

Businesses



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Below are the key figures associated with the Group's main business units, in accordance with the segment disclosures contained in note 38 to the 2019 consolidated annual financial statements.

Banking business Spain

Key figures

Net profit amounted to 794 million euros in 2019, a 41.7% increase year-on-year, mainly as a result of lower provisions and impairments, the capital gain on the Solvia sale, and the earn-out on the insurance business.

Net interest income amounted to 2,527 million euros, down -2.2% with respect to 2018, principally due to the impact of applying IFRS 16, securitising consumer loans, and the lower interest rates. Adjusting for the securitisation, the decline would have been just -1.5%.

Net fees and commissions totalled 1,304 million euros, i.e. 5.2% higher than in the previous year, driven by sound performance in all segments.

Income from financial transactions and exchange differences amounted to 110 million euros, affected by the 88

million euros capital gain on securitising consumer loans and by booking -47 million euros in impairment on subordinated debt in the Sareb holding, and was lower than last year due to lower sales of fixed-income securities.

Administrative expenses and depreciation and amortisation charges totalled -2,070 million euros, 1% higher year-on-year due to higher staff expenses.

Provisions and impairments amounted to -850 million euros, i.e. lower than the previous year due to the lower amount of recurring provisions in the year and the fact that higher extraordinary provisions had been booked in 2018 on the institutional sale of non-performing assets.

Capital gains from the sale of assets and other income totalled 174 million euros in 2019, including 133 million euros from the sale of Solvia Servicios Inmobiliarios and 37 million euros from the earn-out of the insurance business.

Million euros

	2019	2018	Year-on-year change (%)
Net interest income	2,527	2,585	(2.2)
Fees and commissions (net)	1,304	1,239	5.2
Net banking revenues	3,830	3,824	0.2
Net trading income and exchange differences	110	207	(46.7)
Equity-accounted affiliates and dividends	61	64	(4.6)
Other operating income/expense	(288)	(224)	28.6
Gross income	3,714	3,870	(4.1)
Operating expenses and depreciation and amortisation	(2,070)	(2,049)	1.0
Pre-provisions income	1,644	1,821	(9.8)
Provisions and impairments	(850)	(1,066)	(20.3)
Capital gains on asset sales and other revenue	174	1	13,905.4
Profit/(loss) before tax	968	757	28.0
Corporation tax	(165)	(189)	(12.7)
Profit or loss attributed to minority interests	9	7	27.0
Net attributable profit	794	561	41.7
Cumulative ratios			
ROE (profit / average shareholders' equity)	7.3%	5.2%	—
Cost:income (general administrative expenses / gross income)	47.0%	46.0%	—
NPL ratio	4.7%	5.2%	—
Stage 3 coverage ratio	50.5%	53.9%	—

[Banking business Spain income statement summary](#)

Outstanding loans and advances amounted to 104,436 million euros, a 1.8% increase year-on-year, with growth particularly in the large corporates and SME segments. Isolating the impact of the APS and non-recurring effects, growth would have been 2.7%.

Customer funds on the balance sheet rose by 5.1% year-on-year, with a significant increase in demand accounts. Off-balance sheet funds decreased by -2.0% due to the decline in mutual funds and pension plans.

Million euros

	2019	2018	Year-on-year change (%)
Assets	172,610	172,246	0.2
Outstanding gross loans and advances	104,436	102,550	1.8
Non-performing real estate assets (net)	791	959	—
Liabilities	161,695	162,167	(0.3)
On-balance sheet customer funds	108,890	103,613	5.1
Wholesale funding in the capital markets	19,912	19,833	0.4
Allocated capital	10,915	10,080	8.3
Off-balance sheet customer funds	43,163	44,034	(2.0)
Other indicators			
Employees	16,610	17,373	(4.4)
Branches	1,847	1,892	(2.4)

[Banking business Spain balance sheet summary](#)

The performance and key figures for the main businesses within the banking business in Spain are described below.

Commercial Banking

Highlights

- Continuing growth in fee and commission revenues.
- Greater production of business loans and home purchase loans.
- Substantial increase in general insurance business.
- Higher productivity in the distribution model due to the commercial transformation.

Business overview

In early 2019, Commercial Banking took over the management and activities of SabadellUrquijo Banca Privada and Asset Management, adapting its internal organisation chart accordingly. This action combined the range of financial products and services for large and medium-sized companies, SMEs, shops, self-employed persons, professional groups, entrepreneurs and other private individuals with a level of specialisation that enables the division to provide a personalised and quality service to meet the specific needs of all its customers, through specialist staff working in its extensive multibrand branch network or through digital channels. This ensures good working relations and operating standards regardless of which channel customers choose. It also includes the Bancassurance and Sabadell Consumer finance businesses.

Earnings before taxes

1,098M€

Commercial Banking

Customer segments

- Large corporates
- SMEs
- Businesses
- Retail Banking
- Personal Banking
- Banking for Expatriates
- Private Banking
- Sabadell Colaboradores

Corporate segment specialists

- Institutional Businesses
 - Public Institutions
 - financial Institutions and Insurers
 - Religious Institutions
 - Professional Associations, Partnership Agreements and Associate Banking
- Tourism
- Agriculture
- Employer Providential Schemes
- Real estate
- BStartup
- Companies Hub

Commercial Products

- financial services
 - Digital Services
 - Payment
 - Cash Management Service
- Savings and Investment
- Asset Management
- Funding Solutions
- Leases (finance or operating)
- Bancassurance
- International solutions

Sabadell Consumer finance

Management priorities in 2019

In 2019, we focused our efforts on commercially integrating SabadellUrquijo Banca Privada, enhancing customer experience, strengthening the brand and maximising revenues against a backdrop of low interest rates.

We continued our work to increase customer loyalty, digitalisation and new insurance production. Transforming the business, strengthening the brand and consolidating leadership in customer experience are the main axes on which the business management goals are based, under the umbrella of the customer relationship models defined for each segment (retail, personal banking, businesses, SMEs and corporates).

Key figures

Net profit amounted to 862 million euros in 2019, a decline with respect to the previous year.

Gross income amounted to 3,147 million euros, less than in the previous year, and net banking revenues amounted to 3,325 million euros, a 0.3% increase. Net interest income amounted to 2,201 million euros, down -0.7% on 2018 due to securitisation of consumer loans and to lower interest rates.

Equity-accounted profit and dividends amounted to 55 million euros, up 27% year-on-year due to good performance in Insurance and Pensions.

Net fees and commissions totalled 1,124 million euros, 2.3% more than in the previous year. This was attributable to good performance in all product segments: services, risk transactions and asset management.

Net trading income and exchange differences in 2019 was affected by the sale of non-performing loans.

Operating expenses and depreciation and amortisation charges amounted to -1,586 million euros, a 1.81% increase on the previous year due to higher staff and commercial transformation expenses.

Provisions and impairments amounted to -463 million euros, a year-on-year increase due to the extraordinary provisions booked in the previous year.

Million euros

	2019	2018	Year-on-year change (%)
Net interest income	2,201	2,217	(0.7)
Fees and commissions (net)	1,124	1,098	2.4
Net banking revenues	3,325	3,315	0.3
Net trading income and exchange differences	(20)	8	(350.0)
Equity-accounted affiliates and dividends	55	44	25.0
Other operating income/expense	(213)	(183)	16.4
Gross income	3,147	3,184	(1.2)
Operating expenses and depreciation and amortisation	(1,586)	(1,558)	1.8
Pre-provisions income	1,561	1,626	(4.0)
Provisions and impairments	(463)	(389)	19.0
Capital gains on asset sales and other revenue	—	—	—
Profit/(loss) before tax	1,098	1,237	(11.2)
Corporation tax	(236)	(358)	(34.1)
Profit or loss attributed to minority interests	—	—	—
Net attributable profit	862	879	(1.9)
Cumulative ratios			
ROE (profit / average shareholders' equity)	13.4%	13.8%	—
Cost:income (general administrative expenses / gross income)	49.5%	48.1%	—
NPL ratio	5.4%	5.5%	—
NPL coverage ratio	46.7%	48.6%	—

[Commercial Banking income statement summary](#)

Gross loans and advances increased by 1.5%, while on on-balance sheet customer funds rose by 3.8% and off-balance sheet customer funds fell by 0.9%, mainly as a result of mutual fund performance.

Million euros

	2019	2018	Year-on-year change (%)
Assets	188,838	178,850	5.6
Outstanding gross loans and advances	80,032	78,849	1.5
Liabilities	182,096	172,775	5.4
On-balance sheet customer funds	98,691	95,115	3.8
Allocated capital	6,742	6,076	11.0
Off-balance sheet customer funds	40,196	40,546	(0.9)
Other indicators			
Employees	11,642	11,795	—
Branches	1,822	1,865	—

[Commercial Banking balance sheet summary](#)

There follows an overview of the various businesses encompassed within Commercial Banking.

Customer segments

Large corporates

Banco Sabadell offers specialist services to major corporations via a network of 39 corporate banking branches distributed throughout Spain, leading the way through growth in outstanding loans and working with corporations as they expand.

The customer relationship model, which this year continued to evolve towards an advisory model, continues to set us apart from our competitors. A “360° view” of customers by means of specially tailored proposals has positioned Banco Sabadell as a strategic advisor at the top end of the segment.

We further developed an industrialised approach to producing value propositions for customers and for preparing account managers’ annual planning visit, aimed at both corporates and businesses, and it is expected to launch formally in January 2020. The value proposition has thus been expanded, significantly boosting our capacity to offer customers proactive solutions, such as providing overall funding facilities that enable companies to plan their annual investments in the certainty that they will always have access to the necessary credit.

In-depth knowledge of customers and strict application of the pricing policy positioned Banco Sabadell as a leading lender: it arranged over 6,757 million euros in credit in 2019 while expanding customer numbers by 4.5% and achieving a penetration rate of 68.34%.

SMEs

In its ongoing commitment to supporting companies in their growth and consolidation processes, Banco Sabadell continued to ensure that SMEs can obtain credit in 2019.

In this business segment, the Bank’s ambition is materialised through general financing lines, enabling SMEs to plan their annual investments in the knowledge that they will have access to the necessary funding at all times. Loan production to SMEs by Banco Sabadell increased by 4.9% in 2019 compared with the previous year.

Banco Sabadell’s positioning as a lender to companies has always been grounded in the principle of “knowing the customer” and rigorously applying the Group’s risk policy at all times; as a result, the bank has been able to lend more while reducing its loan loss ratios at the same time.

Businesses

Once again, the Bank continued to grow in terms of customer attraction and loyalty and retained its lead in terms of customer experience. In a new development, Banco Sabadell launched “Soluciones Negocios” (Business Solutions), another step in our commitment to being closer to our customers in the self-employed, shops and SME segments, whatever their business. In this context, we developed new commercial offerings that provide integrated solutions to the specific needs of up to 25 different sectors of activity. We also set up a new section aimed at Businesses in www.estardondeestes.com, which offers articles and useful tips to help make the best decisions regarding financial matters that are relevant to business.

In order to attract retailers, in 2019 the Bank continued the “Creemos” (We believe) campaigns in 28 towns and cities all over Spain. The aim of the campaign is to encourage people to visit shops in their town, spend some money and give a boost to business in the area, while encouraging account managers to make out-of-branch visits. In each local area the campaign was supported by press, radio and billboard advertisements, giving it widespread distribution and a resounding media impact.

Retail Banking

In 2019, the bank developed the retail banking business to secure an improvement in efficiency, productivity and customer experience. With this goal in mind, the levers of the model were deployed throughout the branch network, consisting of an omnichannel view of customers, centralisation of operating processes, and a focused multichannel range of products and services. At the same time, all remote customer management capabilities were broadened.

Accordingly, the bank’s more than 4 million retail customers are served through the various relationship channels, so that each customer always has an exclusive commercial proposal that is convenient and fully tailored to their needs as soon as that need is detected. To facilitate personalisation of the service and make customer management more agile, all tasks that do not contribute commercial value have been automated and roboticised, substantially increasing the time available for interacting with customers while also achieving a sizeable reduction in costs. More than 350 operating processes have been automated, 40% of which have been roboticised or fully automated at operating centres.

So far, the results have exceeded expectations and point to considerable scope for ongoing improvement. The interest spread on retail customers increased by more than 6% while direct costs were cut by 10%, and customer experience resulted in an NPS score of over 11%, ranking third in the peer group.

Personal Banking

Personal Banking is an area where Banco Sabadell has long-standing expertise; over the years, it has distinguished itself by offering top quality expert financial management advice to customers in this segment.

The value proposition is driven mainly by fully trained and qualified Personal Advisors, an advisory approach that pursues maximum transparency and customer protection, instrumented by means of the “Comprehensive Customer Interview”, which allows the Bank to obtain a 360° view of its customers’ needs and to offer an exclusive range of products and services, all consistent with the “Comprehensive Personal Banking Commitment”.

In 2019, the range of exclusive savings and investment products was expanded to create new investment alternatives for our customers, including services such as portfolio advice.

The Personal Banking segment represents 7.5% of all individual customers, contributing 21% of the total income from individual customers and accounting for a customer share of 10%, with 40,360 million euros in assets and 8,147 million euros in liabilities.

Banking for Expatriates

Banco Sabadell retains its lead among Spanish banks in serving expatriate customers. Its leading position is attributable to a specialist network of 210 branches (13% of the total), half of which operate under the Sabadell Solbank brand, with a value proposition based on specialised advisors with language skills, a distinctive offering focused on residential tourism and expatriates, all based on remote platforms enabling 24x7 service to customers in their own language.

Foreign customers account for 12% of all Banco Sabadell customers, and account for 13.4% of income from individual customers and 22% of mortgage production. The main customer nationalities are British, German and French, but other nationalities are also starting to gain prominence, including customers from Nordic countries and Belgium, for whom Spain is an ideal location for investing or as their second country of residence.

With a view to continuing to set the benchmark in serving foreign customers, the value proposition continued to evolve in 2019, offering our customers the “Welcome Service”, a digital platform that showcases our financial and non-financial services, providing information and a network of partners that can assist customers when they arrive in Spain, helping with tax residency, housing, schooling and other matters.

Our foreign customers recognise the excellent quality of Banco Sabadell, having granted it a score of 9.1 in terms of Overall Branch Satisfaction.

Private Banking

SabadellUrquijo Banca Privada is Banco Sabadell’s private banking division, aimed at providing comprehensive solutions to customers who need customised service and attention because of their specific needs.

The division comprises 162 private bankers certified by the European financial Planning Association, distributed over 32 branches / customer care centres to meet the needs of customers throughout Spain who have assets in excess of 500 thousand euros.

As a result of the implementation of MifiD II, in 2019 this division strengthened all areas in order to enhance service quality as well as stepping up customer protection and offering full transparency in terms of information and pricing. The annual cost report epitomises this transparency.

Along with portfolio advisory services, the focus remained on discretionary portfolio management, providing almost all customers with at least one of the two services.

The unit continued its efforts to design and deliver the best range of products to customers. Mutual funds and discretionary portfolio management remain popular in the current context of low interest rates. Alternative investments are gaining ground due to the need to lengthen the time frame and accept greater illiquidity in order to continue to obtain the returns achieved in the past, against a backdrop of negative interest rates and flat curves.

However, the highlight of the year was undoubtedly the integration of Sabadell Urquijo Banca Privada's teams into the structure of Sabadell España with a view to achieving greater alignment with the branch network and tapping its capillarity and commercial strength.

Business volume amounted to 29,556 million euros in 2019. Discretionary portfolio management exceeded 1,800 million euros, corresponding to some 3,800 contracts. Assets held in mutual funds amounted to 7,346 million euros and SICAVs numbered 157, representing 1,566 million euros. Funds in alternative investments increased by 148 million euros to 334 million euros.

Sabadell Colaboradores

Sabadell Colaboradores is a lever for acquiring customers and business for the branch network via cooperation agreements with referrers. More than 52,130 new customers were acquired through this channel in 2019, and volumes exceeded 12,470 million euros, mainly mortgages. In 2019, 7,880 new mortgages were acquired through the Sabadell Colaboradores channel, representing 26.64% of transactions in the branch network.

Corporate segment specialists

Institutional Businesses

The Institutional Businesses unit was created to enhance and develop business related to public and private institutions, so as to position Banco Sabadell as a key player in this segment.

To achieve this, it is necessary to have a specialised range of products and services in order to become a leading provider to public institutions, financial institutions, insurers and religious and other bodies.

The relationship with professional and business associations and trade guilds gives the Bank access to professionals, self-employed workers, businesses and SMEs so as to be able to offer them the best range of products and services adapted to each group's specific needs. Through agreements with European, domestic and regional bodies, we increased the range of financing and guarantee facilities for our customers. This Division plays a fundamental role by creating synergies and coordinating with numerous areas of the Bank to offer the best value proposition for each segment and generate business for the branches.

Public Institutions

The economic performance of public administrations, particularly local and regional governments, was affected by the elections in April and November 2019, which reduced the volume of public tenders for capital expenditure. Activity was particularly subdued between February and September 2019.

During that period, some of Spain's regions received authorisations to refinance transactions that they had arranged with various mechanisms, such as the Regional Liquidity Fund (Fondo de Liquidez Autonómico — FLA) and the Central Government financing Facility Fund (Fondo de Facilidad financiera Estatal). This was aimed at bringing the cost of these transactions into line with current market conditions and applying criteria of financial prudence. As a result, Spain's autonomous regions refinanced at lower rates and shifted their borrowings from the central government to financial institutions.

Market shares in lending and deposits were 10.38% and 8.49%, respectively (figures at end of October 2019). Of the public administrations loan book, 80% is to customers with the highest credit rating and the remainder is to customers with a satisfactory rating.

The Public Sector unit provides services to Spanish state agencies and state-owned enterprises and to other large institutions. The division takes a comprehensive approach to their business, from lending to deposits, consistent with the established liquidity and lending policies. The bank offers distinctive added value to meet these customers' needs with the support of its own teams, including the financial institutions and insurers, capital markets and treasury areas.

financial Institutions and Insurers

The value proposition to these institutions was further strengthened in 2019 through treasury, capital markets, custody and depository products, research, equities and alternative investment services so as to strengthen the commercial relationship through a specialised management approach that meets customers' needs in the short and long term. The bank also focused on the insurer business, becoming more specialised in this area to optimise the relationship with these customers and improve their experience. In a context of negative interest rates, deposit taking decreased sharply, giving way to a broader range of value products over the course of 2019.

Religious Institutions

In 2019, this segment of the Bank established itself as a market leader due both to the range of products and services—tailored to the needs of these customers—and to value-added projects.

The “Done” donation stand equipped with contactless payment systems was deployed as planned and new applications were added, putting the Bank in the lead in the digital transformation of religious bodies and the third sector in Spain.

A training plan was rolled out for employees and customers, bringing added value that underpins the Bank's range of value services to complement financial management.

Professional Associations, Partnership Agreements and Associate Banking

Banco Sabadell is a key player nationwide in managing arrangements with professional associations and groups. It distinguishes itself in this area by its close relationship with associations, catering at all times for the specific needs of their members through a range of tailored products and services.

Professional Associations and Associate Banking focuses primarily on winning new business with individuals, retailers, SMEs and professional practices. In 2019, there were 3,488 partnership agreements with professional associations and occupational groupings, covering a total of more than 3,172,000 individual members, of whom 787,700 are already customers of the bank. The business generated in this area amounted to more than 25,500 million euros.

The Agreements Division's mission is to manage agreements that provide solutions to customers' financing needs, with a particular focus on companies.

Opportunities in the area of official agreements are managed through arrangements with institutions, both national and supranational. In particular, funding programmes were arranged with the European Investment Bank (EIB) and guarantee programmes with the European Investment Fund (EIF), as well as with national and regional bodies such as Spain's Official Credit Institute (ICO), Institut Català de finances and others to provide funding or guarantees to our customers.

Tourism

Banco Sabadell is the first financial institution to receive the “Q” seal of tourism quality, consolidating its position as a leader in the sector, where it offers expert advice coupled with the highest levels of quality.

Business in this segment focuses mainly on offering specialised financial solutions to a diverse and fragmented group of customers, in three main areas: expert advice, a catalogue of specialised products and rapid response.

The value proposition is aimed at financing for hotel acquisition, international expansion by chains, refurbishment projects, rebranding and energy efficiency. In 2019, Banco Sabadell's Tourism Business Division increased its presence in Spain through a team of 12 territorial managers focused on this area.

The Tourism Business Division also took part in events such as the ITH conferences (refurbishment and energy efficiency), the 5th edition of Spain's ICTE Tourism Quality Congress, the ITH Innovation Summit and FITUR (the flagship international trade fair in the tourism sector, in which Banco Sabadell took part for the fourth consecutive year).

The Division also received institutional recognition from leading entities such as Spain's Tourism Council (Consejo Español de Turismo – Conestur), the Tourism Commission of the Spanish Confederation of Employers' Organisations (CEOE) and the Tourism Commission of the Spanish Chamber of Commerce.

The Division has agreements with the leading institutions in the sector (the Hotel Technology Institute – ITH, the Spanish Confederation of Travel Agencies – CEAV, the Federation of Campsites – FEEC, the National Spa Association – ANBAL, etc.).

The Division had a portfolio of 13,925 customers, over 4,051 million euros in business volume, i.e. 13.5% more than in 2018, and it managed transactions amounting to 1,410 million euros, a 2.5% year-on-year increase.

Agriculture

Banco Sabadell, which has around 500 branches and more than 700 managers specialised in agriculture (encompassing farming, livestock, fishing and forestry), expanded its customer base and rounded out the range of products tailored to these customers' requirements.

The Bank's strong commitment to, and support for, this sector resulted in a 5.5% increase in business volume compared with 2018, and the Bank has 47,000 customers in this area, up 4% on the previous year.

In 2019, Banco Sabadell's Agriculture segment took part in 15 agro-food industry fairs and sponsored 49 seminars throughout Spain.

Employer Providential Schemes

From its Providential Schemes Division, Banco Sabadell Group offers solutions and responses to our customers to better implement, manage and develop their providential schemes through pension plans, group insurance policies

and voluntary social welfare entities (EPSV, in Spanish). These systems expanded in 2019 and the Bank enhanced management in this area using a life-cycle approach. This investment management model makes it possible to adjust the investment profile — and, with it, the expected risk and return — to each stage of a person's life, seeking higher returns in the early stages and greater protection as retirement approaches.

During the year, many customers switched their plans to obtain greater added value, through life-cycle models and customised solutions, not only in pension plans and group insurance but also in savings solutions as part of flexible remuneration.

Real estate

The Real Estate area focuses on residential developers, capturing and managing them via the six territories into which Spain is divided.

After years of sustained growth, in 2019 our specialised model attained maturity.

Banco Sabadell's commitment to this sector enabled more than 1,900 million euros in loans to be approved in 2019, mainly in developer mortgages, guarantees and reverse factoring, increasing the margin by 15.5% compared with 2018, and bringing business volume to 4,307 million euros.

The main strategy is to maintain our leadership in the sector and to consolidate our market share, prioritising the best business opportunities by pinpointing the most notable projects and the soundest customers, which minimises risk and maximises profit for Banco Sabadell.

BStartup

In the six years since its launch, BStartup has consolidated its position as the leading banking service in Spain for newly created innovative and technological enterprises. Hence, BStartup is fulfilling its dual purpose: on the one hand, positioning the bank as the institution that most supports this kind of company and, on the other hand, strengthening the banking business by means of an enhanced relationship model, based on concentration and specialisation, that increases productivity and margins. The margin in this customer category is three times higher than the overall average of business customers (self-employed workers, businesses, SMEs and large companies). It also scores much higher according to other yardsticks, including internationalisation (48.6%, vs 14.6%) and customer loyalty (an average of 10.73 products, vs 6.98).

The bank takes an integrated approach to this customer category with a proposal that takes into account everything a startup might need from a bank (and vice-versa):

- Specialised banking products and services for startups. A new distribution model was implemented in 2019, involving the creation of the role of BStartup SME Manager in cities with a high concentration of this kind

of customer (Barcelona, Madrid and Valencia, at present). There are a total of 8 SME managers who focus solely on startups; in Catalonia, all startup transactions are concentrated in a single risk analyst.

- Investment in equity. BStartup10, the programme's investment vehicle, investing seed capital in 10 startups every year, currently has 46 investees in its portfolio. Moreover, this year BStartup held a second round of the BStartup Health programme and picked three healthcare startups in which to invest, out of a total of 100 candidates.
- Open innovation. BStartup is an innovation radar due to its privileged position, with a presence in business innovation forums in Spain, and agreements with numerous players in the Spanish entrepreneurial ecosystem. BStartup filters and refers potential opportunities to other divisions. Three Banco Sabadell investees were particularly notable in 2019: Cobee, which is already offering its services to the Bank's customers; and Playfilm, which created an interactive video with the Training Division. In this connection, for the second year running, the Bank was acknowledged by Startup Europe Partnership as one of Europe's Corporate Startup Stars of 2019 at an official ceremony in the Madrid Stock Exchange that was attended by the EU's representative in Spain.

In 2019, BStartup organised or was actively involved in 180 entrepreneurship events in 19 cities throughout Spain.

As a result, BStartup strengthened its impact in the media, both conventional (1,260 mentions in print and online press) and social (11,865 Twitter followers), in 2019 and it was among the trending topics in the Bank's social media most months, always with positive coverage.

Direct business amounted to 545.3 million euros (137.5 million euros in assets and 407.8 million euros in liabilities), with a profit of 13.3 million euros (a 7% increase year-on-year), with a total of 3,222 customers.

Companies Hub

Companies Hub is Banco Sabadell's new Enterprise Growth Centre. The Valencia Companies Hub opened in May. This Banco Sabadell project is aimed at contributing to positioning Sabadell in the companies segment as the bank that best understands the growth and transformation challenges facing companies and as the bank best equipped to accompany them on that journey. With a different design from the conventional bank branch, the Hub offers spaces for business growth.

Companies Hub offers a value proposition to all kinds of companies through its range of services:

- Expert advice in areas such as digital transformation or industry-specific analysis, in addition to specialities already in place at the Bank and at the Companies Hub (financing, internationalisation, startups).

- Programme of training sessions and activities aimed at professionals, executives, self-employed workers, businesspeople and entrepreneurs wishing to keep pace with the latest business trends or acquire know-how in specific areas to grow their enterprises.
- Workspaces available to business customers; technologically equipped space in downtown Valencia: meeting rooms, individual workspaces, flexible workspaces for organising sessions with employees or customers, lounge and coffee corner.

Between its opening on 22 May and the end of 2019, Companies Hub Valencia hosted 76 activities involving a total of 2,806 participants. In addition to the activities organised by Banco Sabadell and Companies Hub, 12 external companies have used space at the Forum to organise events of their own, attended by 610 users. Since it opened, 162 companies received advisory services and meeting rooms were booked by business customers 145 times.

In addition to the parties that used the services, a total of 1,677 users contacted or visited the Companies Hub (visitors to the space and facilities, persons using individual workspaces and meeting rooms, persons attending the signature of agreements with partners, etc.).

In short, in the six months that the Companies Hub was in operation in 2019, a total of 5,474 persons visited the space, meeting the project's initial expectations.

Commercial Products

Financial services

In 2019, Banco Sabadell remained the standard-bearer in managing receipts and payments. In order to simplify customers' day-to-day business, e-banking tools for managing receipts and payments have continued to be improved to enhance usability and customer experience.

Digital Services

In the current market context, companies are increasingly aware of the need to digitalise their processes in order to optimise resources and offer their customers the best possible services, which generates a positive experience that sets them apart from their competitors.

To accompany our customers in this digitalisation process, in 2018 the role of Companies Digitalisation Manager was introduced, to increase customers' digital transactionality through training via the branch network and support visits to customers.

In 2019, this new manager role stepped up training via the branch network in areas with a significant impact on customers' digital transactions, such as implementation of the European payment services directive (PSD2) and the rollout of new functionalities in the Bank's digital channels. These actions aimed at the branch network were implemented in parallel to a process of personalised support for companies, including those whose transactions with

the Bank are more complex and also new customers.

Payment

Banco Sabadell remains firmly committed to the EFTPOS business, as evidenced by its acquisition of Pay Comet. The aim of this acquisition was to ensure that the Bank continues to be a benchmark for our customers thanks to our capacity to offer them better services and greater flexibility.

The EFTPOS business showed another substantial increase on the previous year. Turnover increased by 16%. The bank maintained its market-leading position in handling payments, especially for online sales, with e-commerce turnover growing by 25%.

The means of payment business continued to achieve excellent growth. The number of debit and credit cards in use totals 5.5 million, and credit card turnover rose by 14%.

Purchases via mobile devices quadrupled in the year, evidencing the importance of the digitalisation process in payments. As part of its firm commitment to digitalisation of payments, in 2019 Banco Sabadell launched the Bizum service for e-commerce purchases, enabling any of its customers to make payments using just their mobile phone number at online retailers that support this option.

Cash Management Service

In a context in which mobile payments are growing swiftly, the optimisation and digitalisation of cash management pose a significant challenge for retailers, companies and public administrations that must deal with cash transactions as well as providing their own services. Banco Sabadell offers a set of solutions adapted to each kind of establishment by means of specialist partners, with whom it builds a joint solution to meet customers' needs in terms of cash flows, transaction volume and the availability of change. These solutions help our customers to be more productive due to increased transaction speed, thereby enhancing the user experience.

The bank effectively offers the best solution for each establishment, which may include integrating customer management systems and the Bank's payment systems, cash collection services when necessary, and financing the entire solution.

Savings and Investment

In 2019, the focus was on consolidating and enhancing the comprehensive advisory model for all segments and in all products, and Banco Sabadell addressed the new regulatory context, new digital competitors and the prevailing low interest rates.

This year of consolidation centred on the improvement and fine-tuning of critical operating processes to ensure smooth operation of the technology solutions developed within the framework of integrated advisory services to customers (Sabadell Inversor). Advisory services were enhanced as the basis for commercialising savings and investment products, differentiating Banco Sabadell from its competitors.

To strengthen advisory services, the bank provided extra support to account managers and customers. More than 130 sessions were held, including in-person meetings and conference calls, and videos outlining investment strategies were published monthly. A total of 11 training road shows were held in connection with the commercial advisory system. Support for managers involved supervising a total of 22,281 orders pending MifiD certification, for which training is being given. With a view to offering oversight and guidance in investment decisions, 67 mailings were sent out containing personalised information on markets, corporate transactions and products. Notes were also issued to coincide with extraordinary market events, such as Brexit.

With regard to information for customers, BSMóvil “Mi Ahorro e Inversión, was launched to enable customers to consult their savings and investment positions and returns at any time.

The financial market environment, with negative official interest rates, requires a more sophisticated product range with market exposure to enable customers to obtain the returns they expect. Accordingly, the Bank maintained a continuous range of products, such as structured deposits, pension plans and mutual funds, to be sure to meet customers’ needs in each investment. At 2019 year-end, a total of 463 new savings and investment products had been approved in the product workflow.

The catalogue of mutual funds remains focused on balanced mutual funds, i.e. funds that invest in multiple asset categories, enabling active management in line with the customer’s risk profile. This includes the range of profiled funds and InverSabadell. The low interest rate environment offers little scope for guaranteed funds and the trend is now towards target-return funds. Furthermore, a fund was developed that pays investors an income.

The range of pension plans continues to centre on Sabadell Planes Futuro life cycle schemes. These plans tap into the expected higher returns on equities in the long term, and adapt to customers based on two variables: their planned retirement date and their risk profile.

Asset Management

Asset Management is a separate area within Banco Sabadell Group that focuses on managing collective investment and providing investment advice and solutions for individual customers, companies and institutional investors. It is part of Sabadell Asset Management, the parent of a group of companies operating as collective investment management firms. Its mission is to establish a framework for the investment management business, which is conducted through collective investment management companies and third-party asset managers.

The Asset Management business model is also distinguished by excellence in the mutual funds it proposes, with the aim of maintaining high levels of reliability, sustainability and consistency with excellent returns, always with investors’ best interests in mind. It also ensures investors obtain healthy returns based on

their needs, financial experience, capacity to bear risks, liquidity requirements and ambitions in terms of returns. Accordingly, the aim is to improve investors’ knowledge of the recommended investment approach of the mutual funds and venture capital firms proposed by Asset Management and also of discretionary and collective asset management services.

It also introduces savers to investment solutions that offer access to the best opportunities to preserve or expand their capital in the long term through professional management and collective investment. The goal is to increase the use — not only among the more frequent and experienced investors, but also by smaller savers — of investment solutions that enable them to overcome the current ultra-low interest rate environment by assuming an acceptable degree of risk and a certain maturity horizon that matches their goals and needs as to capital conservation or divestment in order to fund life goals.

Sabadell Asset Management also provides portfolio management and administration services for other institutional investors.

In 2019, subscriptions to Sabadell Asset Management funds flowed primarily to InverSabadell funds, whose volume of assets under management reached 1,305.6 million euros. This range of mutual funds comprises four flexible, multi-asset, direct investment funds, with varying portfolio allocations between fixed-income and equities, the aim being to grow the capital invested over the long term on the basis of higher or lower risk. One of investors’ favourites in this area is the InverSabadell 25 mutual fund, with 23,412 investors and assets totalling 881.8 million euros at 2019 year-end. Also very well received were the new Fondos Planificación (Planning Funds), which are flexible multi-asset mutual funds to cater for investors wishing to receive an attractive pre-set quarterly income that is built into their investment strategy. Assets under management in these funds attained 193.7 million euros.

In 2019, Sabadell Asset Management carried out two mutual fund merger processes in which four mutual funds were absorbed into other funds with the same investment objectives, always in pursuit of investors’ best interests. At the end of the year, there were 222 Spanish-domiciled collective investment undertakings managed by Sabadell Asset Management (65 mutual funds and an open-end investment firm) and SabadellUrquijo Gestión (156 open-end investment firms), and there were three venture capital funds managed by Sabadell Asset Management.

Once again, Sabadell Asset Management’s mutual funds earned some outstanding accolades, in recognition of their highly competitive results and the quality of the investment process. In 2019, Sabadell Rendimiento, FI was named Best Euro fixed-income Mutual Fund in Spain by financial daily newspaper *El Economista*. Seven of Sabadell Asset Management’s mutual funds are acknowledged by Fitch Ratings as having high management quality. Two equity funds are rated Proficient, and five funds are rated Strong (three of which were fixed-income funds, one an equity fund and one a flexible, multi-asset fund).

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Assets under management (€M)	9,102.4	5,844.5	5,609.6	4,312.4	4,203.3	4,443.2	6,356.7	9,952.6	13,091.3	14,122.1	16,423.0	15,930.5	16,108.5
Market share (%)	3.8	3.5	3.4	3.1	3.3	3.6	4.1	5.1	6.0	6.0	6.3	6.2	5.8
Number of investors	374,522	217,360	218,761	195,140	192,282	197,954	270,552	438,582	608,858	623,749	705,682	652,864	576,479

Sabadell Asset Management is the first Spanish fund manager to be rated “Strong” by Fitch Ratings, a leading credit rating agency and research firm. The basic reasons for which the agency granted this rating are the discipline in its investment process, the quality of the team responsible for the investments, its good risk management and the consistency of the results obtained by the investment funds that it manages. “Strong” is among the highest ratings that Fitch grants, and Sabadell Asset Management is the first — and, to date, the only — Spanish fund manager to achieve this rating.

On 21 January 2020, Banco Sabadell and Amundi Asset Management signed a long-term strategic agreement for the distribution in Spain of Amundi Asset Management products through all Banco Sabadell distribution channels. The agreement does not entail any change in the current offer of Sabadell Asset Management investment funds, which will remain open to Banco Sabadell clients and other investors (see section “Material post-closing events” in this Directors’ Report).

Funding Solutions

Although it was a complicated year for home mortgages due to a number of regulatory changes affecting the real estate market (Spain’s new Mortgage Law and changes in how banks and customers pay fees on home purchases), there has been positive growth in the business and in the market share of new production. New production of loans for home buyers rose by 10%. The focus was on solutions aimed at fixed-rate mortgages, which offer our customers greater long-term security. This kind of mortgage currently represents 69% of total production (42% in the market). The Bank continued to innovate in its transformation of the loan arrangement process, increasing digital capabilities for signatures and for the exchange of documentation between customers and the Bank.

Although overall growth in new production of consumer loans slowed, loan arrangements via digital channels (BsMovil and BsOnline) continued to register exponential growth, going from rates of 20% and 32% in 2017 and 2018, respectively, to 56% in 2019. This growth was underpinned by improvements in online loan arrangement processes, fast-tracking responses and enhancing the customer experience. Furthermore, the take-up of pre-approved loans rose from 52% in 2018 to 62% in 2019.

As for short-term funding solutions, Línea Expansión continued to be strengthened, enabling individuals’ cash needs to be managed entirely online.

Working capital funding expanded in 2019, in both specialised products and factoring and reverse factoring, as well as in more traditional products such as discounting and credit lines. These products, which are routinely used to manage and finance companies’ receipts and payments, grew significantly in all segments.

Factoring is now firmly established as a core product for managing receipts in both domestic and international transactions. SME factoring increased by 16% year-on-year.

Reverse factoring (confirming) achieved 8% growth in volume.

Leases (finance or operating)

Banc Sabadell Renting saw an 11% increase in its vehicle lease business, and attained a portfolio of more than 21,500 vehicles. Leases to private individuals increased both in terms of new production and as a share of the portfolio. This business strengthened its focus on sustainability by offering electric vehicles, hybrids and vehicles fuelled by natural gas. Contracts for sustainable vehicles were up 34% year-on-year.

Banco Sabadell Renting expanded its capital goods lease business by 12% and attained a volume of 173 million euros in investment. With new offerings in technology and energy efficiency, and specific value proposals for customer segments such as agriculture and religious institutions, it has cemented its position as a very strong player in this market.

In 2019, Banco Sabadell launched new leasing products (Flexitrans, Flexiagro and Eco Leasing Vehículos). It has also increased volume by 14% and new contracts by 7%, and it currently has a portfolio of more than 2,400 million euros in the form of 33,400 contracts, i.e. 12.2% of the market.

Bancassurance

At 31 December 2019, Banco Sabadell’s insurance and pensions business was structured as follows:

- BanSabadell Vida, BanSabadell Pensiones and BanSabadell Seguros Generales, operating in a strategic alliance with Zurich since 2008.
- BanSabadell Mediación is the bank’s insurance brokerage subsidiary. It operates as a tied agent for bancassurance products, distributing insurance through the branches.

— BanSabadell Previsión E.P.S.V. distributes pension/retirement plans within the Basque Country.

In 2019, Banco Sabadell continued to transform the insurance and pensions business, adapting to the new market challenges, including notably the new Sabadell Blink personalised online range of household and vehicle insurance products.

In 2019, BanSabadell Vida's business volumes ranked it fifth in Spain in terms of savings under management, according to the latest figures published at year-end. Net profit amounted to 78.7 million euros.

Furthermore, the volumes managed by BanSabadell Pensiones rank the Bank tenth in the entire system, according to data published at the end of the year. BanSabadell Pensiones reported a profit of 0.6 million euros in the year.

BanSabadell Seguros Generales increased total premiums by 6% year-on-year, clearly outpacing the market.

BanSabadell Seguros
Generales
Premiums in 2019 (YoY change)

279M€
(+6%)

International solutions

The International Business continued to expand both customer numbers and foreign trade transactions. The bank continued to focus on improving the international service offered to our customers, including enhancements to products and services and, in particular, the digitalisation of transactions.

The positive outcome of this trend is evidenced by the positioning in export documentary credit, where 1 in every 3 transactions (31%) involves Banco Sabadell, and in import documentary credit, where the figure is 1 in every 5 (15%).

The Bank introduced sustainable forfaiting, aimed at funding international projects that are committed to the environment and sustainability.

International guarantees achieved double-digit growth for the fifth consecutive year, on the back of the quality service and advice provided to companies in their internationalisation processes.

As a differentiating factor, in 2019 the Bank arranged information sessions for companies concerning the changes in Incoterms 2020 in order to enable them to be aware of the requirements ahead of time; the Bank provided advice and support in order to provide optimal outcomes in international purchases and sales.

Along the same lines, and continuing the success of previous editions, the third cycle of Sabadell International Business Program commenced; this training programme is focused on helping companies to devise a plan to nurture their international business; all places were filled for the third year running.

The Export to Grow programme led by Banco Sabadell held a number of events in Spain to discuss the Portuguese, Arab Emirates and Turkish markets as preferential areas for Spanish companies.

In September, an international business newsletter was launched with helpful articles for Spanish companies

interested in internationalisation and in expanding foreign trade, and offering a technical view of various appealing sectors of activity and geographical areas.

Another of the initiatives welcomed by customers were the meetings with managers of our representative offices, which focused on Spain in a week of activities and private meetings during which over 500 participating companies received first-hand information.

Banco Sabadell leveraged the positioning of Spanish business, which is focused on diversifying markets and customers consistently and sustainably over time, to expand its foreign trade operations, in both working capital finance and import-export.

Sabadell Consumer finance

Sabadell Consumer finance is the Group company specialising in point-of-sale consumer financing, and it conducts its business through various channels, by establishing collaboration agreements with retailers.

The company continues to improve processes and to expand the commercial offering, ensuring a rapid response to customers' needs.

This business continued to grow in 2019 in terms of customer numbers and new production, as a result of which we increased market share and the commercial and operating margins.

The delinquency rate was 5.0%. The loan-loss coverage ratio was 99.2%.

New auto loan production increased in 2019 as a result of greater commercial coverage, and loyalty due to the consolidation of the Crédito Stock product for dealerships.

The company has devised its own sustainability and environmental policy, based on the Group's principles, committing to a new business line specialised in the renewable energy sector, in which it is establishing direct agreements with energy supply companies and also strengthening funding to owners associations and individuals to install or modernise energy facilities in homes and buildings with a view to autoproduction of clean energy.

Funding of mobility in buildings and condominium refurbishments also expanded.

Overall, the company performed 251,992 new transactions through more than 11,000 points of sale distributed throughout Spanish territory, resulting in 1,054 million euros of new loan production in 2019, bringing the company's total outstanding exposure to above 1,608 million euros.

These improvements helped the company to keep its cost-to-income ratio to 30.01%.

Corporate & Investment Banking

Business overview

Corporate & Investment Banking offers financial solutions and advisory services to large companies and financial institutions, from Spain and other countries, through branches throughout Spain and in 17 other countries. It encompasses Corporate Banking, Treasury, Trading & Custody, Structured finance, Capital Markets, Global financial Institutions, Venture Capital and M&A.

Management priorities in 2019

Corporate & Investment Banking moved decisively in 2019 to improve the value it provides to customers and thereby help enhance their growth and future results. To this end, we have nurtured and innovated our specialist skills, most notably in capital markets, where we can currently cater for 100% of our customers' financial requirements. Our teams are also constantly expanding their international coverage, always focusing on those markets in which our customers invest or have commercial interests.

The key areas in which Corporate & Investment Banking provides value to customers are as follows:

- Know-how through specialisation. The Corporate Banking teams located in the various geographies where we operate not only have specialised knowledge of the large corporates segment but also have industry specialisation so as to better meet our customers' needs based on the specifics of their business.
- Coordination. Large corporates require special solutions that are the result of involving several of the Bank's areas (specialist teams or even teams from different countries). Coordination of all these teams is pivotal for providing value to our customers.
- Specialist product. Corporate & Investment Banking has units that develop tailored products for large corporates and financial institutions (corporate finance, project finance/project bonds, commercial paper programmes, debt issues, M&A, venture capital, asset finance, risk hedges, etc.). The units responsible for developing this range of products are horizontal to the entire Banco Sabadell Group and their capabilities also extend to the Business Banking and Institutional Banking segment.
- Innovation. This is the last, but by no means the least important, of the key areas. Transitioning from idea to action is vital to evolve in such a dynamic and demanding market as that of large corporates. In this regard, we have created the necessary spaces and mechanisms to enable our teams to spend part of their

time on innovation, in the broadest sense of the term: innovation in products, transactions and even in how we coordinate between ourselves.

As is the case every year, the key figures that best define Corporate & Investment Banking's performance are total revenues, risk-adjusted return on capital (RAROC) and the Net Promoter Score (NPS), which gauges the customer experience.

Key figures

Net profit amounted to 243 million euros in 2019, a 12% year-on-year increase, due mainly to higher net fees and commissions and lower provisions.

Gross income declined by -4.9% to 557 million euros, and net banking revenues increased by 1% to 575 million euros.

Net interest income amounted to 358 million euros, down 3% on the previous year.

Net fees and commissions totalled 217 million euros, i.e. 8.5% higher than in the previous year due to higher structured finance commissions.

Net trading income and exchange differences decreased as a result of extraordinary sales of loan portfolios.

Operating expenses and depreciation and amortisation charges totalled -203 million euros, up 3.6% on the previous year as a result of higher staff expenses.

Provisions and impairments amounted to 45 million euros, a 57.5% year-on-year decline as a result of extraordinary provisions in the previous year.

Million euros

	2019	2018	Year-on-year change (%)
Net interest income	358	369	(3.0)
Fees and commissions (net)	217	200	8.5
Net banking revenues	575	569	1.1
Net trading income and exchange differences	(16)	12	(233.3)
Equity-accounted affiliates and dividends	(2)	12	—
Other operating income/expense	—	(7)	(100.0)
Gross income	557	586	(4.9)
Operating expenses and depreciation and amortisation	(203)	(196)	3.6
Pre-provisions income	354	390	(9.2)
Provisions and impairments	(45)	(106)	(57.5)
Capital gains on asset sales and other revenue	7	8	—
Profit/(loss) before tax	316	292	8.2
Corporation tax	(73)	(75)	(2.7)
Profit or loss attributed to minority interests	—	—	—
Net attributable profit	243	217	12.0
Cumulative ratios			
ROE (profit / average shareholders' equity)	20.0%	18.1%	—
Cost:income (general administrative expenses / gross income)	34.8%	31.4%	—
NPL ratio	1.2%	2.5%	—
NPL coverage ratio	107.0%	96.4%	—

Corporate & Investment
Banking income
statement summary

Outstanding gross loans and advances increased by 2.7% and customer funds on the balance sheet declined by 3% as a result of demand deposit performance, while off-balance sheet funds decreased by -28.6%, mainly as a result of employer pension plans.

Million euros

	2019	2018	Year-on-year change (%)
Assets	24,749	24,381	1.5
Outstanding gross loans and advances	14,910	14,517	2.7
Liabilities	23,467	23,171	1.3
On-balance sheet customer funds	7,533	7,763	(3.0)
Allocated capital	1,282	1,209	6.0
Off-balance sheet customer funds	768	1,075	(28.6)
Other indicators			
Employees	709	645	—
Branches	20	22	—

Corporate & Investment
Banking balance sheet
summary

Corporate Banking

Business overview

Corporate Banking is the unit in charge of large corporates which, because of their size, complexity and unique features, require a customised service in which transactional banking services are supplemented by specialised units; the result is a comprehensive solution model for their needs. The business model is based on close strategic relations with customers, providing them with global solutions that are tailored to their needs while also taking account of the specific features of their business and the markets in which they operate.

Management priorities in 2019

Conditions for lending were good in 2019 because of the surplus liquidity, especially in the Eurozone, resulting in an increase in debt issuance. Competitive pressure and the good alternatives to bank funding led to lower growth in net lending volumes, but this did not prevent the unit from achieving its goals.

Against this backdrop, net lending increased by +0.2% in 2019, to 16,294 million euros, of which 61.2% were loans outside Spain (lending outside Spain increased by +16.0%). This international growth is a reflection of the decision to diversify risks and revenue sources made some years ago by Banco Sabadell, which has developed the necessary capabilities to operate in other markets. The volume of deposits fell slightly, by -1.6% in 2019, although the decline was distributed unevenly between regions as a function of the local currency (down 11.1% in regions

under the influence of the Euro, but +12.4% growth in regions under the influence of other currencies).

The results, expressed as net revenue, were favourable, increasing by +7.5% in 2019, driven primarily by our franchises outside Spain. With regard to RAROC, and specifically in the EMEA region where its performance is closely monitored, there has been a sizeable increase, from 11.6% in 2018 to 13.8% in 2019.

Quality in this area as measured by the NPS (Net Promoter Score) remains at a high of 40.6%, while other indices gauging overall customer satisfaction were also positive (a score of 8.88, vs 8.81 at the end of the previous year).

Treasury and Capital Markets

Business overview

Treasury and Markets is responsible for marketing treasury products to customers through the units to which that task has been assigned, ranging from the branches through specialist distributors.

This division is also responsible for managing the bank's liquidity, and management and compliance with its regulatory coefficients and ratios. It also manages the risk of the proprietary trading book, and interest rate and exchange rate risk, basically due to operational flows with both internal and external clients, originating from the activity of the distribution units.

Management priorities in 2019

Treasury and Markets remains committed to further digitalisation of the operation channels to stay ahead of

customers' needs. Capabilities were also enhanced at various levels to expand the catalogue of products on offer in different countries, providing greater flexibility, coverage and convenience to treasury customers. Trading systems adapted satisfactorily to the new market regulations, guaranteeing compliance by all the products offered to customers.

Trading, Custody and Research

Business overview

As a stock market member, this division performs the functions of broker for Banco Sabadell: processing and executing sale and purchase orders directly via its trading desk; also, as product manager, it is responsible for the Group's equities. It also provides investment guidance and recommendations in equities and credit markets, and creates and manages the offering of custodian and depository services.

Management priorities in 2019

To grow the equities brokerage business, in Spain and other countries, by working along two lines: firstly, improving retail customers' experience by overhauling the digital platform and adding value through the recommendations of our Research units; secondly, creating new brokerage services for international institutional customers, acting as bookrunner in international markets to overcome the fragmented liquidity in Spanish listed equities.

Structured finance

Business overview

Structured finance encompasses Sabadell Corporate finance and Global financial Institutions. This Division and has teams in Spain, the US, the UK, Mexico, France, Peru, Colombia and Singapore.

It focuses on the origination and execution of corporate financing products and M&A, project & asset finance, global trade finance and commercial real estate, with the capacity to underwrite and syndicate deals in Spain and other countries. The Division is also involved in the syndicated loans market, both primary and secondary.

Sabadell Corporate finance operates in M&A through advisory services to companies, shareholders, private equity firms, family offices and other investors, in mergers and acquisitions and in bringing in new shareholders. It is a member of Terra Corporate finance Alliance, an international alliance of independent M&A and Corporate finance advisory firms providing coverage in more than 40 countries.

The Global financial Institutions Unit focuses on relations with the international banks with which Banco Sabadell has collaboration agreements, i.e. some 3,000 correspondent banks worldwide, to ensure that Banco Sabadell Group customers have the maximum reach in their international transactions. It also ensures optimal support of customers in their internationalisation processes, in coordination with the Group's international network of branches, subsidiaries and investees.

Structured finance business

Line of business	
Specialist finance	Advisory/Distribution
Corporates and Acquisitions	Syndication
Project finance	M&A
Asset finance	Commercial Real Estate
Trade finance	GFI

Structured finance ranked first in the Spanish project finance market.

Management priorities in 2019

In 2019, Banco Sabadell maintained its policy of supporting customers and adapting to meet their emerging needs within Spain's macroeconomic context amid changing credit market conditions. Banco Sabadell is a leader in the Corporate Banking segment in Spain and is exporting its know-how to other geographies. Structured finance ranked 5th among syndicated loan MLAs and first among the leaders in project finance in the Spanish market.

Million euros				Syndicated loan MLA — Spanish market 2019
Ranking	Mandated Lead Arranger	Amount	Number	
1	Santander	9,541	138	
2	BBVA	7,007	100	
3	Bankia	4,634	96	
4	CaixaBank	5,432	87	
5	Banco de Sabadell	3,116	65	
6	BNP Paribas	5,361	37	
7	Crédit Agricole CIB	3,063	35	
8	SG Corporate & Investment Banking	2,973	29	
9	Bankinter	638	23	
10	ING	1,516	22	

Million euros				Project finance MLA — Spanish market 2019
Ranking	Mandated Lead Arranger	Amount	Number	
1	Banco de Sabadell	564	18	
2	Santander	1,095	17	
3	Bankia	396	9	
4	BNP Paribas	355	6	
5	Abanca	265	6	
6	Natixis	564	5	
7	CaixaBank	646	4	
8	BBVA	205	4	
9	Kommunalkredit Austria AG	155	4	
10	Bankinter	91	4	

Capital markets

Business overview

Capital Markets is the CIB Division that coordinates the channelling of institutional investors' liquidity to the Bank's customers, bypassing the Bank's balance sheet.

Capital Markets coordinates both debt products (Debt Capital Markets – DCM, and Debt Asset Management – DAM) and capital products (Equity Capital Markets – ECM), via loans, bonds and capital instruments in both public and private markets.

Management priorities in 2019

The year marked a turning point in Capital Markets in the wake of the firm commitment to this business at the end of 2018, when the area's team was doubled in size and, as a result, earnings quadrupled in 2019. The strategy at Capital Markets consists of becoming one of the most active Spanish banks in conventional public capital markets (high yield and investment grade bonds, commercial paper, project bonds, and so on) while at the same time being a leader in structuring operations aimed at the middle market in Spain.

Banco Sabadell took part in more than 20 bond offerings in 2019, issued by corporates, financials and government.

It was also a record year for Capital Markets' participation in commercial paper programmes in Ireland and Spain (Spanish Alternative fixed Income Market – MARF) attaining an estimated share of over 50% in Spanish issuer programmes.

Renewable energy project bonds attained major milestones in 2019 such as the issuance of the first monoline structured project bond in Spain since 2004, rated AA by S&P; the Hellium project bond, the first in Spain to have a floating coupon structure; and the Iron project bond, the first in Spain to be granted green certification by S&P.

In addition to government public issues, Capital Markets is focusing much of its future strategy on private deals, both bonds and loans, in order to be able to meet the ad hoc demands of both the issuer and investor bases.

Capital Markets made a strong commitment in 2019 to developing its positioning in Equity Capital Markets, with a view to supporting its customers in various kinds of transactions to harness liquidity in the form of equity or similar.

Banco Sabadell Capital

Business overview

Banco Sabadell Capital is the division that manages Banco Sabadell Group's industrial (i.e. non-real estate) holdings. It focuses on acquiring temporary holdings in companies with the main goal of maximising the return on investment.

Management priorities in 2019

In 2019, Banco Sabadell Capital continued to drive the investment cycle in the frameworks of action defined for each business area.

In the venture capital business, it focused on actively contributing value in the investees currently in the portfolio (new acquisitions and the opening of new facilities in Spain and/or other countries).

In renewables, it sealed an investment in two wind farms in Peru (equity and mezzanine) and two in Navarra (mezzanine); granted a mezzanine loan to build a photovoltaic facility in Chile; and invested in a 50% joint venture to develop and promote up to 100 MWp of photovoltaic capacity in Catalonia.

In the Venture Capital sector, the framework of action for both venture capital and venture debt was expanded, and this area invested in more than 14 digital or technological startups.

With regard to Banco Sabadell's global strategy for healthcare sciences, the Sabadell Asabys Health Innovation Investments fund completed its second year and has already arranged its first three investments: Psious, Ona Therapeutics and Cara Care.

In the context of the alliance between Banco Sabadell and Pensium to provide tailored solutions to customers (elderly persons with care needs – ResiRent), it acquired

a stake in Pensium, S.L. and also granted a loan to its subsidiary Pensium Direct S.L. to fund the project.

Active management continued of the portfolio of investees, executing the sale of a 40.01% stake in Ribera Salud and the sale of a stake in GAM, as well as the liquidation of Aurica XXI SCR, S.A.U. and Emte Renovables, S.L.

Sabadell Miami Branch

Business overview

Banco Sabadell has been operating in the US for 25 years via an international full branch managed from Miami and through Sabadell Securities, which has been operating there since 2008. These business units together manage the international corporate banking and private banking, business in the United States and Latin America.

With its current structure, Sabadell Miami Branch is the largest foreign branch in Florida. It is one of the few financial institutions in the region with the capability and experience to provide a full range of banking and financial services, from highly complex and sophisticated products for large corporate clients, including project finance, through international private banking, to products and services for professionals and companies of any size. To supplement its structure in Miami, the Bank has representative offices in New York, Peru, Colombia and the Dominican Republic.

Sabadell Securities USA, Inc.

This unit provides equities brokerage and investment advisory services to complement and strengthen the business strategy in connection with private banking customers resident in the United States, meeting their needs by means of investment advice in the capital markets.

Management priorities in 2019

In 2019, Sabadell International Branch (SIB) focused on organic growth in business volumes, with a particular emphasis on managing and improving spreads. It exceeded the established business volume goals and attained the net profit target even though lower market interest rates had a substantial impact on the Branch's net interest margin.

To offset the negative effect of lower interest rates in the second half of 2019 and those forecast for 2020, steps were taken in 2019 to cut costs, boost margins and improve net fees and commissions, optimising resources and preserving capital. In 2019, these measures yielded positive effects, although the biggest impact will be felt in 2020.

It was a pivotal year in the ongoing effort to achieve greater financial self-sufficiency and operating improvement:

- In 2019, the groundwork was laid for issuing Yankee CDs to institutional customers. The branch is ready to launch issues so as to increase funding sources and reduce funding costs.

- Updates commenced of the technology platform (the Aspire Project) in 2019 to improve the capabilities available to customers and business and support units. The improved systems will support growth in a more efficient and scalable manner. The project will be executed in 3 phases over the next 3 years.

Key figures

In 2019 the volume under management exceeded USD 13,000 million, an increase of 8.1% year-on-year. Customer loans and advances increased by 7.0% to more than

USD 5,200 million, while customer deposits were up 6.0% to 3,600 million. Off-balance sheet customer assets also increased, by 11.4%.

Net interest income amounted to USD 137 million, a year-on-year increase of 4.8%. Net fees and commissions amounted to USD 40 million. Gross income amounted to USD 180 million, a year-on-year increase of 4.9%, while administrative expenses and depreciation and amortisation charges rose by 6.1%, including part of the effect of investment in the technology platform. Net profit in the year amounted to USD 82.9 million, a year-on-year increase of 4.0%.

Asset Transformation

Key events in 2019:

- signature of the agreement to sell SDIN Residencial, S.L.U., land for development and the Rex portfolio.
- completion of the sale of Solvia Servicios Inmobiliarios, S.L. and of the Challenger, Coliseum and Rex portfolios, culminating the reduction and normalisation of the Group's non-performing assets.

The integration of the Asset Transformation Division into the Risk Management Division is the result of a sizeable reduction in the Group's non-performing assets (particularly real estate) to practically normal levels. This necessitated adapting the organisational structure to the new requirements, so as to harness the experience and know-how of both departments, boost their synergies and attain four main objectives:

- drive proactive management of the loan book;
- ensure profitability;
- develop risk models that enable finance products to be marketed efficiently and dynamically through the new digital channels; and
- safeguard effective management of non-productive assets.

Business overview

This Division operates horizontally to manage the Group's non-performing credit risk and non-performing real estate exposures.

In 2019, Non-Performing Asset Management (formerly the Asset Transformation Division) was integrated into the Risk Management Division, continuing with

its activity and leadership in reducing non-performing exposures.

It is focused on designing and implementing the strategy to transform non-performing assets, with a view to optimising and maximising their recovery.

Management milestones in 2019

In 2019, Banco Sabadell maintained the pace of shedding non-performing exposures, especially in real estate, including an agreement to sell its portfolio of land earmarked for property development, along with the company SDIN Residencial, S.L.U., specialised in developing those assets, and selling a third portfolio of non-performing real estate assets (Rex), in addition to the two portfolios (Challenger and Coliseum) whose sale was agreed in 2018 and completed by the end of 2019. Having finalised the transfer of non-performing real estate assets in those three portfolios, the Group has now completed the disposal and normalisation of this class of assets on its balance sheet.

Moreover, in 2019 the Bank completed the sale of a large portfolio of non-performing assets (Makalu), agreed in 2018, and the sale of 80% of Solvia Servicios Inmobiliarios, S.L., the company focused on managing, maintaining and marketing the Group's real estate.

All these milestones enabled the Bank to amply meet its volume targets in connection with the overall reduction of non-performing exposures.

Management priorities

Having practically normalised its non-performing exposures, the Group still maintains demanding targets for systematically reducing this type of exposure in the coming years.

The strategy for managing and reducing non-performing assets (NPAs) is designed around three strategic priorities:

- 1 Continuous reduction of NPAs until full de-risking has been achieved.
- 2 Focus on managing the oldest non-performing exposures.
- 3 Maintenance of solid, sufficient coverage of non-performing assets.

These three strategic priorities translate into six principles for managing non-performing assets, which are:

- I. Early action to manage delinquency and preventive action to avoid delinquency, both of which are vital to de-risking. Early action to manage delinquency maximises the recovery and monetisation of non-performing assets, as it minimises the risk of deterioration in credit quality and preserves collateral quality.
- II. Segmented management of all non-performing and potentially non-performing exposures (potential delinquency).
- III. Large-scale reduction of the non-performing loans and foreclosed assets that have been on the balance sheet the longest, which is especially important from a management perspective, since the various capacities, solutions and tools require a specialised

approach to the oldest balances that differs from the approach to new defaults, delinquencies and foreclosures.

- IV. Business intelligence and continuous process improvement. In recent years, the Bank has developed capabilities of segmentation and prediction in the recovery process. Business intelligence is also applied to systematise, continuously improve and corporatise processes throughout the recovery cycle, where there is mutual agreement and also in litigation and bankruptcy proceedings, to enhance recovery efficiency;
- V. financial capacity, i.e. not just having sufficient book coverage of the expected loss but also having the capacity to generate future revenues to guarantee robust capital levels with which to absorb any unexpected losses on NPAs.
- VI. A solid governance system based on three lines of defence, in which the first line of defence, featuring the specialised Non-Performing Asset Management Division, and the business units that approved the exposures, is backed by a second independent line of oversight, comprising the Risk Control and Compliance Divisions, and a third line of defence, namely Internal Audit, which reviews the adequacy and quality of the entire process.

Key figures

Net profit amounted to -309 in 2019, a 33.3% improvement on the previous year.

The 2019 figure includes the impact of institutional sales of portfolios and the disposal of Solvia.

Gross income was -18 million euros, a year-on-year reduction as the sale of institutional real estate portfolios reduced the revenue from that source.

Administrative expenses and depreciation and amortisation charges totalled -80 million euros, a decline of -38.2%.

Provisions and impairments, including real estate sales, amounted to -341 million euros, -34.3% less than in the previous year. Includes the impact of institutional portfolio sales.

Million euros

	2019	2018	Year-on-year change (%)
Net interest income	(49)	(18)	169.9
Fees and commissions (net)	2	1	57.0
Net banking revenues	(47)	(17)	179.0
Net trading income and exchange differences	31	5	—
Equity-accounted affiliates and dividends	—	—	—
Other operating income/expense	34	119	(71.4)
Gross income	18	107	(82.9)
Operating expenses and depreciation and amortisation	(80)	(129)	(38.2)
Pre-provisions income	(62)	(22)	181.4
Provisions and impairments	(341)	(520)	(34.3)
<i>Of which: profit or loss on sales</i>	54	96	(43.7)
Capital gains on asset sales and other revenue	—	—	—
Profit/(loss) before tax	(403)	(542)	(25.6)
Corporation tax	94	79	19.4
Profit or loss attributed to minority interests	—	—	—
Profit attributable to the Group	(309)	(463)	(33.3)
ROE (profit / average shareholders' equity)	—	—	—
Cost:income (general administrative expenses / gross income)	—	—	—
NPL ratio	33.8%	33.5%	—
NPL coverage ratio	42.7%	83.4%	—

[Asset Transformation income statement summary](#)

Outstanding gross loans and advances increased by 30 million euros year-on-year and net real estate exposure improved by 168 million euros due to the institutional sale of portfolios.

Intercompany funding amounted to 7,549 million euros, a decline of -26.8% on the previous year.

Million euros

	2019	2018	Year-on-year change (%)
Assets	8,810	11,907	(26.0)
Outstanding gross loans and advances	883	854	3.4
Non-performing real estate assets (net)	791	959	(17.5)
Liabilities	7,997	10,972	(27.1)
On-balance sheet customer funds	253	235	7.7
Intercompany funding	7,549	10,315	(26.8)
Allocated capital	813	935	(13.0)
Off-balance sheet customer funds	45	35	28.9
Other indicators			
Employees	209	1,073	(80.5)
Branches	—	—	—

[Asset Transformation balance sheet summary](#)

Banking business UK

Business overview

TSB has a multi-channel nationwide distribution model, comprising 533 branches across the UK. At the end of the year, it had 5 million customers and 7,800 employees. TSB (TSB Banking Group PLC) offers current and savings accounts, personal loans, mortgages and credit/debit cards for retail customers and a broad range of current, savings and lending products for SME customers.

Management priorities in 2019

In 2019 TSB focused on three key priorities: stabilising technology systems, compensating every customer impacted by migration and establishing a strong business banking offer. These have been delivered:

- The banking platform is stable and offers customers more functionality than before. Recent data from the financial Conduct Authority shows IT incidents at TSB are now in line with, or better than, the levels of other banks.
- All customer complaints since migration were addressed by April 2019 and the number of new complaints has dropped to within industry standard levels.
- TSB has established itself as a competitive and distinct new player in Business Banking and has seen steady growth in customer numbers throughout the year, including those joining through the Incentivised Switching Scheme where one in four businesses are choosing to move to TSB in those categories that have been targeted.

TSB has also taken a leading position to help protect customers and communities against the rise of fraud. The launch of the Fraud Refund Guarantee in April was a UK banking first with TSB the only bank to offer this protection to its customers.

In May 2019, Debbie Crosbie joined TSB as Chief Executive. Crosbie has brought considerable experience and energy to drive the business forward. She has already established a strong new leadership team who have unveiled an ambitious new strategy for 2020 to 2022 to transform TSB and drive long-term growth. The new strategy was unveiled in November along with a new business purpose: “Money confidence. For Everyone. Every Day”. TSB is well placed to become a simpler organisation, to build deeper customer relationships and strike a better balance of customer channels. The strategy is underpinned by three pillars:

Customer focus

Following an extensive programme of research, opportunities were identified to better serve the “Aspiring Middle” These customers want a bank that removes unnecessary inconvenience, helps them to manage their money better and reduce unexpected worry and TSB is well positioned to help make a difference for them.

To deliver the best customer experience, a £120 million investment in TSB’s digital channels has been announced and is designed to improve customer journeys on the mobile and digital services and to refresh existing lending products to provide new flexibility.

Branches will remain an integral part of TSB’s business and will complement the focus on digital services. However, TSB has more than double the UK average ratio of branches to customers and, as a result, will reshape the size of its branch network to meet the changing needs of customers. TSB has taken the difficult decision to close 82 branches in quieter locations in 2020 but will continue to invest in flagship branches and, as a result, will continue to have one of the biggest branch footprints across the UK.

Simplification and efficiency

The second pillar is to become a simpler and more focused business. The new IT platform gives TSB a strong foundation to build upon with multi-cloud and data capabilities providing opportunities to use data-driven insights and analytics to improve the TSB experience. TSB will also seek to optimise opportunities from open banking and third-party relationships to improve TSB’s offering to customers.

The time to open a current account has already been reduced from seven days to 10 minutes and allows customers to transact straight away. In 2022, it is expected that customers will access all services from TSB’s mobile platform with three quarters of TSB’s customers expected to be digitally active.

Operational Excellence

The third pillar focuses on creating a more resilient and sustainable business through the safe and sound delivery of the strategic plan through a strong governance and risk management framework overseen by an experienced Executive team. Accountability for TSB’s future conduct risk is clear with all customer banking experiences owned by the Customer Banking Director. Management of operational risk benefits from the same organisational clarity under the Chief Operating Officer.

IT resilience and cyber security will be prioritised to make sure they are allocated the appropriate level of resources. As part of this, the programme for TSB to take direct control of suppliers of IT services, currently managed by Sabis under the Operating Services Agreement, has commenced with the signing of an agreement with IBM. Increasingly, TSB will partner with a small number of

larger industry leaders to bring significant cost savings and reduce risk. This is a joint programme of work between Sabis and TSB and is already significantly advanced.

TSB continues to operate amidst economic uncertainty as geopolitical instability limits GDP growth, interest rates remain lower for longer than expected and the 'gig economy' and 'generation rent' continue to expand. The Bank faces intense competition with mortgage margin compression and the repayment of the Bank of England's Term Funding Scheme driving funding cost pressures. This is taking place at a time when customers continue to change the way they bank, preferring a more digital way of managing their money, and the accelerated growth of fintechs as they focus on attracting more customers.

UK banking is a highly regulated industry which, at a point of increasing regulatory intervention, brings its own challenges such as the high cost of credit review, the ongoing evolution of capital regulation, and increased competition brought about by UK ringfencing. However, TSB remains one of the most strongly capitalised banks in the UK, with a CET1 ratio of 20.4%, and holds a healthy liquidity reserve. TSB's strategic plan is self financed, requiring no additional capital from Sabadell. However, the expected organic growth and the adoption of a 90-day definition of default on our mortgage portfolio is expected to result in a reduction in the CET1 ratio to circa 16% in 2020.

Loans and advances amounted to 36,496 million euros, an increase of 8.5% supported by sterling's appreciation. At constant exchange rates, year-on-year growth would have been 3.2%, driven by increased mortgage production on the back of a broader, enhanced offering and higher customer retention.

Customer funds on the balance sheet amounted to 35,423 million euros, a 9.0% increase year-on-year due to growth in demand deposits supported by the positive exchange rate effect. At constant exchange rates, year-on-year growth would have been 3.7%, supported by growth in all products, notably business accounts, and a competitive savings proposition.

Key figures

Net profit amounted to -45 million euros in 2019, a significant improvement on the previous year, whose results were affected by the impact of the systems migration.

Net interest income amounted to 979 million euros, down -2.1% year-on-year, mainly because of higher competitive pressure in interest rates and higher capital market costs caused by the increased volume of issuance.

Net fees and commissions increased by 36.8% year-on-year mainly due to growth by service fees. The previous year was impacted by waiver of overdraft fees after the systems migration.

Other operating income/expense improved, mainly due to the impact of fraud losses in the technology migration the previous year and the positive impact of the agreement with VISA in 2019.

Administrative expenses and depreciation and amortisation charges totalled -1,052 million euros, down -8.4% year-on-year, as the 2018 figure included extraordinary expenses related to the migration. There were -85 million euros of non-recurring costs in 2019 (-50 million euros of restructuring costs and -35 million euros under other headings).

Provisions and impairments amounted to -72 million euros, a 68.7% year-on-year improvement due to the indemnities to TSB customers arising from the migration in the previous year.

Capital gains on asset sales and other income included -3 million euros in restructuring costs due to branch closures.

Million euros

	2019	2018	Year-on-year change (%)
Net interest income	979	1,000	(2.1)
Fees and commissions (net)	117	85	36.8
Net banking revenues	1,095	1,085	0.9
Net trading income and exchange differences	15	18	(13.2)
Equity-accounted affiliates and dividends	—	—	—
Other operating income/expense	(20)	(60)	(67.4)
Gross income	1,091	1,042	4.6
Operating expenses and depreciation and amortisation	(1,052)	(1,148)	(8.4)
Pre-provisions income	39	(106)	(136.6)
Provisions and impairments	(72)	(231)	(68.7)
Capital gains on asset sales and other revenue	(4)	1	(425.5)
Profit/(loss) before tax	(38)	(335)	(88.8)
Corporation tax	(8)	95	(107.9)
Profit or loss attributed to minority interests	—	—	—
Net attributable profit	(45)	(240)	(81.2)
ROE (profit / average shareholders' equity)	—	—	—
Cost:income (general administrative expenses / gross income)	84.0%	101.6%	—
NPL ratio	1.2%	1.3%	—
NPL coverage ratio	43.1%	50.4%	—

[Banking Business UK income statement summary](#)

Million euros

	2019	2018	Year-on-year change (%)
Assets	46,449	46,182	0.6
Outstanding gross loans and advances	36,496	33,634	8.5
Liabilities	44,921	44,662	0.6
On-balance sheet customer funds	35,423	32,484	9.0
Wholesale funding in the capital markets	2,423	1,688	43.6
Allocated capital	1,528	1,520	0.5
Off-balance sheet customer funds	—	—	—
Other indicators			
Employees	7,394	8,353	(11.5)
Branches	540	550	(1.8)

[Banking Business UK balance sheet summary](#)

Banking business Mexico

Business overview

As part of the internationalisation process that commenced under the previous strategic framework, the bank decided to focus on Mexico, a country that represents a clear opportunity as an attractive market for the banking business and one in which Sabadell has been operating since 1991, first by opening a representative office and then through its interest in Banco del Bajío, held for 14 years (from 1998 to 2012).

The establishment in Mexico was implemented through an organic project with the creation of two financial vehicles: first, a SOFOM (multi-purpose financial company), which began operating in 2014, and, later, a bank. The banking licence was obtained in 2015 and the Bank commenced operations in early 2016.

Both vehicles operate using a customer-focused approach, with agile processes, digital channels and no branches. The roll-out of commercial capacities is based on the aforementioned two vehicles and the following business lines:

- Corporate Banking, with the focus on companies and major corporations: 3 branches (Mexico City, Monterrey and Guadalajara) and sector-specific specialisation.
- Banking for Companies, which reproduces the group's original business relationship model: launched in 2016 with 13 branches, it has continued to expand since then.
- Personal Banking, based on a disruptive digital model initially focused on capturing customer funds.

Management priorities in 2019

The year was characterised in Mexico by a period of socio-political and financial transition as a result of: i) trade tensions arising mainly from the tariff war launched by the United States against China, and, ii) the election of a new government, under Andrés Manuel López Obrador, which resulted in a year of change in many sectors of the Mexican economy. In this context, the Mexican subsidiaries (Banco Sabadell, IBM) performed well and met their budget for the year.

During 2019, the Mexican subsidiaries continued to focus on growth, financial self-sufficiency, and profitability. The following initiatives were implemented during the year:

- Corporate Banking focused particularly on the renewable energy industry. It signed a 100 million dollar finance agreement with IFC to develop sustainable infrastructure in Mexico. These funds will be lent to

customers wishing to develop sustainable projects, mainly hotel complexes and green buildings that promote best practices in efficient energy use, rational water management, waste abatement and the reduction of harmful emissions to the environment.

The range of services in this segment continue to expand with the launch of the derivatives desk and the trust unit. These initiatives will enable us to offer a more comprehensive service in structured financing, strengthening relations with customers.

- Business Banking continued to enhance our transactional capabilities, an initiative that will continue in 2020. Additionally, some of our Business Banking branches were merged, reducing the number from 19 to 12, so as to enhance the returns on the capabilities rolled out in previous years. Initiatives in the commercial model and a new incentive scheme seek to boost banker productivity and efficiency and to continue offering an excellent service, which has been a distinctive feature since this segment was created.
- The Personal Banking segment made significant efforts to deploy new products and services such as a 100% digital account, debit card, CoDi mobile payments, and instant transfers, some of which were already available in 2019 and the remainder will be rolled out in early 2020. Additionally, a project has been developed that will allow us to position ourselves in the consumer lending market in Mexico with an all-digital online value proposition.

Other horizontal initiatives implemented in the year include: 1) a delinquency prevention plan, 2) strengthening IT architecture, 3) industrialisation and outsourcing of operational processes, and 4) establishment of new funding lines in USD in partnership with IFC and ICO. The latter initiatives served to optimise funding and capital in the Mexican franchise.

A financial planning exercise was conducted in 2019 in line with that of Banco Sabadell Group to determine the main lines of strategic action for Banco Sabadell in Mexico, which will enable greater value creation by the Group's Mexican franchise:

- Enhancement of ROE by increasing revenues without capital consumption (through greater fees and commissions and the development of new business lines, such as trade finance, derivatives, currency trading, trusts, etc.).
- Promotion of financial self-sufficiency actions, through: i) the incorporation of transactional services and products that increase customer loyalty; and ii) improvement of our Personal Banking customer onboarding platform.

On 20 December, Standard & Poor's (S&P) upgraded the short- and long-term ratings of Banco Sabadell IBM and SabCapital, to mxAA, from mxA+ (long term), and

mxA-1+, from mxA-1 (short term). In its report, S&P highlighted the improvement and increasing diversification of the Group's revenue base in Mexico, healthy growth of its loan book (with superior credit quality metrics to the overall Mexican banking system), gradual diversification of its funding sources, and a growing share of the Mexican market.

Banco Sabadell Mexico ended the year with a consolidated gross loan portfolio of MXN 78,840 million (3,722 million euros), 9% higher at the end of the previous year, ranking it in 10th place in lending to business, MXN 42,693 million (2,016 million euros) in customer funds, a 59% year-on-year increase, and consolidated net profit of MXN 465 million (22 million euros), up 54% year-on-year.

Instituto para la Protección al Ahorro Bancario (IPAB) as a result of the strong growth in customer deposits.

Gross income amounted to 127 million euros, a 30.9% increase due to improved core banking revenues.

Administrative expenses and depreciation and amortisation charges increased by 19.3% year-on-year as a result of higher staff expenses and higher depreciation on technology projects.

Provisions and impairments amounted to -16 million euros, a 32.3% improvement year-on-year due to the improvement in the credit quality of the loan book.

Key figures

Net profit amounted to 19 million euros in 2019, a 149.1% increase year-on-year, mainly as a result of improvements in the core business.

Net interest income amounted to 117 million euros, a 29.0% increase year-on-year due to higher lending.

Net fees and commissions increased by 68.3% year-on-year due to the influx of new customers.

Other operating income/expense increased in the year, mainly because of the higher payment to the

Million euros

	2019	2018	Year-on-year change (%)
Net interest income	117	91	29.0
Fees and commissions (net)	19	11	68.3
Net banking revenues	136	102	33.2
Net trading income and exchange differences	1	1	(29.1)
Equity-accounted affiliates and dividends	—	1	(100.0)
Other operating income/expense	(9)	(6)	—
Gross income	127	97	30.9
Operating expenses and depreciation and amortisation	(91)	(76)	19.3
Pre-provisions income	36	21	73.3
Provisions and impairments	(16)	(23)	(32.3)
Capital gains on asset sales and other revenue	0	—	—
Profit/(loss) before tax	20	(2)	(948.9)
Corporation tax	(2)	10	(116.7)
Profit or loss attributed to minority interests	—	—	—
Net attributable profit	19	8	149.1
ROE (profit / average shareholders' equity)	3.5%	1.9%	—
Cost:income (general administrative expenses / gross income)	62.9%	77.2%	—
NPL ratio	1.2%	0.4%	—
NPL coverage ratio	108.9%	284.5%	—

[Banking Business Mexico income statement summary](#)

Outstanding loans and advances amounted to 3,640 million euros, a 14.4% increase year-on-year.

Customer funds on the balance sheet expanded by 60.2% year-on-year to 1,996 million euros.

Million euros

	2019	2018	Year-on-year change (%)
Assets	4,695	3,894	20.6
Outstanding gross loans and advances	3,640	3,181	14.4
Real estate exposure (net)	—	—	—
Liabilities	4,146	3,377	22.8
On-balance sheet customer funds	1,996	1,246	60.2
Allocated capital	548	517	5.9
Off-balance sheet customer funds	—	—	—
Other indicators			
Employees	450	455	(1.1)
Branches	15	15	—

[Banking Business Mexico balance sheet summary](#)