



Banco Sabadell's net profit reaches €653.8M up to September and its fully-loaded CET1 ratio stands at 13%

- Banco Sabadell maintains its annual profit objective at €800 million.
- Net interest income increases by 5.0% year-on-year and by 2.4% compared to the previous quarter in comparable terms¹.
- The third quarter is characterised by a comparable increase of the loan portfolio of 5.0% year-on-year¹.
- Extraordinary gains on recent transactions have pushed the fully-loaded CET1 ratio up to 13%, the highest of all domestic listed banks, and the NPA coverage ratio to 52.8%.
- Problematic assets up to September have been reduced by €1.7bn. The high level of coverage has allowed foreclosed assets to be sold for an average profit of 2.6%.
- The Board of Directors has approved the distribution of an interim dividend of €0.02 per share.

27 October 2017. Banco Sabadell Group achieved, up to September 2017, **net profit** of €653.8 million, representing a 4.2% increase compared with the same period in 2016 considering a constant exchange rate, thanks to the solid growth of 5.2% in income from the Group's banking business (net interest income + net fees and commissions) in comparable terms¹. This growth rate means that the bank is on target to achieve its annual profit objective of €800 million.

(1) All comparable figures exclude Sabadell United Bank, Mediterráneo Vida and TSB's Mortgage Enhancement portfolio, considering a constant exchange rate.

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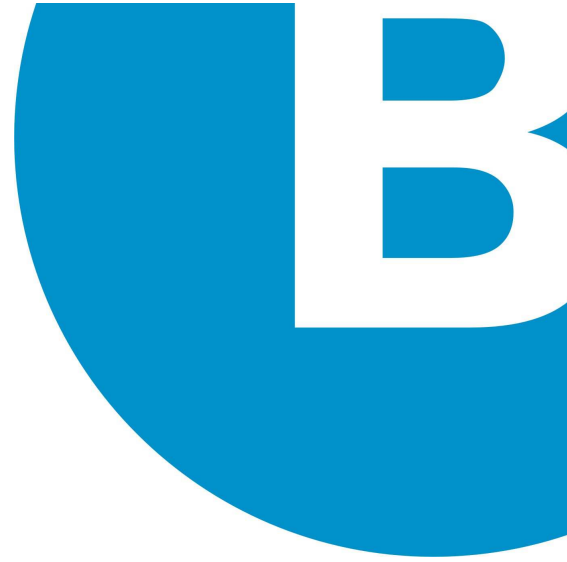
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Quarterly **net interest income** amounts to €940.9 million due to positive volumes and the lower cost of customer funds. NII increased again this quarter, by over 2.4% (2.2% excl. TSB) and by 5.0% year-on-year (3.2% excl. TSB) considering a constant exchange rate and in comparable terms¹. The **customer spread** stands at 2.79%.

High levels of capital and asset coverage

Banco Sabadell continues to strengthen its solvency position, jointly considering capital levels and accumulated provisions. The sound generation of capital throughout the first nine months of the year has allowed the bank to reach a **phase-in CET 1 capital ratio** of 13.2%, compared with 12.1% one year ago. The fully-loaded CET1 ratio stands at 13% (including +30bps following the sale of HI Partners and the stake in IberiaBank) at the end of September, the highest level of solvency of domestic listed banks. Banco Sabadell has therefore approved the distribution of an interim dividend of €0.02 per share.

Insolvency provisions and other impairments amounted to €1,967.8 million as at September 2017, compared to €1,113.5 million as at September 2016. Extraordinary gains from trading income, together with the capital gains on the sale of Sabadell United Bank and the reinsurance of BanSabadell Vida, which have materialised during the year, have been allocated in their gross value to extraordinary provisions.

The **NPA coverage ratio** stands at 52.8% (51.5% excluding floor clauses), with **the plan to reduce problematic assets** moving forward at a good pace, reducing these assets excl. TSB by €1.7bn during the year with a net profit of 2.6% during the last three months. Over the **last twelve months, the reduction of problematic assets** amounts to €2,316 million.

The **NPL coverage ratio** stands at 51.4% (48.8% excluding floor clauses) and the **foreclosed asset coverage ratio** at 54.2%. The **NPL ratio** continues to decline and stood at 5.40% as at September (6.90% excl. TSB) compared with 5.62% at the end of June in comparable terms (7.16% excl. TSB).

(1) All comparable figures exclude Sabadell United Bank, Mediterráneo Vida and TSB's Mortgage Enhancement portfolio, considering a constant exchange rate.

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Increase of 5.0% in the loan portfolio

Balance sheet momentum over the last three months has led to a **growth in performing loans** of the Group of 5.0% year-on-year considering a constant exchange rate (excluding TSB's mortgage enhancement portfolio, which has been returned to Lloyds, and Sabadell United Bank), with an **improvement in the business mix**. Compared with the previous quarter, performing loans grew by 0.3% considering a constant exchange rate, despite the seasonality associated with this quarter. **Performing gross loans** ended September 2017 with a balance of €137,833 million.

On-balance sheet customer funds increased year-on-year by 3.7% considering a constant exchange rate (3.5% excluding TSB), amounting to €131,295 million as at September (€96,958 million excluding TSB). There has been a growth of both sight accounts and off-balance sheet funds, mainly backed by the increase in mutual funds.

Sight account balances amounted to €98,625 million (€68,936 million excluding TSB), a 17.6% increase year-on-year considering a constant exchange rate (23.3% excluding TSB) and a 2.4% increase quarter-on-quarter (2.8% excluding TSB).

Total **off-balance sheet customer funds** amounted to €45,129 million at the end of September 2017, a 13.6% increase compared with the previous year (a 2.6% increase quarter-on-quarter).

Equity in **mutual funds** amounted to €26,920 million at 30 September 2017, representing a 21.2% increase year-on-year (3.8% quarter-on-quarter).

In **TSB**, franchise lending (together with the Whistletree portfolio) continues to perform well, driven by the growth in mortgage lending: increasing by 2.2% quarter-on-quarter and 15.5% year-on-year. Customer funds increased by 4.5% during the year and by 1.1% during the quarter, driven by the increase of current accounts.

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Commercial activity has maintained a positive pace during the first nine months of the year, resulting in the acquisition of 405,496 customers up to September (excl. TSB). Overall, 302,491 **individual customers**, 200,000 direct deposits of **salaries** and 103,005 **corporate customers** have been acquired.

Consumer lending has increased by 19.5% compared to last year, to €1,419 million from January to September 2017. In terms of **insurance**, the volume has increased by 22.5%.

Market shares have continued to improve across all products during the third quarter compared with the preceding year. In the **corporates** segment, at the end of September, the market share of Banco Sabadell in export documentary credit is particularly noteworthy, reaching 31.14% compared to 30.27% in the previous year, as is activity in POS terminals, increasing to 15.26% from 14.12%. The market share in terms of lending is also worthy of note, increasing to 11.30% from 11.02%. In the **individuals'** card turnover segment, the market share rose to 7.73% from 7.46%, that of mutual funds improved to 6.37%, from 6.07% and household deposits to 6.42% from 5.94%.

Digital customers increase by 10%

Banco Sabadell's commitment to digital transformation is unwavering, and the provision of new remote services to customers has led to a 10% increase in the number of **digital customers**, reaching 4.3 million. The number of mobile customers has increased by 15% year to date, and the number of those operating through the Active Management services has increased by 22% in Spain. 74% of usual transactions during the third quarter have been carried out using these services.

Digital sales in Spain account for 19% of the total, and for over 58% in the UK. The remote contracting of loans has soared, increasing by 87% over the last year, whilst downloads of Sabadell Wallet have increased by 69%, with 15% of all digital sales taking place through Bizum, the multi-bank payment platform. In Spain, monthly website and mobile traffic through BSOOnline and Sabadell Mobile, respectively, has increased by 21% over the last twelve months, with up to 33 million connections.

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Banco Sabadell's new digital business hub, **InnoCells**, created in May, has joined Kelvin Atlas, the first real-time open data portal of the Spanish banking sector, **in making its first investment** in British fintech start-up, Bud, the leading UK platform in aggregating financial services and products into a single marketplace. Through its vehicle, **InnoCapital**, Innocells has co-led an investment round of £1.5 million (around €1.6 million) in seed capital from different investors. Bud has agreements with over 60 financial service firms that it links together with retail banks in the UK, allowing financial institutions to innovate at a fast pace and improve customers' experience.

The other two start-up investment vehicles, **BStartup10** and **Sabadell Venture Capital**, continue to be active participants in the entrepreneurial ecosystem **with more than 45 start-ups in their portfolio**. Over **2,500 start-ups** are already Banco Sabadell customers.

Banco Sabadell is also one of two companies sharing the role of **deputy chairmanship** of the **first national regulated multi-sectoral network based on blockchain in the world, Alastria** (formerly, Lyra). The Alastria consortium, formed of over 70 different companies, will develop the technology for shared accounting records, in a bid to become the new data exchange ecosystem that will enable and accelerate the digital transformation of a number of industrial and business sectors over the next few years thanks to its agility, accuracy, security and efficiency. Alastria was created to accelerate the creation of digital ecosystems by making a common collaborative platform available to them.

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Net interest income of the TSB franchise increases by 10.5%

Franchise **lending** continues to perform well, driven by the growth in mortgage lending. The franchise's **customer lending**, together with its Whistletree portfolio, has increased by 2.2% quarter-on-quarter and 15.5% year-on-year.

Another example of the resilience of the franchise and the Whistletree portfolio is its **net interest income**, which grew by 3.2% quarter-on-quarter and 10.5% year-on-year.

In TSB, customer funds increased by 4.5% during the year and by 1.1% during the quarter, driven by the increase in current accounts. In line with TSB's long-term objectives, 6.4% of customers switching banks or opening a new account in the UK over the last 12 months have chosen TSB.

Customers continue to recommend TSB to their families and friends, and its NPS (an indicator of service quality) reached +24 points up to September.

Other key developments

Interim dividend out of the earnings of 2017 amounting to €0.02 (gross) per share

On 26 October 2017 the Board of Directors has resolved to distribute an interim dividend out of the earnings of 2017 amounting to €0.02 (gross) per share, which shall be paid on 29 December 2017, the ex-dividend date being 27 December 2017.

Legal domicile moved to Alicante

On 5 October, the Board of Directors of Banco Sabadell resolved to move its legal domicile to the city of Alicante. Banco Sabadell made this decision with a view to safeguarding the interests of customers, shareholders and employees. The bank has continued to provide, without any disruption whatsoever, financial services to all of its customers and companies in all of the territories in which the bank operates under the supervision of the European Central Bank and the regulation of the European Banking Authority.

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The change in legal domicile does not entail any relocation of employees, as the bank has corporate and operational centres in various cities in Spain and the UK.

Sale of HI Partners

On 17 October, Banco Sabadell announced the sale of 100% of its hotel management platform, Hotel Investment Partners, to Halley Holdco S.à r.l., an entity controlled by funds managed by subsidiaries of The Blackstone Group. The price of the transaction was 630,732,907 euros. The definitive amount depends on possible non-material adjustments and is subject to receipt of the required authorisation from the Spanish National Markets and Anti-Trust Commission (*Comisión Nacional de los Mercados y la Competencia*).

The transaction will result in a net capital gain of 55 million euros for Banco Sabadell's income statement for 2017 and will generate 22 basis points of common equity tier 1 (CET1) capital for the regulatory capital position of Banco Sabadell at 31 December 2017.

Closing of the sale of Sabadell United Bank and the reinsurance of BanSabadell Vida

During this quarter, Banco Sabadell has closed the transactions of the sale of Sabadell United Bank and the reinsurance of BanSabadell Vida.

On 24 July, BanSabadell Vida reached an agreement with Swiss Re to enter into a reinsurance contract for its individual life risk insurance portfolio in exchange for a reinsurance fee of €683.7 million.

On 28 February, Banco Sabadell closed a deal with IBERIABANK Corporation to sell Sabadell United Bank, its retail banking subsidiary which had been operating in the state of Florida since 2007. The subsidiary was sold for USD 1,025 million (approximately €967 million).

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BancoSabadell Profit & loss account (consolidated)



Figures in € million	Total group				ExTSB		
	30.09.2016	30.09.2017	Change YoY	Change at fixed FX	30.09.2016	30.09.2017	Change YoY
Net interest income	2.890,9	2.877,8	-0,5%	1,8%	2.089,2	2.101,5	0,6%
Income from equity method and dividend	72,1	303,8	321,6%	321,6%	72,1	303,8	321,6%
Net fees and commissions	860,2	904,5	5,1%	6,2%	762,6	832,8	9,2%
Results from financial transactions (net)	556,7	580,4	4,3%	5,1%	502,1	484,4	-3,5%
Foreign exchange (net)	14,1	7,2	-49,4%	-49,2%	14,1	7,2	-49,4%
Other operating income / expense	-120,8	-90,5	-25,1%	-24,1%	-102,8	-80,3	-21,9%
Gross operating income	4.273,2	4.583,1	7,3%	9,3%	3.337,4	3.649,4	9,3%
Operating expense	-1.987,1	-2.045,2	2,9%	5,5%	-1.358,5	-1.340,7	-1,3%
Non-recurrent	-45,2	-47,1	4,1%	5,8%	-21,1	-6,8	-67,6%
Recurrent	-1.941,8	-1.998,0	2,9%	5,5%	-1.337,4	-1.333,8	-0,3%
Amortization & depreciation	-290,5	-300,3	3,4%	5,0%	-235,3	-245,2	4,2%
Net income before provisions	1.995,6	2.237,7	12,1%	13,6%	1.743,6	2.063,6	18,4%
Provisions for NPLs and other impairments	-1.113,5	-1.967,8	76,7%	76,6%	-1.113,5	-1.902,5	70,9%
Gains on sale of assets and other results	32,0	384,0	--	--	34,0	377,9	--
Profit before tax	914,1	653,8	-28,5%	-26,6%	664,1	539,0	-18,8%
Income tax	-263,6	1,7	--	--	-189,1	41,9	--
Consolidated net profit	650,5	655,5	0,8%	3,9%	475,0	580,9	22,3%
Minority interest	3,6	1,7	-53,1%	-53,1%	3,6	1,7	-53,1%
Attributable net profit	646,9	653,8	1,1%	4,2%	471,4	579,2	22,9%
Net profit like-for-like (1)	546,5	568,9		4,1%	423,0	546,4	29,2%

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Balances in € million	Total group				ExTSB		
	30.09.2016	30.09.2017	Change YoY	Change at fixed FX	30.09.2016	30.09.2017	Change YoY
Total assets (2)	198.837	211.076	6,2%	6,8%	155.673	163.944	5,3%
Gross loans and advances to customers (1) (2)	144.360	146.054	1,2%	1,7%	111.028	110.062	-0,9%
Customer-based funding on balance sheet (2)	127.361	131.295	3,1%	3,7%	93.722	96.958	3,5%
Customer-based funding off balance sheet	39.711	45.129	13,6%	13,6%	39.711	45.129	13,6%
Shareholders' equity	12.872	13.372	3,9%				

RATIOS	Total group		ExTSB	
	30.09.2016	30.09.2017	30.09.2016	30.09.2017
Cost / income (ex amortisation) (%) (3)	49,91	51,20	43,95	42,58
Core capital / Common equity phase in (%)	12,1	13,2	--	--
NPLs / Gross loans (%) (2)	6,60	5,40	8,25	6,90
NPLs coverage (%) (2)(4)	52,9	51,4	53,0	51,4
Number of branches	2.791	2.522	2.192	1.971
Number of employees	25.972	25.972	18.007	17.589

(1) Excluding repos and deposits in credit institutions. (2) Sabadell United Bank and Mediterraneo Vida data excluded 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. Additionally, excluding reinsurance commissions received by BanSabadell Vida (value in-force)(4) As of September 2017, the group NPL coverage ratio, excluding the mortgage floors provisions, stands at 48.8% and 48.7% ex TSB.

(1) Comparable figures exclude Sabadell United Bank, Mediterraneo Vida and TSB's Mortgage Enhancement portfolio, considering a constant exchange rate.

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_2017/?menuid=39324&language=es