

Banco Sabadell net profit reaches €450.6M as of June, a 10% increase, and improves financial margins across the board

- Income from the Group's banking business (net interest income + net fees and commissions) increased by 3.5%. Net interest income increased by 2.4% year-on-year and by 1.3% quarter-on-quarter.
- Income received from the Sabadell United Bank and BanSabadell Vida transactions will increase the NPA coverage ratio to 54%. This will bring an end to losses on sales of foreclosed assets and will allow Banco Sabadell to reduce future provisions needs.
- The volume by which non-performing assets were reduced in June increased to €1,159 million, meaning that we are moving towards achieving our year-end target faster than planned.
- TSB's balance sheet continues to grow, and customer lending increased by 3.6% quarter-on-quarter and by 16.6% year-on-year due to the resilience of the franchise. It already has over five million customers.

28 July 2017. Banco Sabadell Group achieved, up to June 2017, **net profit** of €450.6 million, representing a 10.0% increase compared with the same period in 2016 considering a constant exchange rate, due to the solid growth of 3.5% in income from the Group's banking business (net interest income + net fees and commissions).

Net interest income has increased again this quarter by 1.3% quarter-on-quarter and by 2.4% year-on-year, considering a constant exchange rate, to €1,936.9 million, whilst the **customer spread** grew to 2.81% (2.77% in the previous quarter), driven by the reduced cost of customer funds.

The phase-in CET1 ratio rose to 12.67% at the end of June, from 11.94% at the end of March, and the **fully-loaded CET1** ratio stood at 12.13% in June. Including the sale of Sabadell United Bank (excluding surplus gains), this ratio will increase to 12.5%.

Press Department

sabadellpress@bancosabadell.com

International callings: +34 935 916 360

 Sabadell TV



@SabadellPress



More information on Banco Sabadell: www.bancosabadell.com · Press Room

Strong growth of off-balance sheet funds, increase in lending and over €100 billion in sight accounts

Total off-balance sheet customer funds amounted to €43,997 million at the end of June 2017, a 17.2% increase compared with the previous year (a 5.1% increase quarter-on-quarter). Equity in mutual funds amounted to €25,943 million at 30 June 2017, representing a 22.8% increase year-on-year (8.3% quarter-on-quarter).

Balance sheet momentum remains positive, with the **Group's performing loans** increasing over the last three months by 2.3% quarter-on-quarter and 4.5% year-on-year when adjusting for the return of TSB's Mortgage Enhancement portfolio to Lloyds (*explained in page 4 of the section on TSB*).

As at June 2017, **on-balance sheet customer funds** amounted to €135,928 million (€101,864 million excl. TSB) and represented a year-on-year increase of 3% (1.8% excl. TSB), considering a constant exchange rate, and a quarter-on-quarter growth of 2.4% (2.6% excl. TSB).

Sight account balances exceeded €100 billion for the first time. At the end of June, they amounted to €99,512 million (€70,231 million excluding TSB), a 14.9% increase year-on-year (18.0% excl. TSB), and a 4.1% increase quarter-on-quarter (5.1% excl. TSB).

Commercial activity has maintained a positive pace over the first half of the year, resulting in the acquisition of 285,883 customers up to June (excl. TSB). Overall, over 209,000 individual customers, 133,830 direct deposits of salaries and 76,553 corporate customers have been acquired. Consumer lending has increased by 18.3% compared to last year, to €623 million from January to June 2017, with an increase in the volume of transactions of 18.7%. The volume of mortgage loans has grown by 13.4% to €1,709.2 million. The number of contracts has increased by 8.5%. In the UK, TSB now has over five million customers.

Market shares have continued to improve across all products during the second quarter compared with the preceding year. In the **corporates** segment, at the end of June, activity in POS terminals was notable, with Banco Sabadell's market share increasing to 14.97%, up from 13.89%, and export activity stood at 13.20%, up from 11.02%. The market share in terms of lending also increased to 11.30% from 11.02%. In the **individuals'** credit card segment, the market share improved to 7.94% from 7.49%, that of investment funds improved to 6.34%, from 5.95% and household deposits to 6.31% from 5.85%.

Press Department
sabadellpress@bancosabadell.com

International callings: +34 935 916 360

 Sabadell TV



@SabadellPress

More information on Banco Sabadell: www.bancosabadell.com · Press Room





End of losses on sales of foreclosed assets

Income received from the Sabadell United Bank and BanSabadell Vida transactions will increase the **NPA coverage ratio** to 54% (52% excluding floors), which will bring an end to losses on the sale of foreclosed assets in future. Banco Sabadell has strengthened its solvency position by improving both its capital and accumulated provisions levels. The **NPL coverage ratio** will stand at 52.9% and the **foreclosed asset coverage ratio** at 55.1%.

The NPL ratio has continued to decline and at June stood at 5.49% (includes data from Sabadell United Bank) compared with 5.86% at the end of March (6.95% excl. TSB).

During the first half of the year, **problematic assets** were reduced by €1,159 million (of which €1,041 million correspond to doubtful exposures and €118 million to foreclosed assets), which means that the bank is progressing towards achieving its year-end target at a faster rate than expected. The reduction of problematic assets during the last twelve months excluding TSB amounted to €2,442 million. The second quarter of 2017 has been the fourth consecutive quarter in which there has been a reduction in foreclosed assets.

Insolvency provisions and other impairments amounted to €850.9 million at June 2017 compared with €901.8 million as at June 2016, representing a decrease of 5.6%. The extraordinary trading gains materialised during the year were used to frontload provisions.

Digital transformation: the number of digital customers reaches 4.2 million

The strong commitment of Banco Sabadell to digital transformation and the provision of new remote services to customers has resulted in an increase in the number of **digital customers** of 7%, reaching 4.2 million. 85% of **transactions** in Spain are carried out using remote channels and digital sales account for close to 20% of the total.

Sabadell's commitment to its digital transformation is also evidenced with the creation in May of its new hub of digital businesses, **InnoCells**, a model for collaborative innovation which aims to accelerate the development of new digital products and services, creating a point of contact between the entrepreneurial ecosystem and the bank's experience. One of the first products developed by InnoCells has been **Kelvin Atlas, the first real-time open data portal of the Spanish banking sector**. The tool allows users to view and share detailed information relating to the economy, sales and tourism, made possible due to the use of entirely anonymous and fully protected Big data, using an interactive map that is continuously updated.

Press Department
sabadellpress@bancosabadell.com

International callings: +34 935 916 360



@SabadellPress



More information on Banco Sabadell: www.bancosabadell.com · Press Room

Another important milestone has been the creation of **Red Lyra, the multi-sectoral blockchain network** that has become a worldwide benchmark, in which Banco Sabadell was a founding member. Red Lyra is a multi-sector consortium of companies that are pioneers in their different industries which develops new systems and services to allow, to give one of many examples, any individual or company in Spain to identify itself digitally in a secure manner.

TSB increases its customer lending by 16.6% and now has over 5 million customers

TSB's balance sheet momentum remains positive, with the franchise's **customer lending**, together with its Whistletree portfolio, increasing by 3.6% quarter-on-quarter and by 16.6% year-on-year. Another example of the resilience of the franchise and the Whistletree portfolio is its **net interest income**, which grew by 3.6% quarter-on-quarter and 8.6% year-on-year. **Deposits** increased by 6.4% during the year and by 0.8% during the quarter, driven by the growth of sight accounts.

The market share of newly opened **current accounts** stands at 6%, in line with the franchise's forecasts, and in the first half of 2017 alone TSB has granted **new loans and mortgages** amounting to £4.1 million compared to the total amount granted during 2016 of £6.6. The **total number of customers** surpassed 5 million during the quarter, representing an annual growth of 3.3%. Customers continue to recommend TSB to their families and friends, and its NPS (an indicator of service quality) reached +24 points during the first half of 2017.

TSB has also returned the mortgage portfolio known as Mortgage Enhancement to TSB early (early call), after achieving its target of £230 million in profit ahead of schedule, due to the good performance of the business in the TSB franchise. It was not expected to be in this position until 2018.

The migration to the new technology platform is proceeding according to schedule, alongside the development of new technological advances aimed at customers. TSB will be the first European bank to introduce iris scanning technology to its mobile app from September. This secure and simple system, which is the next step within the area of biometric authentication within the banking sector, will be incorporated into TSB's mobile app, which is already operational, built on Banco Sabadell's platform in the UK, Proteo4UK.

Other key developments

Press Department
sabadellpress@bancosabadell.com

International callings: +34 935 916 360

 **Sabadell** TV



@SabadellPress

More information on Banco Sabadell: www.bancosabadell.com · Press Room





The bank's rating by S&P has been raised and it has been restored to investment grade by all three agencies

On 27 June 2017 S&P Global Ratings raised Banco Sabadell's long-term credit rating to BBB- from BB+ and its short-term rating to A-3 from B. The trend remains positive.

The rating action reflects the belief of S&P Global Ratings that Banco Sabadell has continued to strengthen its solvency and that it continues to make progress in de-risking its balance sheet.

On 10 May 2017, Moody's carried out rating actions in different Spanish banking groups, as a result of the change of Spain's banking Macro Profile (Baa2 stable) to "Strong-" from "Moderate+", as well as the continuous improvement of bank lending fundamentals, particularly those relating to asset risk. Moody's confirmed the long-term deposits rating of Banco Sabadell of Baa2 with a stable trend and the long-term senior debt rating of Baa3, changing the trend to positive from stable.

Banco Sabadell's rating has been restored to "investment grade" by all three agencies: S&P, Moody's and DBRS.

Issue of €750M in convertible bonds to strengthen Additional Tier 1

On 5 May Banco Sabadell carried out an issuance of perpetual securities convertible into new ordinary shares of Banco Sabadell (issuance of AT1) the nominal amount of which was €750 million and with a 6.5% coupon.

BanSabadell Vida has reinsured its insurance portfolio for €683.7 million

On 24 July BanSabadell Vida announced its agreement with Swiss Re to enter into a reinsurance contract for its individual life insurance portfolio in exchange for a reinsurance commission of €683.7 million. Swiss Re will take on the risks of this portfolio, whilst BanSabadell Vida will continue to carry out the administrative management of the reinsured policies. It should be noted that this is the first transaction of these characteristics to take place in Spain since the new Directive known as Solvency II came into force.

Sabadell Consumer Finance obtains banking licence

In July, Bank of Spain confirmed the effective transformation of Sabadell's subsidiary which specialised in consumer finance, Sabadell Consumer Finance, into a banking institution. This will constitute a new driver of growth for the Group and will provide Sabadell Consumer Finance with its own profile in order to become a reference in the consumer loans industry. Consumer finance plays an important role in the economic development of the country and represents a fundamental pillar of its financial system.

The latest market forecasts point towards a recovery of consumer finance volumes, with a high growth potential over coming years.

Value enhancement of the hotel platform Hi Partners

Press Department

sabadellpress@bancosabadell.com

International callings: +34 935 916 360



@SabadellPress



More information on Banco Sabadell: www.bancosabadell.com · *Press Room*

The hotel platform Hi Partners has consolidated its position as leader in Spain in record time, managing over 3,700 rooms in 14 hotels. Given the strength of its activity, Banco Sabadell is researching strategic alternatives relating to its financing and future development. These include an eventual total or partial divestment, including a potential flotation on the Stock Exchange.

Closed sale of Sabadell United Bank

In June, local authorities in the US authorised the purchase of Sabadell United Bank by IBERIABANK Corporation. The subsidiary has been sold for USD 1,025 million (approximately €967 million).

Funding facility of €10 billion available for companies which have an association with CEOE

Banco Sabadell's CEO, Jaime Guardiola, and the President of the Spanish Confederation of Business Organisations (CEOE), Juan Rosell, signed an agreement in May to place a funding facility at the disposal of companies with an association with CEOE of €10 billion with preferential terms. Whilst its the ultimate objective is to improve competition in the Spanish economy, in the first instance this agreement seeks to fund companies' sales, access to new markets (both national and international) and support their development and growth processes.

The European Investment Bank (EIB) and Banco Sabadell invest €800 million in SMEs

The European Investment Bank (EIB) and Banco Sabadell will place at the disposal of Spanish SMEs a total of €800 million in order to support their investments and facilitate the development of new projects, particularly in the service and industry sectors. To this end, the EIB will provide Banco Sabadell with a loan of €400 million which will be supplemented by an additional contribution by the entity of a further €400 million.

Press Department

sabadellpress@bancosabadell.com

International callings: +34 935 916 360

 **Sabadell** TV



@SabadellPress



More information on Banco Sabadell: www.bancosabadell.com · *Press Room*

BancoSabadell Profit & loss account (consolidated)



Figures in € million	Total group				ExTSB		
	30.06.2016	30.06.2017	Change YoY	Change at fixed FX	30.06.2016	30.06.2017	Change YoY
Net interest income	1.942,5	1.936,9	-0,3%	2,4%	1.392,4	1.413,8	1,5%
Income from equity method and dividend	48,8	36,1	-26,0%	-26,1%	48,8	36,1	-26,0%
Net fees and commissions	570,2	603,0	5,7%	7,0%	503,8	556,1	10,4%
Results from financial transactions (net)	502,8	545,4	8,5%	9,6%	447,9	455,9	1,8%
Foreign exchange (net)	14,7	4,9	-66,8%	-66,8%	14,7	4,9	-66,8%
Other operating income / expense	-98,9	-82,9	-16,2%	-14,7%	-82,1	-75,9	-7,6%
Gross operating income	2.980,2	3.043,4	2,1%	4,3%	2.325,4	2.390,9	2,8%
Operating expense	-1.325,6	-1.378,3	4,0%	7,1%	-906,2	-895,9	-1,1%
Non-recurrent	-30,8	-35,9	16,6%	20,2%	-14,2	-5,2	-63,5%
Recurrent	-1.294,8	-1.342,4	3,7%	6,8%	-892,0	-890,7	-0,1%
Amortization & depreciation	-194,0	-197,4	1,7%	3,6%	-156,3	-162,1	3,7%
Net income before provisions	1.460,6	1.467,7	0,5%	1,9%	1.262,9	1.332,9	5,5%
Provisions for NPLs and other impairments	-901,8	-850,9	-5,6%	-5,7%	-901,8	-806,7	-10,6%
Gains on sale of assets and other results	35,3	17,6	-50,0%	-50,3%	35,3	11,3	-68,1%
Profit before tax	594,0	634,4	6,8%	10,7%	396,3	537,5	35,6%
Income tax	-166,6	-182,2	9,4%	12,7%	-114,7	-150,6	31,3%
Consolidated net profit	427,4	452,2	5,8%	9,8%	281,7	386,9	37,4%
Minority interest	2,1	1,6	-22,9%	-22,9%	2,1	1,6	-22,9%
Attributable net profit	425,3	450,6	5,9%	10,0%	279,6	385,3	37,8%

Balances in € million	Total group				ExTSB		
	30.06.2016	30.06.2017	Change YoY	Change at fixed FX	30.06.2016	30.06.2017	Change YoY
Total assets	207.891	217.458	4,6%	6,0%	164.493	170.263	3,5%
Gross loans and advances to customers (1) (2)	149.921	149.948	0,0%	1,5%	116.043	114.524	-1,3%
Customer-based funding on balance sheet (2)	134.152	135.928	1,3%	3,0%	100.100	101.864	1,8%
Customer-based funding off balance sheet	37.555	43.997	17,2%	17,2%	37.555	43.997	17,2%
Shareholders' equity	12.647	13.188	4,3%				

RATIOS	Total group		ExTSB	
	30.06.2016	30.06.2017	30.06.2016	30.06.2017
Cost / income (ex amortisation) (%) (3)	49,97	51,81	44,26	42,83
Core capital / Common equity phase in (%)	11,9	12,7	--	--
NPLs / Gross loans (%) (2)	6,83	5,49	8,54	6,95
NPLs coverage (%) (2)(4)	54,1	51,0	53,9	51,0
Number of branches	2.806	2.548	2.202	1.997
Number of employees	25.990	26.384	17.922	17.940

(1) Excluding repos and deposits in credit institutions. (2) Sabadell United Bank data included as of June 2017 in order to be comparable with previous periods. (3) To calculate these ratios, gross operating income was adjusted considering recurrent trading income and linear accrual of the Deposit Guarantee Fund contribution. (4) As of June 2017, the group and ex TSB coverage ratio, excluding the mortgage floors provisions, stands at 47.1%.

See list and definition of Alternative Performance Measures in the Quarterly Financial Report:

https://www.grupbancosabadell.com/en/XTD/INDEX?url=https://www.grupbancosabadell.com/en/INFORMACION_ACCIONISTAS_E_INVERSORES/INFO-RMACION_FINANCIERA/INFORMES_TRIMESTRALES/A_O_2017/?menuid=39324&language=en

Press Department
sabadellpress@bancosabadell.com

International callings: +34 935 916 360



@SabadellPress

 **Sabadell TV**

More information on Banco Sabadell: www.bancosabadell.com · Press Room

