

1H20 Results

Banco Sabadell earns profit of 145 million euros in the first half of the year and allocates provisions of 1,089 million euros after updating the macroeconomic scenarios due to Covid-19

- The CET1 *phase-in* ratio increases by 55bps in the quarter to 12.7% (12.1% fully-loaded⁽¹⁾)
- On-balance sheets funds increase by 4.0% and the Group's performing loans record a 3.3%⁽²⁾ growth year-on-year
- The Bank grants 9.3 billion euros of ICO-guaranteed loans and 2,527 million euros in payment holidays for mortgages and consumer loans
- 70% of customers who operates with Sabadell do so via digital channels
- Banco Sabadell launches framework for the issuance of bonds linked to sustainable development goals

31 July 2020. Banco Sabadell Group has ended the first half of 2020 with a **net attributable profit** of 145 million euros, 72.7% lower in year-on-year terms, after allocating the required provisions of 1,089 million euros in total (968 million euros excluding TSB), due to the updates made to IFRS 9 model to incorporate the new macroeconomic scenarios in light of Covid-19.

These provisions entail a credit cost of risk of 107bps, in line with the guidance.

Core banking revenue (net interest income + net fees and commissions) amounted to 2,378 million euros, a year-on-year reduction of 5.3%, remaining strong in spite of the exceptional circumstances this quarter.

(1) Pro forma figure. Includes +6bps from the sale of the real estate developer and +36bps from the sale of the depository business.

(2) Excludes CAM APS and the account receivable created for the right of first refusal associated with the NPA portfolio sales of €0.5bn in 1Q20 and €0.2bn in 2Q20.

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This quarter saw activity recover substantially in the last few weeks, resuming pre-Covid-19 levels, which has allowed Banco Sabadell to increase its market share in POS turnover, credit cards and insurance.

Net interest income amounted to 1,705 million euros as at the end of June 2020, declining by 5.6% year-on-year due to the effect of interest rates and the smaller contribution of the ALCO portfolio, which were partially offset by larger volumes, the lower cost of wholesale funding and TLTRO III. Additionally, it is worth noting the impact of the consumer loan securitisation carried out in the previous year. **Net fees and commissions** amounted to 673 million euros, 4.6% less than in the previous year, due to lower activity levels and the exceptional circumstances at the beginning of the quarter.

Cost containment and strong capital and liquidity position

Costs were contained and were 0.3% lower than in the previous year, falling to 1,562 million euros as at end-June. The **cost-to-income ratio** was 53.7% at the end of June 2020, representing a 107bps improvement compared to the same period in the previous year.

Banco Sabadell's **capital ratio** puts it in a good position to face the current macroeconomic environment. The CET1 capital ratio improved, increasing by 55bps in the quarter to 12.7% (phase-in) and 11.9% (fully-loaded) as at the end of June 2020. The pro forma⁽¹⁾ CET1 ratio was 12.8% (phase-in) and 12.1% (fully-loaded).

In terms of **liquidity management**, the LCR (Liquidity Coverage Ratio) increased to 214% at Group level (234% excluding TSB and 247% in TSB) as at end-June 2020. The loan-to-deposit ratio as at the end of June 2020 was 99%, with a balanced retail funding structure.

Similarly, in the second quarter of 2020, 500 million euros of senior preferred notes have been issued.

(1) Pro forma figure. Includes +6bps from the sale of the real estate developer and +8bps from the sale of the depositary business.



Lending volumes rise and funds under management increase

Banco Sabadell has ended the first six months of 2020 with loan growth across all geographies. Gross **performing loans** ended June 2020 with a balance of 145,131 million euros (110,941 million euros excluding TSB), representing a year-on-year growth of 2.4% (2.9% excluding TSB).

Organic growth⁽²⁾ of lending was 3.3% year-on-year (4.0% excluding TSB) and 1.4% in the quarter (2.4% excluding TSB).

In Spain, gross performing loans increased by 4.1% year-on-year and by 2.1% in the quarter, mainly driven by ICO-guaranteed loans granted to corporates, SMEs and the self-employed, as well as mortgages, which continued to show a resilient performance in year-on-year terms.

TSB recorded a year-on-year **loan growth** of 1.0%. Considering constant exchange rate, this item increased by 2.8% year-on-year and by 1.0% in the quarter, due to the increase of the mortgage book and the government's coronavirus Bounce Back Loan Scheme for SMEs.

As at the end of June 2020, **on-balance sheet customer funds** amounted to 147,572 million euros (111,525 million euros excluding TSB), representing a year-on-year increase of 4.0% (2.7% excluding TSB) and a quarterly increase of 2.5% (1.9% excluding TSB), driven by the growth of sight accounts.

Sight account balances amounted to 123,888 million euros (90,776 million euros excluding TSB), representing an increase of 9.0% year-on-year (8.4% excluding TSB) and of 4.2% in the quarter (3.7% excluding TSB).

Term deposits amounted to 23,966 million euros (21,031 million euros excluding TSB), down by -15.3% compared to the previous year, and by -4.6% (-4.0% excluding TSB) in the quarter, as term deposits flowed into current accounts as a result of the low interest rate environment.

(2) Excludes CAM APS and the account receivable created for the right of first refusal associated with the NPA portfolio sales of €0.5bn in 1Q20 and €0.2bn in 2Q20.

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Total **off-balance sheet customer funds** amounted to 41,718 million euros as at the end of June 2020, increasing by 4.2% in the quarter due to financial market performance.

Total **funds under management** amounted to 211,886 million euros (173,570 million euros excluding TSB), compared with 208,587 million euros (172,416 million euros excluding TSB) one year previously, representing an increase of 1.6% year-on-year (0.7% excluding TSB) and of 1.9% in the quarter (1.5% excluding TSB).

Mexico continues to perform remarkably well, growing by 8.0% year-on-year, and by 4.0% in the quarter.

Our top priority: help self-employed individuals, companies and households to overcome Covid-19

Banco Sabadell has acted on its ongoing commitment to provide support to the self-employed, companies and households, anticipating their needs and offering them solutions to help cushion the effects of the health crisis caused by the pandemic. The aforesaid commitment remains fully intact and continues to be a top priority for the Bank, as the provider of an essential service at this difficult time.

Sabadell has granted a total of 9.3 billion euros⁽¹⁾ of **ICO-guaranteed** loans to SMEs, the self-employed and corporates, and there are 1.7 billion euros in process to grant. It has also granted a further 9,978 million euros in business loans guaranteed by Banco Sabadell until June 2020.

Regarding its individual customers, Banco Sabadell has granted 2,326 million euros of **mortgage payment holidays** and 201 million euros in **consumer loan payment holidays** as at June 2020. Of these, 969 million euros correspond to the statutory moratorium established by Royal Decree, and 1,558 million euros correspond to sector moratorium.

(1) Data as at 24 July 2020



Risk management

Non-performing assets have been reduced in the past twelve months, and at the end of June 2020 their balance was 7,820 million euros, of which 6,359 million euros corresponded to non-performing loans and 1,460 million euros corresponded to foreclosed assets. This volume of problematic (non-performing) assets brings the ratio of net NPAs to total assets down to 1.6%, compared to 1.8% in the second quarter of the previous year.

The NPA coverage ratio stood at 51.8%, with the coverage of non-performing loans standing at 55.6% and the coverage of foreclosed assets at 35.2%.

The ratio of problematic assets in relation to gross loans plus real estate assets stood at 5.1%, down from 5.5% in the first half of 2019.

The Group's **NPL ratio** stood at 3.95%, improving from the second quarter of the previous year, when it stood at 4.05%.

70% of customers who operates with the bank do so via digital channels and the number of Bizum users has doubled in one year

Throughout the pandemic, Banco Sabadell has demonstrated the robustness and resilience of its IT platform, proving that it has adequate digital capabilities in place to mobilise the entire organisation, enable staff to work from home and continue providing services to employees and customers as usual, with no service disruption.

70% of customers who operates with the bank do so through digital channels and 86% of ICO-guaranteed loans have been signed for digitally. The number of documents signed digitally has increased from 26% to 41%, and app signups were up by 13%.

Banco Sabadell has also registered 90,000 new users in its mobile app. The number of Sabadell Wallet users has increased by 110% year-on-year to over one million customers today. The number of Bizum users also rose to 650,000 – twice that of the same period in the previous year.

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TSB rolls out its SME banking and achieves its highest NPS in two years

TSB has increased its business banking customer base, opening a total of 20,000 Business Current Accounts (BCAs) in the first half of the year.

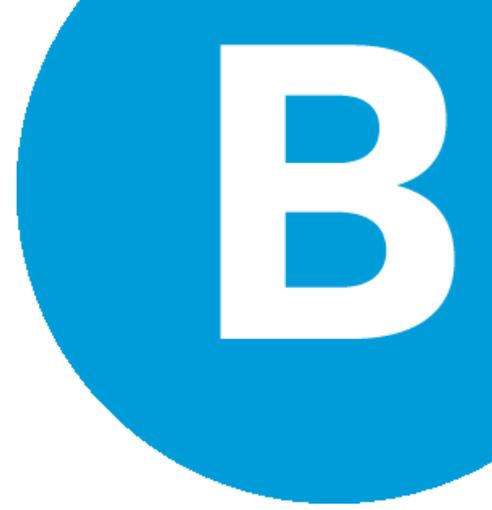
Lending in TSB amounted to 34,190 million euros, increasing by 1.0%. Considering a constant exchange rate, this increase was 2.8% year-on-year, due to the increase of the mortgage book and the UK government's Bounce Back Loan Scheme.

TSB has granted 38,000 **mortgage payment holidays** and 50,000 **consumer loan payment holidays** to support its customers during the pandemic.

On-balance sheet customer funds amounted to 36,047 million euros, representing an increase of 8.4%.

TSB has picked up the pace of its **digitisation** strategy. Transactions via digital channels had increased to 93% by June 2020. Around 70% of sales take place digitally. TSB has recorded a three-fold increase in the number of app registrations, reaching 3,500 daily signups.

As a result of these measures and thanks to the resilience of its IT platform, TSB has achieved its highest NPS (Net Promoter Score) of the last two years.



Key developments in the quarter

Banco Sabadell launches framework for the issuance of bonds linked to sustainable development goals

Banco Sabadell has put into motion a framework for the issuance of bonds linked to sustainable development goals. With this framework, Banco Sabadell is stepping up its commitment to environmental sustainability, the fight against climate change, as well as social development. By defining priority areas of action and identifying eligibility criteria, Banco Sabadell is promoting the issuance of green, social and sustainability bonds, thus taking a further step in cementing its role as a cornerstone of a sustainable economy.

Banco Sabadell closes strategic partnership with Amundi

Banco Sabadell has closed its strategic partnership with Amundi to grow the investment funds business in Spain. The operation, announced in January this year, has been given the necessary regulatory authorisations and entails the acquisition by Amundi of 100% of Sabadell Asset Management for 430 million euros.

The final closing generates a capital gain for Banco Sabadell of 349 million euros, adding 43 basis points to its fully-loaded Common Equity Tier 1 (CET1) capital ratio.

Sabadell Asset Management is a leading asset management firm in Spain, with 21 billion euros of assets under management, of which 16.1 billion euros are Spanish-domiciled funds.

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Banco Sabadell and EIB Group provide 576 million euros to support SMEs and mid-cap firms

The European Investment Bank (EIB) Group has joined forces with Banco Sabadell to support small and medium-sized enterprises (SMEs) – the businesses most affected by the economic impact of COVID-19. With this goal in mind, the EIB Group – via the European Investment Fund (EIF), its subsidiary specialising in venture capital for SMEs – has granted Banco Sabadell a 96 million euro guarantee for a synthetically securitised loan portfolio, which will enable the Spanish bank to increase its lending capacity to offer 576 million euros in financing for the projects of Spanish companies, primarily the self-employed, SMEs and mid-caps. The agreement includes a commitment to direct part of the new Banco Sabadell financing to investments promoting climate action, which is key to a green recovery following the pandemic.

With this initiative, Banco Sabadell leverages the role played by financial institutions in mobilising capital to drive forward the transition to a more resource-efficient and low-carbon economy.

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
Net interest income	1.806	1.705	-5,6%	-5,4%	1.320	1.263	-4,3%
Net fees and commissions	706	673	-4,6%	-4,6%	649	630	-3,0%
Core revenues	2.512	2.378	-5,3%	-5,2%	1.969	1.893	-3,9%
Results from financial transactions and foreign exchange	45	155	245,9%	245,9%	24	136	459,7%
Income from equity method and dividend	36	14	-61,5%	-61,5%	36	14	-61,5%
Other operating income / expense	-99	-86	-13,1%	-12,4%	-98	-99	1,2%
Gross operating income	2.494	2.461	-1,3%	-1,2%	1.932	1.944	0,6%
Operating expenses	-1.340	-1.307	-2,5%	-2,3%	-882	-886	0,4%
Personnel expenses	-810	-798	-1,5%	-1,4%	-604	-616	2,0%
Other general expenses	-530	-509	-4,0%	-3,8%	-279	-270	-3,0%
Amortization & depreciation	-227	-255	12,5%	12,7%	-161	-176	9,9%
<i>Promemoria:</i>							
Recurrent costs	-1.516	-1.542	1,7%	1,9%	-1.033	-1.060	2,6%
Non-recurrent costs	-51	-20	-60,9%	-60,8%	-10	-3	-71,5%
Pre-provisions income	927	899	-3,0%	-2,9%	889	881	-0,9%
Total provisions and impairments	-374	-1.089	191,0%	192,1%	-341	-968	184,1%
Gains on sale of assets and other results	139	276	97,8%	97,8%	141	275	95,6%
Profit before tax	692	85	-87,6%	-88,1%	689	188	-72,7%
Income tax	-154	59	--	--	-153	28	--
Minority interest	6	-1	--	--	6	-1	--
Attributable net profit	532	145	-72,7%	-73,0%	530	217	-59,1%

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	224.852	234.447	4,3%	4,9%	180.359	191.568	6,2%
Performing gross loans	141.703	145.131	2,4%	3,3%	107.853	110.941	2,9%
Performing gross loans ex APS	138.611	143.370	3,4%	4,3%	104.761	109.180	4,2%
Customer-based funding on balance sheet	141.862	147.572	4,0%	4,7%	108.620	111.525	2,7%
Customer-based funding off balance sheet	43.720	41.718	-4,6%	-4,6%	43.720	41.718	-4,6%

RATIOS	Total group		ExTSB	
	Jun 19	Jun 20	Jun 19	Jun 20
Cost / income (ex amortisation) (%)	54,72	53,65	46,77	46,20
Core capital / Common equity (%)	11,9	12,7	--	--
NPLs / Gross loans (%)	4,05	3,95	4,81	4,61
NPLs coverage (%)	51,7	55,6	52,4	56,0
Number of branches	2.454	2.271	1.906	1.768
Number of employees	25.372	24.206	17.212	17.073

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