

### 2020 year-end results

## **Banco Sabadell reports a profit of two million euros after allocating €2,275m in provisions due to Covid-19, selling NPA portfolios and executing on its restructuring plan**

- The Bank reports a profit of 222 million euros ex-TSB, with growth across all margins in the quarter
- Following the sale of 3 asset portfolios, the Bank has liquidated the asset protection scheme (“APS”) relating to the former Caja de Ahorros del Mediterráneo (“CAM”), reducing this year’s NPL ratio by 23bps to 3.6% (below sector average)
- The Bank has laid the foundations to execute its new strategic plan, which will be presented in May
- The efficiency plan will deliver €141m in annual cost savings
- The Bank’s capital position remains stable at 12.6% following the implementation of the efficiency plan, with an additional €1.2bn of unrealised capital gains
- TSB improves its efficiency, reduces its recurring costs and accelerates its plan to return to profit in 2021

**1 February 2021.** Banco Sabadell Group has ended the year 2020 with **net attributable profit** of 2 million euros (222 million euros excluding TSB), after allocating provisions of 2,275 million euros due to the Covid-19 crisis, implementing restructuring plans in Spain and the United Kingdom, and completing the sale of non-performing asset portfolios.

Banco Sabadell's CEO, Jaime Guardiola, said: ***“We have ended the year with excellent business performance and an increase across all business margins. Our balance sheet clean-up and the execution of our efficiency plans in Spain and the United Kingdom have laid the foundations for our next strategic plan, which will be presented in May.”***

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Communications Division

Tel. (0034) 93 748 50 19 [sabadellpress@bancosabadell.com](mailto:sabadellpress@bancosabadell.com)



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**Core banking revenue** (net interest income + net fees and commissions) amounted to 4,749 million euros, 6.2% lower year-on-year. These revenues performed well in the quarter, increasing by 3.1%, supported by net interest income growth and increased fees and commissions.

**Net interest income** in the quarter amounted to 854 million euros and recorded an increase of 1.5%, supported by larger volumes at TSB and higher levels of economic activity in Spain. NII amounted to 3,399 million euros as at 2020 year-end, 6.2% lower year-on-year due to the effect of lower interest rates, the reduced contribution of the ALCO portfolio, and the effects of the consumer loan securitisation carried out the previous year.

**Net fees and commissions** were up by 7.0% in the quarter, supported by the growth of service and asset management fees. At the end of 2020, fees and commissions amounted to 1,350 million euros, 6.1% lower than in the previous year, due to decreased activity levels brought about by lockdown measures imposed due to the pandemic.

**Total costs** amounted to 3,461 million euros as at the end of December 2020, 7.7% higher than the same period in the previous year, due to restructuring costs in Spain and TSB. Recurring costs fell by 2.4% year-on-year and by 3.4% in the quarter, due to a reduction of personnel expenses and lower general expenses. Non-recurring costs included restructuring costs of 314 million euros in Spain and 101 million euros in TSB.

The **efficiency ratio** stood at 55.4% as at the end of 2020.

## Liquidity and capital position

The CET1 ratio remained stable at the end of the year, standing at 12.6%. In terms of the quarter-on-quarter comparison, the aforesaid CET1 ratio includes -38bps of IFRS9 transitional adjustments, -27bps from regulatory impacts and -17bps of organic capital generation, compared to +45bps from the deduction of IT intangibles. The fully-loaded CET1 ratio was 12.0%, improving by +1bp compared to the previous quarter.

With regard to liquidity management, the Group had a sound liquidity position, with a Group LCR (Liquidity Coverage Ratio) of 198% as at 2020 year-end (219% excluding TSB and 201% at TSB).

The loan-to-deposit ratio as at 2020 year-end was 98%, with a balanced retail funding structure.

It is worth highlighting that during 2020 the Bank has issued 2,420 million euros of wholesale debt.



## Growth in lending

Banco Sabadell ended the 2020 financial year with year-on-year growth in lending across all geographies.

Gross performing loans ended 2020 with a balance of 146,878 million euros (109,902 million euros excluding TSB), representing a year-on-year growth of 1.6% (1.7% excluding TSB).

Organic growth<sup>(1)</sup> of lending was 2.6% year-on-year (3.0% excluding TSB) and 1.0% in the quarter. In Spain, performing loans increased by 3.2% year-on-year, mainly supported by ICO-guaranteed loans granted to corporates, SMEs and the self-employed, as well as the growth of mortgages granted to individuals.

TSB reported loan growth of 1.3% year-on-year and 4.4% in the quarter, mainly due to the growth of its mortgage book. Considering a constant exchange rate, this growth was 7.1% year-on-year and 2.9% in the quarter. Mexico recorded year-on-year growth of 13.0% at a constant exchange rate.

As at 2020 year-end, **on-balance sheet customer funds** amounted to a total of 150,778 million euros (112,565 million euros excluding TSB), representing growth of 3.1% year-on-year (1.5% excluding TSB) and 1.8% in the quarter (1.1% excluding TSB), driven by the growth of sight accounts.

**Sight account balances** amounted to a total of 130,295 million euros (94,800 million euros excluding TSB), representing an increase of 9.6% year-on-year (9.1% excluding TSB) and 3.2% in the quarter (2.7% excluding TSB).

**Term deposits** amounted to 20,805 million euros (18,086 million euros excluding TSB), down by -23.9% (-24.4% excluding TSB) compared to the previous year, and down by -6.2% (-6.5% excluding TSB) in the quarter as term deposits flowed into current accounts as a result of the low interest rates on savings accounts.

(1) Excludes CAM APS

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Total **off-balance sheet customer funds** amounted to 38,064 million euros as at 2020 year-end, increasing by 3.3% in the quarter due to mutual funds.

Total **funds under management** amounted to 209,748 million euros (169,687 million euros excluding TSB), compared with 213,095 million euros (175,184 million euros excluding TSB) one year previously, representing a year-on-year decline of 1.6%, and a quarter-on-quarter growth of 1.0%.

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

Banco Sabadell has honoured its commitment to help businesses, the self-employed, and families deal with the consequences of the pandemic during 2020. As at the end of the year, the Bank had granted a total of 125,000 **ICO-guaranteed loans**, amounting to 11,900 million euros, to SMEs and large corporations. With regard to loan **moratoria**, as at year-end, Banco Sabadell had granted a total of 3,697 million euros in payment holidays; of these, 2,684 million euros were sector-specific (i.e. non-legislative) moratoria, while the remaining 1,013 million euros were statutory (i.e. legislative) moratoria established by Royal Decree. Of these payment holidays granted by the Bank, 98% relate to mortgages and the remaining 2% relate to consumer loans.

### **Liquidation of CAM APS and reduction of delinquency**

In the final quarter of 2020, Banco Sabadell finalised the sale of the Explorer, Aurora, and Higgs portfolios, which amounted to 1,200 million euros, thereby completing the liquidation of assets from CAM's APS.

Following these sales, the Group's **NPL ratio** stood at 3.6%, below the sector average, improving on the previous year and quarter (3.8%). The ratio of net NPAs to total assets was reduced to 1.4%. Likewise, the ratio of problematic assets in relation to gross loans plus real estate assets was brought down to 4.7%.

The NPA coverage ratio stood at 52.6%, while that of foreclosed assets stood at 36.6%.

The Group's credit cost of risk was 86bps as at the end of 2020, in line with the estimates and guidance for the year.



## **Execution of efficiency plan in Spain will generate €141m in cost savings**

Banco Sabadell has launched an efficiency and digital transformation plan in Spain, aimed at adapting the organisation's structure and costs to the new competitive environment. The staff downsizing plan was successfully completed in the fourth quarter, with 1,817 employees leaving voluntarily. This plan will generate annual cost savings of 141 million euros.

This efficiency plan was financed with 314 million euros of capital gains on the sale of part of the ALCO portfolio.

Following the execution of this plan, Banco Sabadell's unrealised capital gains amounted to 1,200 million euros.

## **New strategic plan**

Sabadell plans to present its new strategic plan to investors and analysts in May. Sabadell, which has a strong franchise in Spain and is the leader in customer experience rankings among SMEs, will focus on these high added-value and profitable segments, and will implement its new plan by improving both its efficiency and organic capital generation, focusing on digital transformation and generating shareholder value.

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## **TSB improves its efficiency, reduces its recurring costs and accelerates its plan to return to profit in 2021**

TSB expects to complete the execution of its efficiency, transformation, and growth plan, and return to profit in 2021, one year ahead of schedule. The bank reduced its recurring cost base in 2020, both year-on-year (-3.5%) and quarter-on-quarter (-1.8%), and it saw strong recovery of its business activity.

TSB has improved its efficiency by reducing its workforce by 685 employees and closing 93 branches, adapting to the new reality. Today, 90% of the bank's transactions are carried out through digital channels, and 70% of sales take place through these same channels.

TSB **net lending** reached 36,977 million euros, increasing by 1.3% year-on-year and 4.4% quarter-on-quarter. At constant exchange rates, this increase was 7.1% year-on-year, driven by the growth of the mortgage book and the Bounce Back Loans (which are guaranteed by the UK government). Particularly worthy of note was TSB's record new mortgage lending since 2017, which reached a total volume of 2,129 million pounds in the fourth quarter.

**On-balance sheet customer funds** amounted to 38,213 million euros, increasing by 7.9% year-on-year. At constant exchange rates, they increased by 14.0% year-on-year, mainly due to the increase in current accounts.

## BancoSabadell Profit & loss account (consolidated)



Figures in € million	Total group				ExTSB		
	Dec 19	Dec 20	Change YoY	Change at fixed FX	Dec 19	Dec 20	Change YoY
<b>Net interest income</b>	<b>3.622</b>	<b>3.399</b>	<b>-6,2%</b>	<b>-5,5%</b>	<b>2.644</b>	<b>2.514</b>	<b>-4,9%</b>
Net fees and commissions	1.439	1.350	-6,1%	-5,9%	1.322	1.254	-5,2%
<b>Core revenues</b>	<b>5.061</b>	<b>4.749</b>	<b>-6,2%</b>	<b>-5,6%</b>	<b>3.966</b>	<b>3.768</b>	<b>-5,0%</b>
Results from financial transactions and foreign exchange	126	800	--	--	111	774	--
Income from equity method and dividend	61	37	-39,4%	-39,4%	61	37	-39,4%
Other operating income / expense	-317	-284	-10,3%	-9,7%	-297	-286	-3,8%
<b>Gross operating income</b>	<b>4.932</b>	<b>5.302</b>	<b>7,5%</b>	<b>8,1%</b>	<b>3.841</b>	<b>4.294</b>	<b>11,8%</b>
Operating expenses	-2.743	-2.938	7,1%	7,9%	-1.827	-2.063	12,9%
Personnel expenses	-1.649	-1.885	14,3%	15,0%	-1.225	-1.486	21,3%
Other general expenses	-1.095	-1.054	-3,8%	-2,9%	-602	-577	-4,2%
Amortization & depreciation	-470	-523	11,4%	12,1%	-334	-363	8,6%
<i>Promemoria:</i>							
Recurrent costs	-3.109	-3.035	-2,4%	-1,7%	-2.141	-2.102	-1,8%
Non-recurrent costs	-105	-426	307,4%	311,4%	-20	-324	--
<b>Pre-provisions income</b>	<b>1.719</b>	<b>1.841</b>	<b>7,1%</b>	<b>7,4%</b>	<b>1.680</b>	<b>1.868</b>	<b>11,2%</b>
Total provisions and impairments	-938	-2.275	142,6%	143,3%	-865	-2.035	135,1%
Gains on sale of assets and other results	170	313	84,2%	84,1%	174	317	82,2%
<b>Profit before tax</b>	<b>951</b>	<b>-121</b>	<b>--</b>	<b>--</b>	<b>989</b>	<b>150</b>	<b>-84,8%</b>
Income tax	-174	124	--	--	-167	73	--
Minority interest	9	1	-88,9%	-88,9%	9	1	-88,9%
<b>Attributable net profit</b>	<b>768</b>	<b>2</b>	<b>-99,7%</b>	<b>-99,7%</b>	<b>813</b>	<b>222</b>	<b>-72,7%</b>

PRO MEMORIA Balances in € million	Total group				ExTSB		
	Dec 19	Dec 20	Change YoY	Change at fixed FX	Dec 19	Dec 20	Change YoY
Total assets	223.754	235.763	5,4%	6,8%	179.593	191.230	6,5%
Performing gross loans	144.572	146.878	1,6%	3,3%	108.076	109.902	1,7%
Performing gross loans ex APS	141.480	145.117	2,6%	4,4%	104.985	108.141	3,0%
Customer-based funding on balance sheet	146.309	150.778	3,1%	4,6%	110.886	112.565	1,5%
Customer-based funding off balance sheet	43.163	38.064	-11,8%	-11,8%	43.163	38.064	-11,8%

RATIOS	Total group		ExTSB	
	Dec 19	Dec 20	Dec 19	Dec 20
Cost / income (ex amortisation) (%)	55,63	55,41	47,57	48,05
Core capital / Common equity (%)	12,4	12,6	--	--
NPLs / Gross loans (%)	3,83	3,60	4,62	4,28
NPLs coverage (%)	49,6	56,5	50,1	56,4
Number of branches	2.398	2.083	1.862	1.629
Number of employees	24.454	23.458	17.060	16.749

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