and foreign, through branches throughout Spain and another 17 countries. Its activities embrace Corporate Banking, Structured Finance, Global Financial Institutions and Market Origination.

- Corporate Banking is the unit in charge of large corporates which, because of their size, complexity and unique features, require a customised service in which transactional banking services are supplemented by specialised units such as Structured Finance, Corporate Finance and Market Origination; the result is a comprehensive solution model for their needs. The business model is based on close strategic relations with customers, providing them with comprehensive solutions that are tailored to their needs while also taking account of the specific features of their business and the markets in which they operate.

Main business activities in Corporate & Investment Banking

Corporate Banking

Structured Finance

Global Financial Institutions

Market Origination

- Structured Finance consists of origination and structuring of corporate and acquisition finance and project finance deals. Banco Sabadell's structured finance team operates worldwide from offices in Madrid, Barcelona, Bilbao, Alicante, Oviedo, Paris, London, Lima, Bogota, Miami, New York, Mexico City, Monterrey, Guadalajara (Mexico) and Singapore, and has more than 20 years' experience.
- The Global Financial Institutions business model is built around two central pillars: commercial management of the international bank customer network (over 3,000 correspondent banks around the world) with which Banco Sabadell has cooperation agreements to provide Group customers with the best possible coverage worldwide, and providing optimal support to our corporate customers as they expand abroad, in coordination with the Group's network of branches, subsidiaries and investees in other countries.
- Market Origination is a recently-created area encompassing debt capital markets (DCM), debt asset management (DAM) and equity capital markets (ECM). The goal of DCM and DAM is to channel the liquidity of institutional investors to the bank's customers through the origination and structuring of short- and long-term non-bank financing vehicles, both publicly quoted and private placements. ECM's goal is to help find equity finance through disintermediation with investors in capital markets.

Management priorities in 2018

Cooperation and coordination between the Corporate Banking teams in the various regions and the specialist businesses will continue to be pivotal to unlock value and ensure success in achieving our goals and those of our customers.

2018 saw the business model boosted strongly, with the creation of a hierarchical structure (Corporate &

Investment Banking) that encompasses the large corporations business—both Spanish and international—in a single division (Corporate Banking), along with specialist businesses (Structured Finance and Market Origination). As a result of the synergies at these units, there is broad coverage of markets, specialist capacity and products for our customers.

Specifically, in Corporate Banking, i) results measured as total revenues and return on capital will continue to be one of the main financial indicators, along with ii) customer experience, measured in terms of NPS (net promoter score). Although the RaRoC methodology was rolled out to the teams in 2017, it was only fully implemented in 2018, and it is now the basic criterion for monitoring the portfolio and new production.

In EMEA, our business model was replicated in the Portuguese market, through the opening of a new office in Lisbon. Moreover, the model of representative offices continues to mature, strengthening the Bank's services to large corporations.

The A&A region (including the US, LatAm and Asia) in 2018 developed its team structure in line with the rest of geographies, so as to achieve greater sector- and product-specific specialisation: specialist teams combining local knowledge with global vision and expertise.

Meanwhile, activity in Mexico focused on leadership and significant involvement in the financial sector. It already offers a wide range of banking products, while essential products are in the pipeline with a view to building long-term relations and establishing Sabadell as a go-to bank for Mexican corporations.

In 2018 Banco Sabadell maintained its policy of supporting customers and adapting to meet their emerging needs within Spain's macroeconomic context amid changing credit market conditions. The Bank is a leader in the Spanish middle market segment and is exporting its know-how to other regions. Corporate & Investment Banking ranks #4 among syndicated loan MLAs and #2 in project finance in the Spanish market (T5 & T6).

Fees and commissions in international markets where the unit operates accounted for 47.7% of its total revenues

€M

Position	Mandated Lead Arranger	Amount	Number
1	Santander	9,228	85
2	Banco Bilbao Vizcaya Argentaria	4,510	41
3	CaixaBank	4,236	29
4	Banco Sabadell	1,623	17
5	Bankia	836	14
6	Crédit Agricole CIB	2,610	13
7	BNP Paribas	1,971	10
8	Société Générale CIB	2,042	9
9	ING	1,015	8
10	Citibank	1,362	6

T5 Syndicated loan
MLA — Spanish
market 2018

Position	Mandated Lead Arranger	Amount	Number
1	Santander	1,774	21
2	Banco Sabadell	588	12
3	Caixabank	969	10
4	Bankia	752	9
5	Banco Bilbao Vizcaya Argentaria	687	8
6	Crédit Agricole CIB	722	7
7	Société Générale (SocGen)	722	6
8	BNP Paribas	565	6
9	Bankinter	259	6
10	Natixis	1,296	5

in 2018, and Banco Sabadell acted as agent bank in various financing operations outside Spain. In 2018, a new team began operating from Singapore, catering for all South-East Asia.

Global Financial Institutions handled more than 390 bilateral trades in the international markets segment linked with bilateral business flows. Business with other financial institutions and multilateral bodies on the international stage was stepped up.

In 2018, Sabadell Corporate Finance worked, among others, on transactions linked to homes for the elderly, agro-industrial equipment, container terminals, ship-building, public health, renewable energy, metallurgy, food, motorways and underground car parks. Several projects involved cross-border transactions in countries like the US, France, Switzerland and Italy, which Sabadell Corporate Finance performs in cooperation with the Terra Alliance international network, of which it is a founding member.

Global Financial Institutions – market shares

LC share in 2018

30.29

Key business data

Net profit amounted to €84 million in 2018, a 32.3% year-on-year decrease. The gross margin of €240 million was down 14%. Net banking revenues decreased by 11.2% to €254 million (T7).

Net interest income fell 15.7% year-on-year to €145 million. Net fees and commissions amounted to €109 million, a 4.4% decline on the previous year.

Income from financial transactions and exchange differences decreased as a result of extraordinary sales of loan portfolios in 2018.

Administrative expenses and depreciation and amortisation charges totalled €41 million, up 24.2% on the previous year.

Provisions and impairments amounted to €79 million, an increase of 14.5%. Net lending declined by 7.5% (T8) and customer funds on the balance sheet rose by 15.7% as demand accounts and fixed deposits, while off-balance sheet funds decreased by 8.7%, mainly as a result of workplace pension plans.

€M

	2017	2018	% 18/17
Net interest income	172	145	(15.7)
Equity-accounted affiliates and dividends	—	—	—
Fees and commissions (net)	114	109	(4.4)
Net income from financial transactions, and exchange differences	3	(8)	(366.7)
Other operating income/expense	(10)	(6)	(40.0)
Gross income	279	240	(14.0)
Administrative expenses and depreciation and amortisation	(33)	(41)	24.2
Operating profit/(loss)	246	199	(19.1)
Provisions and impairments	(69)	(79)	14.5
Gain/(loss) on derecognition of assets, etc.	—	—	—
Profit/(loss) before tax	177	120	(32.2)
Income tax	(53)	(36)	(32.1)
Profit/(loss) after tax	124	84	(32.3)
Non-controlling interest	—	—	—
Net attributable profit	124	84	(32.3)

Ratios (%)

ROE (profit / average shareholders' equity)	14.0%	10.9%	—
Cost: income (general administrative expenses / gross income)	12.0%	17.2%	—
NPL ratio (%)	4.7%	4.1%	—
Stage 3 exposure coverage ratio (%)	94.0%	91.2%	—

Assets	11,958	11,020	(7.8)
Loans and advances to customers (net), excluding repos	7,548	6,981	(7.5)
Liabilities	11,239	10,289	(8.5)
On-balance sheet customer funds	2,857	3,306	15.7
Assigned capital	720	732	1.7
Off-balance sheet customer funds	517	472	(8.7)

Other indicators

Employees	140	155	—
Branches	2	2	—

€M

Geography	Volume
UK	1,547
France	1,434
Morocco	59
Portugal	111
Spain	7,463
Asia	99
USA Corporate Banking	2,228
Mexico Corporate Banking	2,272
LatAm	665

T8 Lending volume, by geography

Source: SCGI data, balance at December 2018.

T7 Key figures —
Corporate & Investment
Banking

Corporate Banking

Corporate Banking had an excellent year in 2018, against a backdrop of normal market operation and ample liquidity, especially in the Eurozone, in accordance with the monetary policy in place. This environment of surplus liquidity, coupled with the sound performance in issuance markets, exerted huge competitive pressure (falling prices, oversubscription of issues, early cancellation of bank loans, etc.), but this did not prevent the unit from meeting its financial targets.

Business volumes in 2018 performed strongly, with lending up 11%. This growth is even more laudable as much of it came from outside Spain (+22%). This responds to both Banco Sabadell's decision to diversify risks and revenue sources, and our support for our Spanish customers as they venture abroad. Overall, lending volume in Corporate Banking outside Spain now exceeds 50% of the total (53%). The pace of deposit growth in regions where we operate mainly in foreign currencies is also notable (33%), since this increases the Bank's self-financing capacity in foreign currency, boosting net interest income.

As for results, interest spreads in the unit as a whole increased by 5%, once again boosted by franchises abroad (most notably in France, Mexico, Asia, US and LatAm).

The standardised methodology used by the Corporate Banking teams in the 17 countries where the division operates, a commercial policy of cooperation for the benefit of our customers, and having not only specialised commercial teams but also an exclusive middle office for major corporate customers, enabled the Bank to maintain the highest service quality standards. This was evidenced by the various indicators of service quality, such as customer satisfaction surveys conducted by independent consultancy Stiga (score of 8.81 out of 10 in 2018).

Structured Finance

Structured Finance offers specialised solutions and advice to customers, providing global coverage with local teams.

From the financing standpoint, customers are offered structuring and the execution of transactions in corporate and acquisition finance, as well as project and asset finance, commercial real estate and global trade finance. This area has the capacity to syndicate and underwrite, and to purchase and sell stakes in syndicated loans in the secondary market.

Sabadell Corporate Finance is also intensely involved in advisory activities to companies and shareholders in

sales, mergers and acquisitions, and providing advice on bringing in new shareholders; the Bank is a member of Terra Alliance (T9).

Market Origination

Over the course of 2018, major financing transactions were arranged by the Bank itself (senior and AT1 debt) and in corporate bond markets (Faurecia, Inmobiliaria Colonial, ACS Servicios, Grupo Antolín, Gestamp, Iberdrola, Grupo Ortiz, Naviera Elcano, Copasa and El Corte Inglés), and also in short-term fixed-income markets (FCC, Europac, Cobra, Hotusa, Nexus, Grupo Siro, Cie Automotive, Cellnex and Aedas), as well as issues by public institutions (Madrid Regional Government).

The team was strengthened with the aim of originating and structuring new products to channel liquidity from institutional investors to Spanish companies, while at the same time offering a new type of investment asset to the institutional market. Current initiatives include private placements in the form of loans, asset-backed securities, project bonds, etc.

Activity	
Specialist Finance	Advisory/Distribution
Corporates and Acquisitions	Syndication
Project Finance	M&A
Asset Finance	Commercial Real Estate
Trade Finance	GFI

T9 Structured Finance business

Highlights

- Consolidation of the Miami business, attaining a 10% increase in customer business volume and a 62% increase in net profit.
- Development of business finance.
- Launch of lending to individuals.

Business overview

The Other Regions business comprises mainly Mexico, offices in other countries and representative offices that offer a full range of banking and financial services in corporate banking, private banking and commercial banking.

As part of the internationalisation process that commenced under the previous strategic framework, the Bank decided to focus on Mexico, a country that represents a clear opportunity as an attractive market for the banking business and one in which Sabadell has been operating since 1991, first by opening a representative office and then through its interest in Banco del Bajío, held for 14 years (from 1998 to 2012).

The business was established in Mexico through an organic project with the creation of two financial vehicles, starting with a SOFOM (Mexican multi-purpose financial company), which commenced operations in 2014, followed by a bank. The banking licence was obtained in 2015 and the Bank commenced operations in early 2016.

Both vehicles operate using a customer-focused approach, with agile processes, digital channels and no branches. The roll-out of commercial capacities is based on the aforementioned two vehicles and the following business lines:

- Corporate Banking, with the focus on companies and major corporations: 3 branches (Mexico City, Monterrey and Guadalajara) and sector-specific specialisation.
- Banking for Companies, which reproduces the Group's original business relationship model: launched in 2016 with 13 branches and in the growth phase over the next few years.
- Personal Banking, based on a disruptive digital model initially focused on capturing customer funds.

Earnings before taxes

107€M

Moreover, Banco Sabadell has been operating in the US for 25 years via an international full branch managed from Miami and through Sabadell Securities, a securities brokerage and investment advisory firm which has been operating since 2008. These business units together manage the international corporate banking, private banking and commercial banking business in the US and Latin America.

To supplement its structure in Miami, in 2012 the Bank opened a representative office in New York, where a large part of Sabadell's structured financing and syndicated loans business is handled, and in 2015 it opened representative offices in Colombia and Peru, to grow the corporate banking and structured financing business in these two markets. In 2018, a business plan was designed and launched for the representative office in the Dominican Republic, in order to boost the business volume managed in that country. As part of this business plan, the offices were moved and the workforce increased so as to drive and cater for the projected growth.

In addition, Sabadell Miami Branch works with the representative offices in Colombia, Peru and Brazil to provide services to its customers.

Management priorities in 2018

This year Mexico experienced some socio-political and financial uncertainty as a result of i) the renegotiation of NAFTA with the US and Canada, and ii) the presidential election which resulted in a resounding victory for the Morena party, led by Andrés Manuel López Obrador, affording him not only the presidency but also a substantial majority in the country's Congress. Moreover, there

was considerable turbulence in Mexican financial markets at the end of last year, with a significant depreciation of the peso against both the dollar and the euro. Against this backdrop, the performance of Mexican subsidiaries (Banco Sabadell, IBM S.A. and SabCapital Sofom S.A. de C.V.) was exceptional, amply beating expectations and exceeding the budget for the year.

In 2018, our Mexican subsidiaries continued in their efforts to fast-track their route to operational and financial self-sufficiency. In this regard, following initiatives were implemented over the course of the year:

- Ownership restructuring, whereby Banco Sabadell, IBM S.A. now owns 51% of SabCapital Sofom S.A. de C.V. following the acquisition of a 49.3% stake in that company from Banco de Sabadell, S.A. (Spain). As a result, Banco Sabadell's business in Mexico will now be consolidated, thereby offering a more solid financial picture with a view to having a positive impact on its ratings and the cost of funding from other financial institutions.
- The Hidalgo Project, consisting of migrating the IT platform from Spain to the Mexican subsidiaries. This was instrumented through the acquisition of this platform by Banco Sabadell IBM, S.A., accompanied by the recruitment and training of staff, culminating in the successful transfer of skills.
- The Allende Project, focused on developing the capacities to enable Mexican subsidiaries to be self-sufficient in funding terms, which consisted mainly of: i) the launch and rollout of the Personal Banking business, through an app, i.e. an approach to capturing customers with no need to deploy branches, a first in Mexico. Over the course of 2019, it will enable 100% digital customer onboarding, with interviews via videoconferencing, offering a more scalable and efficient model; ii) the creation of a corporate institutional capture team in the area of Corporate and Investment Banking (C&IB), which brought in deposits from local and state governments and major corporations; and iii) the development of a relationship-centric banking model tapping the solid position achieved in Corporate Banking and C&IB to drive growth in Personal Banking for executives and employees of customer companies.

With regard to commercial activity, Corporate Banking logged growth across the board and also broadened its range of products. Business customer numbers expanded by 140%. During the year, the offer of products to business customers was extended and a framework of action for funding the agri-food sector was defined.

Also in 2018, as part of the process of evolving the Group's business model, Corporate Banking was transformed into the Commercial Banking unit by merging all Personal Banking, including both companies and individuals, into a single structure with an integrated and consistent vision and the common objective of developing and deploying a multi-channel product offer supported by a commercial team based on our values: commitment, quality and proximity.

A financial planning exercise was conducted in 2018 in line with that of the Banco Sabadell Group to determine the main lines of strategic action for Banco Sabadell in Mexico to drive greater value creation by the Group's Mexican franchise, as summarised below:

- Enhancement of ROE by increasing revenues without capital consumption (through greater fees and commissions and the development of new business lines, such as trade finance, derivatives, currency trading, etc.).
- Promotion of financial self-sufficiency actions, through i) the incorporation of transactional services and products that increase customer loyalty, ii) improvement of our Personal Banking customer onboarding platform, and iii) optimisation of funding with development and commercial banking.
- Consolidation and fine-tuning of the digital banking model and focus on capturing savings.

Key business data

Net profit amounted to €91 million in 2018, a 2.3% year-on-year increase. Excluding the sale of Sabadell United Bank in 2017, net profit would have increased by 47.9%.

Net interest income amounted to €259 million, an 11.6% decrease year-on-year. Excluding Sabadell United Bank, growth was 26.1%, mainly due to Mexico and the branches in EMEA (Paris, London and Casablanca).

Net fees and commissions declined by 6.6% year-on-year, mainly due to the absence of the contribution from Sabadell United Bank. Excluding SUB, net fees and commissions increased by 3.3%.

The gross margin amounted to €328 million, down 8.4% year-on-year. Excluding Sabadell United Bank, the margin increased by 24.5% due to good performance in Mexico, Miami and the foreign branches in EMEA.

Administrative expenses and depreciation and amortisation charges fell by 4.9% year-on-year. Adjusting for the sale of Sabadell United Bank, this item increased by 21.4% due to higher expenses in Mexico.

Provisions and impairments increased year-on-year as a result of the provisions associated with higher lending in Mexico and Miami, and higher provisions mainly associated with one-off transactions.

The Mexican subsidiaries attained a 2.78% share of the business funding market in 2018, ranking #10 among Mexican financial institutions in this area.

	2017	2018	% 18/17
Net interest income	293	259	(11.6)
Equity-accounted affiliates and dividends	3	3	(17.6)
Fees and commissions (net)	50	47	(6.6)
Net income from financial transactions, and exchange differences	9	10	8.7
Other operating income/expense	3	10	—
Gross income	358	328	(8.4)
Administrative expenses and depreciation and amortisation	(205)	(195)	(4.9)
Operating profit/(loss)	153	133	(13.0)
Provisions and impairments	(24)	(27)	9.4
Gain/(loss) on derecognition of assets, etc.	1	—	—
Profit/(loss) before tax	130	107	(17.9)
Income tax	(37)	(11)	(70.4)
Profit/(loss) after tax	92	96	3.3
Non-controlling interest	4	5	—
Net attributable profit	88	91	2.3

Ratios (%)

ROE (profit / average shareholders' equity)	8.8%	9.0%	—
Cost: income (general administrative expenses / gross income)	54.5%	56.0%	—
NPL ratio (%)	0.9%	0.3%	—
Stage 3 exposure coverage ratio (%)	113.0%	292.9%	—

Assets	15,298	17,822	16.5
Loans and advances to customers (net), excluding repos	8,836	10,896	23.3
Real estate exposure (net)	23	—	(100.0)
Liabilities	14,431	16,789	16.3
On-balance sheet customer funds	5,024	6,328	26.0
Assigned capital	866	1,033	19.2
Off-balance sheet customer funds	1,033	1,023	(1.0)

Other indicators

Employees	765	908	18.7
Branches	42	42	—

The average exchange rates in 2018 were USD 1.1450, MXN 22.4921 and MAD 10.953 for the income statement, and USD 1.1851, MXN 22.6901 and MAD 10.8752 for the balance sheet.

The average exchange rate in 2017 was USD 1.132, MXN 21.303 and MAD 11.597 for the income statement, and USD 1.199, MXN 23.661 and MAD 11.426 for the balance sheet.

Sabadell Miami Branch is the Bank's largest foreign branch, with over \$12,000 million in business volume.

With its current structure, Sabadell Miami Branch is the largest foreign branch in Florida. It is one of the few financial institutions in the region with the capability and experience to provide a full range of banking and financial services, from highly complex and sophisticated products for large corporate clients, including project finance, through private banking (mostly international), to products and services for professionals and companies of any size.

Private Banking Miami is a business line that offers private banking products and services to Banco Sabadell customers located in Latin America, the Caribbean and the US. This business operates from Miami, where Sabadell has had a full international branch since 1993, and through Sabadell Securities, a brokerage house and investment firm.

The account managers at Sabadell Miami Branch provide a personalised service to clients and offer a catalogue of products that includes custody of securities, active investment advice, discretionary management and treasury services, as well as traditional commercial banking products such as accounts, multi-currency deposits and loans. The account managers are supported by professionals who specialise in developing products that address customers' need to preserve and expand their assets throughout the Americas, based on their profile and chosen investment strategy.

During 2018, the focus of the business was strengthened on the basis of the customer relationship with trusted account managers. These managers combine experience, bringing to bear the best the bank has to offer in order to design and implement solutions that meet customers' needs; constancy, to fulfil the bank's commitments; and empathy, to build relationships of trust with customers based on strong cultural affinity and confidentiality. These three pillars are the foundations of this unit's activities, with the customers' interests to the forefront.

Private Banking Miami offers a range of products and services, from traditional commercial banking products in multiple currencies to a sophisticated investment platform with options adapted to the customer's needs and risk profile. The investment platform varies mainly depending on the level of involvement of the Bank and is mainly comprised of three groups:

- Custody: the bank custodies securities and provides customers with information. The client makes the investment decisions, and the bank executes them.
- Active advisory: a team of investment banking specialists draws up lists of opportunities, and proposals for

investment and for changes in the composition of the portfolio in order to maximise returns within agreed parameters. The client makes the final decisions with regard to their assets, and the bank executes them.

- Discretionary management: the client entrusts their assets to specialised professionals. The Bank defines, implements and controls the investment strategy based on the client's profile and objective.

In addition to the investment platform, Banca Privada Miami provides treasury services that include currency exchange, securities execution desk, derivatives (swaps) and options, as well as structured products.

Corporate Banking Miami, supported by the offices in New York, Peru and Colombia, manages structured financing products, syndicated loans and project finance for large corporations, having achieved a good level of penetration in the energy and tourism sectors, mainly in the United States, Latin America (except Mexico) and the Caribbean.

2018 was a transition year, involving a change in structure. The new structure seeks to increase specialisation in terms of both industry and product. The goal is to approach customers more effectively by focusing on the sectors where the Bank is most competitive and there is scope for organic growth and higher returns.

Project finance deals continue to gain in importance within the portfolio and it is planned to pursue the possibility of becoming one of the leading banks in the United States. There are projects of all kinds in the United States, particularly in sectors where the Bank already has a great deal of experience, such as renewable energies.

In addition, Sabadell's capability in the area of syndication enables it to participate in large deals and increase returns by maximising fees.

Sabadell Securities

Sabadell Securities USA, Inc. is a securities broker and investment advisory firm. Sabadell Securities complements and enhances Sabadell's consolidation strategy with a focus on US-resident customers. It provides investment and wealth management services, mainly to personal banking

and private banking clients. Its business strategy is based on meeting customers' financial needs by providing advice on capital market investments.

Sabadell Securities is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). It uses the services of Pershing LLC, a Bank of New York Mellon subsidiary, for clearing, custodian and administrative services.

Asset Transformation



Banco Sabadell normalised its balance sheet in 2018 after announcing major sales of institutional portfolios.

Highlights

- Following the sharp reduction in recent years, the Group achieved its main objective of normalising its exposure to non-performing assets in 2018, and has now overcome the period of focusing on this asset class that resulted from the past economic crisis.
- The normalisation of non-performing assets was concentrated particularly in the area of real estate. The priority in 2018 was to make decisive progress in selling non-performing assets to specialised investors, resulting in a number of large transactions that achieved the ambitious targeted reduction in exposure. In 2018, non-performing assets were reduced by over €13,200 million (pro-forma), the largest single reduction since the crisis.
- The sharp reduction in NPAs in 2018 will lead to significant cost savings in future years, estimated at more than €150 million per year.
- In December 2018, it was agreed to sell 80% of real estate subsidiary Solvia, valued at €300 million, resulting in an estimated capital gain of €138 million. This transaction, which is expected to be completed in the first half of 2019, evidences the value created by the Group with this company, one of Spain's leading real estate solutions platforms.

Business overview

The Asset Transformation and Industrial and Real Estate Holdings Department horizontally manages non-performing loan and real estate exposures, as well as establishing and implementing the Group's real estate strategy, which encompasses its real estate subsidiaries, including Solvia and Solvia Desarrollos Inmobiliarios (SDIN).

With regard to non-performing loan and real estate exposures, the Department focuses on implementing the asset transformation strategy and on an integrated approach to the Group's real estate assets with a view to optimising recovery and maximising their value.

Management priorities in 2018

During 2018, Banco Sabadell moved decisively to reduce its non-performing real estate exposure, as a result of which it normalised the Group's real estate exposure during the year after carrying a sizeable volume of non-performing assets that arose from the economic crisis. A number of significant transactions were arranged to sell non-performing assets to specialised investors, completion of which is subject to certain conditions precedent that are expected to be fulfilled in 2019, enabling the Group to achieve the ambitious goal for 2018 of shedding non-performing exposures.

In connection with trends in non-performing loans and residual real estate exposure, the Group continues to deepen and optimise its transformation and management strategy for problem assets, guiding the actions of the Asset Transformation Business Unit, whose main goal is to improve the non-performing asset recovery and transformation processes with a view to maximising their value potential, either by managing them optimally or divesting them, whichever is the best option.

Nevertheless, despite normalising its non-performing exposures, the Bank maintains demanding targets for reducing non-performing exposure in the coming years. The strategy for managing and reducing non-performing assets (NPAs) is designed around three strategic priorities:

1 Constant reduction of NPAs until balances are normalised; major progress was made in this connection in 2018. This was and will continue to be the main goal of the Asset Transformation and Industrial and Real Estate Holdings Department, and it includes: (i) containing and normalising the classification of balances as non-performing, which is vital in order to ensure the future performance of the core business with a cost of risk that is aligned with the Group's risk profile and financial objectives; (ii) accelerating the reduction in the volume of NPAs by seeking solutions for non-performing debt that are adapted to each customer's circumstances and characteristics; and (iii) reducing exposure to foreclosed assets and eliminating the related losses.

This strategic priority has two facets: an eminently organic approach in the form of ongoing management of existing balances, with a special focus on the oldest ones, seeing to shed the most problematic and least saleable assets, and to sell real estate via the normal channels; and an inorganic approach, involving the sale of portfolios, taking advantage of the liquidity available in the market from institutional investors interested in NPAs because of the Spanish economy's good prospects, the goal being to accelerate the reduction of the exposure to non-core assets in a determined, ambitious way so as to normalise their volumes and leave behind the legacy of the recent economic crisis.

2 Focus on managing non-performing exposures. Banco Sabadell was one of the first Spanish banks to create an NPA workout unit, in 2012: the Asset Transformation and Industrial and Real Estate Holdings Department. It was established to respond to five needs.

— Globality, understood as segmented management of all problematic and potentially problematic exposures with an end-to-end vision of the process of transforming non-performing assets.

— Specialisation and segmentation of responsibilities on the basis of processes and portfolios to underpin the management approach, so that each type of NPA is handled in the most appropriate manner and outcomes are optimised.

— Maximisation of NPA recovery and monetisation, enhancing the efficiency of NPA management processes in terms of time and cost.

— Multi-channels and transactional capacity. The Group has developed specific channels that afford it considerable transactional capacity to recover its exposure to NPAs.

— Alignment of the entire organisation in managing and controlling NPAs under the principle of three lines of defence, ensuring the independence of the Asset Transformation and Industrial and Real Estate Holdings Department from the other areas involved in granting the non-performing exposures.

3 Maintenance of solid and sufficient levels of NPA coverage, supported by the capacity to generate future revenues with which to offset potential losses or impairment in this asset class, and robust capital levels with which to absorb any unexpected losses; together, these factors evidence the capacity and solvency of the Group's balance sheet.

These three strategic priorities are translated into six principles for managing NPAs, namely: (i) early action to address problems and avoid classification of assets as NPAs: reducing the volume of assets reclassified as non-performing and in default is vital to normalise these balances. Early action in managing delinquency maximises the recovery and monetisation of NPAs because it minimises the risk of deterioration in credit quality and preserves the quality of the collateral; (ii) segmented management of

all non-performing and potentially non-performing exposures (potential delinquency); (iii) large-scale reduction of the non-performing loans and foreclosed assets that have been on the balance sheet the longest, which is particularly important from a management perspective as the range of capacities, solutions and tools require specialised management of the oldest balances as opposed to the more recent defaults and foreclosures; (iv) business intelligence and continuous improvement of the processes. In recent years, the Bank has developed segmentation and prediction capabilities in the recovery process. Business intelligence is also applied to systematise, continuously improve and corporatise processes throughout the recovery cycle, in friendly procedures, judicial procedures and bankruptcies, to enhance recovery efficiency; (v) financial capacity, i.e. not just having sufficient book coverage of the expected loss but also having the capacity to generate future revenues with which to address impairments and robust capital levels with which to absorb any unexpected losses on NPAs; and (vi) a solid system of governance based on three lines of defence, in which, after the first line of defence, featuring the specialised independent workout unit (Asset Transformation and Industrial and Real Estate Holdings Department), and the business units that approved the exposures, there is a second independent line of oversight, comprising the Risk Control and Compliance Departments, followed by a third line of defence, namely Internal Audit, which reviews the adequacy and quality of the entire process.

To implement this strategy, the Asset Transformation and Industrial and Real Estate Holdings Department is structured into various units, each focusing on one stage of the process of recovery, administration, management and transformation of NPAs, having considerable experience and expert knowledge of all areas of the process. This organisation structure, which has evolved over the years to adapt and better respond to the needs and priorities as driven by the established goals, and has proven its suitability, as evidenced by the steady, continuous reduction of the Group's doubtful and non-performing exposures in the last few years, comprises the areas listed below at 2018 year-end, each of which focuses on specific aspects of the process.

The loan loss recovery and default management process involves the following areas:

- Delinquency Prevention and Management Department: its main mission is to implement policies and decisions on the transformation of non-performing exposures, encouraging a mutual approach wherever this is the most suitable way to resolve the specific case, and paying special attention to the social exclusion risks in some of these situations.
- Technical Recoveries Department: manages outsourced collection, bankruptcy and litigation, aimed at optimising the recovery of credit risk through external channels and/or litigation, when friendly negotiation is not sufficient or is not considered to be suitable.
- Corporate Loan Restructuring Department: specialises in dealing with issues surrounding the recovery of corporate, property and developer exposures and focuses

on loan restructuring, recovery and loss minimisation within that borrower category.

- Sabadell Real Estate and Institutional Markets: in managing real estate exposure and properties accepted to discharge debts, this unit is in charge of horizontally managing and transforming the Group's real estate exposure with the clear goal of reducing doubtful exposure to non-performing real estate by optimising its value, improving the return on non-problematic real estate exposure, and ensuring the orderly growth of new investment, all focused on portfolio risks and returns. This department also manages the divestment of NPA portfolios through processes aimed at institutional and wholesale investors with perimeters chosen as a function of the needs and policies of the Sabadell Group; accordingly, it was instrumental in the sales of portfolios of NPAs that were among the major achievements of the year, resulting in the normalisation of NPA balances. Its functions also include the analysis, calibration and review of NPA management strategies and models to maximise the efficiency of the recovery processes.
- Business Intelligence, Control and APS Department: this horizontal unit is tasked with optimising and continuously improving the Group's recovery processes and overseeing the management of those processes. Its responsibilities include the development and exploitation of existing information on the Group's various NPAs to facilitate optimum financial decision-making in connection with the various transformation alternatives.

With regard to past-due debt recovery actions in 2018, it is especially important to note ongoing proactive and responsible management of delinquency on mortgages secured by customers' main residences, seeking solutions that avoid litigation and minimise evictions. Consequently, 2,279 dation in payment transactions amounting to €357 million were arranged. As a result of offering housing solutions to customers at risk of social exclusion due to mortgage litigation or dation in payment processes, the Bank has close to 7,300 low-rent homes, including those contributed to the Social Housing Fund, and more than 2,900 homes with affordable rent.

In 2018, €2,740 million of assets were transacted organically, resulting in a positive contribution to the bottom line. However, the deals that really had a distinctive impact in normalising the NPAs on the balance sheet were the sale of four portfolios of non-core assets, mostly real estate assets from non-performing debts, which resulted in an inorganic reduction of NPA exposure by over €10,000 million, whose impact on the bottom line was booked in full in 2018.

Although these transactions were signed during the year, they are subject to certain conditions precedent, mainly the obtainment of certain administrative permits, which are expected to be secured in 2019, consolidating the reduction of NPA exposure to the levels presented on a pro-forma basis in the following figure (G3). Completion of these deals not only culminates the reduction and normalisation of the Group's NPA exposure but also reduces

the related costs, leading to savings estimated at over €150 million per year. The contractual closure of the first deal was achieved in December 2018.

The following figure (G3) presents the evolution of the Group's NPA exposure in recent years, detailing the exposure covered by the Asset Protection Scheme (APS), of which only 20% is displayed up to 2017, as 80% was covered by the scheme. The 2018 year-end situation is presented pro-forma, i.e. representing the exposure that would remain if all the significant portfolio sales signed in the year (and expected to be completed in 2019) had actually been completed in 2018. The balance of NPAs was reduced by over €13,200 million in 2018, of which over €10,000 million in organic transactions, which made it possible to normalise that balance. The remaining pro-forma exposure covered by the APS at 2018 year-end was marginal.

In addition to the good income statement performance by the Asset Transformation Business Unit, it also successfully managed its balance sheet, which was reduced significantly in pro-forma terms (considering the effect of the sale of large portfolios). Net loans and advances assigned to this unit declined by 65.5% year-on-year while real estate exposure was reduced by 71.6%.

Key business data

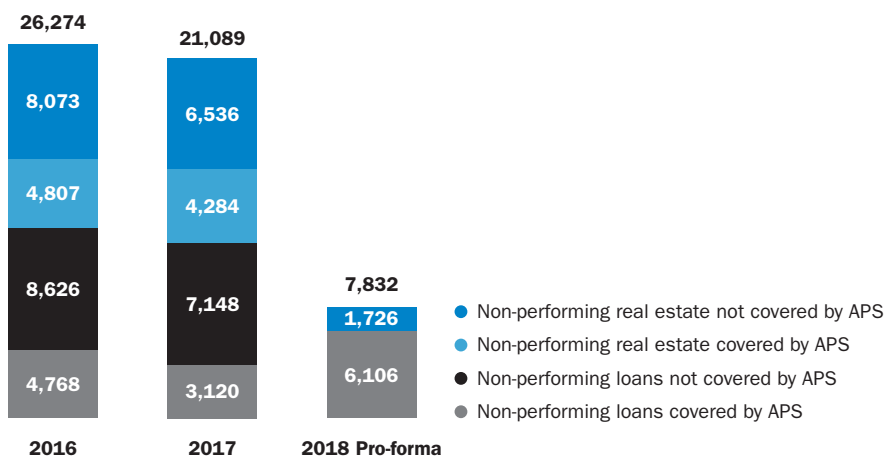
Net income in 2018 improved substantially with respect to the previous year, as the loss attributed to the Group amounted to -€477.7 million, meaning that the loss contribution halved with respect to the previous year (T11), including a very significant improvement in provisions and impairments in the year.

Net interest income in the Asset Transformation Business Unit was negative in the amount of €28.5 million, a notable improvement on the previous year, driven by higher interest recoveries on non-performing balances, the higher margin on performing assets, and lower interest costs.

The gross margin experienced a strong positive change, reaching €96.6 million, as a result of the improvement in net interest income, the positive contribution by trading transactions (which in 2017 included the negative impact of certain sales of portfolios of non-performing loans) and the progress by other products and operating expenses.

Administrative expenses and depreciation and amortisation declined by 14% year-on-year to -€139.8 million, reflecting cost containment and the first savings from the sale of real estate portfolios, which, though due to be formalised and completed in 2019, include agreements under which the buyer bears part of the associated expenses from the date of signature, which was in the third quarter of 2018.

This reduced the operating loss before provisions and impairments to €43.2 million. Provisions and impairments declined significantly year-on-year, to €520 million. This substantial improvement is explained by the extraordinary impairments booked in 2017, which did not recur in 2018, and, above all, by the improvement in credit quality, which resulted in lower impairments, since the figure for 2018 financial year also included -€178 million of marginal impairments to adjust the net value of the portfolios sold in the extraordinary transactions mentioned above to the sale price agreed with the buyers, an impact that will not recur in future years.



G3 Non-performing exposures
Data for 100% of APS excl. TSB
(€M)

€M

	2017	2018	% 18/17
Net interest income	(52)	(28)	(45.4)
Equity-accounted affiliates and dividends	(1)	—	(100.0)
Fees and commissions (net)	2	1	(30.4)
Net income from financial transactions, and exchange differences	(37)	5	—
Other operating income/expense	118	119	0.7
Gross income	30	97	220.9
Administrative expenses and depreciation and amortisation	(163)	(140)	(14.1)
Operating profit/(loss)	(133)	(43)	(67.5)
Provisions and impairments	(1,216)	(520)	(57.2)
Gain/(loss) on disposals	(14)	96	—
Gain/(loss) on derecognition of assets, etc.	41	—	(100.0)
Profit/(loss) before tax	(1,307)	(563)	(56.9)
Income tax	364	85	(76.5)
Profit/(loss) after tax	(943)	(478)	(49.4)
Non-controlling interest	—	—	—
Net attributable profit	(943)	(478)	(49.4)

T11 Key figures —
Asset Transformation

Ratios (%)

ROE (profit / average shareholders' equity)	—	—	—
Cost: income (general administrative expenses / gross income)	—	—	—
NPL ratio (%)	32.2%	33.5%	—
Stage 3 exposure coverage ratio (%)	49.9%	83.4%	—

Assets	15,384	11,907	(22.6)
Loans and advances to customers (net), excluding repos	3,865	1,332	(65.5)
Real estate exposure (net)	3,372	959	(71.6)
Liabilities	13,728	10,791	(21.4)
On-balance sheet customer funds	104	235	126.8
Intercompany funding	12,627	10,315	(18.3)
Assigned capital	1,656	1,116	(32.6)
Off-balance sheet customer funds	27	35	32.0

Other indicators

Employees	1,018	1,073	5.4
Branches	—	—	—

Solvía continued to perform dynamically and SDIN exceeded its targets in its first year of operation.

Solvía

Solvía, Banco Sabadell's real estate services provider, was very active in 2018. Solvía is one of the main real estate solution platforms, covering a broad range of services: from foreclosure, adaptation and administration to sale of real estate assets. It also provides doubtful loan management and settlement services for some customers.

In December 2018, it was agreed to sell 80% of Solvía to Lindorff Holding Spain, S.A.U., a company owned by the Intrum AB group, with a valuation of over €300 million. Upon completion of this transaction, scheduled for the first half of 2019, the Banco Sabadell Group will recognise an estimated capital gain of €138 million, evidencing the value that the Group has created with this company.

The company continued to develop its business by diversifying its customer portfolio. During the year, it added the portfolios of mutual funds as a result of providing appraisal services for those portfolios in competitive tender processes, and agreements were signed to market additional developments.

In 2018, the range of brokerage services (sale and rental) for individuals and companies continued to grow. Solvía continued to expand its team and, in particular, its own network of agents and consultants for companies, as well as expanding its footprint through the franchise network. At the end of 2018, it had 19 own offices and had signed contracts with 42 franchisees in the main Spanish cities.

The company continued to invest in its marketing capability, enabling it to remain in the lead in terms of brand recognition in 2018.

In 2018, Solvía property sales amounted to €1,439 million and the loan recovery activity which Solvía executes for Sareb remained very dynamic, generating €175 million in liquidity. Solvía marketed 78 real estate developments in the year for its clients, with sales exceeding €130 million.

SDIN

SDIN, a new subsidiary focused on real estate development and on providing services related to development for the Banco Sabadell Group, Sareb and others, was established in 2018; land and sites identified as having specific appreciation potential were transferred to SDIN for development.

In its first year of operation, SDIN established a presence in the most dynamic housing markets in Spain, including Barcelona, Madrid, Seville, Málaga, Valencia and Alicante. It currently has 134 developments under management, comprising 6,364 homes, of which 47 are

under construction (2,229 homes) and 50 are at the permit phase (2,369 homes). The others are at the design phase. It also has a bank of zoned and semi-zoned land for 173 future developments. A total of 680 homes were delivered to buyers in 2018.

The new subsidiary has also established itself as a key driver of the developer servicing business and multiplies the scope for gaining volume in this business by signing agreements with new clients. The ReDeS project, a joint venture to acquire, manage and develop homes that currently has 15 developments comprising 873 homes, is a particularly important development.

BS Capital

BS Capital is the department that manages the Banco Sabadell Group's industrial holdings. It focuses on acquiring temporary holdings in companies, with the main goal of maximising the return on investment.

In 2018, it drove the investment cycle in the defined action frameworks for each of the business areas, including notably the closure of three deals for Aurica III FCR (Agrosol Export, Winche Redes Comerciales and Grupo Larrumba), a new investment in a wind energy project in Mexico, and investment in more than 12 digital or technological startups (venture capital and venture debt).

Sabadell Venture Capital is Banco Sabadell's venture capital arm; its main objective is to provide early-stage support (seed capital, series A) to Spanish tech/digital startups that have strong growth potential.

Sabadell Venture Capital operates in the following areas:

- Venture capital: it acquires minority stakes, investing from €200,000 to €2 million per company with the aim of being the startup's financial partner and helping it to grow rapidly in areas such as strategy, internalisation and staff.
- Venture debt: Banco Sabadell was the first bank in Spain to launch a venture debt product. This funding product is aimed at startups to supplement series A capital and avoid diluting the shareholders. Loans amount to between €200,000 and €2 million per company, maturing in an average of 3 years. The debt is remunerated in the form of:
 - Interest payments.
 - Equity.

The portfolio of investees expanded in 2018 to reach 21 equity investments and 8 venture debt deals by year-end.

In its third year of operation, the Venture Capital department positioned itself as one of the leading investors in

Spain, and was recognized as one of the 10 most active corporate investors in Europe in 2018 according to the annual "The state of European Tech 2018" report published by Atomico, one of the world's leading venture capital funds.

Additionally, as part of Banco Sabadell's comprehensive strategy for the health sciences industry, it signed an investment agreement with Sabadell Asabys Health Innovation Investments, which specialises in drug discovery, medical devices and digital technology. It will focus on early-stage investment in biotech, medtech, digital health and innovative services in healthcare with the goal of reaching €60 million.

The department continued to actively manage its investments during the year, having divested PE Ausines, Saria Bioindustries International and Captio Tech; the latter, which focuses on managing personnel expenses using a mobile app, was acquired by its US rival Certify for €25 million, providing Sabadell Venture Capital with a sizeable return; it also advanced with divesting a number of venture capital funds. It also continued to work on formalising, managing and selling holdings acquired in debt restructuring and capitalisation processes. A noteworthy acquisition was Termosolar Borges.