

Third quarter of 2019

Banco Sabadell earns profit of 783 million euros and continues to strengthen its capital ratio

- The fully-loaded CET1 ratio increased by 21bps in the quarter to 11.4% (11.8% pro forma⁽¹⁾)
- Core banking revenue (net interest income + net fees and commissions) increased by 1.6% year-on-year
- Performing loans posted a strong performance, increasing by 2.5% year-on-year (3% ex TSB)⁽²⁾ driven by robust growth across geographies
- The Board of Directors has approved an interim dividend of 0.02 euros per share

25 October 2019. Banco Sabadell Group has accumulated, up to September 2019, a **net attributable profit** of 783 million euros, representing a year-on-year growth of 216%.

Core banking revenue (net interest income + net fees and commissions) showed sustained growth, increasing by 1.6% year-on-year at Group level (1.8% ex TSB). Quarter-on-quarter, this item remained stable, growing at a rate of 0.6% considering a constant exchange rate.

Net interest income amounted to 2,712 million euros (1,985 million euros excluding TSB) at the end of September, down -1.1% year-on-year at Group level due to the implementation of IFRS 16 and lower long-term interest rates. In the quarter, it grew slightly by 0.1%, standing at 906 million euros.

(1) Includes +18bps of RWAs released following the NPA sales, +8bps in capital gains on the sale of Solvia and +4bps in capital gains on the securitisation (both accrued in the quarter as a dividend to be reverted at the end of the year), + 7bps of accrued dividends which will be paid in treasury shares at the end of the year, +5bps on the sale of SDIn and +2bps on the sale of the problematic asset portfolio, Rex.

(2) Excludes the impact of the portfolio protected by CAM's APS, which is in run-off, and the consumer loan securitisation.

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Net fees and commissions increased by 9.1% (6.8% ex TSB) year-on-year, driven by the strong performance of service fees.

Total costs amounted to 2,367 million euros as at the end of September 2019 (1,588 million euros ex TSB), compared to 2,467 million euros at the end of September in the previous year (1,577 million euros ex TSB), representing a reduction of -4.1%. The **efficiency ratio** stood at 54.1% as at the end of September 2019, improving from the previous quarter (54.7%).

Total **provisions and impairments** amounted to 568 million euros as at the end of September 2019 (520 million euros ex TSB), compared to 1,081 million euros (918 million euros ex TSB) as at September in the previous year.

In parallel, it is worth noting that the Group's **cost of risk** stood at 50bps as at the end of September 2019; excluding the impact of the Rex foreclosed asset portfolio, cost of risk stood at 47bps.

Capital ratio above year-end target

Banco Sabadell continues to strengthen its capital ratio, which has increased in the quarter by 21bps, translating into a **fully-loaded CET1** ratio of 11.4% as at the end of September (11.8% pro forma)⁽¹⁾. The **phase-in CET1** capital ratio reached 12.1% as at September. Sabadell is therefore on track to deliver on its announced commitment to end 2019 with a fully-loaded CET1 ratio of 11.6% or higher.

Strong commercial momentum with an increase in lending (+2.5%)

Performing loans ended the third quarter of 2019 with a balance of 140,901 million euros (106,102 million euros ex TSB), representing a year-on-year growth of 0.5% (0.3% excluding TSB), due to the consumer loan securitisation carried out in the quarter. Excluding the APS⁽²⁾ and the securitisation, this item grew by 2.5% year-on-year (3% excluding TSB), driven by the strong performance across geographies.

On-balance sheet customer funds amounted to 142,416 million euros (108,690 million euros ex TSB) as at the end of the second quarter, representing a year-on-year increase of 5.4% (6.4% ex TSB) and a quarter-on-quarter increase of 0.4% (0.1% ex TSB), reflecting the strength of the banking franchise.

Sight account balances amounted to 115,130 million euros (84,751 million euros ex TSB), representing an increase of 8.1% year-on-year (11.3% ex TSB) and a 1.3% increase quarter-on-quarter (1.2% excluding TSB). Term deposits amounted to 27,647 million euros (24,300 million euros ex TSB).

(1) Includes +18bps of RWAs released following the NPA sales, +8bps in capital gains on the sale of Solvia and +4bps in capital gains on the securitisation (both accrued in the quarter as a dividend to be reverted at the end of the year), + 7bps of accrued dividends which will be paid in treasury shares at the end of the year, +5bps on the sale of SDIn and +2bps on the sale of the problematic asset portfolio, Rex.

(2) Excludes the impact of the portfolio protected by CAM's APS, which is in run-off.



Off-balance sheet customer funds amounted to 43,689 million euros as at the end of the second quarter of 2019, remaining broadly stable with respect to the previous quarter.

Funds under management amounted to 210,201 million euros (173,477 million euros ex TSB), compared with 204,998 million euros (169,754 million euros ex TSB) one year previously, representing a year-on-year increase of 2.5% (2.2% ex TSB) and a quarter-on-quarter growth of 0.8% (0.6% ex TSB).

Throughout the first half of 2019, the bank has been very active in its **acquisition of corporate and individual customers**, with a total of 325,922 customer registrations. By segments, the Group has acquired 253,208 new individual customers and 72,714 corporate customers. It is worth mentioning that Banco Sabadell has also added 194,201 new direct deposits of salaries.

Business activity in **new loans and credit lines to SMEs** has grown by 0.1% (14.2 billion euros) year-on-year. The volume of mortgages and consumer loans has also increased by 6% to over 4.5 billion euros. The number of new Expansión accounts opened grew by 9% to 3.2 million and credit card turnover increased by 14% (11.7 billion euros). Meanwhile, the payments of new life insurance premiums and POS turnover both increased by 9%.

Securitisation of 1 billion euros worth of consumer loans

The bank has created “Sabadell Consumo 1”, a securitisation fund of the bank’s consumer loans with a net book value of 1 billion euros with an average interest rate of 7.4% as at the date of the assignment, and an average duration of approximately two years.

This transaction will generate a capital gain of 88 million euros, as well as a total positive impact on the Common Equity Tier 1 ratio (in fully-loaded terms) of approximately 14 basis points.

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The transaction will be completed once the asset-backed securities issued by the securitisation fund have been subscribed and paid for, and this will entail the derecognition of the aforementioned loans from the balance sheet, along with the corresponding release of risk-weighted assets.

Reduction of non-performing assets and improvement of NPL ratio

At the end of the third quarter of 2019, the balance of **non-performing assets** amounted to 7,424 million euros, of which 6,391 million euros corresponded to non-performing loans and 1,032 million euros corresponded to foreclosed assets, representing a reduction in the year of 855 million euros. In the quarter, non-performing assets were reduced by 829 million euros, mainly due to portfolio sales.

The net NPAs to total assets ratio continued to decline and stood at 1.7%, while and the ratio of NPAs in relation to gross loans plus real estate assets also fell to 5.0%.

In August, Banco Sabadell agreed to sell a portfolio of real estate assets called Rex to a subsidiary of Cerberus Capital Management L.P. The overall net book value of the real estate assets involved in the transaction amounted to approximately 342 million euros, while the sale price was 314 million euros. The closing of the transaction, once the corresponding terms and conditions have been met, will entail the transfer of control over the real estate assets and, consequently, their derecognition from the balance sheet of Banco Sabadell Group.

The NPA coverage ratio stood at 49.1%, with the coverage of non-performing loans standing at 51.1% and the coverage of foreclosed assets at 36.8%.

The Group's **NPL ratio** stood at 4.08%, compared to 4.50% in the previous year. Excluding the consumer loan securitisation carried out in September, the NPL ratio stood at 4.05%.

TSB continues to regain its business momentum and announces the presentation of its new strategic plan

TSB plans to present the details of its new strategic plan by the end of November. The presentation is scheduled to take place in London on November 25th.

From a business point of view, TSB continues to improve its business activity. It is worth highlighting that on-balance sheet customer funds increased by 2.1% year-on-year and by 1.5% in the quarter, supported by the growth of personal current accounts. Considering a constant exchange rate, this item increased by 2.0% year-on-year and by 0.2% in the quarter.

Lending increased by 0.9% year-on-year and by 2.8% in the quarter, as a high volume of mortgage applications continued to flow through to completions. Considering a constant exchange rate, this item increased by 0.7% year-on-year and by 1.6% in the quarter.



Interim dividend of 0.02 euros per share

The Board of Directors has approved, on 24 October 2019, the distribution of an interim dividend from the profits of 2019 of 0.02 euros (gross) per share, payable in treasury shares, which will be paid on 24 December 2019, in line with the interim dividend in the previous year.

Key developments in the quarter

Banco Sabadell completed the transfer of a portfolio of loans and real estate assets to Deutsche Bank and Carval Investors

At the end of July, Banco Sabadell completed the transfer of a portfolio of loans, mostly mortgage loans with a gross book value of approximately 1,834 million euros and a net book value of approximately 268 million euros, as well as foreclosed assets with a gross book value of approximately 290 million euros and a net book value of approximately 106 million euros, to Deutsche Bank and Carval Investors. The transaction did not entail allocating any additional provisions and had a neutral impact on the capital ratio.

Banco Sabadell transfers 100% of the capital of SDIN Residencial, S.L.U and a set of real estate assets

Banco Sabadell transferred 100% of the share capital of SDIN Residencial, S.L.U. and a set of real estate assets, mostly land for urban development, to an institution controlled by funds managed and/or advised by Oaktree Capital Management. The total value of the transaction, referenced to the existing pool as at 1 January 2019, amounted to 882 million euros. The closing of the transaction, which is subject to obtaining the relevant authorisations, will generate estimated gains in the year of 23 million euros (after tax), with a positive impact on the fully-loaded Common Equity Tier 1 capital ratio of 7 basis points.

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Banco Sabadell leases homes to those affected by the storm in the province of Alicante

Banco Sabadell has reached an agreement with the Generalitat Valenciana, through the Deputy Vice-President of the Council and Councillor for Housing and Bioclimatic Architecture at the Generalitat Valenciana, to lease 22 homes in this area, for a period of three years, in order to support those affected by the storm in Valencia.

The agreement addresses the housing needs of the municipalities most severely affected by the cold front, specifically families in Almoradí, Dolores, Callosa de Segura and Orihuela.

Banco Sabadell expresses its solidarity with the people affected by the storm and adds this to its list of actions aligned with the Principles for Responsible Banking that the bank recently signed at the United Nations General Assembly.

Banco Sabadell makes climate action and sustainability central to its business through the Principles for Responsible Banking

In September, Banco Sabadell became one of the Founding Signatories of the Principles for Responsible Banking, committing to strategically align its business with the Sustainable Development Goals and the Paris Agreement on Climate Change. By signing the Principles for Responsible Banking, Banco Sabadell joins a coalition of 130 banks worldwide, representing over 47 trillion dollars in assets, in committing to taking on a crucial role in helping to achieve a sustainable future.

BancoSabadell Profit & loss account (consolidated)



Figures in € million	Total group				ExTSB		
	Sep 18	Sep 19	Change YoY	Change at fixed FX	Sep 18	Sep 19	Change YoY
Net interest income	2.743	2.712	-1,1%	-1,2%	1.996	1.985	-0,5%
Net fees and commissions	978	1.067	9,1%	9,0%	918	980	6,8%
Core revenues	3.721	3.780	1,6%	1,5%	2.913	2.965	1,8%
Results from financial transactions and foreign exchange	233	130	-44,0%	-44,0%	212	114	-46,1%
Income from equity method and dividend	52	52	0,8%	0,0%	52	52	0,9%
Other operating income / expense	-122	-128	4,9%	5,0%	-71	-118	66,0%
Gross operating income	3.883	3.834	-1,3%	-1,4%	3.106	3.014	-3,0%
Operating expenses	-2.199	-2.023	-8,0%	-8,1%	-1.372	-1.344	-2,0%
Personnel expenses	-1.202	-1.226	1,9%	1,9%	-886	-916	3,3%
Other general expenses	-996	-797	-20,0%	-20,1%	-486	-428	-11,9%
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Recurrent expenses	-1.986	-1.952	-1,7%	-1,8%	-1.360	-1.330	-2,2%
Non-recurrent expenses	-213	-70	-66,9%	-66,9%	-12	-14	20,3%
Amortization & depreciation	-268	-344	28,4%	28,3%	-205	-244	19,0%
Pre-provisions income	1.416	1.467	3,6%	3,4%	1.529	1.426	-6,8%
Total provisions and impairments	-1.081	-568	-47,5%	-47,5%	-918	-520	-43,3%
Gains on sale of assets and other results	3	138	--	--	2	140	--
Profit before tax	339	1.037	205,8%	204,5%	614	1.046	70,3%
Income tax	-86	-248	188,8%	189,2%	-141	-251	78,2%
Minority interest	6	7	28,0%	28,0%	6	7	28,0%
Attributable net profit	248	783	215,8%	213,8%	468	788	68,5%

PRO MEMORIA Balances in € million	Total group				ExTSB		
	Sep 18	Sep 19	Change YoY	Change at fixed FX	Sep 18	Sep 19	Change YoY
Total assets	217.751	222.809	2,3%	2,3%	171.547	175.763	2,5%
Performing gross loans	140.234	140.901	0,5%	0,4%	105.735	106.102	0,3%
Performing gross loans ex APS	135.483	137.809	1,7%	1,6%	100.983	103.011	2,0%
Customer-based funding on balance sheet	135.152	142.416	5,4%	5,3%	102.131	108.690	6,4%
Customer-based funding off balance sheet	47.159	43.689	-7,4%	-7,4%	47.159	43.689	-7,4%

RATIOS	Total group		ExTSB	
	Sep 18	Sep 19	Sep 18	Sep 19
Cost / income (ex amortisation) (%)	57,91	54,13	45,43	46,09
Core capital / Common equity phase in (%)	12,1	12,1	--	--
NPLs / Gross loans (%) (1)	4,50	4,08	5,44	4,89
NPLs coverage (%) (1)	57,4	51,1	57,8	51,8
Number of branches	2.470	2.437	1.920	1.893
Number of employees	26.045	24.997	17.837	17.202

(1) Figures expressed as 100% APS. In 4Q18 institutional portfolios have been reclassified as non-current assets held for sale, therefore the figures are shown excluding these assets.

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