

### 3Q20 Results

## **Banco Sabadell earns profit of 203 million euros year-to-date to September 2020 and outperforms market expectations**

- The capital ratio was up 22bps in the quarter, bringing the CET1 ratio to 12.9%
- The bank has increased all margins in the quarter, performing loans<sup>(1)</sup> grew by 4.3%, customer funds increased by 4.0% and the NPL ratio fell to 3.81%
- The bank will carry out an efficiency plan and digital transformation in Spain to align costs with the current competitive environment, that will be carried out with capital gains corresponding to the sale of a part of the ALCO portfolio
- Following funding of that plan, Sabadell will retain unrealised capital gains amounting to 1,300 million euros
- TSB accelerates its restructuring plan with completion of it and breaking even in 2021

**30 October 2020.** Banco Sabadell Group has ended the third quarter of 2020 with **net attributable profit** of 203 million euros. In the quarter, net profit grew by 10.9% buoyed by the recovery of core business and reduced provisions. Net profit is 74.1% lower year-on-year following the update of IFRS9 models and reduced income as a result of weaker activity due to the pandemic.

**Core banking revenue** (net interest income + net fees and commissions) amounted to 3,546 million euros, a year-on-year reduction of 6.2%. It performed well in the quarter, supported by net interest income growth and increased fees and commissions.

(1) Excludes CAM APS

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**Net interest income** amounted to 2,545 million euros as at the end of September 2020, a year-on-year decline of 6.2% due to the effect of interest rates, the consumer loan securitisation carried out in the previous year, and the reduced contribution of the ALCO portfolio. Net interest income in the quarter amounted to 841 million euros and was up 2.5% supported by higher volumes and an increased inflow of funds from TLTRO III.

Net fees and commissions amounted to 1,000 million euros, 6.3% less than in the previous year, due to lower activity levels as a result of the pandemic and consequent lockdown measures. Fees and commissions in the quarter were up by 1.0% following increased activity as lockdown measures were de-escalated.

**Total costs** amounted to 2,387 million euros as at the end of September 2020, 0.9% higher than the same period in the previous year. Recurrent costs were down 1.9% in the quarter due to reduced staff expenses, while non-recurrent costs included 71 million euros corresponding to acceleration of the TSB restructuring plan.

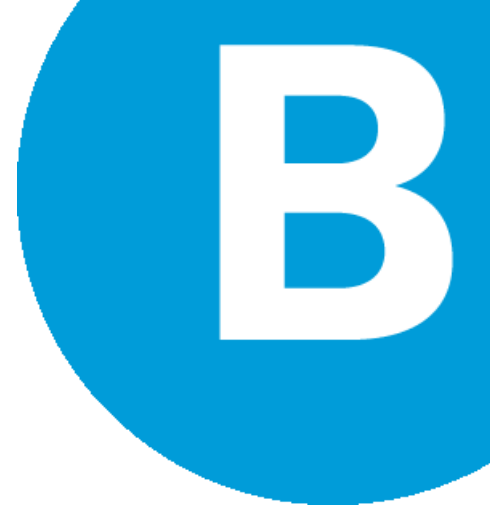
The **efficiency ratio** stood at 56.3% due to TSB restructuring costs. Excluding these costs, the efficiency ratio was 53.9%.

## **Liquidity and capital position**

The CET1 capital ratio increased by 22bps in the quarter, reaching 12.9%. This CET1 ratio included 92bps of IFRS9 transitional adjustments, therefore the fully-loaded CET1 ratio stood at 12.0%, improving by +9bps compared to the previous quarter.

In terms of **liquidity management**, the LCR (Liquidity Coverage Ratio) stood at 206% at Group level (226% ex-TSB and 211% in TSB) as at end-September 2020. The loan-to-deposit ratio as at the end of September 2020 was 98% with a balanced retail funding structure.

Additionally, the **inaugural green bonds issuance** was carried out in the third quarter of 2020, in this case involving 500 million euros of senior preferred notes.



## Lending increases by 4.3%

Banco Sabadell has ended September 2020 with year-on-year loan growth across all geographies.

Gross performing loans ended the third quarter of 2020 with a balance of 145,462 million euros (110,047 million euros ex-TSB), representing a year-on-year growth of 3.2% (3.7% ex-TSB).

Organic growth<sup>(1)</sup> of lending was 4.3% year-on-year (5.1% ex-TSB) and 0.2% in the quarter. In Spain, performing loans increased by 5.3% year-on-year, mainly supported by ICO-guaranteed loans granted to corporates, SMEs and the self-employed.

TSB recorded loan growth of 1.8% year-on-year and 3.6% quarter-on-quarter, despite the depreciation of sterling, mainly due to an increase in the mortgage book once activity levels recovered. Mexico recorded year-on-year growth of 23.4% at constant exchange rates.

As at the end of September 2020, **on-balance sheet customer funds** amounted to 148,163 million euros (111,379 million euros ex-TSB), representing a year-on-year increase of 4.0% (2.5% ex-TSB) and a quarter-on-quarter increase of 0.4%, driven by the growth of sight accounts.

**Sight account balances** amounted to 126,274 million euros (92,341 million euros ex-TSB), representing an increase of 9.7% year-on-year (9.0% ex-TSB) and of 1.9% quarter-on-quarter (1.7% ex-TSB).

**Term deposits** amounted to 22,187 million euros (19,336 million euros ex-TSB), down by -19.7% compared to the previous year, and by -7.4% (-8.1% ex-TSB) quarter-on-quarter, as term deposits flowed into current accounts as a result of the low interest rates on saving deposits.

(1) Excludes CAM APS

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Total **off-balance sheet customer funds** amounted to 41,935 million euros as at the end of September 2020, increasing by 0.5% in the quarter due to mutual funds.

Total **funds under management** amounted to 212,647 million euros (173,976 million euros ex-TSB), compared with 210,201 million euros (173,477 million euros ex-TSB) one year previously, representing an increase of 1.2% year-on-year (0.3% ex-TSB) and of 0.4% quarter-on-quarter (0.2% ex-TSB).

### **Commitment to companies and families**

Banco Sabadell maintains its commitment to support companies, the self-employed and families to deal with the consequences of the pandemic. As at 23 October 2020, the bank had granted a total of 105,000 operations for an amount of 10,500 million euros in **ICO-guaranteed loans** to SMEs and corporates. With regard to loan moratoria, as at September 2020 Banco Sabadell has granted a total of 3,660 million euros in repayment holidays; of these, 2,635 million correspond to sector moratoria while the remaining 1,025 million are statutory moratoria established by Royal Decree. 92% of payment holidays granted are for mortgages, and 8% for consumer loans.

### **Reduction of problematic assets and improved NPL ratio**

**Problematic assets** as at the end of September 2020 had a balance of 7,647 million euros, of which 6,127 million euros correspond to non-performing assets and 1,520 million euros correspond to foreclosed assets. This volume of problematic (non-performing) assets brings the ratio of net NPAs to total assets down to 1.5%, compared to 1.7% in the third quarter of the previous year. In the quarter, non-performing assets were reduced by 172 million euros.

The NPA coverage ratio stood at 52.3%, with the coverage of foreclosed assets standing at 35.6% and the coverage of NPLs at 56.5%. Within NPLs, the coverage ratio of stage 3 assets was 40.0%.

The ratio of problematic assets in relation to gross loans plus real estate assets was driven down in the quarter to 5.0%.

The Group's **NPL ratio** stood at 3.81%, improving in relation to the September 2019 figure of 4.08% and the June 2020 figure of 3.95%.



## **New efficiency plan and digital transformation in Spain**

Beginning in the fourth quarter of 2020, Banco Sabadell will implement an efficiency plan and digital transformation in Spain, with the aim of adapting the organisation's structure and costs to the new competitive environment.

The efficiency plan includes various initiatives, such as simplification of internal processes, self-service in customer transactions, automation of operations centre activities, improved efficiency in the customer call centres, along with the inclusion of new capabilities and digital services.

There are also plans to streamline the corporate centre, by centralising certain competencies and scaling down regional support structures.

In addition, other measures are planned that will allow the bank to reduce costs, such as reduced use of space and other small-scale discretionary costs.

### **Neutral impact on capital**

The funding of this efficiency plan and digitisation will be carried out with capital gains corresponding to the sale of a part of the ALCO portfolio, and will have a neutral impact on capital. This plan includes a positive annual impact on pre-provision profit amounting to 115 millions euros. Following funding of that plan, Banco Sabadell will retain unrealised capital gains from the ALCO portfolio amounting to 1,300 million euros.

This efficiency plan will essentially be based on voluntary and negotiated incentivised redundancies and early retirement. The bank has shown its commitment to reaching an agreement and shared consensus with the trade unions on the content of this rationalisation plan.

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## **TSB accelerates its restructuring plan with completion of it and breaking even in 2021**

TSB has announced that it is accelerating its restructuring plan with completion of it and breaking even in 2021. These changes concern the new way in which customers interact with the bank, with fewer visits to branches and accelerated use of digital channels.

At the end of September 2020, the Banco Sabadell subsidiary saw a strong recovery of its business, both year-on-year and quarter-on-quarter, with the best level of commercial activity seen since 2018.

TSB **lending** reached 35,415 million euros, with year-on-year growth of 1.8% year-on-year and of 3.6% quarter-on-quarter. At constant exchange rates, this increase was 4.8% year-on-year, due to the increase of the mortgage book and the UK government's Bounce Back Loan Scheme. In this context, it is worth noting that TSB achieved a record-breaking figure for mortgage lending, which reached a total volume of 28,727 million pounds.

**On-balance sheet customer funds** amounted to 36,784 million euros, representing an increase of 9.1% year-on-year and 2.0% quarter-on-quarter. At constant exchange rates, growth was 12.3% year-on-year and 2.0% quarter-on-quarter, mainly due to an increase in current accounts which grew 19.1% year-on-year and 3.4% quarter-on-quarter.

Since it started activities in the Corporates segment, TSB has increased new deposits by 72.2% as at September 2020, and by 7.1% quarter-on-quarter.



## ***Key developments in the quarter***

### **Banco Sabadell joins the Spanish Observatory of Sustainable Financing (*Observatorio Español de la Financiación Sostenible - OFISO*)**

Banco Sabadell has joined the Spanish Observatory of Sustainable Financing (OFISO) as an expression of its firm resolve to support its customers in the process to transition to a more sustainable economy. OFISO was created as a forum where companies, financial institutions, investors, public bodies, advisory firms, rating and certification agencies, legal firms and other players in the financial sector can meet, exchange information, discuss and debate sustainable financing.

### **Banco Sabadell closes the sale of its real estate developer to Oaktree**

Banco Sabadell has closed the sale of Solvia Desarrollos Inmobiliarios to Oaktree for a total amount of 882 million euros. Including previous transactions involving the initially established asset pool, this transaction has generated an overall capital gain of 22 million euros after tax and has added 7 basis points to the fully-loaded CET1.

### **Banco Sabadell and Sanitas join forces to boost insurance sales in Spain**

Banco Sabadell and Sanitas have signed an agreement to market health insurance for the next five years with the aim of boosting subscription to these products among the bank's individual, self-employed and SME customers, and to grow their market share in Spain.

The financial institution will contribute to the alliance its widespread commercial network in Spain, with more than five million customers, through its 1,678 branches and 6,394 managers. In turn, BanSabadell Seguros Generales, an insurance company participated by Banco Sabadell, and Sanitas have agreed a co-insurance subscription arrangement for this new health insurance. Sanitas, in its role as specialist health company, will offer the bank's customers services including video-consultation.

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# BancoSabadell Profit & loss account (consolidated)



Figures in € million	Total group				ExTSB		
	Jun 19	Jun 20	Change YoY	Change at fixed FX	Jun 19	Jun 20	Change YoY
<b>Net interest income</b>	<b>2.712</b>	<b>2.545</b>	<b>-6,2%</b>	<b>-5,8%</b>	<b>1.985</b>	<b>1.887</b>	<b>-5,0%</b>
Net fees and commissions	1.067	1.000	-6,3%	-6,1%	980	931	-5,0%
<b>Core revenues</b>	<b>3.780</b>	<b>3.546</b>	<b>-6,2%</b>	<b>-5,9%</b>	<b>2.965</b>	<b>2.818</b>	<b>-5,0%</b>
Results from financial transactions and foreign exchange	130	177	36,0%	36,3%	114	155	36,0%
Income from equity method and dividend	52	25	-52,1%	-52,1%	52	25	-52,1%
Other operating income / expense	-128	-112	-12,8%	-11,7%	-118	-118	0,1%
<b>Gross operating income</b>	<b>3.834</b>	<b>3.636</b>	<b>-5,2%</b>	<b>-4,9%</b>	<b>3.014</b>	<b>2.880</b>	<b>-4,4%</b>
Operating expenses	-2.023	-2.001	-1,1%	-0,7%	-1.344	-1.326	-1,3%
Personnel expenses	-1.226	-1.212	-1,1%	-0,8%	-916	-907	-0,9%
Other general expenses	-797	-789	-1,0%	-0,5%	-428	-419	-2,2%
Amortization & depreciation	-344	-386	12,3%	12,6%	-244	-270	10,5%
<i>Promemoria:</i>							
Recurrent costs	-2.296	-2.302	0,2%	0,6%	-1.574	-1.592	1,1%
Non-recurrent costs	-70	-86	21,7%	24,2%	-14	-4	-73,4%
<b>Pre-provisions income</b>	<b>1.467</b>	<b>1.249</b>	<b>-14,9%</b>	<b>-14,8%</b>	<b>1.426</b>	<b>1.284</b>	<b>-9,9%</b>
Total provisions and impairments	-568	-1.391	145,0%	145,9%	-520	-1.222	134,9%
Gains on sale of assets and other results	138	298	116,2%	116,1%	140	303	115,7%
<b>Profit before tax</b>	<b>1.037</b>	<b>156</b>	<b>-85,0%</b>	<b>-85,4%</b>	<b>1.046</b>	<b>365</b>	<b>-65,1%</b>
Income tax	-248	47	--	--	-251	-7	-97,3%
Minority interest	7	1	-90,3%	-90,3%	7	1	-90,3%
<b>Attributable net profit</b>	<b>783</b>	<b>203</b>	<b>-74,1%</b>	<b>-74,5%</b>	<b>788</b>	<b>358</b>	<b>-54,6%</b>

PRO MEMORIA Balances in € million	Total group				ExTSB		
	Jun 19	Jun 20	Change YoY	Change at fixed FX	Jun 19	Jun 20	Change YoY
Total assets	222.809	236.094	6,0%	7,0%	177.940	192.954	8,4%
Performing gross loans	140.901	145.462	3,2%	4,5%	106.102	110.047	3,7%
Performing gross loans ex APS	137.809	143.701	4,3%	5,5%	103.011	108.286	5,1%
Customer-based funding on balance sheet	142.416	148.163	4,0%	5,0%	108.690	111.379	2,5%
Customer-based funding off balance sheet	43.689	41.935	-4,0%	-4,0%	43.689	41.935	-4,0%

RATIOS	Total group		ExTSB	
	Jun 19	Jun 20	Jun 19	Jun 20
Cost / income (ex amortisation) (%)	54,13	56,28	46,09	47,37
Core capital / Common equity (%)	12,1	12,9	--	--
NPLs / Gross loans (%)	4,08	3,81	4,89	4,50
NPLs coverage (%)	51,1	56,5	51,8	56,2
Number of branches	2.437	2.204	1.893	1.719
Number of employees	24.997	23.918	17.202	16.890