Sabadell
Press release

Banco Sabadell profit amounts to €120.6 million for the first six months of the year, after de-risking its balance sheet and TSB's migration

- **Recurring net profit, excluding TSB's extraordinary costs and institutional NPA sales provisions, increased by 24.4% to €456.8 million.**

- **After the sale of non-performing assets amounting to €12.2 billion, NPAs (net of provisions) represent just 1.7% of the balance sheet.**

- **Strong commercial activity with loan growth of 4.6%* ex-TSB, driven by the solid performance of the SME segment and positive growth in mortgages to individuals in Spain.**

27 July 2018. Banco Sabadell ended the first half of 2018 with **net profit** of €120.6 million (€317.7 million ex-TSB), 67.2% less than in the same period last year, after assuming provisions for the reduction of €12.2 billion in non-performing assets, which has allowed it to eliminate practically all of its problematic real estate exposure. Costs associated with TSB's migration will be absorbed this year. Excluding these one-off items, recurring net profit increased by 24.4% year-on-year to €456.8 million.

In terms of the **capital position**, the phase-in CET 1 ratio stands at 11.9% and the fully-loaded ratio at 11.0% at the end of the second quarter of 2018. After closing the institutional sales of non-performing assets, which have had a positive impact, the fully-loaded CET1 pro forma ratio stands at 11.2% and the phase-in pro forma ratio at 12.2%.

NOTE: Information calculated on a like-for-like basis, assuming constant FX and excluding Sabadell United Bank, Mediterráneo Vida and TSB's Mortgage Enhancement portfolio contribution.
* Excludes the impact of the APS NPL run-off (i.e. the APS NPL run-off refers to the 80% of the APS problematic exposure, due to the DGF, which risk is presented as performing and the change in net loans and receivables account).

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The Group's **core banking business** (net interest income + net fees and commissions) has performed well, with a year-on-year growth of 3.6% ex-TSB.

The Group's **customer spread**, excluding one-offs, stood at 2.77% and remained stable during the quarter thanks to our ability to defend pricing. **Net interest income** ex-TSB grew by 1.0% during the quarter, underpinned by strong volumes and resilient SME yields. In year-on-year terms, the Group NII has remained stable, recording a 1.3% growth ex-TSB to €1,323.5 million.

Recurring operating **expenses** fell by 2.3% quarter-on-quarter. As at the end of June, they amounted to €1,336.0 million, increasing by 2.4% year-on-year. Non-recurring expenses during the year amounted to €143.2 million, mainly due to TSB migration and post-migration costs.

Balance sheet clean-up: net NPA to total assets ratio falls to just 1.7%

Following the sale of a number of portfolios of NPLs and foreclosed assets, which overall amounted to €12.2 billion, the **ratio of net NPAs** to total assets stands at 1.7%.

Taking into account institutional portfolio sales, **non-performing assets** have been reduced by €7,012 million in the quarter and by €9,547 million over the last 12 months, placing the balance at €7,911 million (€6,669 million in non-performing loans and €1,242 million in foreclosed assets).

Furthermore, organic sales in Solvia have increased by 55% during the quarter, resulting in a reduction in terms of the gross value of foreclosed assets of €439 million (3,943 units).

Provisions for NPLs and other impairments amounted to €806.3 million at the end of the second quarter of 2018 (€666.8 million ex-TSB), and included a provision of €92.4 million for customer remediation in TSB and €177.1 million in provisions for institutional portfolio sales.

The **NPL ratio** has been substantially reduced to 4.71% (5.77% ex-TSB), declining to 4.50% (5.53% ex-TSB) when considering portfolio sales. **NPA coverage** following portfolio sales stands at 54.6%.

Commercial strength: lending increases by 4.6% and mortgages to individuals in Spain increase

Performing loan volumes have grown by 3.7% (4.6% ex-TSB) year-on-year and by 2.9% (3.9% ex-TSB) in the quarter, driven by the solid performance of the SME segment and positive growth in mortgages to individuals in Spain.

On-balance sheet funds increased in constant FX by 2.8% (4.1% ex-TSB) year-on-year and by 2.2% (4.1% ex-TSB) quarter-on-quarter, boosted by the growth of sight accounts**.** **Sight account balances** amounted to €105,400 million (€74,942 million ex-TSB), representing a 9.4% increase year-on-year (11.7% excluding TSB), and a 3.5% increase quarter-on-quarter (5.9% ex-TSB).

Off-balance sheet funds increased by 1.2% in the quarter, mainly due to mutual funds. Equity in **mutual funds** amounted to €28,624 million at the end of the second quarter of 2018, representing a 10.3% increase year-on-year (1.7% quarter-on-quarter). Close to 300,000 customers already invest part of their savings in mutual funds.

The prices of new loans and products remained stable in the segments with the highest growth, thanks to our ability to defend pricing. **Market shares** improvements across segments reflects the dynamism of commercial activity in Spain.

New loans and credit lines to SMEs grew by 11% year-on-year, while consumer and mortgage loans increased by 16%. The rate at which Expansión accounts have been opened grew by 15% and cards turnover increased by 14%, the same as new insurance premiums, while POS turnover increased by 16%.

In Corporates, the market share of lending increased to 11.45% from 11.25% and POS turnover increased to 15.48% from 14.83%, while penetration in SMEs stood at 50.5%, 50 basis points above the latest available data from 2017 year-end. In individuals, the market share for lending was 5.48%, 7.76% for cards turnover and 6.25% for mutual funds.

During the first half of the year, the fast pace of commercial activity enabled the acquisition of 57,332 new corporates, 187,265 individuals, 136,448 payrolls and a total of 244,597 customers.

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Key developments during the quarter

Real estate asset clean-up practically complete
On 19 July 2018, Banco Sabadell agreed to transfer practically all of its real estate exposure to a subsidiary of Cerberus Capital Management L.P. (“Cerberus” and the “Transaction”). The overall gross book value of the real estate assets involved in the Transaction amounted to approximately €9.1 billion, and their overall net book value amounted to approximately €3.9 billion.

The Transaction has been structured through the transfer of two real estate asset portfolios, commercially known as Challenger and Coliseum, to one or more newly incorporated companies (“NewCo(s)”). The capital of the latter will be contributed and/or sold, as required, in such a way as to ensure that Cerberus ends up directly or indirectly holding an interest of 80% of the capital in such NewCo(s), with Banco Sabadell holding the remaining 20%. Banco Sabadell and Cerberus shall enter into an agreement to govern their relationship as partners of the NewCo(s).

Solvia Servicios Inmobiliarios, S.L.U. will continue to provide comprehensive management services (known as ‘servicing’) for the real estate assets involved in the Transaction on an exclusive basis.

The closing of the Transaction, once the corresponding authorisations have been received and the terms and conditions of each of the portfolios have been met, will entail the transfer of control over the real estate assets and, consequently, their derecognition from the consolidated balance sheet of Banco Sabadell Group.

The Transaction will contribute to improving Banco Sabadell Group’s profitability, requiring the recognition of additional provisions with a net impact of approximately €92 million, with a positive impact on Banco Sabadell’s fully-loaded Common Equity Tier 1 ratio of approximately 13 basis points.

On 24 July 2018, Banco Sabadell reached an agreement for the transfer of a portfolio of loans that, in turn, comprises three sub-portfolios, mostly mortgage loans, with an aggregate outstanding balance of approximately €2,295 million to Deutsche Bank and to Carval Investors (the “Transaction”). The Transaction will be closed once the relevant authorisations are obtained and the relevant conditions are fulfilled.

The Transaction will create a negative impact of 3 basis points on Banco Sabadell’s fully-loaded Common Equity Tier 1 ratio, which includes additional provisions with a net impact of approximately €32 million on results.

Rating upgrades assigned by S&P, Moody’s and DBRS
On 6 April 2018 S&P Global Ratings raised Banco Sabadell’s long-term credit rating to BBB from BBB- and its short-term rating to A-2 from A-3. The outlook is positive. This credit rating upgrade is based on the improvement in Banco Sabadell’s credit quality in a context of lower risk in the Spanish banking system, mainly due to its deleveraging, as well as improved investor confidence. On 28 June, S&P Global Ratings affirmed Banco Sabadell’s long-term credit rating of BBB, its short-term rating of A-2 and its stable outlook.

On 17 April 2018, Moody's Investors Service (Moody's) raised its credit rating of Banco Sabadell covered bonds to Aa1 from Aa2, and changed the credit rating outlook of Banco Sabadell deposits to positive from stable. These revisions have been made in light of Spain's sovereign rating, which was raised on 13 April 2018.

On 16 July, DBRS Rating Limited raised the outlook for Banco Sabadell to positive (from stable) and confirmed the long-term rating at BBB (high) and the short-term rating at R-1 (low). The change in trend to positive and the confirmation of the rating reflect the positive perception of the solid capitalisation of Banco Sabadell Group and the ongoing improvement in both asset quality and the profitability of core business in Spain.

InnoCells investments: entry into Israeli market with Cardumen Capital and acquisition of its first fintech, Instant Credit

InnoCells, Banco Sabadell's digital business hub, has invested €7.5 million in the venture capital fund Cardumen Capital. Incorporated in 2017 and regulated by the Spanish National Securities Market Commission (CNMV), Cardumen Capital launched the first Hispanic-Israeli fund in 2017 to invest in start-ups focusing on key areas of digital transformation, such as cybersecurity, artificial intelligence and big data.

In June, InnoCells acquired Instant Credit, a Spanish start-up that offers consumer loans in both physical and digital (e-commerce) points of sale. The company, created in 2016 and located in Barcelona, acts as an intermediary through a multi-financial and multi-channel technology platform that offers transparent, secure and instantaneous loans without having to fill in any paperwork.

BStartup reaches €150 million in loans to start-ups

BStartup, the Banco Sabadell support scheme for innovative seed-stage companies focusing on technology, now has over 2,700 customers with a start-up profile, and it has arranged over €150 million in loans to these types of companies.

It has also launched BStartup Health, a programme aimed at pre-seed and seed stage healthcare projects, in which most of the investment received is used to validate technology and business. Three projects from Spain will be selected in this year's first edition. Projects will be selected with the advice of a scientific committee, which will be formed of three prestigious investors and entrepreneurs who are experts in the world of healthcare: Carlos Gallardo, founder of CG Health Partners and member of the Board of Directors at Almirall, Doctor Damià Tormo, CEO and founder of Artax Biopharma Inc. and General Partner at Columbus Venture Partners, and Doctor Montserrat Vendrell, a partner at Alta Life Sciences.

Banco Sabadell creates Asabys Health Innovation fund with €60 million

Banco Sabadell and the management firm Asabys Partners, promoted by Josep Lluís Sanfeliu, have launched a new venture capital fund which will focus its investment activities on the healthcare innovation sector. The target is to reach €60 million. Specifically, the new instrument has been given the name "Sabadell Asabys Health Innovation Fund", and it plans to carry out investments initially within the healthcare industry, specifically in the fields of biotech, medtech, digital health and innovative services, mainly investing in Spain but also in the United Kingdom and Israel.

Banco Sabadell Profit & loss account (consolidated)

Sabadell

Figures in € million	Total group 30.06.2017	Total group 30.06.2018	Total group Change YoY	Total group Change at fixed FX	ExTSB 30.06.2017	ExTSB 30.06.2018	ExTSB Change YoY
Net interest income	**1.810,9**	**1.810,1**	**0,0%**	**0,8%**	**1.306,1**	**1.323,5**	**1,3%**
Income from equity method and dividend	35,5	36,7	3,3%	3,4%	35,5	36,7	3,3%
Net fees and commissions	600,1	636,7	6,1%	6,3%	551,9	601,7	9,0%
Results from financial transactions (net)	489,6	239,5	-51,1%	-51,0%	454,0	214,8	-52,7%
Foreign exchange (net)	4,9	6,3	28,6%	25,6%	4,9	5,2	6,5%
Other operating income / expense	-57,0	-98,4	72,6%	75,0%	-50,0	-55,3	10,6%
Gross operating income	**2.884,0**	**2.631,0**	**-8,8%**	**-8,3%**	**2.302,3**	**2.126,6**	**-7,6%**
Operating expense	-1.340,6	-1.479,2	10,3%	11,4%	-858,1	-913,5	6,5%
Non-recurrent	-35,6	-143,2	302,1%	310,9%	-4,9	-7,5	53,1%
Recurrent	-1.304,9	-1.336,0	2,4%	3,3%	-853,2	-906,0	6,2%
Amortisation & depreciation	-194,4	-176,6	-9,2%	-8,8%	-159,2	-137,1	-13,9%
Pre-provisions income	**1.349,0**	**975,1**	**-27,7%**	**-27,6%**	**1.285,0**	**1.076,0**	**-16,3%**
Provisions for NPLs and other impairments	-852,7	-806,3	-5,4%	-5,3%	-808,4	-666,8	-17,5%
Gains on sale of assets and other results	17,7	4,0	-77,5%	-77,3%	11,3	3,2	-71,7%
Profit before tax	**514,0**	**172,9**	**-66,4%**	**-66,3%**	**487,9**	**412,4**	**-15,5%**
Income tax	-144,3	-48,5	-66,4%	-66,3%	-131,8	-90,8	-31,1%
Consolidated net profit	**369,7**	**124,4**	**-66,4%**	**-66,3%**	**356,1**	**321,5**	**-9,7%**
Minority interest	1,6	3,8	139,5%	139,5%	1,6	3,8	139,5%
Attributable net profit	**368,1**	**120,6**	**-67,2%**	**-67,2%**	**354,5**	**317,7**	**-10,4%**

KEY FIGURES

Balances in € million	Total group 30.06.2017	Total group 30.06.2018	Total group Change YoY	Total group Change at fixed FX	ExTSB 30.06.2017	ExTSB 30.06.2018	ExTSB Change YoY
Total assets	212.802	215.935	1,5%	1,8%	165.607	168.776	1,9%
Performing gross loans	137.666	140.667	2,2%	2,5%	102.437	105.465	3,0%
Performing gross loans ex APS	131.446	135.877	3,4%	3,7%	96.217	100.675	4,6%
On-balance sheet customer funds	132.323	135.695	2,5%	2,8%	98.260	102.323	4,1%
Off-balance sheet customer funds	43.997	46.901	6,6%	6,6%	43.997	46.901	6,6%

RATIOS	Total group 30.06.2017	Total group 30.06.2018	ExTSB 30.06.2017	ExTSB 30.06.2018
Cost / income (ex amortisation) (%) (1)	51,33	57,11	42,32	43,80
Core capital / Common equity phase in (%)	12,7	11,9	--	--
NPL ratio	5,49	4,71	6,95	5,77
NPLs coverage (%)	47,1	57,0	47,1	57,2
Number of branches	2.548	2.471	1.997	1.920
Number of employees	26.384	25.915	17.940	17.778

NOTE: Sabadell United Bank, Mediterraneo Vida and Mortgage Enhancement data excluded in order to be comparable with previous periods.
(1) To calculate these ratios, gross operating income was adjusted considering recurrent trading income and linear accrual of the Deposit Guarantee Fund contribution.

See list and definition of Alternative Performance Measures in the Quarterly Financial Report: (https://www.grupbancsabadell.com/es/XTD/INDEX/?url=/es/INFORMACION_ACCIONISTAS_E_INVERSORES/INFORMACION_FINANCIERA/INFORMES_TRIMESTRALES/A_O_2016/?menuid=39324&language=es)

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