

First half of 2019

Banco Sabadell earns profit of 532 million euros due to lower provisions and the absence of one-off costs in TSB

- **Core banking revenue (net interest income + net fees and commissions) increased by 2.7% year-on-year**
- **The fully-loaded CET1 ratio was up 20bp in the quarter, standing at 11.2% (11.4% pro forma considering portfolio sales⁽¹⁾)**
- **Business growth momentum, with performing loans⁽²⁾ growing by 2.0% year-on-year (4.1% ex TSB), due to strong performance in Spain and Mexico**
- **TSB has regained momentum, rolled out its SME business, which increased by 6% up to June, and has recorded growth in deposits (+2.6%) and loans (+1.2%)**

26 July 2019. Banco Sabadell Group has closed the first half of 2019 with a **net attributable profit** of 532 million euros, representing a year-on-year growth of 340.9%, due to lower provisions and the absence of the one-off costs recorded in TSB in 2018.

Core banking revenue (net interest income + net fees and commissions) showed sustained growth, increasing by 2.7% year-on-year at Group level (2.4% in constant FX).

Net interest income amounted to 1,806 million euros (1,320 million euros excluding TSB) at the end of June, down -0.2% year-on-year at Group level due to the implementation of IFRS 16 and lower long-term interest rates.

Net fees and commissions increased by 10.9% (7.9% excluding TSB) year-on-year, due to the strong performance of service fees.

(1) Includes +18bps of RWAs released following the NPA sales and +8bps from the capital gain on the sale of Solvia (accrued in the quarter as a dividend to be reverted at the end of the year). (2) Excludes the impact of the portfolio protected by CAM's APS, which is in run-off.

Communication and Institutional Relations Department

Tel. (0034) 93 748 50 19 sabadellpress@bancosabadell.com



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Quarter-on-quarter, **core banking revenue** increased by 2.0% (1.9% in constant FX). **Net interest income** in the same period recorded growth of 0.5%, due to higher volumes and business activity. **Fees and commissions** also increased during the second quarter by 6.0% (5.4% excluding TSB), due to strong performance across segments.

The **customer spread** ended June at 2.65% at Group level (2.60% ex-TSB).

Total costs amounted to 1,567 million euros as at the end of June 2019 (1,043 million euros excluding TSB), compared to 1,656 million euros at the end of June in the previous year (1,051 million euros excluding TSB), representing a reduction of 5.4%. The **cost-to-income ratio** stood at 54.7% as at the end of June 2019.

Total **provisions and impairments** amounted to 374 million euros as at the end of June 2019 (341 million euros excluding TSB), compared to 806 million euros (667 million euros excluding TSB) as at June in the previous year.

In parallel, it is worth noting the improvement in the Group's **cost of risk**, which fell to 48bps as at the end of June 2019, compared to 51bps at the end of the previous quarter.

Lending volumes continue to grow at a good pace (+2%)

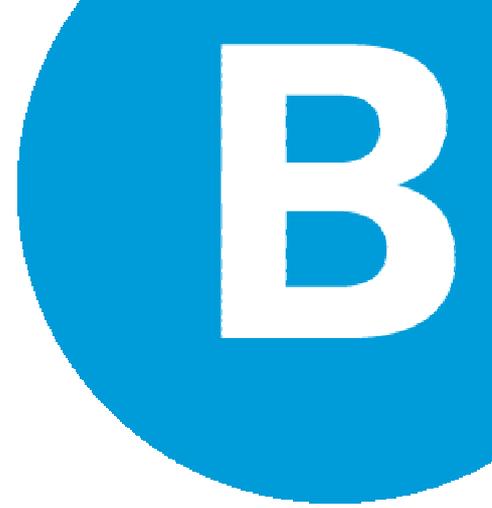
Performing loans closed the second quarter of 2019 with a year-on-year growth of 0.7% (2.3% excluding TSB), with a balance of 141,703 million euros (107,853 million euros excluding TSB). Excluding the APS impact, this item grew by 2.0% year-on-year⁽¹⁾ (4.1% excluding TSB), driven by Spain and Mexico. Quarter-on-quarter growth was 1.1% (2.6% excluding TSB), due to the positive volume growth momentum across geographies.

On-balance sheet customer funds reflected the strength of the banking business, ending the second quarter with 141,862 million euros (108,620 million euros excluding TSB) and growing by 4.5% year-on-year (6.2% excluding TSB), and by 1.3% quarter-on-quarter (2.5% excluding TSB).

Sight account balances amounted to 113,607 million euros (83,724 million euros excluding TSB), representing an increase of 7.8% year-on-year (11.7% excluding TSB) and a 3.0% increase quarter-on-quarter (5.9% excluding TSB). Term deposits amounted to 28,303 million euros (24,945 million euros excluding TSB).

Off-balance sheet customer funds amounted to 43,720 million euros as at the end of the second quarter of 2019.

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



Funds under management amounted to 208,587 million euros (172,416 million euros excluding TSB), compared with 205,063 million euros (168,809 million euros ex-TSB) one year previously, representing a year-on-year increase of 1.7% (2.1% ex-TSB) and a quarter-on-quarter growth of 1.1% (1.6% excluding 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 221,741 customer registrations. By segments, the Group has acquired 169,176 new individual customers and 52,565 corporate customers. It is worth mentioning that Banco Sabadell has also added 125,062 new direct deposits of salaries.

Business activity in new **loans and credit lines to SMEs** has grown by 1% (10.4 billion euros) year-on-year. The volume of mortgages and consumer loans has also increased by 1% to over 3 billion euros. The number of new Expansión accounts opened grew by 7% to 3.1 million and credit card turnover increased by 14% (7.5 billion euros). Meanwhile, the payments of new life insurance premiums and POS turnover both increased by 7%.

The capital ratio has been strengthened, standing at 11.2% (11.4% pro forma), in line with the year's guidance

Banco Sabadell continues to strengthen its capital ratio, which was up 20bp in the quarter, with a **fully-loaded CET1** ratio of 11.2% (11.4% pro forma)⁽¹⁾ at the end of June. The **phase-in CET1** ratio stood at 11.9% at the end of June. Sabadell therefore still expects to end 2019 with a fully-loaded CET1 capital ratio of 11.6% or higher.

(1) Includes +18bps of RWAs released following the NPA sales and +8bps from the capital gain on the sale of Solvia (accrued in the quarter as a dividend to be reverted at the end of the year).

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Reduction of non-performing assets and improved risk profile

At the end of the second quarter of 2019, the balance of **non-performing assets** amounted to 8,253 million euros, of which 6,380 million euros corresponded to non-performing loans and 1,873 million euros corresponded to foreclosed assets, representing a reduction in the year of 26 million euros (-174 million euros in NPLs and +148 million euros in foreclosed assets). In the quarter, non-performing assets increased by 67 million euros.

The net NPAs to total assets ratio stands at 1.8% and the ratio of NPAs in relation to gross loans plus foreclosed assets stands at 5.5%.

The NPA coverage ratio stands at 50.1%, with the coverage of non-performing loans standing at 51.7% and the coverage of foreclosed assets at 44.4%.

The Group's NPL ratio has fallen steadily in the first six months of the year to 4.05% (4.81% excluding TSB9).

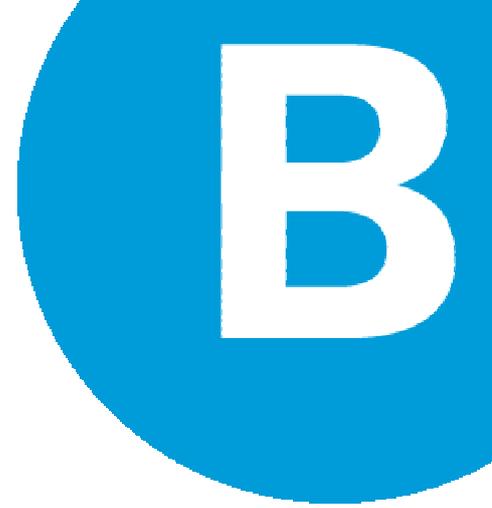
On 24 July, Banco Sabadell completed the transfer of a portfolio of loans, mostly mortgage loans with a gross book value of approximately 1,834 million euros and a net book value of approximately 268 million euros, as well as foreclosed assets with a gross book value of approximately 290 million euros and a net book value of approximately 106 million euros, to Deutsche Bank and Carval Investors. The transaction, which was closed upon obtaining the relevant authorisations, does not entail allocating any additional provisions and has a neutral impact on the capital ratio.

Strong business momentum in TSB and start of SMEs business roll-out

TSB has continued to regain momentum, particularly in the last quarter. In fact, the last six months have been a turning point for the bank, with the continued growth in SMEs and the good performance of its IT platform.

New current accounts opened by SMEs have increased by 6% in the six-month period, while SME savings grew by 25% in the first half of 2019. It is worth mentioning that SME customers now have access to a faster and more agile digital service, which has reduced the average onboarding time from 20 days to less than three days.

Net loans were up 1.2% in the first half of the year, driven by the strong growth of mortgage applications between February and April. Mortgage loans recorded the highest growth this year, with 1.6%. Mortgages amounted to 2.9 billion pounds as at the end of June, representing a year-on-year increase of 13%.



On the liabilities side, customer deposits grew by over 2.6% as at June, driven by current accounts and term deposits.

It is also worth highlighting the continued improvement of both bank NPS and mobile NPS. In fact, the mobile NPS is almost back to pre-migration levels. Use of TSB's mobile app has increased by 10% in the first half of the year. Customers' ratings of TSB's apps have also improved significantly, with customers giving them a score of 4.8 / 4.67 points (of a maximum of five).

Finally, TSB has launched a new feature on its UK mobile app, which allows customers to open a bank account remotely with a selfie.

Key developments in the quarter

Banco Sabadell becomes a signatory of the Principles for Responsible Banking

On 27 June, Banco Sabadell was approved as a signatory of the United Nations Principles for Responsible Banking. With this initiative, the bank has further strengthened its commitment to society and the environment.

The Principles for Responsible Banking have been developed by 28 banks from all over the world, and were launched for public consultation at the United Nations Environment Programme Finance Initiative (UNEP FI) Global Roundtable in Paris on 26 November 2018.

The Principles are aligned with the Sustainable Development Goals and the Paris Climate Agreement. They are the first global framework to define the banking industry's role and responsibilities in shaping a sustainable future. 22 September 2019 has been set as the official launch date of these Principles, in parallel to the high-level United Nations General Assembly in New York.

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First bank to integrate AmazonPay

In May, Banco Sabadell became the first Spanish bank to integrate AmazonPay in its payment services that can be used in online stores. This service allows users to make online purchases without having to provide their personal details or card number. As it is linked to the user's Amazon account, buyers do not have to enter the delivery address, as they can choose one of the addresses saved in their Amazon account.

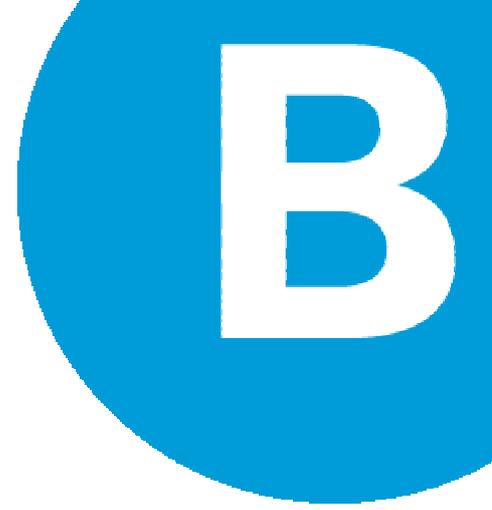
In addition to Banco Sabadell's current offering of card payment systems and services that are specific to Spanish banks, such as Bizum, it can now also offer other payment services such as AmazonPay to cater to merchants' demands, thus increasing its range of payment collection solutions. Banco Sabadell's online sales turnover has increased by 30% over the past year, illustrating the importance of agreements of this type, which offer the bank an opportunity to increase this turnover even more.

Enterprises Hub opens in Valencia

Banco Sabadell has launched its first Enterprises Hub in Valencia. This new innovative space is designed to enhance the bank's guidance and support for companies in their business growth and transformation. This innovative concept was created by Banco Sabadell to provide a space where companies can go and seek advice, even if they do not bank with us.

Here, companies can find solutions to their future challenges, be inspired by success stories and meet a variety of new partners.

The Enterprises Hub allows Banco Sabadell to offer the closeness, trust and quality for which it is known in a new space outside its branches. Companies can find all types of expert advice here: advice on corporate finance and expansion strategies, digital transformation, start-ups funding and growth, collaborative innovation, as well as sectoral and situational economics.



The bank also organises training workshops, inspirational events, networking initiatives and tech showrooms. Those visiting the space can work alone, in teams or with clients, in fully equipped rooms with all of the necessary services.

The activities held by the new Enterprises Hub, located at Porta de la Mar (Calle Justicia, 2, Valencia), are posted on the website <https://hubempresa.bancosabadell.com>

Renewal of EFQM Seal

Banco Sabadell's EFQM 500+ Seal of Excellence, granted by the European Foundation for Quality Management (EFQM), has been renewed. EFQM is an international organisation headquartered in Brussels, which assesses and promotes higher standards of business management in Europe. The bank once again scored above 700 points, the only Spanish financial institution to do so.

Banco Sabadell is an organisation with one of the most consolidated track records in Spain in terms of its management quality and excellence. In October 2018, it was named an EFQM Ambassador and at the end of the same year a new EFQM assessment of the bank was carried out by Management Excellent Club (EFQM representative in Spain) and Bureau Veritas, in which it obtained these excellent results. Banco Sabadell thus renewed its EFQM 500+ Seal of Excellence, achieving an EFQM score of over 700 points for the third time and keeping its place on the podium of Spanish organisations with this recognition.

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BancoSabadell Profit & loss account (consolidated)



Figures in € million	Total group				ExTSB		
	Jun 18	Jun 19	Change YoY	Change at fixed FX	Jun 18	Jun 19	Change YoY
Net interest income	1.810	1.806	-0,2%	-0,5%	1.324	1.320	-0,3%
Net fees and commissions	637	706	10,9%	10,8%	602	649	7,9%
Core revenues	2.447	2.512	2,7%	2,4%	1.925	1.969	2,3%
Results from financial transactions and foreign exchange	246	45	-81,7%	-81,7%	220	24	-88,9%
Income from equity method and dividend	37	36	-1,3%	-1,3%	37	36	-1,3%
Other operating income / expense	-98	-99	1,0%	0,8%	-55	-98	77,7%
Gross operating income	2.631	2.494	-5,2%	-5,4%	2.127	1.932	-9,2%
Operating expenses	-1.479	-1.340	-9,4%	-9,7%	-914	-882	-3,4%
Personnel expenses	-799	-810	1,4%	1,2%	-588	-604	2,7%
Other general expenses	-681	-530	-22,1%	-22,5%	-326	-279	-14,4%
<i>Promemoria:</i>							
Recurrent expenses	-1.336	-1.289	-3,5%	-3,8%	-906	-873	-3,7%
Non-recurrent expenses	-143	-51	-64,4%	-64,5%	-8	-10	28,1%
Amortization & depreciation	-177	-227	28,5%	28,3%	-137	-161	17,2%
Pre-provisions income	975	927	-5,0%	-5,0%	1.076	889	-17,4%
Total provisions and impairments	-806	-374	-53,6%	-53,7%	-667	-341	-48,9%
Gains on sale of assets and other results	4	139	--	--	3	141	--
Profit before tax	173	692	300,3%	301,6%	412	689	67,0%
Income tax	-49	-154	217,7%	220,1%	-91	-153	68,2%
Minority interest	4	6	67,2%	67,2%	4	6	67,2%
Attributable net profit	121	532	340,9%	341,5%	318	530	66,7%

PRO MEMORIA Balances in € million	Total group				ExTSB		
	Jun 18	Jun 19	Change YoY	Change at fixed FX	Jun 18	Jun 19	Change YoY
Total assets	215.935	224.852	4,1%	4,3%	168.776	178.204	5,6%
Performing gross loans	140.667	141.703	0,7%	0,9%	105.465	107.853	2,3%
Performing gross loans ex APS	135.877	138.611	2,0%	2,2%	100.675	104.761	4,1%
Customer-based funding on balance sheet	135.695	141.862	4,5%	4,8%	102.323	108.620	6,2%
Customer-based funding off balance sheet	46.901	43.720	-6,8%	-6,8%	46.901	43.720	-6,8%

RATIOS	Total group		ExTSB	
	Jun 18	Jun 19	Jun 18	Jun 19
Cost / income (ex amortisation) (%)	57,11	54,72	43,80	46,77
Core capital / Common equity phase in (%)	11,9	11,9	--	--
NPLs / Gross loans (%) (1)	4,71	4,05	5,77	4,81
NPLs coverage (%) (1)	57,0	51,7	57,2	52,4
Number of branches	2.471	2.454	1.920	1.906
Number of employees	25.915	25.372	17.778	17.212

(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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