Sabadell

Press release

2019 year-end results

Banco Sabadell earns profit of 768 million euros and increases its capital ratio

- **Core banking revenue (net interest income + net fees and commissions) increased by 1% year-on-year**
- **The fully-loaded CET1 ratio increased by 34 bps in the last quarter to 11.7% (12.1% pro forma following the sale of Sabadell AM[(1)])**
- **Non-performing assets have been reduced by over 8.2 billion euros following the closing of our institutional portfolio sales**
- **The Board of Directors approves the distribution of a complementary cash dividend of 0.02 euros per share**

30 January 2020. Banco Sabadell Group has ended 2019 with a **net attributable profit** of 768 million euros, representing a year-on-year growth of 134%.

Core banking revenue (net interest income + net fees and commissions) increased by 1% year-on-year at both Group level and excluding TSB in a negative interest rate environment. Quarter-on-quarter, core banking revenue was up by 1.1% (0.6% excl. TSB). Excluding the impact of the consumer loan securitisation carried out in the third quarter, this item grew by 1.4% year-on-year (1.5% excluding TSB) and by 2.3% quarter-on-quarter (2.1% excluding TSB).

Net interest income amounted to 3,622 million euros (2,644 million euros excluding TSB) at the end of 2019, representing a reduction of 1.4% year-on-year at Group level due to the implementation of IFRS 16, the loan securitisation and lower interest rates. In the quarter, it increased by 0.4%, and by 2.1% when excluding the securitisation.

(1) Includes +5bps from the sale of the real estate developer and +36bps from the sale of Sabadell AM in January 2020.

Net fees and commissions increased by 7.7% (5.8% excl. TSB) year-on-year and amounted to 1,439 million euros, driven by the positive performance of service fees and increasing across all segments. In the quarter, net fees and commissions amounted to 372 million euros, representing a growth of 2.9% (3.7% excl. TSB).

Total costs amounted to 3,213 million euros as at the end of 2019 (2,161 million euros excl. TSB), representing a reduction of 1.8% in the year. The **efficiency ratio** stood at 55.6% at the end of 2019, improving from the previous quarter (58.3%).

Total **provisions and impairments** amounted to 938 million euros as at 2019 year-end (865 million euros excl. TSB), compared to 1,320 million euros (1,089 million euros excl. TSB) as at December in the previous year.

In parallel, it is worth highlighting that the Group's cost of risk stood at 52 bps as at the end of December 2019[(1)].

Increase in the capital ratio

Banco Sabadell has been gradually increasing its capital ratio throughout 2019. Its solvency has improved by 34 bps in the quarter, resulting in a **fully-loaded CET1** ratio of 11.7% as at year-end (12.1% pro forma, following the sale of Sabadell AM[(2)]). This means that the bank has achieved its announced target of ending 2019 with a fully-loaded CET1 ratio of at least 11.6%, improving on the announced guidance.

Lending consolidates its positive trend (+3.7%)

Performing loans ended the fourth quarter of 2019 with a balance of 144,572 million euros (108,076 million euros excl. TSB), representing a year-on-year growth of 3.7% (2.2% excluding TSB). Excluding the APS and non-recurrent items[(3)], organic growth stood at 4.4% year-on-year and 1.8% in the quarter, driven by the positive performance across regions, particularly in the segments of corporates, SMEs and mortgages.

On-balance sheet **customer funds** amounted to a total of 146,309 million euros at the end of the fourth quarter (110,886 million euros excl. TSB), representing a growth of 6.5% year-on-year and 2.7% quarter-on-quarter, driven by the growth of sight accounts, which in turn was supported by the positive effect of the exchange rate.

(1) Excludes the sale of the Rex portfolio and the closing of the institutional NPA sales. (2) Includes +5bps from the sale of the real estate developer and +36bps from the sale of Sabadell AM. (3) Excludes the consumer loan securitisation carried out in Sep.19 for €1bn (€0.9bn as at Dec.19) and the account receivable created for the right of first refusal associated with the portfolio sales of €1.1bn.

Sight account balances amounted to 118,868 million euros (86,875 million euros excl. TSB), representing an increase of 10.4% year-on-year (11.8% ex TSB) and a 3.2% increase quarter-on-quarter (2.5% excluding TSB). Term deposits amounted to 27,339 million euros (23,909 million euros excl. TSB).

Off-balance sheet customer funds amounted to 43,163 million euros as at the end of the fourth quarter of 2019.

Funds under management amounted to 213,095 million euros (175,184 million euros excl. TSB), compared with 205,711 million euros (170,285 million euros excl. TSB) one year previously, representing a year-on-year increase of 3.6% (2.9% excl. TSB) and a quarter-on-quarter growth of 1.4% (1.0% excl. TSB).

Throughout 2019, the bank has been very active in its **acquisition of corporate and individual customers**, with a total of 418,228 customer registrations. By segments, the Group has acquired 322,484 new individual customers and 95,744 new corporate customers. It is worth mentioning that Banco Sabadell has also added 258,550 new direct deposits of salaries.

New **mortgage and consumer loans** increased by 11% to over 6.3 billion euros. The number of new Expansion accounts opened grew by 8%, pushing the total number of these accounts to 3.2 million. Credit card turnover increased by 14% (16 billion euros) and new payment protection insurance increased by 15% (319.4 million euros), while POS turnover and SME penetration both increased, standing at 17.2% and 52.2%, respectively.

Record-breaking balance sheet de-risking and improved NPL ratio

Institutional portfolio sales were closed at the end of the fourth quarter of 2019. On-balance sheet **problematic assets** were thus significantly reduced by more than 8.2 billion euros. At the end of the year, NPAs amounted to 7,326 million euros, of which 6,141 million euros correspond to non-performing loans and 1,185 million euros correspond to foreclosed assets. This figure has been reduced by 954 million euros in the year and by 98 million euros in the quarter.

This volume of problematic (non-performing) assets has brought down the ratio of net NPAs to average total assets to 1.7%, compared to 1.8% in the previous year.

The ratio of problematic assets in relation to gross loans plus real estate assets stood at 4.8%, down from 5.6% in the previous year.

The NPA coverage ratio stood at 46.9%, with the coverage of non-performing loans standing at 49.6% and the coverage of foreclosed assets at 33.3%. It is worth highlighting that land assets represent around 6% of total foreclosed assets, compared to 31% in the previous year.

The Group's **NPL ratio** stood at 3.8%, compared to 4.2% in the previous year.

Distribution of complementary dividend

The Board of Directors has approved the distribution of a complementary cash dividend of 0.02 euros per share, in addition to the 0.02 euros per share already distributed previously. The total dividend is therefore 0.04 euros per share, which entails a payout of around 40%.

TSB returns to growth and starts implementing its strategic plan

TSB's business performance confirms the positive development of its business fundamentals. Banco Sabadell's UK subsidiary has also started implementing its new strategic plan, which aims to improve efficiency, increase core banking revenue and profitability and make further progress in its digital transformation.

Performing loans amounted to 36,496 million euros, which translates into a growth of 8.5% year-on-year and 4.9% quarter-on-quarter. Considering a constant exchange rate, this item increased by 3.2% year-on-year and 0.7% in the quarter, driven by strong growth in mortgage applications and improved customer retention.

On-balance sheet **customer funds** amounted to 35,423 million euros, representing an increase of 9.0% year-on-year, driven by the growth of personal current accounts. Considering a constant exchange rate, this item increased by 3.7% year-on-year, supported by growth across products, particularly business banking deposits, as well as a competitive savings proposition.

Net fees and commissions grew by 36.8% year-on-year, mainly due to the growth of service fees, amounting to 117 million euros compared to 85 million euros one year previously.

Unsecured loans resumed a positive trend in the fourth quarter of the year, with new unsecured loans growing by 37%. New **mortgage loans** also increased in year-on-year terms by 21.5%.

Total costs amounted to 1,052 million euros and declined by 8.4% year-on-year. Restructuring expenses in 2019 amounted to 50 million euros at the end of the year.

Key developments in the quarter

Banco Sabadell formally executes the transfer of the majority of its real estate assets

On 20 December, Banco Sabadell executed the transfer of the majority of the real estate assets included in the real estate portfolios commercially named “Coliseum”, “Challenger” and “Rex” to certain companies wholly owned by a Cerberus Capital Management L.P subsidiary, in which Cerberus holds an 80% interest and Banco Sabadell holds the remaining 20%, resulting in the derecognition of the aforesaid real estate assets from the balance sheet of Banco Sabadell Group.

The transferred real estate assets comprise approximately 46,000 units with a total gross book value of approximately 6,414 million euros; this amount is net of the assets that have been marketed and sold to third parties up to closing. The transfer of the remaining units (approximately 15,000, with a gross book value of approximately 1,817 million euros) is subject to the potential exercise of rights of first refusal by third parties. Any such exercise will not alter the expected financial impacts of the transactions for Banco Sabadell.

The price of the transactions was set at approximately 3,430 million euros.

Agreement between Banco Sabadell and IBM to transform the IT infrastructure and speed up the time to market to develop and launch new products and services

Banco Sabadell and IBM have signed a 10-year service agreement through which the bank will transform its IT infrastructure into an advanced platform capable of integrating all of its data and applications to provide a centralised, single and end-to-end vision of its customers.

IBM will help Banco Sabadell to migrate its current applications to a hybrid cloud with high security standards, which will allow it to improve its IT resilience, security and scalability in addition to improving its cost structure and flexibility. It also enables it to simplify its operating model by implementing the best practices in the market and consolidating its IT suppliers. Lastly, it accelerates its time to market to develop and launch new products and it also improves customer experience.

Banco Sabadell and Amundi sign a strategic agreement to grow their investment funds business in Spain

Banco Sabadell and Amundi have signed a ten-year strategic agreement for the distribution of Amundi products through the retail network of Banco Sabadell in Spain. This agreement aims to grow Banco Sabadell’s investment funds offering. This strategic partnership also involves the acquisition by Amundi of 100% of Sabadell Asset Management, a leading asset management firm in Spain, with 21.8 billion euros of assets under management, of which 1.61 billion euros are Spanish-domiciled funds.

The amount of the acquisition, financed exclusively through existing Amundi cash resources, has been set at 430 million euros. Banco Sabadell’s customers will benefit from the wide range of savings and investment products, solutions and tools offered by Amundi.

This agreement reinforces the commitment of Banco Sabadell to continue to lead customer satisfaction and experience rankings (one of the bank’s business priorities for 2020).

BancoSabadell Profit & loss account (consolidated)

Sabadell

	Total group				ExTSB		
Figures in € million	Dec 18	Dec 19	Change YoY	Change at fixed FX	Dec 18	Dec 19	Change YoY
Net interest income	**3.675**	**3.622**	**-1,4%**	**-1,8%**	**2.675**	**2.644**	**-1,2%**
Net fees and commissions	1.335	1.439	7,7%	7,6%	1.250	1.322	5,8%
Core revenues	**5.010**	**5.061**	**1,0%**	**0,7%**	**3.926**	**3.966**	**1,0%**
Results from financial transactions and foreign exchange	225	126	-44,0%	-44,0%	208	111	-46,6%
Income from equity method and dividend	65	61	-5,9%	-5,8%	65	61	-5,6%
Other operating income / expense	-290	-317	9,0%	8,8%	-230	-297	29,0%
Gross operating income	**5.010**	**4.932**	**-1,6%**	**-1,8%**	**3.968**	**3.841**	**-3,2%**
Operating expenses	-2.920	-2.743	-6,1%	-6,4%	-1.861	-1.827	-1,8%
Personnel expenses	-1.591	-1.649	3,7%	3,4%	-1.208	-1.225	1,4%
Other general expenses	-1.330	-1.095	-17,7%	-18,1%	-653	-602	-7,8%
Amortization & depreciation	-353	-470	33,0%	32,7%	-265	-334	26,3%
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Recurrent costs	*-3.027*	*-3.109*	*2,7%*	*2,3%*	*-2.085*	*-2.141*	*2,7%*
Non-recurrent costs	*-246*	*-105*	*-57,5%*	*-57,7%*	*-40*	*-20*	*-51,2%*
Pre-provisions income	**1.737**	**1.719**	**-1,0%**	**-1,1%**	**1.842**	**1.680**	**-8,8%**
Total provisions and impairments	-1.320	-938	-29,0%	-29,2%	-1.089	-865	-20,6%
Gains on sale of assets and other results	2	170	--	--	1	174	--
Profit before tax	**419**	**951**	**127,1%**	**128,0%**	**754**	**989**	**31,1%**
Income tax	-84	-174	108,3%	111,6%	-179	-167	-6,9%
Minority interest	7	9	27,0%	27,0%	7	9	27,0%
Attributable net profit	**328**	**768**	**134,0%**	**134,4%**	**568**	**813**	**43,1%**

	Total group				ExTSB		
PRO MEMORIA Balances in € million	Dec 18	Dec 19	Change YoY	Change at fixed FX	Dec 18	Dec 19	Change YoY
Total assets	222.322	223.754	0,6%	-0,5%	176.140	177.305	0,7%
Performing gross loans	139.366	144.572	3,7%	2,3%	105.732	108.076	2,2%
Performing gross loans ex APS	135.279	141.480	4,6%	3,1%	101.646	104.985	3,3%
Customer-based funding on balance sheet	137.343	146.309	6,5%	5,2%	104.859	110.886	5,7%
Customer-based funding off balance sheet	44.034	43.163	-2,0%	-2,0%	44.034	43.163	-2,0%

	Total group		ExTSB	
RATIOS	Dec 18	Dec 19	Dec 18	Dec 19
Cost / income (ex amortisation) (%)	58,29	55,63	46,90	47,57
Core capital / Common equity phase in (%)	12,0	12,4	--	--
NPLs / Gross loans (%)	4,22	3,83	5,04	4,62
NPLs coverage (%)	54,1	49,6	54,3	50,1
Number of branches	2.457	2.402	1.907	1.862
Number of employees	26.181	24.454	17.828	17.060