

# Banco Sabadell

## Stress test results



**15<sup>th</sup> July 2011**

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# 2011 EBA stress test: Results of the 2011 EBA stress test

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- Banco Sabadell has passed the stress test exercise, even in the most adverse scenario, achieving a core tier I ratio (defined according to EBA methodology)<sup>1</sup> of **5.7%**.
- This result has been achieved, even taking into account the restrictions established by the EBA, like:
  - No consideration of the **mandatory convertibles (+145 bp)**.
  - Non release of **countercyclical provisions (+61 bp)**.
  - No consideration of the **extraordinary results already materialized** in the first quarter of 2011, from the debt-for-equity transaction and the goodwill fiscal recovery **(+23 bp)**.
- Taking into account all these elements, the core tier I ratio of Banco Sabadell reaches **8.0%**, which shows the strength and capacity of the bank to face the current environment.

<sup>1</sup> This core tier I includes the 50% of the deductions in financial and insurance entities and the IRB provisions shortfall over the expected loss. Under the current rules, these are deducted 50% from Tier I and 50% from Tier II.

# 2011 EBA stress test: Results of the 2011 EBA stress test

Core Tier 1 capital 2010	3.507	<b>6,2%</b>
Risk Weighted Assets	56.488	
Total net impairments 2011-2012	-816	(See next page for disclosure)
IRB provision shortfall 2010 already covered in 2012	137	
Capital increase (Feb.2011)	411	
<b>Core Tier 1 capital ratio 2012</b>	3.240	<b>5,7%</b>
Risk Weighted Assets	56.503	
<i>Mitigating measures</i>		
Countercyclical provisions*	344	+ 61 bp
Extraordinary gains obtained in 1Q11	130	+ 23 bp
Mandatory convertible subordinated bonds	818	+ 145 bp
<b>Total mitigating measures</b>	1.292	
Risk Weighted Assets	56.503	
<b>Core Tier 1 capital ratio</b>	4.532	<b>8,0%</b>
Risk Weighted Assets	56.503	

Minimum  
capital  
threshold:

**5%**

\* € 645 M of countercyclical provisions buffer as of December 2010 minus 50% of the Bank's IRB expected loss for December 2012, after taxes.



# 2011 EBA stress test: Profit & Loss account

	Adverse scenario				
	2010	2011e	YoY	2012e	YoY
Net Interest Income	1.609	1.402	-13%	1.171	-16%
Trading income	180	180		180	
<i>of which trading losses from stress scenarios</i>		-32		-32	
<i>of which valuation losses due to sovereign shock</i>		0		0	
Other operating income (incl. expenses)	-679	-679	0%	-679	0%
Operating profit before impairments	1.110	903	-19%	671	-26%
Impairments on financial and non-financial assets in the banking book	-1.027	-1.050	2%	-1.689	61%
Operating profit after impairments and other losses from the stress	83	-147	-277%	-1.018	593%
Other income	374	0		0	
Tax	-71	44		305	
Net profit	386	-103	-127%	-713	592%

# 2011 EBA stress test: Main net interest income hypothesis

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- Static balance sheet structure as of December 2010
- No new balance sheet transactions with natural attrition rates.
- NPLs increase according to the hypothetical PDs
- The new interest rate yield curve is applied to balance sheet
- Loans spreads: the theoretical front book spread of December 2010 is applied to any renewed loans, and a 50% of the sovereign shock (+130pb) is reflected. Since there is a floor of 50% of the total impact in the wholesale funding, Banco Sabadell has not been able to take advantage of its balance sheet flexibility.
- Customer deposits spreads: the theoretical front book spread of December 2010 is applied to any renewed deposits
- Wholesale funding spreads: The sovereign shock (+130pb) is applied, regardless of maturity
- No ECB position as of December 2010 imply additional stress under all scenarios from wholesale costs for Banco Sabadell.

# 2011 EBA stress test: Other hypothesis

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- Commissions are kept flat at the 2010 level.
- Results from financial transactions have been calculated from the average yield of the last 5 years, excluding extraordinary results. The extraordinary results from financial transactions materialized in the first quarter of 2011 have not been taken into account either.
- Other operating income is constant over time.
- Total operating costs keep flat at the 2010 level. The non-recurrent costs accounted in 2010 (extraordinary personnel costs, restructuring costs and bonuses) are included in these projections. Nevertheless, the corresponding savings are not.
- Other income are not projected, and the extraordinary items realised in the first quarter 2011 are not included.
- This stress test does not consider unrealised capital gains.



# Impairment estimates

## 2010 stress test vs 2011 stress test

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### 2010 CEBS stress test

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- Supervisory authorities benchmark loss rates applied to all domestic institutions and exposures. Loss rates defined for broad portfolio categories (corporate, SME, mortgages,...).
- Risk profile of institution not reflected.
- No differentiation between IRB and non-IRB banks among domestic institutions.
- Given the benchmark loss rates, impairments only driven by exposure distribution across broad portfolio categories.

### 2011 EBA stress test

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- Use of internal parameters approved for IRB calculations.
- IRB parameters subject to BoS ongoing validation since 2006.
- Parameters adjusted to reflect economic scenario.
- Demanding ECB loss rate benchmarks set for relative increases over 2010 levels.

## 2011 EBA stress test: Impairment estimates

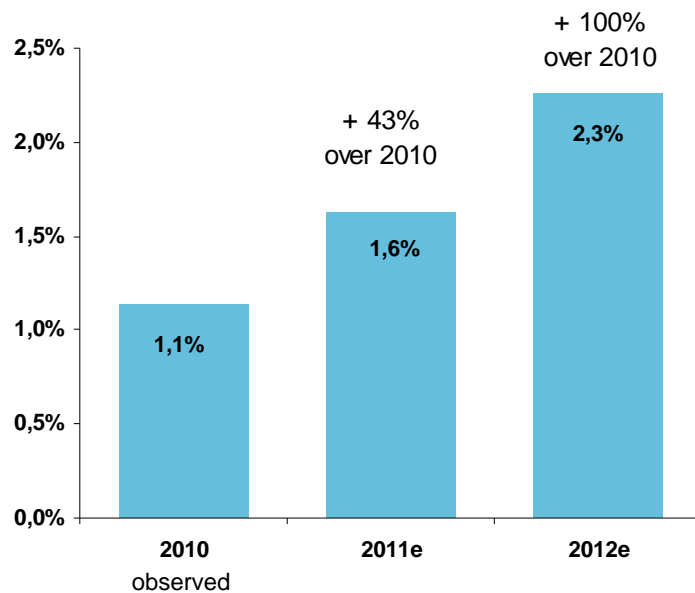
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- Residential and commercial property prices assumed to fall 22% and 47%. This translates to higher PDs and LGDs for property developers and residential mortgages.
- Prolonged high unemployment (22%) and negative GDP growth (-1% y-o-y) lead to spike in Corporate and SME losses (more than double 2010 levels).
- Large default flows further reduce income from performing assets.
- No workout assumption results in additional losses for current defaulted assets, while conservative LGDs are applied to foreclosed assets.

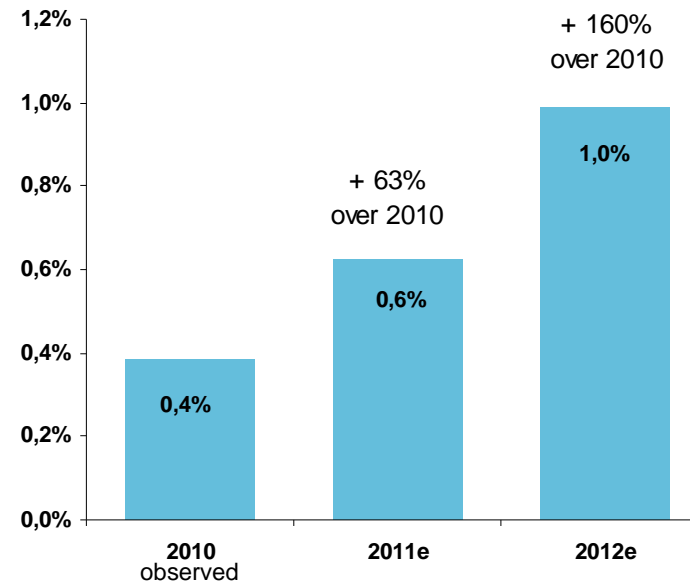
Relative increase in loss rates for exposures in Spain above  
EU average

# 2011 EBA stress test: Impairment estimates

## Corporate<sup>(1)</sup> loss rates



## Retail<sup>(1)</sup> loss rates



84% of exposure is subject to above 100% increase over 2010 loss rates

(1) EBA segmentation.

# 2011 EBA stress test: Impairment estimates

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## **Banco Sabadell 2010 loss rates reflect a specific business model and a conservative risk profile**

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- Strong focus on the SME and Corporate business as well as a bias towards the affluent individuals segment.
- Strong expertise and competitive advantage in the export oriented-business coupled with deep understanding of the particularities of Banco Sabadell' customers.
- One of the first institutions to be selected by Bank of Spain for IRB rollout.
- Greater importance of industrial holding companies and lower than sector average weight of real estate related exposures.

# 2011 EBA stress test: Macroeconomic scenario

<b>En % (var. YoY)</b>	<b>2011e</b>	<b>2012e</b>	<b>2011e</b>	<b>2012e</b>
GDP	0,7	1,7	-1,0	-1,1
Unemployment	20,2	19,2	21,3	22,4
CPI	1,5	1,4	0,9	-0,2
Commercial property prices	-15,0	-9,0	-29,0	-24,9
Residential property prices	-5,3	-3,0	-12,3	-11,0

## Base Scenario

## Adverse Scenario

<b>Interbank interest rates (in %)</b>	<b>2011e</b>	<b>2012e</b>	<b>2011e</b>	<b>2012e</b>
Overnight	0,86	1,16	1,70	1,70
1 month	1,16	1,46	2,71	2,71
3 months	1,37	1,67	2,92	2,92
6 months	1,63	2,00	3,15	3,15
12 months	1,89	2,00	3,33	3,33

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