



Results at the end of 2018

**Banco Sabadell earns €328.1 million, and core banking revenue increases by 2.9%.**

***Sabadell completes the TSB migration.***

- The bank assumes €637.1 million of extraordinary costs and completes the balance sheet clean up.
- Net profit excluding one offs increases to €783.3 million, 9.6% higher.
- Performing loans grow by 3.2%\* (6.0% exTSB) driven by the strong activity in Corporates and SMEs in Spain and growth in Mexico. Gross loans increased for the first time since the start of the crisis, by 0.5%\* (1.8% exTSB)
- Proforma phase-in CET1 ratio <sup>(1)</sup> stands at 12.2% phase in and at 11.3% fully loaded
- The Board of Directors approves the payment of a final cash dividend for the amount of €0.01 per share, in addition to the €0.02 already paid

01 February 2018. Banco Sabadell Group has ended 2018 with **net attributable profit** of €328.1 million, after completing the TSB migration and completing the balance sheet clean-up, which have led to *one offs* for a total of €637.1 million. Excluding these one-offs, net profit increased by 9.6% year-on-year (amounting to €783.3 million).

**Core banking revenue** (net interest income + net fees) shows the strength of the business, with an increase, ex-TSB of 4.1% year-on-year and 2.4% growth quarter-on-quarter.). At Group level, year-on-year growth stands at 2.9%.

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. \* Excludes the impact of the APS NPL run-off (the APS run-off refers to 80% of the APS problematic exposure, the risk of which is assumed by the DGF, as well as the change in the net loans and receivables account). The APS NPL run-off as at Dec-18 refers only to the DGF receivable account.

(1) Proforma data considers RWAs released from institutional NPA sales announced in Q2 (+19bps), the capital gains from the sale of Solvia (+15bps) and the IFRS16 impact (-16bps).

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Net interest income amounts to €3,675.2 million at the end of 2018, representing 0.7% growth. Ex-TSB, net interest income amounts to €2,675.5 million, representing 1.1% year-on-year and quarterly growth, driven by the increase in volumes.

Customer spread continues to remain strong, and at the end of the quarter it reached 2.73% at Group level (2.68% ex-TSB) thanks to the volumes growth strategy, defending prices.

Net fees and commissions continue growing strongly year-on-year, standing at 9.6% (11.3% ex-TSB) mainly thanks to the positive performance of service and asset management fees, which have shown an excellent performance in year-on-year terms.

Operating expenses amount to €2,920.4 million at the end of 2018 (€2,680.8 million in the previous year). Non-recurrent costs in the year amounted to €246.0 million, mainly due to TSB migration and post-migration. Recurrent costs amounted to €2,674.3 million.

### **Lending growth in Spain (+6%) and leaders in service quality**

Group performing loans grew by 3.2%\* year-on-year (6.0% exTSB) driven by the good performance of Corporates and SMEs in Spain and strong growth in Mexico. New lending to companies increased by 7%, up to €55,594 million; and new mortgage loans improved by 17.5% up to €4,024 million. Consumer financing also increased by 14.8% to €2,173 million (including Sabadell Consumer Finance).

Gross performing loans ended 2018 with a balance of €139,366 million (€105,732) million excluding TSB) and show year on year growth, considering a constant exchange rate, of 1.5% (3.5% excluding TSB).

At the end of 2018, on-balance sheet customer funds amounted to €137,343 million (€104.859 million excluding TSB), representing an increase of 4.2% (7.3% excluding TSB) year-on-year, and 1.8% quarter-on-quarter (2.7% excluding TSB) supported by the increase in sight and term deposits.

In terms of off balance sheet customer funds, these amounted to €44,034 million at the end of 2018. Total Group assets amounted to €222,322 million, representing a 0.6% increase year-on-year and 2.3% in the quarter.

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. \* Excludes the impact of the APS NPL run-off (the APS run-off refers to 80% of the APS problematic exposure, the risk of which is assumed by the DGF, as well as the change in the net loans and receivables account). The APS NPL run-off as at Dec-18 refers only to the DGF receivable account.

In 2018, the acquisition of companies and individuals has been strong, with a total of 436,455 new customers. By segment, the Group has acquired 342,138 new individual customers and 93,802 companies. Furthermore, it is also worth highlighting that Sabadell has added 274,138 new salaries.

New loans and credit facilities to SMEs grew by 7% year-on-year, while new consumer and mortgage loans increased by 14%. The rate at which Expansion accounts are opened grew by 8%, and cards turnover increased by 14%, whilst new insurance premiums and POS turnover increased by 14% and 17% respectively.

This increase in customers is also coupled with an improvement in service quality, which exceeds the sector average. Banco Sabadell consolidates its leadership in SMEs and large enterprises. According to the results of the STIGA-EQUOS survey, Banco Sabadell has achieved a score of 8.17%, compared to the sector average which stands at 7.20%. The NPS indicator (*Net Promoter Score*) indicates that Banco Sabadell is #1 for large enterprises and SMEs and number #2 in Personal Banking.

## Cash dividend

The Board of Directors has approved the payment of a final cash dividend of €0.01 per share, in addition to the dividend already paid of €0.02 per share. In total, the dividend amounts to €0.03 per share, which represents a payout of 50%.

## Successful risk management

At the end of 2018 a significant reduction has been achieved in the Group's NPL ratio, which stands at 4.22% (5.04% ex-TSB).

Furthermore, it is worth highlighting the significant decline in non-performing assets, which have shown a reduction (ex-TSB) of €7,846 million in the year, after announcing the sale of institutional portfolios for the amount of €5,800 million. The organic reduction also stands out, amounting to €2,047 million in the year (€305 million in the quarter). NPA coverage reached 52.1%, whereas the NPL coverage ratio reached 54.1%.

All of this has led to a reduction in the Banco Sabadell Group net NPAs to total assets ratio, which stands at 1.8%. Thus it is anticipated that one of the main pillars of the Group's new strategic plan will be achieved in just one year.

NOTE: NPL ratio and coverage ratios expressed as 100% of APS. Changes in non-performing assets expressed as 20% APS.

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With regards to the **capital position**, the proforma phase-in CET1 ratio<sup>(1)</sup> stands at 12.2% whilst the fully-loaded Proforma ratio stands at 11.3% at the end of 2018.

## **Growth in Mexico and a new chapter at TSB**

The evolution of the business in Mexico continues to produce positive results, particularly with regard to the evolution of growth levels, both in the individuals as well as the companies segment. Thus, the volume of customer lending stands at 71,557 million pesos at the end of 2018, which represents a year-on-year increase of 36%. With regards to customer funds, these lie in excess of 28,000 million pesos, which represents a 327% increase compared to the previous year.

With regards to TSB, having overcome the incidents linked to the migration, a new chapter has been initiated in which the new platform will allow TSB to improve customer experience and develop the SMEs business. The new platform makes it possible for mortgage brokers to submit applications in half the time, compared to the old system.

Furthermore, it is now possible to open current accounts in branches in half of the time compared to pre-migration, and the launch of key savings products in the online channel in the middle of the last quarter has helped to increase inflows

It is also worth highlighting that 140,000 customers moved to TSB, compared to 80,000 customers who moved away from TSB, which consolidates the franchise, having overcome the migration incidents.

(1) Proforma data considers RWAs released from institutional NPA sales announced in Q2 (+19bps), the capital gains from the sale of Solvia (+15bps) and the IFRS16 impact (-16bps).



## ***Other key developments in the quarter***

### **TSB Board appoints Debbie Crosbie as CEO.**

In November, the Board of TSB, Banco Sabadell's subsidiary in the United Kingdom, publicly appointed Debbie Crosbie as the new CEO of TSB. Crosbie has managed the operations of British banking group CYBG, where she has worked during more than twenty years, and she will join TSB in 2019. The incorporation of the new CEO, a decision supported by Banco Sabadell, faces the main challenge of deploying the new SME business offer in the UK, which is key to the future of the institution.

### **Banco Sabadell agrees the sale of 80% of the share capital of Solvia Servicios Inmobiliarios, S.L.U ("Solvia") to Lindorff Holding Spain, S.A.U.**

On 14 December, Banco Sabadell agreed the sale of 80% of the share capital of Solvia Servicios Inmobiliarios, S.L.U ("Solvia") to Lindorff Holding Spain, S.A.U. a company belonging to Intrum AB group. Solvia has been valued at €300 million. The price corresponding to an 80% stake in Solvia may increase by a maximum of €40 million, provided that the conditions relating to the evolution of certain Solvia business lines are met. The closing of the transaction, which is subject to obtaining relevant authorisations, is expected to materialise in the second quarter of 2019. Banco Sabadell will obtain an estimated €138 million in capital gains, and the transaction will have a positive impact on the fully loaded CET1 ratio of 15 basis points.

### **Banco Sabadell gives notice of the decision to appoint KPMG Auditores, S.L. as the account auditor.**

On 20 December 2018, the Board of Directors of Banco Sabadell, based on a prior recommendation by the Audit and Control Committee, has agreed to appoint KPMG Auditores, S.L. as the auditor of Banco Sabadell and of the consolidated annual accounts of Banco Sabadell Group for the years 2020, 2021 and 2022. The Audit and Control Committee has based its recommendation on the results of a selection process carried out in accordance with that set forth in Regulation (EU) 537/2014 of 16 April, on the specific requirements regarding the statutory audit of public-interest entities.

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## **Banco Sabadell unifies its operations in Mexico to strengthen the business in this country.**

Banco Sabadell México has signed a purchase/sale contract with Banco Sabadell Spain for the SOFOM SabCapital, with the objective of consolidating its presence in the Latin American country. By signing this contract, Banco Sabadell México strengthens its business model by unifying its operations in the country.

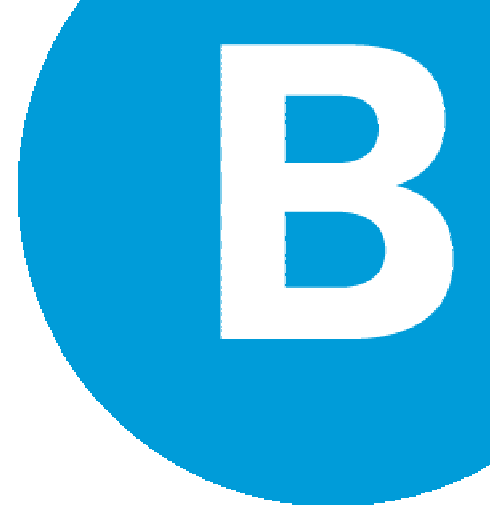
Via this transaction, Banco Sabadell Mexico has acquired a 49.27% stake, 1.73% more than it already held, becoming a creditor of a total stake of 51% of the SOFOM SabCapital. The transaction is a reflection of the positive results achieved by the entity in Mexico, which continues exceeding its growth perspectives year-on-year, ending 2018 with a placement 37% higher than in 2016, and 316% capture vs. 2017, which places the financial institutions as the ninth bank in the business and corporate portfolio, and the sixth bank with the highest growth in the sector in 2018.

## **Banco Sabadell launches a facial recognition payment system.**

The Technology Innovation Division of Banco Sabadell has launched a pilot test for customers to pay using facial recognition technology. This payment system allows retailers to obtain a very interesting data on consumer habits and actions.

## **Sabadell strengthens its voice banking strategy, using Siri for queries and operations.**

Banco Sabadell further develops its voice banking strategy. In this case, the bank's customers, users of the iOS operating system, can use voice technology to check their account balances or send and request money via Bizum, all by using virtual assistant Siri. In this way, Banco Sabadell is also adopting a completely new way of interacting with customers. iOS users who have the Banco Sabadell app (to check their account balance) and Sabadell Wallet (to send and receive money using Bizum) can enjoy this service without having to access the apps.



## BancoSabadell Profit & loss account (consolidated)

Figures in € million	Total group				EXTSB		
	31.12.2017	31.12.2018	Change YoY	Change at fixed FX	31.12.2017	31.12.2018	Change YoY
<b>Net interest income</b>	<b>3.662,9</b>	<b>3.675,2</b>	<b>0,3%</b>	<b>0,7%</b>	<b>2.647,6</b>	<b>2.675,5</b>	<b>1,1%</b>
Income from equity method and dividend	315,3	64,7	-79,5%	-79,5%	315,1	64,6	-79,5%
Net fees and commissions	1.219,9	1.335,3	9,5%	9,6%	1.122,9	1.250,1	11,3%
Results from financial transactions (net)	558,1	226,7	-59,4%	-59,3%	502,4	209,3	-58,3%
Foreign exchange (net)	8,4	-1,3	--	--	8,4	-1,6	--
Other operating income / expense	-195,1	-290,4	48,9%	49,2%	-179,3	-230,1	28,3%
<b>Gross operating income</b>	<b>5.569,6</b>	<b>5.010,2</b>	<b>-10,0%</b>	<b>-9,8%</b>	<b>4.417,2</b>	<b>3.967,7</b>	<b>-10,2%</b>
Operating expense	-2.680,8	-2.920,4	8,9%	9,4%	-1.751,4	-1.860,9	6,2%
Non-recurrent	-59,1	-246,0	316,6%	321,2%	-15,6	-40,2	158,6%
Recurrent	-2.621,7	-2.674,3	2,0%	2,4%	-1.735,9	-1.820,7	4,9%
Amortization & depreciation	-398,9	-353,1	-11,5%	-11,4%	-326,2	-264,5	-18,9%
<b>Net income before provisions</b>	<b>2.489,9</b>	<b>1.736,8</b>	<b>-30,2%</b>	<b>-30,1%</b>	<b>2.339,5</b>	<b>1.842,3</b>	<b>-21,3%</b>
Provisions for NPLs and other impairments	-2.197,5	-1.320,4	-39,9%	-39,9%	-2.108,7	-1.089,4	-48,3%
Gains on sale of assets and other results	432,7	2,5	-99,4%	-99,4%	426,0	1,2	-99,7%
<b>Profit before tax</b>	<b>725,1</b>	<b>418,9</b>	<b>-42,2%</b>	<b>-41,9%</b>	<b>656,9</b>	<b>754,1</b>	<b>14,8%</b>
Income tax	-4,4	-83,6	--	--	25,3	-179,0	--
<b>Consolidated net profit</b>	<b>720,7</b>	<b>335,2</b>	<b>-53,5%</b>	<b>-53,2%</b>	<b>682,2</b>	<b>575,2</b>	<b>-15,7%</b>
Minority interest	3,7	7,1	92,0%	92,0%	3,7	7,1	92,0%
<b>Attributable net profit</b>	<b>717,0</b>	<b>328,1</b>	<b>-54,2%</b>	<b>-54,0%</b>	<b>678,5</b>	<b>568,0</b>	<b>-16,3%</b>

PRO MEMORIA Balances in € million	Total group				EXTSB		
	31.12.2017	31.12.2018	Change YoY	Change at fixed FX	31.12.2017	31.12.2018	Change YoY
Total assets	221.348	222.322	0,4%	0,6%	173.203	176.140	1,7%
Performing gross loans	137.522	139.366	1,3%	1,5%	102.119	105.732	3,5%
Performing gross loans ex APS	131.287	135.279	3,0%	3,2%	95.884	101.646	6,0%
Customer-based funding on balance sheet	132.096	137.343	4,0%	4,2%	97.686	104.859	7,3%
Customer-based funding off balance sheet	45.325	44.034	-2,8%	-2,8%	45.325	44.034	-2,8%

RATIOS	Total group		EXTSB	
	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Cost / income (ex amortisation) (%)	50,15	58,29	42,10	46,90
Core capital / Common equity phase in (%)	13,4	12,0	--	--
NPLs / Gross loans (%) (1)	5,14	4,22	6,57	5,04
NPLs coverage (%)	45,7	54,1	45,6	54,3
Number of branches	2.473	2.457	1.922	1.907
Number of employees	25.845	26.181	17.558	17.828

NOTE: Sabadell United Bank, Mediterraneo Vida and Mortgage Enhancement data excluded in order to be comparable with previous periods.

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