Sabadell

Mr MIQUEL ROCA i JUNYENT, Secretary to the Board of Directors of BANCO DE SABADELL, S.A., with registered office in Avda. Óscar Esplá, 37, Alicante and holder of tax identification number (NIF) A08000143.

CERTIFIES:

That at the meeting of the company's Board of Directors held by telematics means at the registered office, by written notice dated 22 January 2021, by means of the royal decree-law 2/2021 of 26 January by means of which article 3 of the royal decree-law 34/2020 of 17 November, of urgent actions of support the corporate solvency and the energy sector in tax matter, is amended, attended by the Chairman José Oliu Creus and directors José Javier Echenique Landiribar, Jaime Guardiola Romojaro, José Ramón Martínez Sufrategui, José Manuel Martínez Martínez, David Martínez Guzmán, Aurora Catá Sala, David Vegara Figueras, Manuel Valls Morató, Anthony Frank Elliott Ball, George Donald Johnston, Pedro Fontana García, María José García Beato, Mireia Giné Torrens and Alicia Reyes Revuelta, with the undersigned acting as Secretary, the following resolution was unanimously adopted after due deliberation, among other matters not contradicting it:

> "The members of the Board of Directors declare that, to the best of their knowledge, the individual and consolidated annual financial statements for the fiscal year 2020, prepared today and drawn up in accordance with the accounting principles applicable under current legislation, give a true and fair overview of the equity, financial position and results of Banco de Sabadell, S.A. and of the companies included in its scope of consolidation taken as a whole, and that the respective Directors' reports prepared include a true and fair analysis of the performance and results of the business and of the position of Banco de Sabadell, S.A. and of the companies included in its scope of consolidation taken as a whole, together with a description of the main risks and uncertainties they face."

Express mention is hereby made that the minutes of the aforesaid Board meeting in which the above resolution was read and unanimously approved at the end of the meeting, and that they have been signed by the Secretary with the Chairman's approval.

In witness whereof and for all pertinent purposes, I hereby issue this Certificate with the approval of the Chairman, in Barcelona, on 29 January 2021.

Approved by

The Chairman

The Secretary

Banco de Sabadell, S.A.

(Together with the financial statements and directors' report of Banco de Sabadell, S.A. for the year ended 31 December 2020)

(Translation from the original in Spanish, In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
Torre Realia
Plaça d'Europa, 41-43
08908 L'Hospitalet de Llobregat
(Barcelona)

Independent Auditor's Report on the Financial statements

(Translation from the original in Spanish, In the event of discrepancy, the Spanish-language version prevails.)

To the shareholders of Banco de Sabadell, S.A.

Opinion

We have audited the financial statements of Banco de Sabadell, S.A. (the "Company"), which comprise the balance sheet at 31 December 2020, and the income statement, statement of changes in equity and cash flows statement for the year then ended, and notes.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 1 to the accompanying financial statements) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the financial statements pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to other debtors

See notes 3.4 and 10 to the financial statements

Key audit matter	*How the matter was addressed in our audit*
The Company's portfolio of loans and advances to other debtors presents a net balance of Euros 112,226 million at 31 December 2020, and the impairment provisions recognised at that date amount to Euros 5,048 million. For the purposes of estimating impairment, financial assets measured at amortised cost are classified into three categories (Stage 1, 2 or 3) according to whether a significant increase in credit risk since their initial recognition has been identified (Stage 2), whether the financial assets are credit-impaired (Stage 3), or whether neither of the foregoing circumstances apply (Stage 1). For the Company, establishing this classification is a relevant process inasmuch as the calculation of the credit risk provision varies depending on the category in which the financial asset has been included. Impairment is calculated based on an expected loss model, which the Company estimates on both an individual and a collective basis. This calculation entails a considerable level of judgement as this is a significant and complex estimate. Individual provisions consider estimates of future business performance and the market value of collateral provided for credit transactions. For the collective analysis, estimates of expected losses are calculated using internal models that use large databases, different macroeconomic scenarios, parameters to estimate provisions, segmentation criteria and automated processes, which are complex in their design and implementation and require past, present and future information to be considered. The Company regularly conducts recalibrations and tests of its internal models in order to improve their predictive capabilities based on actual historical experience. The COVID-19 pandemic is affecting the economy and business activities of the countries where the Company operates, leading to an economic recession in many of these countries. To mitigate the impacts of COVID-19, governments of different	Our audit approach in relation to the Company's estimate of impairment of loans and advances to other debtors due to credit risk included an assessment of the relevant controls associated with the processes for estimating impairment, as well as different tests of detail on that estimate, for which we involved our credit risk specialists. Our procedures related to the control environment focused on the following key areas: – Identifying the credit risk management framework and assessing the compliance of the Company's accounting policies with the applicable regulations. – Evaluating the appropriate classification of the loans and advances to other debtors portfolio based on their credit risk, in accordance with the criteria defined by the Company, particularly the criteria for identifying and classifying refinancing and restructuring transactions. – Testing of the relevant controls relating to the information available for the monitoring of loans outstanding. – Evaluating the design and implementation of the relevant controls over the management and measurement of collateral and guarantees. – Evaluating the correct functioning of the internal models for estimating both individual and collective provisions for expected losses. – Assessing the consideration of the aspects observed by the Internal Valuation Unit in the recalibration and tests of the models to estimate collective provisions. – Evaluating the integrity, accuracy and updating of the data used and of the control and management process in place.

(Translation from the original in Spanish, In the event of discrepancy, the Spanish-language version prevails.)

Impairment of loans and advances to other debtors See notes 3.4 and 10 to the financial statements	
Key audit matter	*How the matter was addressed in our audit*
countries have launched initiatives to support the most affected sectors and customers through various measures such as the provision of State-backed credit facilities, the deferral of payments without penalties (moratoriums) and flexible financing and liquidity facilities. All these aspects have an impact on the parameters considered by the Company to quantify the expected losses on financial assets (macroeconomic variables, customer net revenues, value of collateral pledged, probability of default, etc.) and have had a significant effect on the allowances and provisions for impairment of financial assets measured at amortised costs in the year ended 31 December 2020. The consideration of this aspect as a key audit matter is based both on the significance for the Company of the loans and advances to other debtors portfolio, and of the corresponding allowances and provisions recognised, and on the relevance and complexity of the process for classifying these financial assets for the purpose of estimating impairment thereon and of the calculation of that impairment, while also taking into consideration the situation generated by the COVID-19 pandemic.	Our tests of detail on the estimated expected losses included the following: – With regard to the impairment of individually significant transactions, we analysed the appropriateness of the cash flow discount models used by the Company. We also selected a sample from the population of significant credit-impaired risks and assessed the adequacy of the provision recognised. – With respect to the allowances and provisions for impairment estimated collectively, we evaluated the methodology used by the Company, assessing the integrity and accuracy of the input balances for the process and the correct functioning of the calculation engine by repeating the calculation process for all contracts, taking into account the segmentation and assumptions used by the Company. In carrying out our audit procedures, we have taken into consideration the impacts of COVID-19 and the government aid on the parameters used to calculate the expected loss, as well as the adjustments made by the Group to the internal estimate models for this expected loss. To this end, we brought in our corporate business valuation specialists to assess the macroeconomic scenario variables used by the Company in its internal models to estimate the expected loss. Finally, we analysed whether the disclosures in the explanatory notes to the financial statements are appropriate, in accordance with the criteria set out in the financial reporting framework applicable to the Company.

Risks associated with information technology	
Key audit matter	*How the matter was addressed in our audit*
The Company operates in a complex technological environment that is constantly evolving and which must efficiently and reliably meet business requirements. The high level of dependence of these systems with regard to the processing of the Company's financial and accounting information,	With the help of our information systems specialists, we performed tests relating to internal control over the processes and systems involved in generating the financial information, in the following areas: • An understanding of the information flows and identification of the key controls that ensure the

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Risks associated with information technology	
Key audit matter	*How the matter was addressed in our audit*
make it necessary to ensure that these systems function correctly. In this context, it is critical to ensure that management of the technological risks that could affect information systems is adequately coordinated and harmonised, in relevant areas such as data and program security, operating of systems, or development and maintenance of information applications and systems used to prepare financial information. We have therefore considered the risks associated with information technology to be a key audit matter.	appropriate processing of the financial information. • Tests of the key automatic processes that are involved in generating the financial information. • Testing of the controls of the applications and systems related to accessing and processing the information and those related to the security settings of these applications and systems. • Testing of the operation, maintenance and development controls of applications and systems.

Other Information: Directors' Report

Other information solely comprises the 2020 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the financial statements.

Our audit opinion on the financial statements does not encompass the directors' report. Our responsibility regarding the information contained in the directors’ report is defined in the legislation regulating the audit of accounts, as follows:

a) Determine, solely, whether the non-financial information statement and certain information included in the Annual Corporate Governance Report, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.

b) Assess and report on the consistency of the rest of the information included in the directors’ report with the financial statements, based on knowledge of the entity obtained during the audit of the aforementioned financial statements. Also, assess and report on whether the content and presentation of this part of the directors’ report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the directors' report is consistent with that disclosed in the financial statements for 2020, and that the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit and Control Committee's Responsibilities for the Financial Statements

The Directors are responsible for the preparation of the accompanying financial statements in such a way that they give a true and fair view of the equity, financial position and financial performance of the Company in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Audit and Control Committee is responsible for overseeing the preparation and presentation of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with Banco de Sabadell, S.A.'s Audit and Control Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the entity's Audit and Control Committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the Audit and Control Committee of the entity, we determine those that were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital file of Banco de Sabadell, S.A. for 2020 in European Single Electronic Format (ESEF) comprising an XHTML file with the financial statements for the aforementioned year, which will form part of the annual financial report.

(Translation from the original in Spanish, In the event of discrepancy, the Spanish-language version prevails.)

The Directors of Banco de Sabadell, S.A. are responsible for the presentation of the 2020 annual report in accordance with the format requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation").

Our responsibility consists of examining the digital file prepared by the Company's Directors, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the financial statements included in the digital file fully corresponds to the financial statements we have audited, and whether the financial statements have been formatted, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital file examined fully corresponds to the audited financial statements, and these are presented, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional Report to the Audit and Control Committee

The opinion expressed in this report is consistent with our additional report to the Company's Audit and Control Committee dated 5 February 2021.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 28 March 2019 for a period of three years, beginning the year ended 31 December 2020.

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Francisco Gibert Pibernat
On the Spanish Official Register of Auditors ("ROAC") with No. 15,586
5 February 2021

Translation of the Annual Accounts originally issued in Spanish and prepared in accordance with Spanish generally accepted accounting principles (Bank of Spain Circular 4/2017, and as amended thereafter, adapted to EU-IFRSs). In the event of a discrepancy the Spanish-language version prevails

BANCO DE SABADELL, S.A.

Annual financial statements
and Directors' Report
for the year ended 31 December 2020

Contents: Banco de Sabadell, S.A.
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Directors' Report

Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2020 and 2019

Thousand euro

Assets	Note	2020	2019 (*)
Cash, cash balances at central banks and other demand deposits (**)	6	**28,723,571**	**8,792,496**
Financial assets held for trading		**2,434,831**	**2,303,449**
Derivatives	9	2,147,113	1,724,407
Equity instruments		-	-
Debt securities	7	287,718	579,042
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		*15,792*	*38,709*
Non-trading financial assets mandatorily at fair value through profit or loss		**70,236**	**119,164**
Equity instruments		12,516	-
Debt securities	7	57,720	119,164
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		-	-
Financial assets designated at fair value through profit or loss		**-**	**-**
Debt securities		-	-
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		-	-
Financial assets at fair value through other comprehensive income		**5,066,571**	**5,419,218**
Equity instruments	8	56,126	106,921
Debt securities	7	5,010,445	5,312,297
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		*1,091,719*	*1,179,026*
Financial assets at amortised cost		**137,243,172**	**146,894,393**
Debt securities	7	16,171,219	18,425,483
Loans and advances	10	121,071,953	128,468,910
Central banks		-	-
Credit institutions		8,845,708	16,065,122
Customers		112,226,245	112,403,788
Memorandum item: loaned or pledged as security with sale or pledging rights		*4,950,813*	*5,133,513*
Derivatives – Hedge accounting	11	**393,702**	**358,373**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**369,688**	**225,437**
Investments in subsidiaries, joint ventures and associates	13	**5,557,864**	**5,490,128**
Group entities		5,231,504	5,204,829
Associates		326,360	285,299
Tangible assets	14	**2,049,405**	**2,197,750**
Property, plant and equipment		1,980,720	2,064,995
For own use		1,980,720	2,064,995
Leased out under operating leases		-	-
Investment properties		68,685	132,755
Of which: leased out under operating leases		*68,524*	*132,755*
Memorandum item: acquired through finance leases		*893,375*	*928,729*
Intangible assets	15	**102,101**	**160,724**
Goodwill		73,378	126,547
Other intangible assets		28,723	34,177
Tax assets		**5,534,245**	**5,315,734**
Current tax assets		430,106	323,542
Deferred tax assets	35	5,104,139	4,992,192
Other assets	16	**424,291**	**404,409**
Insurance contracts linked to pensions		133,757	133,960
Inventories		-	-
Rest of other assets		290,534	270,449
Non-current assets and disposal groups classified as held for sale	12	**939,343**	**717,526**
TOTAL ASSETS		188,909,020	178,398,801

(*) Shown for comparative purposes only.

(**) See details in the cash flow statement.

Notes 1 to 39 and accompanying schedules I to VII form an integral part of the balance sheet as at 31 December 2020.

Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2020 and 2019

Thousand euro

Liabilities	Note	2020	2019 (*)
Financial liabilities held for trading		**2,316,140**	**2,563,334**
Derivatives	9	2,100,210	1,691,522
Short positions		215,930	871,812
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss		**-**	**-**
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Memorandum item: subordinated liabilities		-	-
Financial liabilities at amortised cost		**172,930,575**	**162,419,750**
Deposits		151,240,358	138,879,755
Central banks	17	28,467,532	14,791,893
Credit institutions	17	9,451,176	11,028,153
Customers	18	113,321,650	113,059,709
Debt securities issued	19	18,218,817	19,863,995
Other financial liabilities	20	3,471,400	3,676,000
Memorandum item: subordinated liabilities		*2,487,926*	*2,623,162*
Derivatives – Hedge accounting	**11**	**521,384**	**380,884**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**241,550**	**173,129**
Provisions	**21**	**1,024,950**	**823,452**
Pensions and other post employment defined benefit obligations		94,463	95,056
Other long term employee benefits		1,228	3,583
Pending legal issues and tax litigation		114,089	66,882
Commitments and guarantees given		421,572	571,712
Other provisions		393,598	86,219
Tax liabilities		**144,609**	**206,501**
Current tax liabilities		26,451	36,557
Deferred tax liabilities	35	118,158	169,944
Share capital repayable on demand		**-**	**-**
Other liabilities		**633,390**	**515,244**
Liabilities included in disposal groups classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**177,812,598**	**167,082,294**

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VII form an integral part of the balance sheet as at 31 December 2020.

Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2020 and 2019

Thousand euro

Equity	Note	2020	2019 (*)
Shareholders' equity	22	11,140,285	11,258,263
Capital		703,371	703,371
Paid up capital		703,371	703,371
Unpaid capital which has been called up		-	-
Memorandum item: capital not called up		-	-
Share premium		7,899,227	7,899,227
Equity instruments issued other than capital		-	-
Equity component of compound financial instruments		-	-
Other equity instruments issued		-	-
Other equity		8,755	17,077
Retained earnings		4,402,722	3,481,494
Revaluation reserves		-	-
Other reserves		(1,930,114)	(1,776,853)
(-) Treasury shares		(37,457)	(8,503)
Profit or loss for the year		93,781	1,053,267
(-) Interim dividends		-	(110,817)
Accumulated other comprehensive income	23	(43,863)	58,244
Items that will not be reclassified to profit or loss		(83,433)	(66,175)
Actuarial gains or (-) losses on defined benefit pension plans		173	(1,754)
Non-current assets and disposal groups classified as held for sale		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		(83,606)	(64,421)
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		-	-
Items that may be reclassified to profit or loss		39,570	124,419
Hedge of net investments in foreign operations [effective portion]		13,392	(221)
Foreign currency translation		(29,673)	46,576
Hedging derivatives. Cash flow hedges reserve [effective portion]		70,959	96,461
Fair value changes of debt instruments measured at fair value through other comprehensive income		(15,108)	(18,397)
Hedging instruments [not designated elements]		-	-
Non-current assets and disposal groups classified as held for sale		-	-
TOTAL EQUITY		**11,096,422**	**11,316,507**
TOTAL EQUITY AND TOTAL LIABIITIES		**188,909,020**	**178,398,801**
Memorandum item: off-balance sheet exposures			
Loan commitments given	24	23,214,810	23,867,895
Financial guarantees provided	24	2,404,071	2,830,293
Other commitments provided	24	7,617,470	10,362,134

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VII form an integral part of the balance sheet as at 31 December 2020.

Income statements of Banco de Sabadell, S.A.

For the years ended 31 December 2020 and 2019

Thousand euro

	Note	2020	2019 (*)
Interest income	26	3,007,650	3,451,032
Financial assets at fair value through other comprehensive income		36,560	82,403
Financial assets at amortised cost		2,587,757	2,931,318
Other interest income		383,333	437,311
(Interest expenses)	26	(740,717)	(1,022,925)
(Expenses on share capital repayable on demand)		-	-
Net interest income		**2,266,933**	**2,428,107**
Dividend income		59,205	464,061
Fee and commission income	27	1,279,947	1,310,421
(Fee and commission expenses)	27	(136,426)	(143,676)
Gains or (-) losses on financial assets and liabilities, net	28	1,217,692	51,449
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		761,882	124,208
Financial assets at amortised cost		728,213	65,282
Other financial assets and liabilities		33,669	58,926
Gains or (-) losses on financial assets and liabilities held for trading, net		461,983	(65,881)
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		461,983	(65,881)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		(8,999)	(3,227)
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		(8,999)	(3,227)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		-	-
Gains or (-) losses from hedge accounting, net		2,826	(3,651)
Exchange differences [gain or (-) loss], net		(421,156)	73,069
Other operating income		74,587	74,804
(Other operating expenses)	29	(320,219)	(328,844)
Gross income		**4,020,563**	**3,929,391**

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VII form an integral part of the profit and loss account for 2020.

Income statements of Banco de Sabadell, S.A.

For the years ended 31 December 2020 and 2019

Thousand euro

	Note	2020	2019 (*)
(Administrative expenses)		(2,096,881)	(1,833,896)
(Staff expenses)	30	(1,345,424)	(1,092,864)
(Other administrative expenses)	30	(751,457)	(741,032)
(Depreciation and amortisation)	14, 15	(247,487)	(246,052)
(Provisions or (-) reversal of provisions)	21	27,404	(212,710)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	31	(1,825,114)	(393,186)
(Financial assets at fair value through other comprehensive income)		308	3,761
(Financial assets at amortised cost)		(1,825,422)	(396,947)
Profit/(loss) on operating activities		**(121,515)**	**1,243,547**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)		(48,513)	6,575
(Impairment or (-) reversal of impairment on non-financial assets)	32	(170)	9,260
(Tangible assets)		(170)	9,260
(Intangible assets)		-	-
(Other)		-	-
Gains or (-) losses on derecognition of non-financial assets, net	33	5,430	33,347
Negative goodwill recognised in profit or loss		-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	34	174,915	16,953
Profit or (-) loss before tax from continuing operations		**10,147**	**1,309,682**
(Tax expense or (-) income related to profit or loss from continuing operations)	35	83,634	(256,415)
Profit or (-) loss after tax from continuing operations		**93,781**	**1,053,267**
Profit or (-) loss after tax from discontinued operations		-	-
Profit or loss for the year		**93,781**	**1,053,267**

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VII form an integral part of the profit and loss account for 2020.

Statements of changes in equity of Banco de Sabadell, S.A.

Statements of recognised income and expenses

For the years ended 31 December 2020 and 2019

Thousand euro

	Note	2020	2019 (*)
Profit or loss for the year		**93,781**	**1,053,267**
Other comprehensive income	23	**(102,107)**	**128,544**
Items that will not be reclassified to profit or loss		(17,258)	(5,131)
Actuarial gains or (-) losses on defined benefit pension plans		2,753	(2,036)
Non-current assets and disposal groups held for sale		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		(15,740)	(13,455)
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		-	-
Income tax relating to items that will not be reclassified		(4,271)	10,360
Items that may be reclassified to profit or loss		(84,849)	133,675
Hedge of net investments in foreign operations [effective portion]		13,614	(343)
Valuation gains or (-) losses taken to equity		13,614	(343)
Transferred to profit or loss		-	-
Other reclassifications		-	-
Foreign currency translation		(76,250)	19,946
Translation gains or (-) losses taken to equity		(76,250)	19,946
Transferred to profit or loss		-	-
Other reclassifications		-	-
Cash flow hedges (effective portion)		(36,432)	126,362
Valuation gains or (-) losses taken to equity		94,501	109,381
Transferred to profit or loss		(131,655)	12,497
Transferred to initial carrying amount of hedged items		722	4,484
Other reclassifications		-	-
Hedging instruments [not designated elements]		-	-
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Debt instruments at fair value through other comprehensive income		3,875	35,093
Valuation gains or (-) losses taken to equity		37,645	94,081
Transferred to profit or loss		(33,770)	(58,988)
Other reclassifications		-	-
Non-current assets and disposal groups held for sale		-	-
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Income tax relating to items that may be reclassified to profit or (-) loss		10,344	(47,383)
Total comprehensive income for the year		**(8,326)**	**1,181,811**

(*) Shown for comparative purposes only.

The statement of recognised income and expense and the statement of total changes in equity of Banco Sabadell make up the statement of changes in equity.

Notes 1 to 39 and accompanying schedules I to VII form an integral part of the statement of changes in equity for 2020.

Statements of changes in equity of Banco de Sabadell, S.A.

Statements of total changes in equity

For the years ended 31 December 2020 and 2019

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
Opening balance 31/12/2019	**703,371**	**7,899,227**	**-**	**17,077**	**3,481,494**	**-**	**(1,776,853)**	**(8,503)**	**1,053,267**	**(110,817)**	**58,244**	**11,316,507**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	**-**
Opening balance 01/01/2020	**703,371**	**7,899,227**	**-**	**17,077**	**3,481,494**	**-**	**(1,776,853)**	**(8,503)**	**1,053,267**	**(110,817)**	**58,244**	**11,316,507**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**93,781**	**-**	**(102,107)**	**(8,326)**
Other changes in equity	**-**	**-**	**-**	**(8,322)**	**921,228**	**-**	**(153,261)**	**(28,954)**	**(1,053,267)**	**110,817**	**-**	**(211,759)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends (or shareholder remuneration) (**)	-	-	-	-	(112,539)	-	-	-	-	-	-	**(112,539)**
Purchase of treasury shares	-	-	-	-	-	-	-	(145,054)	-	-	-	**(145,054)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	36	116,100	-	-	-	**116,136**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	942,450	-	-	-	(1,053,267)	110,817	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments (***)	-	-	-	4,183	-	-	-	-	-	-	-	**4,183**
Other increase or (-) decrease in equity	-	-	-	(12,505)	91,317	-	(153,297)	-	-	-	-	**(74,485)**
Closing balance 31/12/2020	**703,371**	**7,899,227**	**-**	**8,755**	**4,402,722**	**-**	**(1,930,114)**	**(37,457)**	**93,781**	**-**	**(43,863)**	**11,096,422**

(*) Distribution of supplementary dividend (see note 2).

Notes 1 to 39 and accompanying schedules I to VII form an integral part of the statement of changes in equity for 2020.

The statement of recognised income and expense and the statement of total changes in equity of Banco Sabadell make up the statement of changes in equity.

Statements of changes in equity of Banco de Sabadell, S.A.

Statements of total changes in equity

For the years ended 31 December 2020 and 2019

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss for the year	(-) Interim dividends	Accumulated other comprehensive income	**Total**
Opening balance 31/12/2018	**703,371**	**7,899,227**	**-**	**15,054**	**-**	**-**	**1,451,367**	**(139,760)**	**539,867**	**(110,739)**	**(70,300)**	**10,288,087**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	**-**
Opening balance 01/01/2019	**703,371**	**7,899,227**	**-**	**15,054**	**-**	**-**	**1,451,367**	**(139,760)**	**539,867**	**(110,739)**	**(70,300)**	**10,288,087**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,053,267**	**-**	**128,544**	**1,181,811**
Other changes in equity	**-**	**-**	**-**	**2,023**	**3,481,494**	**-**	**(3,228,220)**	**131,257**	**(539,867)**	**(78)**	**-**	**(153,391)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends (or shareholder remuneration)	-	-	-	-	(56,270)	-	-	-	-	(110,817)	-	**(167,087)**
Purchase of treasury shares	-	-	-	-	-	-	-	(209,783)	-	-	-	**(209,783)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	(39,360)	341,040	-	-	-	**301,680**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	429,128	-	-	-	(539,867)	110,739	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments (***)	-	-	-	9,535	-	-	-	-	-	-	-	**9,535**
Other increase or (-) decrease in equity	-	-	-	(7,512)	3,108,636	-	(3,188,860)	-	-	-	-	**(87,736)**
Closing balance 31/12/2019	**703,371**	**7,899,227**	**-**	**17,077**	**3,481,494**	**-**	**(1,776,853)**	**(8,503)**	**1,053,267**	**(110,817)**	**58,244**	**11,316,507**

Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VII form an integral part of the statement of changes in equity for 2020.

Cash flow statements of Banco de Sabadell, S.A.

For the years ended 31 December 2020 and 2019

Thousand euro

	Note	2020	2019 (*)
Cash flows from operating activities		**19,784,723**	**(7,793,609)**
Profit or loss for the period		93,781	1,053,267
Adjustments to obtain cash flows from operating activities		1,841,120	1,061,367
Depreciation and amortisation		247,487	246,052
Other adjustments		1,593,633	815,315
Net increase/decrease in operating assets		6,880,597	(6,863,961)
Financial assets held for trading		(131,381)	(397,897)
Non-trading financial assets mandatorily at fair value through profit or loss		48,928	19,138
Financial assets designated at fair value through profit or loss		-	-
Financial assets at fair value through other comprehensive income		337,058	4,668,228
Financial assets at amortised cost		7,128,324	(10,391,280)
Other operating assets		(502,332)	(762,150)
Net increase/decrease in operating liabilities		10,999,261	(2,762,664)
Financial liabilities held for trading		(247,194)	929,010
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities measured at amortised cost		10,635,423	(4,050,950)
Other operating liabilities		611,032	359,276
Income tax receipts or payments		(30,036)	(281,618)
Cash flows from investment activities		**555,351**	**2,047,867**
Payments		(182,118)	(226,744)
Tangible assets	14	(140,148)	(204,158)
Intangible assets	15	(10,857)	(10,046)
Investments in joint ventures and associates	13	-	(12,522)
Other business units	13	(31,113)	(18)
Non-current assets and liabilities classified as held for sale		-	-
Other payments related to investment activities		-	-
Collections		737,469	2,274,611
Tangible assets	14, 33	798	29,574
Intangible assets		-	-
Investments in joint ventures and associates	13	53,257	59,636
Other business units	13	41,297	544,681
Non-current assets and liabilities classified as held for sale		642,117	1,640,720
Other collections related to investment activities		-	-

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VII form an integral part of the cash flow statement for 2020.

Cash flow statements of Banco de Sabadell, S.A.

For the years ended 31 December 2020 and 2019

Thousand euro

		2020	2019 (*)
Cash flows from financing activities		**(429,199)**	**(218,347)**
Payments		(845,335)	(430,392)
Dividends		(112,539)	(56,270)
Subordinated liabilities		(424,600)	-
Amortisation of own equity instruments		-	-
Acquisition of own equity instruments		(145,055)	(209,783)
Other payments related to financing activities		(163,141)	(164,339)
Collections		416,136	212,045
Subordinated liabilities		300,000	-
Issuance of own equity instruments		-	-
Disposal of own equity instruments		116,136	212,045
Other collections related to financing activities		-	-
Effect of exchange rate fluctuations		**20,200**	**(59,709)**
Net increase (decrease) in cash and cash equivalents		**19,931,075**	**(6,023,798)**
Cash and cash equivalents at the beginning of the year	6	**8,792,496**	**14,816,294**
Cash and cash equivalents at the end of the year	6	**28,723,571**	**8,792,496**

COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Cash	6	567,987	680,295
Cash equivalents in central banks	6	27,946,361	7,749,624
Other demand deposits	6	209,223	362,577
Other financial assets		-	-
Less: bank overdrafts repayable on demand		-	-

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VII form an integral part of the cash flow statement for 2020.

Annual report of Banco Sabadell, S.A. for the year ended 31 December 2020

Note 1 – Activity, accounting policies and practices

1.1 Activity

Banco de Sabadell, S.A. (hereinafter, also referred to as Banco Sabadell, the Bank or the company), with registered office in Alicante, Avenida Óscar Esplá, 37, engages in banking business and is subject to the standards and regulations governing banking institutions operating in Spain. The supervision of Banco Sabadell on a consolidated basis is performed by the European Central Bank (ECB).

The Bank is the parent company of a corporate group (see Schedule I and note 13) whose activity it controls directly or indirectly and which comprise, together with the Bank, Banco Sabadell Group (hereinafter, the Group).

1.2. Basis of presentation

The Bank's annual financial statements for the year ended 31 December 2020 have been prepared in accordance with that set forth in Bank of Spain Circular 4/2017, of 27 November (hereinafter, "Circular 4/2017") and other regulatory provisions on financial reporting applicable to the Bank, in a way that gives a faithful image of its equity and financial position as at 31 December 2020 and of the results of its operations, recognised income and expenses, changes in equity and cash flows materialising in 2020. Circular 4/2017 constitutes the implementation and adaptation to Spanish credit institutions of International Financial Reporting Standards adopted by the European Union (EU-IFRS) in accordance with that set forth in Regulation 1606/2002 of the European Parliament and of the Council regarding the application of these standards.

The information included in these annual financial statements is the responsibility of the directors of the Bank. The Bank's annual financial statements for 2020 were signed off by the directors of Banco Sabadell at a meeting of the Board of Directors on 29 January 2021 and will be submitted to shareholders at the Annual General Meeting for approval. It is expected that the shareholders will approve the accounts without significant changes.

Except as otherwise indicated, these annual financial statements are expressed in thousands of euros. In order to show the amounts in thousands of euros, the accounting balances have been subject to rounding; for this reason, some of the amounts appearing in certain tables may not be the exact arithmetic sum of the preceding figures.

The consolidated annual financial statements of Banco Sabadell Group, which have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (EU-IFRS) are presented separately from the standalone financial statements. The key figures given in the consolidated annual financial statements that have been subject to audit procedures are as follows:

Thousand euro

	2020	2019
Total assets	235,763,292	223,753,641
Shareholders' equity	12,943,594	13,171,806
Income from financial activities	6,698,763	6,800,982
Profit or loss attributable to owners of the parent	2,002	767,822

Adoption of Bank of Spain Circular 2/2020

The purpose of this standard is to incorporate the latest developments in EU-IFRS into the accounting and reporting criteria.

The most significant change in the accounting criteria is the amendment of the definition of "business" to facilitate and simplify its application. This definition is used to determine whether or not the acquisition of a set of assets is treated as the purchase of a business. If the set of assets acquired is treated as a business, it will be recognised as an asset in goodwill (goodwill on acquisition) or as income due to negative goodwill (bargain purchase gain). Firstly, in order to qualify as a business, the acquired set of assets must include at least one economic resource and one substantive process that together result in the delivery of goods or services to customers. Second, institutions may opt to perform a "concentration test" to determine, on the basis of a simplified analysis, whether or not the acquired set of assets constitutes a business.

The entry into force of this standard has had no significant impact on the Bank's financial statements.

Adoption of Bank of Spain Circular 3/2020

The purpose of this standard is to allow institutions to make greater use of the flexibility provided for in the regulations in the context of the COVID-19 crisis (see section "Impacts arising from COVID-19" of this note) by amending certain aspects of the circular relating to the classification of refinancing or restructuring transactions.

By this amendment, restructured or refinanced loan transactions will not necessarily have to be classified as Stage 2 when their classification in Stage 3 is not applicable. These transactions may continue to be classified as normal risk at the date of refinancing or restructuring, provided that the Bank can prove that no significant increase in credit risk has been identified since their initial recognition. In addition, transactions of this kind that are classified as Stage 2 may be reclassified to Stage 1 provided that the significant increase in credit risk has been reversed. However, they must continue to be identified as restructured or refinanced until the end of a minimum two-year trial period, during which the borrower must demonstrate good payment behaviour.

Therefore, the change introduced by this circular is that it allows for the rebuttal of the presumption that when a debtor is in financial difficulties this will automatically result in a significant increase in credit risk of the modified transaction.

The Bank has applied this Circular prospectively since 30 June 2020.

Impacts arising from COVID-19

The health crisis caused by COVID-19 has led to an unprecedented shock: (i) a supply shock, as it has brought global production chains to a standstill, (ii) a demand shock, as a result of the containment and lockdown measures put in place to reduce infections and slow the pandemic, (iii) an uncertainty shock, generated by the spread of the virus and given the lack of any historical precedent for similar types of shock, as well as (iv) initially, a financial shock, as it led to an abrupt tightening of financial conditions, illiquid capital markets and financial assets, extreme volatility and a sharp repricing of financial assets.

This situation has triggered an intensive and coordinated response in terms of monetary, fiscal and supervisory policy. Central banks have taken measures to combat the weak performance of financial markets, inject liquidity into the system and allow space for governments to adopt an expansionary fiscal policy. Governments in different countries have also taken various measures, including the provision of support for the financial system, tax payment deferrals, grants for affected workers, guarantees for bank loans and aid for struggling systemic firms. Similarly, in March 2020, the European Central Bank recommended to financial institutions under its direct supervision that no dividends should be paid out and no irrevocable commitments should be undertaken to pay out dividends for the financial years 2019 and 2020, until at least 1 October 2020 (in July 2020 this was extended to 1 January 2021). The Bank's Board of Directors, in its meeting held on 8 April 2020, in accordance with these recommendations, resolved that no dividends would be paid out for 2020, as a prudent measure in light of the crisis caused by COVID-19. In December 2020, the ECB modified its recommendation asking banks to be prudent and refrain from paying dividends or repurchasing shares to remunerate shareholders, and to moderate variable remuneration until 30 September 2021. Banks that decide to pay dividends or repurchase stock must be profitable and have a robust capital track record, should contact their Joint Supervisory Team (JST) by 15 January 2021 and the distribution may not exceed the lesser of: (a) 15% of the accumulated profit for 2019 and 2020 (in the case of dividends paid against 2019 earnings, it will be calculated on 2020 profit) after deducting distributions paid out, or (b) 0.2% of CET 1 at the end of 2020. Additionally, it is expected that no interim dividends will be paid in the 2021 financial year.

In Spain, a number of government measures have been put in place in order to cushion the impact of this crisis. These include the measures described in Royal Decree-Laws (RDL) 6/2020, 8/2020, 11/2020, 15/2020, 19/2020, 25/2020, 26/2020 and 34/2020 on urgent, extraordinary measures to address the economic and social impact of COVID-19. The measures set out in the royal decree-laws are designed to protect the most vulnerable families and social groups, as well as to support and protect self-employed workers and companies.

Statutory and sector moratoria

RDL 8/2020 established a moratorium on payment of instalments of debtors who have found themselves in a vulnerable situation following the state of alarm approved by Royal Decree 463/2020, of 14 March, and who have entered into mortgage contracts intended for the purchase of a primary residence, a property or properties tied to economic activities engaged in by employers or staff, or a buy-to-let property not used as a primary residence, where the individual mortgage debtor is also an owner or lessor who has stopped receiving rental payments after the state of alarm was declared or stops receiving them up to one month after the state of alarm has ended.

The effects of the moratorium include: (i) suspension of mortgage payments and waiver of early maturity clause for a period of 3 months, (ii) lenders cannot demand payment of the instalment or any of its components (principal and interest), (iii) interest accrual is discontinued, (iv) application of default interest is suspended and (v) future payments must be postponed for a length of time equivalent to the payment holiday's duration. The deadline for applying for this moratorium was 29 September 2020.

Similarly, RDL 11/2020 established a moratorium on payment of instalments of non-mortgage loans or credits where the debtor is a natural person who has found themselves in a vulnerable situation following the declaration of the state of alarm. Its terms and duration are similar to those established for the mortgage moratorium.

Additionally, RDL 19/2020 governs the system applicable to moratoria that enforce the provisions of sectoral agreements entered into between lenders through their representative associations.

The Bank has adhered to the provisions of the sectoral agreement on the capital moratorium, under which interest payments are not suspended, arranged by the Spanish Banking Association (*Asociación Española de Banca*, or AEB), dated 16 April 2020, applicable to natural persons who are borrowers of loans granted prior to 14 March 2020, the date on which the state of alarm was declared in Spain, who had no defaulted transactions, as defined in Bank of Spain Circular 1/2013, and who had experienced a reduction in their payment capacity or income as a result of COVID-19. This moratorium was also applicable to people who had opted for a statutory moratorium and who, upon its expiry, met the conditions established in the sector moratorium. The sector moratorium will apply for a maximum of 12 months for mortgage loans and 6 months for personal loans, for loans requested up to 29 September 2020. On 14 December 2020, the sectoral agreement was amended to adapt it to the evolution of the health crisis, in line with the amendment of the EBA guidelines on moratoria. The amendment establishes the deadline for submission of applications as 30 March 2021, and the maximum term of moratoria as 9 months for mortgages and 6 months for personal loans.

Furthermore, RDL 25/2020 and 26/2020 established, respectively, a moratorium of up to 12 months on loan principal repayments for mortgage-secured loans on property used in a tourism activity and a moratorium on principal of up to 6 months for loans, leasing and rental of public transport vehicles used for passenger transport by bus and those used by the self-employed or by legal entities for the transportation of goods. These moratoria may be requested until the end of the period set out in the EBA's Guidelines on payment moratoria (see paragraph below).

To avoid exposures related to moratoria being automatically classified as debt refinancing or as defaulted, the EBA published its Guidelines on legislative and non-legislative payment moratoria on 2 April 2020. As the COVID-19 pandemic developed, in June 2020 the EBA extended the date of application of its Guidelines by three months, from 30 June to 30 September 2020, and on 21 September it announced plans to phase it out. However, in view of the second wave of COVID-19, the EBA decided to reactivate its Guidelines on legislative and non-legislative moratoria, extending application thereof to 31 March 2021 and including additional measures to safeguard against the risk of an unwarranted increase in unrecognised losses on banks' balance sheets.

COVID-19 ICO-guaranteed loans

RDL 8/2020 has entailed the approval of a facility with government guarantees for businesses and the self-employed of up to 100 billion euros, which cover both rollover loans and new loans granted by credit institutions, specialised lending institutions, electronic money institutions and payment institutions, in order to help them meet their needs, including those arising from invoice management, the need for working capital and the needs arising from maturing financial or tax obligations.

The Bank has signed an agreement with Instituto de Crédito Oficial, E.P.E. (ICO) to grant loans to businesses and the self-employed in order to help them pay, among other things, wages and salaries, invoices for supplies and suppliers and to meet their working capital requirements, including those arising from maturing financial obligations, tax obligations and rent payments. The State guarantees up to 80% of the principal of loans granted to SMEs and the self-employed, up to 70% of the principal of new loans granted to companies other than SMEs and up to 60% of the principal of rollover loans. The maximum term of the guaranteed loans is 5 years. This contract was initially effective until 30 September 2020, but could be extended by the Council of Ministers to 31 December 2020.

Additionally, Royal Decree-Law 25/2020 approved a new ICO State guarantee line for companies and self-employed persons of up to 40 billion euros, until 31 December 2020, with the main aim of funding new investment under conditions similar to those established for the ICO guarantee line approved by Royal Decree-Law 8/2020 (exceptionally, by Agreement of the Council of Ministers of 22 December 2020, the State guarantee may extend to 90% in the case of SMEs and self-employed persons in the tourism and hotel sectors and in related activities).

Finally, in November 2020 RDL 34/2020 was approved, which allows the deadline for granting requests for the two public guarantee lines managed by the Instituto de Crédito Oficial (ICO) to be extended until 30 June 2021. Furthermore, companies and self-employed persons that request a line and meet the eligibility criteria (basically, not being in default or involved in bankruptcy proceedings) may extend the term of ICO Guarantee Line loans, for the purposes of liquidity, for as much as three additional years, up to a maximum 8-year term. In addition, they may enjoy a further 12-month grace period on principal repayments, provided the total grace period does not exceed 24 months.

Support measures for customers

Banco Sabadell has put into motion a commercial plan to support its customers in Spain through specific support plans for each customer segment, including companies and individuals, offering solutions that go beyond the government measures, such as payment holidays of up to 6 months for personal loans and SME loans, renewals of expired lines of credit and extensions of working capital maturities.

Schedule VI of these annual financial statements sets out quantitative data relating to the Bank's risk exposures arising from statutory and sector moratoria and transactions approved as part of the public support schemes implemented in response to the crisis caused by COVID-19.

Details of how COVID-19 has affected the main risks to which the Bank is exposed are provided in Note 3 to these annual financial statements.

Use of judgements and estimates in preparing the annual financial statements

The preparation of the annual financial statements requires certain accounting estimates to be made. It also requires management to use its best judgement in the process of applying the Bank's accounting policies. Such judgements and estimates may affect the value of the assets and liabilities and the disclosure of contingent assets and contingent liabilities as at the date of the annual financial statements, as well as income and expenses in the year.

The main judgements and estimates relate to the following:

- The determination of the business models under which financial assets are managed (see Notes 1.3.2, 7 and 10).

- The determination of the significant increase in credit risk of financial assets since their initial recognition (see Notes 1.3.4, 7 and 10).

- Losses due to the impairment of certain financial assets (see Notes 1.3.3, 7, 8 and 10).

- The assumptions used in actuarial calculations of liabilities and post-employment obligations (see Notes 1.3.16 and 21).

- The valuation of goodwill (see Notes 1.3.12 and 15).

- The useful life and impairment losses of tangible assets and other intangible assets (see Notes 1.3.10, 1.3.11, 1.3.12, 14 and 15).

- The provisions and consideration of contingent liabilities (see Notes 1.3.15 and 21).

- The fair value of certain unquoted financial assets (see Note 5).

- The fair value of real estate assets held on the balance sheet (see Notes 1.3.8, 1.3.10, and 5).

- The recoverability of non-monetisable deferred tax assets and tax credits (see Note 35).

- The duration of lease contracts and the discount rate used in the valuation of the lease liability (see notes 1.3.11 and 14).

The COVID-19 pandemic has increased uncertainty surrounding estimates and underlined the need to use expert judgement when assessing how those estimates are impacted by the current macroeconomic situation, fundamentally in relation to the calculation of impairment losses on both financial and non-financial assets.

Although estimates have been made based on the information available to Management regarding current and foreseeable circumstances, final results could differ from these estimates.

1.3 Accounting principles and policies and measurement criteria

The accounting principles and policies, as well as the most significant measurement criteria that have been applied in preparing these annual financial statements, are described below. There have been no cases in which accounting principles or measurement criteria have not been applied because of a material effect on the Bank's annual financial statements for 2020.

1.3.1 Investments in subsidiaries, joint ventures and associates

The Bank considers subsidiaries to be companies over which it has the ability to exercise control, which exists when:

- it has the power to lead the subsidiary's significant activities, i.e. those that significantly affect its returns, due to a legal provision, article of association or agreement;

- it has the existing (i.e. practical) ability to exercise rights to use this power to influence its returns; and

- due to its involvement, it is exposed, or entitled to, variable returns of the investee.

Generally, voting rights are rights that provide it with the power to lead the significant activities of an investee. Furthermore, the Bank takes into account any event or circumstance that could weigh in on the decision as to whether or not control exists, in accordance with the requirements of Circular 4/2017.

Joint ventures are institutions subject to joint control agreements whereby decisions on significant activities are made unanimously by all of the institutions which share control, and where the Bank has rights over its net assets. The Bank has not held investments in joint ventures during 2020.

Associates are institutions over which the Bank has a significant influence which generally, although not exclusively, takes the form of a direct or indirect interest representing 20% or more of the investee's voting rights.

Investments in the capital of subsidiaries, joint ventures and associates are initially recognised at cost, which is equivalent to the fair value of the consideration given.

The Bank recognises allowances for the impairment of investments in subsidiaries, joint ventures and associates, always provided that there is objective evidence that the carrying amount of an investment is not recoverable. Objective evidence that equity instruments have become impaired is considered to exist when, after initial recognition, one or more events occur whose direct or combined effect demonstrates that the carrying amount is not recoverable.

Among others, the Bank considers the following indicators to determine whether there is evidence of impairment:

- Significant financial difficulties.

- Disappearance of an active market for the instrument in question due to financial difficulties.

- Significant changes in profit or loss, compared to the data included in budgets, business plans or targets.

- Significant changes in the market in the issuer's equity instruments, its existing products, or its potential products.

- Significant changes in the global economy or in the economy of the region in which the issuer operates.

- Significant changes in the technological or legal environment in which the issuer operates.

The amount of the allowances for the impairment of interests held in the entities included under the heading of "*Investments in subsidiaries, joint ventures and associates*" is estimated by comparing their recoverable amount against their carrying amount. The latter shall be the higher of the fair value, less selling costs, and the value in use.

The Bank determines the value in use of each interest held based on its net asset value, or based on estimates of their profit/loss, pooling them into activity sectors (real estate, renewable energy, industrial, financial, etc.) and evaluating the macroeconomic factors specific to that sector that could affect the performance of such companies. In particular, interests held in insurance investees are valued by applying the market consistent embedded value methodology, those held in companies related to real estate are valued based on their net asset value, and those held in financial investees are valued using multiples of their book value and/or the profit of other comparable listed companies.

Impairment losses are recognised in the income statement for the year in which they materialise and subsequent recoveries are recognised in the income statement for the year in which they are recovered.

Financial and insurance institutions in which the Bank holds an interest, both subsidiaries and associates, regardless of the country in which they are located, are subject to supervision and regulation by various bodies.

The laws in effect in the various jurisdictions, along with the need to meet certain minimum capital requirements and carry out oversight activities, are circumstances that could affect the ability of these institutions to transfer funds in the form of cash, dividends, loans or advances.

1.3.2 Measurement of financial instruments and recognition of changes arising in their subsequent measurement

In general, all financial instruments are initially recognised at fair value (see definition in Note 5) which, unless evidence to the contrary is available, coincides with the transaction price. For financial instruments not recognised at fair value through profit or loss, the fair value is adjusted either by adding or deducting the transaction costs directly attributable to their acquisition or issue. In the case of financial instruments at fair value through profit or loss, the directly attributable transaction costs are recognised immediately in the income statement. As a general rule, conventional sales and purchases of financial assets are recognised in the Bank's balance sheet using the settlement date.

Changes in the value of financial instruments originating from the accrual of interest and similar items are recorded in the income statement, under the headings "*Interest income*" or "*Interest expenses*", as applicable. Dividends received from other companies are recognised in the income statement for the year in which the right to receive them is originated.

Instruments which form part of a hedging relationship are treated in accordance with regulations applicable to hedge accounting.

Changes in valuations originating subsequent to initial recognition due to causes other than those mentioned above are treated based on the classification of financial assets and financial liabilities for the purposes of their valuation which, in general, is based on the following aspects:

- The business model for the management of financial assets, and

- The characteristics of contractual cash flows from financial assets.

<u>Business model</u>

A business model refers to the way in which financial assets are managed to generate cash flows. The business model is established by considering the way in which groups of financial assets are managed together in order to achieve a particular objective. Therefore, the business model does not depend on the Bank's intentions for an individual instrument, rather, it is determined for a group of instruments.

The business models used by the Bank are indicated below:

- Holding financial assets in order to collect contractual cash flows: under this model, the entity manages the financial assets held within a portfolio to collect particular contractual cash flows, instead of managing the overall return on the portfolio by both holding and selling assets. The above notwithstanding, assets can be disposed of prior to maturity in certain circumstances. Sales that may be consistent with a business model whose objective is to hold assets in order to collect contractual cash flows include sales that are infrequent or insignificant in value, sales of assets close to maturity, sales triggered by an increase in credit risk and sales carried out to manage credit concentration risk.

- Sale of financial assets.

- Combination of the two business models above (business model whose objective is achieved by both holding financial assets to receive contractual cash flows and selling financial assets): this business model typically involves greater frequency and value of sales because such sales are integral to achieving the business model's objective.

Characteristics of contractual cash flows of financial assets

Financial assets should initially be classified in one of the following two categories:

- Those whose contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding.

- All other financial assets.

For the purposes of this classification, the principal of a financial asset is its fair value at initial recognition, which could change over the life of the financial asset; for example, if there are repayments of principal. Interest is understood as the sum of consideration for the time value of money, for lending and structural costs, and for credit risk associated with the principal amount outstanding during a particular period of time, plus a profit margin.

In the event a financial asset contains contractual terms that could change the schedule or amount of cash flows (e.g. due to pre-payment options or an extension of the financial instrument, due to the extension of the contract or due to possible residual claims), the Bank will estimate the cash flows that could be generated before and after the change and will determine whether these are solely payments of principal and interest on the principal outstanding.

On initial recognition, the contractual terms that have a very limited effect on cash flows (*de minimis* effect) or which depend on the occurrence of extremely rare, highly abnormal and extremely unlikely events (non-genuine characteristics) shall not prevent a financial asset from being classified in the category whose cash flows consist solely of payments of principal and interest.

Portfolios of financial instruments classified for the purpose of their valuation

Financial assets and financial liabilities are classified for the purposes of their valuation into the following portfolios, based on the aspects described above:

Financial assets at amortised cost

This category includes financial assets that meet the following two conditions:

- They are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and

- Their contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding.

This category comprises investments associated with typical lending activities, such as amounts loaned to customers withdrawn in cash and not yet repaid, deposits placed with other institutions, regardless of the legal arrangements under which the funds were provided, debt securities which meet the two conditions indicated above, as well as debts incurred by purchasers of goods or users of services forming part of the Bank’s business.

Following their initial recognition, financial assets classified in this category are measured at amortised cost, which should be understood as the acquisition cost adjusted to account for repayments of principal and the portion recognised in the income statement, using the effective interest rate method, of the difference between the initial cost and the corresponding repayment value at maturity. In addition, the amortised cost is decreased by any reduction in value due to impairment recognised directly as a decrease in the value of the asset or through an allowance or compensatory item of the same value.

The effective interest rate is the discount rate that exactly equals the value of a financial instrument to the estimated cash flows over the instrument's expected life, on the basis of its contractual terms, such as early repayment options, but without taking into account expected credit losses. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate set at the time of their acquisition, considering, where appropriate, the fees, transaction costs, premiums or discounts which, because of their nature, may be likened to an interest rate. In the case of floating-rate financial instruments, the effective interest rate is the same as the rate of return in respect of all applicable concepts until the first scheduled benchmark revision date.

Financial assets at fair value through other comprehensive income

This category includes financial assets that meet the following two conditions:

- They are managed using a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

- The contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding.

These financial assets primarily correspond to debt securities.

Furthermore, the Bank may opt, at initial recognition and irrevocably, to include in the portfolio of financial assets at fair value through other comprehensive income investments in equity instruments that should not be classed as held for trading and which would otherwise be classified as financial assets mandatorily at fair value through profit or loss. This option is exercised on an instrument-by-instrument basis. The Bank has exercised this option for almost all of these financial instruments in these annual financial statements.

Income and expenses from financial assets at fair value through other comprehensive income are recognised in accordance with the following criteria:

- Interest accrued, or where applicable, dividends accrued, are recognised in the income statement.

- Exchange differences are recognised in the income statement when they relate to monetary financial assets, or through other comprehensive income when they relate to non-monetary financial assets.

- Losses due to impairment of debt instruments, or gains due to their subsequent recovery, are recognised in the income statement and, in the case of equity instruments, through other comprehensive income.

- Other changes in value are recognised through other comprehensive income.

When a debt instrument measured at fair value through other comprehensive income is derecognised from the balance sheet, the fair value change recognised under the heading *"Accumulated other comprehensive income"* of the statement of equity is reclassified into the income statement. However, when an equity instrument measured at fair value through other comprehensive income is derecognised from the balance sheet, this amount is not reclassified into the income statement, but rather to reserves.

Financial assets at fair value through profit or loss

A financial asset is classified in the portfolio of financial assets at fair value through profit or loss whenever the business model used by the Bank for its management or the characteristics of its contractual cash flows make it inadvisable to classify it into any of the other portfolios described above.

This portfolio is in turn subdivided into:

- *Financial assets held for trading*

  Financial assets held for trading are those which have been acquired for the purpose of realising them the near term, or which form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Financial assets held for trading also include derivative instruments that do not meet the definition of a financial guarantee contract and which have not been designated as hedging instruments.

- *Non-trading financial assets mandatorily at fair value through profit or loss*

  All other financial assets mandatorily at fair value through profit or loss are classified in this portfolio.

Fair value changes are directly recognised in the income statement, making a distinction, in the case of non-derivative instruments, between the portion attributable to returns accrued on the instrument, which are recognised either as "*Interest income*", applying the effective interest rate method, or as dividends depending on their nature, and the remaining portion, which is recognised as gains or (-) losses on financial assets and liabilities under the corresponding heading.

Financial liabilities held for trading

Financial liabilities held for trading include financial liabilities that have been issued with an intention to repurchase them in the near term, or which form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. They also include short positions arising from the outright sale of assets acquired in reverse repurchase agreements, borrowed in securities lending or received as collateral with sale rights, as well as derivative instruments that do not meet the definition of a financial guarantee contract and which have not been designated as hedging instruments.

Fair value changes are directly recognised in the income statement, making a distinction, in the case of non-derivative instruments, between the portion attributable to returns accrued on the instrument, which are recognised as interest applying the effective interest rate method, and the remaining portion, which is recognised as gains or (-) losses on financial assets and liabilities under the corresponding heading.

Financial liabilities designated at fair value through profit or loss

This category includes financial liabilities that do not form part of financial liabilities held for trading and which have been irrevocably designated at initial recognition. This designation can only be made if the instruments in question are hybrid financial instruments (see section "Hybrid financial instruments" in this note) that meet the conditions for such designation; if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or if more relevant information is obtained as the instruments in question are a group of financial instruments that are managed and whose performance is assessed based on their fair value in accordance with a documented risk management or investment strategy, and information about that group on a fair value basis is provided to key management personnel.

Fair value changes of these instruments are recognised in the income statement. However, the fair value change of the financial liability attributable to changes in the credit risk of that liability is recognised in the "*Accumulated other comprehensive income*" heading of the statement of equity.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are financial liabilities that cannot be classified under any of the above categories and which relate to the typical deposit-taking activity of a financial institution, irrespective of their instrumentation and maturity.

In particular, this category includes capital qualifying as a financial liability, i.e. financial instruments issued by the Bank which, given their legal classification as capital, do not meet the requirements to be classified as equity for accounting purposes. These are essentially issued shares that do not carry voting rights and whose return is calculated based on a fixed or variable rate of interest.

Following initial recognition they are measured at amortised cost applying the same criteria as those applicable to financial assets at amortised cost, recognising the interest accrued, calculated using the effective interest rate method, in the income statement. However, if the Bank has discretionary powers with regard to the payment of coupons associated with the financial instruments issued and classified as financial liabilities, the Bank's accounting policy is to recognise them in reserves.

Hybrid financial instruments

Hybrid financial instruments are those that combine a non-derivative host contract and a financial derivative, known as an "embedded derivative", which cannot be transferred separately, nor does it have a different counterparty, and which results in some of the cash flows of the hybrid instrument varying in a similar way to the cash flows that would exist if the derivative were considered separately.

Generally, when the host contract of a hybrid financial instrument is a financial asset, the embedded derivative is not separated and the valuation rules are applied to the hybrid financial instrument as a whole.

When the host contract of a hybrid financial instrument is a financial liability, the embedded derivatives of that contract are separated and treated independently for accounting purposes if the characteristics and economic risks of the embedded derivative are not closely related to those of the host contract. A different financial instrument with the same conditions as those of the embedded derivative would qualify as a derivative instrument, therefore the entire hybrid contract would not be designated at its fair value through profit or loss.

The fair value of the Bank's financial instruments as at 31 December 2020 and 2019 is indicated in Note 5.

1.3.3 Impairment of financial assets

A financial asset or a credit exposure is considered to be impaired when there is objective evidence that one or more events have occurred whose direct or combined effect gives rise to:

- In the case of debt instruments, including loans and debt securities, a negative impact on future cash flows estimated at the time the transaction was formally executed, due to the materialisation of credit risk.

- In the case of off-balance sheet exposures with an associated credit risk, inflows that are expected to be lower than the contractual cash flows that are due if the holder of a loan commitment draws down the loan, or, in the case of financial guarantees given, inflows that are expected to be lower than the payments that are scheduled to be made.

- In the case of investments in joint ventures and associates, a situation in which their carrying amount is extremely unlikely to be recovered.

Debt instruments and off-balance sheet exposures

Impairment losses on debt instruments and other off-balance sheet credit exposures are recognised as an expense in the income statement for the year in which the impairment is estimated. The recoveries of any previously recognised losses are also recognised in the income statement for the year in which the impairment is eliminated or reduced.

The impairment of financial assets is calculated based on the type of instrument and other circumstances that could affect it, after taking into account any effective guarantees received. For debt instruments measured at amortised cost, the Bank recognises both allowances, when loan loss provisions are allocated to absorb impairment losses, as well as direct write-offs, when the probability of recovery is considered to be remote. For debt instruments at fair value through other comprehensive income, impairment losses are recognised in the income statement, with a balancing entry under the heading "*Accumulated other comprehensive income*" on the statement of equity. Impairment allowances for off-balance sheet exposures are recognised on the liabilities side of the balance sheet as a provision.

For risks classified as Stage 3 (see the section "Definition of classification categories" in this note), interest accrued is recognised in the income statement by applying the effective interest rate to its amortised cost adjusted to account for any impairment allowances.

To determine impairment losses, the Bank monitors borrowers individually, at least those who are significant borrowers, and collectively, for groups of financial assets with similar credit risk characteristics that reflect borrowers' ability to satisfy their outstanding payments. When a specific instrument cannot be included in any group of assets with similar risk characteristics, it is analysed on a solely individual basis to determine whether it is impaired and, if so, to estimate the impairment loss.

The Bank has policies, methods and procedures in place to estimate the losses that it may incur as a result of its credit risks, due to both insolvency attributable to counterparties and country risk. These policies, methods and procedures are applied when authorising, assessing and arranging debt instruments and off-balance sheet exposures, when identifying their possible impairment and, where applicable, when calculating the allowances required to cover these expected credit losses.

Accounting classification on the basis of credit risk attributable to insolvency

The Bank has established criteria that allow borrowers showing a significant increase in credit risk, vulnerabilities or objective evidence of impairment to be identified and classified on the basis of their credit risk.

The following sections describe the classification principles and methodology used by the Bank.

Definition of classification categories

Credit exposures and off-balance sheet exposures are both classified, on the basis of their credit risk, in the following stages:

- Stage 1: transactions that do not meet the requirements for classification in other categories.

- Stage 2: this category includes all transactions which, although they do not meet the criteria to be classified individually as Stage 3 or a write-off, show significant increases in credit risk since initial recognition. Transactions with amounts more than 30 days past due are included in this category. Refinanced and restructured transactions classified in this category shall be classified into a lower risk category when they meet the criteria for such reclassification. Transactions that have been classified as Stage 2, due to significant increases in credit risk or due to the existence of amounts more than 30 days past due, will be reclassified into Stage 1 after passing a 3-month probation period, depending on the likelihood of them re-entering the Stage 2 category. Furthermore, transactions that were classified in this category after passing a 3-month trial period in the "doubtful for reasons other than borrower arrears" category (stage 3), will be reclassified in the normal risk category (stage 1) once they have completed an additional 9-month probation period in stage 2.

- Stage 3: comprises debt instruments, matured or otherwise, which do not meet the conditions for classification into the write-offs category but for which there are reasonable doubts as to their repayment in full (principal and interest) by the borrower, as well as off-balance sheet exposures whose payment by the Bank is likely but whose recovery is doubtful.

    - As a result of borrower default: transactions with any amount of overdue principal, interest or contractually agreed expenses that are more than 90 days past due, unless they should be classified as write-offs. This category also includes guarantees given if the guaranteed party has fallen into default in the guaranteed transaction. This category also includes the amounts of all of a borrower's transactions when the transactions with amounts that are generally (as indicated above) more than 90 days past due account for over 20% of the total amounts pending collection.

    - For reasons other than borrower default: transactions which are not classifiable as write-offs or Stage 3 as a result of borrower default, but for which there are reasonable doubts as to the likelihood of obtaining the estimated cash flows of the transaction, as well off-balance sheet exposures not classified as Stage 3 as a result of borrower arrears whose payment by the Bank is likely and whose recovery is doubtful. Transactions that were classified as stage 3 due to default will be maintained, for a trial period of 3 months, in the stage 3 category for reasons other than default.

  The accounting definition of Stage 3 is in line with the definition used in the Bank's credit risk management activities.

- Write-off:

  The Bank derecognises from the balance sheet transactions for which the possibility of full or partial recovery is concluded to be remote following an individual assessment. This category includes exposures of customers who are in bankruptcy proceedings filing for liquidation, as well as transactions classified as Stage 3 as a result of borrower default that have been in this category for more than four years, or less than four years, when any amounts not covered by effective guarantees have been kept on the balance sheet with a credit risk allowance covering 100% of that amount for more than two years. It also includes transactions which, despite not being in any of the previous situations, are undergoing a manifest and irreversible deterioration of their solvency.

The remaining amounts of transactions that have portions which have been derecognised ("partial derecognition"), either because of the termination of the Bank's debt collection rights ("definitive loss") – for reasons such as debt remissions or debt reductions – or because they are considered irrecoverable even though debt collection rights have not yet been terminated ("write-downs"), will be fully classified in the corresponding category on the basis of their credit risk.

In the situations described above, the Bank derecognises from the balance sheet any amount recorded as write-off, together with its provision, notwithstanding any actions that may be taken to collect payment, until no more rights to collect payment exist, whether due to a credit risk transfer, a debt remission, or for any other reasons.

Purchased or originated credit-impaired transactions

The expected credit loss on purchased or originated credit-impaired assets will not form part of the loss allowance or the gross carrying amount on initial recognition. When a transaction is purchased or originated with credit impairment, the loss allowance will be equal to the accumulated changes in lifetime expected credit losses after initial recognition. Interest revenue on these assets will be calculated by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset.

Transaction classification criteria

The Bank applies various criteria to classify borrowers and transactions into different categories based on their credit risk. These categories include:

- Automatic criteria;

- Specific criteria for refinancing transactions; and

- Criteria based on indicators (triggers).

The automatic factors and specific classification criteria for refinanced transactions make up the classification and cure algorithm and are applied to the entire portfolio.

Furthermore, to enable an early identification of any significant increase in credit risk or vulnerabilities, or any transaction impairment, the Bank establishes triggers, based on the number of days past due, in the form of refinancing and restructuring indicators, bankruptcy indicators and indicators of a significant increase in credit risk, among others, distinguishing between significant and non-significant borrowers. In particular, non-significant borrowers who, once the automatic classification algorithm has been applied, do not meet any of the conditions for classification as Stage 2 or 3, are assessed using indicators which aim to identify significant increases in credit risk or signs of vulnerability that could result in losses higher than those incurred on other similar transactions classified as Stage 1.

As a result of the application of these criteria, the Bank either classifies its borrowers as Stage 2 or 3 or keeps them in Stage 1.

Individual assessment

The Bank has established an exposure threshold to classify borrowers as significant, based on the exposure at default parameter (amount drawn and off-balance sheet exposures). Exposures of borrowers that fall into any of the main risk groups are assessed individually, as are borrowers who are not associated with any homogeneous risk group and whose classification and credit loss allowance cannot therefore be collectively estimated.

The figure below shows the thresholds established by the Bank to differentiate between borrowers whose classification is determined individually from those whose classification is determined collectively.

Significant Risks

Individual assessment at borrower level:
- €10m for risks classified as Stage 1.
- €3m for risks classified as Stage 2.
- €3m for risks classified as Stage 3.

Companies and individuals

Collective assessment:
- Other borrowers classed below significant borrower threshold. See section on "Collective assessment".

For significant borrowers, a system of triggers has been established that allow any significant increase in credit risk, vulnerabilities or signs of impairment to be identified. This system of triggers covers signs of impairment or vulnerability by defining:

- Specific triggers that signal when there has been a significant increase in credit risk;

- Specific triggers that signal when there are signs of impairment;

- Triggers that allow an increase in credit risk and signs of impairment to be detected, based on various early warning thresholds.

A team of expert risk analysts individually analyses borrowers that have activated triggers to determine whether there is a significant increase in credit risk or whether there is any objective evidence of impairment. If there is evidence of impairment, these analysts determine whether the event or events that have given rise to the loss have an impact on the expected future cash flows of the financial asset or its group.

The system of triggers for significant borrowers is automated and takes into account the particular characteristics of segments that perform differently from the loan portfolio. The Bank has a system of triggers that aims to identify significant financial difficulties of the issuer or obligor, indicative of a significant increase in credit risk or an impairment event, insofar as their classification in the significant category may limit the ability of the issuer or obligor to honour their financial obligations as usual. In order to identify a significant increase in credit risk or an impairment event, it is necessary to consider variables that are indicative of a deteriorating or poor economic and financial situation as well as variables that could potentially give rise to impairment or which allow impairment to be anticipated.

For example:

- Stage 2 triggers:
    - Adverse changes in the financial situation, such as a significant increase in debt levels, sharp drops in turnover, or a significant tightening of operating margins.
    - Adverse changes in the economy or market indicators, such as a significant decline in share prices or a reduction in the price of debt issues. In the case of sovereign debt issues, price spreads with respect to the benchmark German bond (share premium) are also analysed.
    - Significant actual or expected downgrade of the internal credit rating assigned to the transaction or borrower, or a reduction in the behavioural score assigned during the internal credit risk monitoring process.

  - For transactions secured with collateral, a higher loan-to-value ratio, due to a dwindling value of the collateral, or due to the amount pending amortisation staying the same or increasing as a result of the established payment terms.

  - Significant increase in credit risk of other transactions of the same borrower, or in entities associated with the borrower's risk group.

- Stage 3 triggers:

  - Evidence of impairment of other transactions of the same borrower, or in entities associated with the borrower's risk group.

  - Negative EBITDA, significant decrease in EBITDA, in turnover, or in general, in the borrower's recurrent cash flows.

  - Increase in the borrower's leverage ratios.

  - Negative equity or equity reduction as a result of the borrower suffering income losses of 50% or more in the past year.

  - Existence of an internal or external credit rating showing that the borrower is in arrears.

  - Existence of a borrower's past-due commitments of significant value with public bodies.

  - For transactions secured with collateral, significant decline in the value of the collateral received.

  - Existence of debt remissions or debt reductions approved for the same borrower or for entities associated with the latter's risk group in the last 2 years.

  - Temporary suspension of the listing of the borrower's shares.

- Breach of contract, defaults or delayed payments of principal or interest: in addition to amounts more than 90 days past due, which form part of the automatic classification algorithm, amounts less than 90 days past due are also identified, as these can be a sign of impairment or of a significant increase in credit risk. Breaches of covenants and defaults declared in other credit institutions in the financial system are also considered in the analysis.

- Borrowers are granted concessions or advantages due to financial difficulties that would not otherwise be considered: refinancing the debt of an obligor experiencing financial difficulties could prevent or delay their failure to honour their payment obligations, whilst at the same time preventing or delaying the recognition of the impairment associated with the financial asset linked to that obligor.

- Probability of the borrower becoming insolvent: in cases in which there is a high probability that a borrower will enter bankruptcy or other financial reorganisation, the solvency of the issuers and obligors is ostensibly affected, which could give rise to a loss event depending on the impact on future cash flows pending collection.

- The disappearance of an active market for the financial asset due to financial difficulties: the absence of financial assets issued by the obligor or issuer could give rise to a precarious economic and financial situation and therefore a reduced ability to honour payment obligations.

The Bank carries out an annual review of the reasonableness of its thresholds and of the credit risk captured in the individual assessments carried out using these thresholds.

<u>Collective assessment</u>

For borrowers who are classified below the significant borrower threshold and who, in addition, have not been classified as Stage 2 or 3 by the automatic classification algorithm, the Bank has established a process to identify transactions that show a significant increase in credit risk compared to when the transaction was first approved, and which could give rise to higher losses than those incurred on other similar transactions classified as Stage 1.

For transactions of borrowers that are assessed collectively, the Bank uses a statistical model that allows it to determine the temporary structure of PD, and therefore the residual lifetime PD, of a contract, based on different characteristics:

- Systemic: macroeconomic characteristics shared by all exposures.

- Cross-cutting: aspects that remain stable over time and which are shared by a group of transactions, such as the shared effect of lending policies in effect at the time the transaction was approved, or the transaction's approval channel.

- Idiosyncratic: aspects specific to each transaction or borrower.

With this specification, the Bank is able to measure the residual lifetime PD of a transaction (the PD from a given moment in time up to the maturity of the transaction) under the circumstances that existed at the time the transaction was approved (or originated), or under the circumstances existing at the time the provision is calculated. This way, the real residual lifetime PD may fluctuate in relation to the PD at the time the transaction was approved, due to changes in the economic environment or in the idiosyncratic characteristics of the transaction or of the borrower.

The significant increase in credit risk for borrowers and transactions subject to collective assessment models is estimated by comparing the residual lifetime PD under the economic and idiosyncratic circumstances at the time the provision is calculated against the residual lifetime PD under the circumstances that existed at the time the transaction was approved. Some thresholds for the increase in residual lifetime PD, which is a criterion for classification into Stage 2, have been calibrated using historical data in order to maximise the measurement and identification of risks (default rate) among borrowers and/or transactions classed as Stage 1 and 2. These thresholds are not fixed, rather, they act as a non-linear function that depends on the level of residual lifetime PD at origination, requiring higher relative increases if the PD is low. This type of function is deemed adequate and is the best risk assessment/identification method.

In the case of exposures with natural persons, for whom provisions are calculated at a contract level, thresholds are calibrated and applied at this same level. Nonetheless, in the case of companies or retailers and self-employed, in which credit scores are assigned at borrower level, thresholds are calibrated to ensure that they correspond to the borrower's PD and to the period from approval to maturity, in order to adequately adjust each of the borrower's contracts.

<u>Refinancing and restructuring operations</u>

Credit risk management policies and procedures applied by the Bank ensure that borrowers are carefully monitored, identifying cases where provisions need to be allocated as there is evidence that their solvency is declining (see Note 3). To this end, the Bank allocates loan loss provisions for the transactions that require them given the borrower's circumstances, before formally executing any refinancing/restructuring arrangements, which should be understood as follows:

- Refinancing: refinancing is granted or used for economic or legal reasons associated with a borrower's current or foreseeable financial difficulties in order to terminate one or more transactions authorised by the Bank, or to bring outstanding payments fully or partially up to date, with a view to making it easier for borrowers to pay their debt (principal and interest) when they are unable, or will predictably soon be unable, to honour their payment obligations in good time and in an appropriate manner.

- Restructuring: restructuring involves amending the financial terms and conditions of a transaction for economic or legal reasons associated with a borrower's current or foreseeable financial difficulties in order to make it easier for them to pay their debt (principal and interest) when they are unable, or will predictably soon be unable, to comply with those terms and conditions in good time and in an appropriate manner, even if such an amendment is already provided for in the contract. In any case, restructured transactions are those in which the terms and conditions are amended to extend the term to maturity, to modify the repayment schedule in order to the reduce repayment instalment amounts in the short term or to reduce their payment frequency, or to establish or extend the grace period for the repayment of principal, interest, or both, unless it can be proven that the terms and conditions are being amended for reasons other than borrowers' financial difficulties and that the amended terms are equivalent to the terms that would be applied by other institutions in the market for similar risks.

If a transaction is classified into a particular risk category, refinancing does not mean that its risk classification will automatically improve. The algorithm establishes the initial classification of refinanced transactions based on their characteristics, mainly, the existence of a borrower's financial difficulties (for example, an unsuitable business plan), the existence of particular clauses such as long grace periods, or the existence of amounts that have been written off as they are considered to be non-recoverable. The algorithm then changes the initial classification depending on the established cure periods. A reclassification into a lower risk category will only be considered if there is a quantitative or qualitative increase in the effective guarantees backing the transaction and if there has been a significant improvement in the continuous recovery of the debt over time, therefore the act of refinancing does not in itself produce any immediate improvements.

Forborne, refinanced and restructured transactions remain identified as such during a probation period until all of the following requirements are met:

- After having reviewed the borrower's assets and financial position, it is concluded that the borrower is unlikely to experience financial difficulties.

- A minimum of two years have passed since the restructuring or refinancing or, if later, the date of reclassification from the Stage 3 category.

- The borrower has paid the instalments of principal and interest accumulated since the later of the date of refinancing or restructuring and the date of reclassification from the Stage 3 category.

- The borrower has no other transactions with amounts more than 30 days past due at the end of the probation period.

Forborne, refinanced and restructured transactions remain in the Stage 3 category until it can be verified that they meet the general criteria for their reclassification from Stage 3 into a different category, particularly the following criteria:

- One year has passed since the date of the refinancing or restructuring.

- The borrower has paid the accumulated instalments of principal and interest.

- The borrower has no other transactions with amounts more than 90 days past due on the date on which the forborne, refinanced or restructured transaction is reclassified into Stage 2.

With regard to refinanced/restructured loans classified as Stage 2, different types of transactions are specifically assessed in order to reclassify them, where applicable, into one of the categories described previously that reflect a higher level of risk (i.e. into Stage 3 as a result of borrower default, when payments are, in general, over 90 days past due, or for reasons other than borrower default, when there are reasonable doubts as to their recoverability).

Estimated impairment losses, which are consistent with the accounting classification of the risk, are provisioned for as soon as they are identified.

The methodology used to estimate losses on these portfolios is generally similar to that used for other financial assets at amortised cost, but it is considered that, in principle, the estimated loss on a transaction that has had to be restructured to enable payment obligations to be satisfied should be higher than the estimated loss on a transaction with no history of defaulted payments (unless there are sufficient additional effective guarantees to justify otherwise).

Impact of COVID-19 on the classification of financial instruments based on their credit risk

Loans classified as stage 1 granted to borrowers who have received state-guaranteed loans as part of a government support scheme designed to address the impact of COVID-19, or who have opted for a statutory or sector moratorium, have been kept in that category where there were no doubts as to the repayment of the obligations and provided no significant increase in credit risk had been identified.

Transactions classified as stages 2 or 3 whose borrowers have opted for a statutory or sector moratorium or who have received state-guaranteed loans as part of a government support scheme designed to address the impact of COVID-19 have not been reclassified to a lower credit risk category.

Due to the macroeconomic situation caused by COVID-19, the criteria for classifying credit exposures according to their credit risk have been modified to reflect a more conservative approach. As a consequence of the changes applied, there has been a significant transfer of exposures initially considered as stage 1 to stages 2 and 3 under this new criterion.

Any amounts suspended due to statutory and sector moratoria are not considered receivable and can therefore not be deemed past-due. Thus, any payments suspended while the moratoria are in effect are not considered for the purpose of the classification of transactions as stage 3. Furthermore, the transactions to which the statutory or sector moratoria relate are not identified as restructured or refinanced transactions, unless they have been flagged as such or if signs of recoverability problems had already emerged prior to the outbreak of the pandemic.

In terms of ICO-guaranteed loans, the Bank takes into account the status of transactions previously granted to the borrower in order to determine the classification of the guaranteed loan on the basis of its credit risk and whether it has been flagged as a refinanced or restructured transaction.

Modifications of financial assets

All transactions subject to the statutory moratorium in Spain and which entail waiving interest for the duration of the moratorium, which the Bank cannot subsequently claim from customers, are treated as modifications of financial assets. The losses recognised by the Bank as a result of the aforesaid modifications have not been significant. Furthermore, transactions that are subject to sector moratoria, whose principal repayments are suspended but which continue to accrue interest throughout the moratoria or payment holiday period, do not in themselves give rise to modification losses on financial assets at the time of their arrangement.

Measurement of allowances

The Bank applies the following parameters to determine its credit loss allowances:

- EAD (Exposure at Default): the Institution defines exposure at default as the value it is expected to be exposed to when a loan defaults.

  The Bank uses currently drawn balances and the amounts that it expects to disburse in the event its off-balance sheet exposures enter into default as an exposure metric, by applying a Credit Conversion Factor (CCF).

- PD (Probability of Default): estimation of the probability of a borrower defaulting within a given period of time.

  The Bank has tools in place to help in its credit risk management that predict the probability of default of each borrower and which cover almost all lending activity.

  In this context, the Bank reviews the quality and stability of the rating tools that are currently in use on an annual basis. The review process includes the definition of the sample used and the methodology to be applied when monitoring rating models.

  The tools used to assess the probability of default of a debtor are comprised of behavioural credit scores, used to monitor the risk associated with individuals, and credit ratings, which are used to monitor the risk associated with companies:

  - Credit ratings: in general, credit risks undertaken with companies are rated using a rating system based on the internal estimate of their probability of default (PD). The rating system is based on factors that predict the probability of default over a one-year period. It has been designed for different segments. The rating model is reviewed annually based on the analysis of performance patterns of actual defaulted loans. A predicted default rate is assigned to each credit rating level, which also allows a uniform comparison to be made against other segments and against credit ratings issued by external credit rating agencies using a master ratings scale.

Credit ratings have a variety of uses in risk management. Most notably, they form part of the decision-making process (system of discretions), risk monitoring and pricing policies.

- Credit scores: in general, credit risks undertaken with individuals are rated using credit scoring systems, which are in turn based on a quantitative model of historical statistical data, where the relevant predictive factors are identified. In regions where credit scoring takes place, credit scores are divided into two types:

    - Reactive credit scores: these are used to assess applications for consumer loans, mortgage loans and credit cards. Once all of the data relating to the transaction has been entered, the system calculates a result based on the estimated borrowing power, financial profile and, if applicable, the profile of assets pledged as collateral. The resulting credit score is integrated in risk management processes using the system of discretions.

    - Behavioural credit scores: the system automatically classifies customers based on information regarding their activity and each of the products that they have acquired. These credit scores are mainly used to: authorise transactions, establish (authorised) overdraft limits, design advertising campaigns and adjust the initial stages of the debt recovery process.

If no credit scoring system exists, individual assessments supplemented with policies are used instead.

- LGD (Loss Given Default): expected loss on transactions which are in default. This loss also takes into account outstanding debt, late payment interest and expenses relating to the recovery process. Additionally, for each cash flow (amounts outstanding and amounts recovered) an adjustment is applied to consider the time value of the money.

- Effective Interest Rate (EIR): discount rate that exactly equals the estimated cash flows receivable or payable throughout the expected life of a financial asset or a financial liability to the gross book value of the financial asset or to the amortised cost of the financial liability.

- Multiple scenarios: in order to estimate expected losses, the Bank applies different scenarios to identify the effect of the non-linearity of losses. To this end, the provisions required are estimated in the various different scenarios for which a probability of occurrence is established. Specifically, the Bank has considered three macroeconomic scenarios: a baseline scenario, the most likely of all (60%), an alternative 1 scenario which considers the end of the pandemic (15%) and an alternative 2 scenario which forecasts a further outbreak of COVID-19 (25%). To carry out the forecasts of these scenarios, 5-year time horizons are used. The main variables considered are changes in GDP, the unemployment rate and house prices.

  The coronavirus crisis is accelerating processes that were already taking place: digitisation, deglobalisation (not only in terms of trade), the increasing role of governments in society, greater focus on ESG matters, etc.

  In the post-COVID world, low or negative interest rates will persist for longer, governments will place greater emphasis on prioritising national security and social stability above performance and efficiency, there will be more interventionism and the financial risks will be higher. Consequently, the potential for economic growth will be reduced.

  The scenarios are determined mainly by the evolution of the pandemic and the effectiveness of economic policies.

  <u>Baseline scenario</u>

    - In terms of the evolution of the pandemic, new outbreaks are controlled and medical breakthroughs allow concerns due to COVID-19 to diminish in 2021.

    - In terms of economic policy, ECB interest rates will remain unchanged in the coming years.

      The ECB focuses on safeguarding the stability of country-risk premiums, limiting the damage to the banking sector caused by the ongoing negative interest rate environment and stepping up the fight against climate change.

      The public spending recovery is very gradual, supported by the continued use of monetary policy tools.

    - In terms of economic activity, the various economies generally perform well in 2021.

      The sectors experiencing most difficulty returning to normal activity are tourism, hospitality, leisure and passenger transport.

Medium-term growth is limited by a reallocation of resources, greater savings and balance sheet restructuring.

Inflation remains contained but with risks of upward pressure on prices in the medium term.

- With regard to the Spanish economy, the current crisis is not at all like the global financial crisis because, on this occasion, it is not the result of cumulative prior financial and economic imbalances, which means it is more temporary in nature.

- With regard to the financial markets, yields on government bonds remain contained in a context of financial repression.

  The risk premiums on peripheral government bonds are supported by ECB policies and the presence of the European Recovery Fund.

  The US dollar depreciates against the Euro on the strength of progress with European integration, the zero interest rate environment in the United States, etc.

- The baseline scenario considers an orderly Brexit.

Alternative scenario 1: End of the pandemic

- A proven treatment or effective vaccine prevent further outbreaks and the country is able to move on from the pandemic at the beginning of 2021.

- The effectiveness of the economic policy measures adopted, combined with the eradication of the pandemic, substantially diminish the destruction of the economy's productive fabric.

- The economic recovery in 2021 is vigorous. The synchronised nature of the recovery, across different countries, is an additional source of momentum.

  Activity levels recorded in the fourth quarter of 2019 are generally recovered during 2021.

- The recovery allows strategies to be developed for a gradual withdrawal from the stimulus policies adopted, including both monetary and fiscal tools. This proves key to keeping inflation at levels compatible with central banks' objectives.

- This macroeconomic and financial environment allows the risk premiums on both peripheral debt and corporate bonds to remain contained. The funding conditions remain relaxed.

- In Spain, renewed confidence in the health situation allows different sectors of the economy to recover quickly, including those most severely impacted by the crisis, such as tourism. Good management and effective channelling of funds received from Europe reinforces the economic recovery.

Alternative scenario 2: Significant outbreaks of COVID-19 in 2021

- The pandemic takes a negative turn and this strangles economic activity.

- In 2021, in the absence of a vaccine or effective treatment, significant outbreaks of COVID-19 continue, making it necessary to impose ongoing restrictions on mobility and business activities.

- Sectors such as tourism and those concerned with social activities experience significant difficulties, with a clear domino effect on the economy as a whole.

- Deflationary pressures are prolonged due to weaker domestic demand, which accentuates the need to intensify support through economic policies.

- Economic uncertainty generates a complicated market environment, with risk asset repricing, exacerbated by infrastructure problems and poor liquidity.

- Yields on core government bonds fall and the risk premiums on peripheral bonds increase. This increase is exacerbated by the additional deterioration of fiscal metrics but is mitigated by the actions of the ECB and greater European unity to address the crisis.

- In Spain, the economy slumps, among other reasons, because sectors that are particularly vulnerable to the crisis, such as tourism, remain severely impacted. The liquidity problems experienced by many companies become a solvency issue, which causes structural damage to part of the economy's productive fabric.

The main projected variables considered for Spain, for the 2021-2025 time horizon, are as follows:

%

	2021	2022	2023	2024	2025
GDP growth					
Baseline scenario	7.2	4.5	2.0	1.5	1.4
Alternative scenario 1	10.6	5.6	2.5	1.9	1.6
Alternative scenario 2	3.0	1.7	2.0	1.8	1.6
Unemployment rate					
Baseline scenario	17.5	15.5	14.6	13.6	12.9
Alternative scenario 1	15.7	13.0	12.5	11.8	11.1
Alternative scenario 2	21.4	20.0	18.7	18.0	16.8
House price growth (*)					
Baseline scenario	0.0	4.5	3.5	3.5	3.0
Alternative scenario 1	6.0	5.3	4.0	3.5	3.5
Alternative scenario 2	-3.5	0.0	2.0	3.0	3.0

(*) The price variation is calculated at year-end.

When applying the macroeconomic scenarios, the recommendations issued by accounting supervisors and regulators have been taken into account in order to prevent excessive pro-cyclicality as a result of the short-term volatility in the environment, attaching greater importance to longer-term economic outlooks.

Based on the above parameters, the Bank applies the criteria described below to calculate credit loss allowances.

The amount of impairment allowances is calculated based on whether or not there has been a significant increase in credit risk since initial recognition, and on whether or not there has been a default event. This way, the impairment allowance for transactions is equal to:

- 12-month expected credit losses, when the risk of a default event materialising has not significantly increased since initial recognition (assets classified as Stage 1).

- Lifetime expected credit losses, if the risk of a default event materialising has increased significantly since initial recognition (assets classified as Stage 2).

- Expected credit losses, when a default event has materialised (assets classified as Stage 3).

12-month expected credit losses are defined as:

$$ECL_{12M} = EAD_{12M} \cdot PD_{12M} \cdot LGD_{12M}$$

Where:

EAD12M is the exposure at default at 12 months, PD12M is the probability of a default occurring within 12 months and LGD12M is the expected loss given default.

Lifetime expected credit losses are defined as:

$$ECL_{LT} = \sum_{i=1}^{m} \frac{EAD_i \cdot PD_i \cdot LGD_i}{(1 + EIR)^{i-1}}$$

Where:

EADi is the exposure at default for each year, taking into account both the entry into default and the amortisation (on the agreed date and/or early), PDi is the probability of a default occurring within the next twelve months for each year, LGDi is the expected loss given default for each year, and EIR is the effective interest rate of each transaction.

For transactions identified as having negligible risk (see section entitled "Collective allowance estimations" within this Note), an allowance percentage of 0% is applied, with the exception of transactions classified as Stage 3, whose impairment is assessed individually. During this estimation process, a calculation is made of the allowance necessary to cover, on one hand, the credit risk attributable to borrowers and, on the other hand, country risk.

The Bank includes forward-looking information when calculating expected credit losses and determining whether there has been a significant increase in credit risk, using scenario forecasting models to this end.

The agreed amortisation schedule for each transaction is used. Subsequently, these expected credit losses are updated by applying the effective interest rate of the instrument (if its contractual interest rate is fixed) or the contractual effective interest rate ruling on the date of the update (if the interest rate is variable). The amount of effective guarantees received is also taken into account.

The following sections describe the different methodologies applied by the Bank to determine impairment loss allowances.

Individual allowance estimates

The following must be estimated individually:

- Allowances for transactions classified as Stage 2 and 3 of borrowers individually considered to be significant.

- Where applicable, transactions or borrowers whose characteristics prevent a collective measurement of impairment from being carried out.

- Allowances for transactions with negligible risk classified as Stage *3*.

The Bank has developed a methodology to estimate these allowances, calculating the difference between the gross carrying amount of the transaction and the present value of the estimated cash flows it expects to receive, discounted using the effective interest rate. To this end, effective guarantees received are taken into account (see the "Guarantees" section of this note).

Three methods are established to calculate the recoverable value of assets assessed individually:

- Discounted cash flow method: debtors who are estimated to be able to generate future cash flows through their own business activity, thereby allowing them to fully or partially repay the debt owed through the economic and financial activities and structure of the company. This involves estimating the cash flows obtained by the borrower during the course of their business activity.

- Collateral recovery method: debtors who are not able to generate cash flows during the course of their own business activities and who are then forced to liquidate assets in order to honour their payment obligations. This involves estimating cash flows based on the enforcement of guarantees.

- Combined method: debtors who are estimated to be able to generate future cash flows and also have non-core assets. These cash flows can be supplemented with the potential sale of non-core assets, insofar as they are not required for the performance of their activity, and consequently, for the generation of the aforesaid future cash flows.

Collective allowance estimates

Exposures that are not assessed using individual allowance estimates are subject to collective allowance estimates.

When calculating collective impairment losses, the Bank mainly takes the following aspects into account:

- The impairment estimation process takes all credit exposures into account, with the exception of those with negligible risk not classified as Stage 3 for which, in general, the methods established by the Bank of Spain based on statistical data and models are used. These aggregate the average performance of institutions within the banking industry. The Bank recognises an impairment loss equal to the best estimate available from internal models, taking into account all of the relevant information which it holds on the existing conditions at the end of the reported period. The Bank has identified the following transactions with negligible risk for its estimation of credit loss allowances:

    - transactions with central banks;

    - transactions with general governments of European Union countries, including those arising from reverse repurchase agreements of debt securities;

    - transactions with central governments of countries classified as Group 1 for country risk purposes;

    - transactions in the name of deposit guarantee funds and resolution funds, provided they are comparable in terms of credit quality to those of the European Union;

    - transactions in the name of credit institutions and specialised credit institutions of European Union countries and, in general, of countries classified as Group 1 for country risk purposes;

    - transactions with Spanish mutual guarantee societies and with public bodies or public companies of other countries classified as Group 1 for country risk purposes whose main activity is providing credit insurance or guarantees;

    - transactions with non-financial companies which are not included in the public sector;

    - advances of pensions and wages corresponding to the following month, always provided that the paying institution is a general government and that these items are arranged to be paid into accounts held in Banco Sabadell, as well as advances other than loans.

- In order to collectively assess impairment, internal models estimate a different PD and LGD for each contract. To this end, various types of historical information are used that allow the risk to be individually classified for each exposure (ratings, default events, vintage, exposure, collateral, characteristics of the borrower or contract). Available historical information representative of the entity and past losses (defaults) are therefore taken into account. It is worth highlighting that the models' estimation is adjusted to account for the existing economic climate and the forecasts in the scenarios considered, which are representative of expected credit losses. The estimates of impairment loss allowance models are directly incorporated into activities related to risk management and the input data that they use (e.g. credit ratings and credit scores) are those used for authorising risks, in risk monitoring, pricing and in capital calculations. Additionally, recurring back-testing exercises are carried out at least once a year, and estimates are adjusted in the event any major deviations are detected. The models are also reviewed regularly in order to include the most recent available information and to ensure that they perform adequately and that they are suitably representative when applied to the current portfolio for the calculation of impairment loss allowances.

The classification of credit risk and the measurement of allowances are determined based on whether or not there has been a significant increase in credit risk since origination, or whether or not any default events have occurred.

Observed credit impairment since initial recognition

Credit risk category	Stage 1	Stage 2	Stage 3	Write-off
Criteria for classification into stages	Transactions in which there has been no significant increase in credit risk since initial recognition and which do not meet the requirements for classification into other categories	Transactions which show a significant increase in credit risk since initial recognition	Transactions whose full recovery is considered doubtful, even if no amounts are more than ninety days past due Transactions with amounts more than 90 days past due	Transactions whose possibility of recovery is considered remote due to a manifest and irreversible deterioration of the solvency of the transaction or the borrower
Calculation of allowance	12-month expected credit loss	Lifetime expected credit loss		Write-off from balance sheet and recognition of the loss in the income statement, at the carrying amount of the transaction
Accrual of interest	Calculated by applying the effective interest rate to the gross carrying amount of the transaction		Calculated by applying the effective interest rate to the amortised cost (adjusted to account for any impairment allowances)	Not recognised in the income statement
Transactions included, by stage	Initial recognition	Transactions which show a significant increase in credit risk since initial recognition Forborne, refinanced and restructured transactions that do not meet the conditions for classification as Stage 3 Transactions with amounts more than 30 days past due	**Transactions classified as Stage 3 as a result of borrower arrears:** Amount of debt instruments with one or more amounts more than 90 days past due **Transactions classified as Stage 3 for reasons other than borrower arrears:** • Transactions with no amounts more than 90 days past due but whose full recovery is considered doubtful • Forborne, refinanced and restructured transactions that do not meet the conditions for classification as Stage 2 • Purchased or originated credit-impaired (POCI) transactions	Transactions whose possibility of recovery is considered remote Transactions partially deemed to be irrecoverable even though debt collection rights have not yet been terminated (write-downs)

Classification of credit risk and allowances for country risk

Country risk is the risk arising in counterparties resident in a particular country for reasons other than ordinary business risk (sovereign risk, transfer risk or risks arising from international financial activity). The Bank classifies transactions carried out with third parties into different groups, based on the economic development of those countries, their political situation, regulatory and institutional framework, and payment capacity and experience.

Debt instruments and off-balance sheet exposures whose end obligors are residents of countries that have long experienced difficulties in servicing their debt, and whose recovery is therefore deemed unlikely, are classified as Stage 3, unless they should be classified as write-offs.

There are two stages involved in estimating allowances: first, the loan loss allowance is estimated, and then the additional country risk provision is determined. This way, exposures not fully provisioned for by the amount that can be recovered with either effective collateral or loan loss allowances are provisioned for by applying the coverage percentages established in Circular 4/2017, based on the country risk group in which the transaction has been included and its credit risk classification in the accounts.

The provisioning levels for this item are not significant in terms of the impairment allowances allocated by the Bank.

Guarantees

Effective guarantees are collateral and personal guarantees proven by the Bank to be a valid means of mitigating credit risk.

Under no circumstances will guarantees whose effectiveness substantially depends on the credit quality of the debtor or, where applicable, the economic group of which the debtor forms part, be accepted as effective guarantees.

Based on the foregoing, the following types of guarantees can be considered to be effective guarantees:

- Real estate guarantees applied as first mortgage liens:
    - Completed buildings and completed component parts:
        - Housing units.
        - Offices, commercial premises and multi-purpose industrial buildings.
        - Other buildings, such as non-multi-purpose industrial buildings and hotels.
    - Urban land and regulated building land.
    - Other real estate.
- Collateral in the form of pledged financial instruments:
    - Cash deposits.
    - Equity instruments in listed entities and debt securities issued by creditworthy issuers.
- Other collateral:
    - Personal property received as collateral.
    - Subsequent mortgages on properties.
- Personal guarantees such that direct and joint liability to the customer falls to the new guarantors, who are persons or entities whose solvency is sufficiently verified to ensure the full redemption of the transaction under the terms set forth.

The Bank has collateral valuation criteria for assets located in Spain that are in line with current regulations. In particular, the Bank applies criteria for the selection and hiring of appraisers that are geared towards assuring their independence and the quality of the appraisals. All of the appraisers used are appraisal companies and agencies that have been entered in the Bank of Spain Special Register of Appraisal Firms, and the appraisals are carried out in accordance with the criteria established in Order ECO/805/2003 on rules for the appraisal of real estate and particular rights for specific financial purposes.

Real estate guarantees for loan transactions are valued on the date they are provided, while real estate assets are valued on the date on which they are recognised, whether as a result of a purchase, foreclosure or a payment in kind, and also whenever there is a significant reduction in value. Additionally, minimum updating criteria are applied, which ensure that updates take place at least once a year in the case of impaired assets (assets classified as Stage 2 or 3 and real estate assets foreclosed or received in lieu of debt), or at least once every three years for large debts classified as Stage 1 with no signs of latent credit risk. Statistical methodologies are only used to update the valuations of the assets described above when they have low exposure and risk levels, although a full ECO appraisal must be carried out at least every three years.

For assets located in other EU countries, the appraisal is carried out in accordance with that set forth in Royal Decree 716/2009 of 24 April, and in the rest of the world, by companies and/or experts with recognised expertise in the country.

The Bank has developed internal methodologies to estimate credit loss allowances. These methodologies use the appraisal value as a starting point to determine the amount that can be recovered with the enforcement of real estate guarantees. This appraisal value is adjusted to account for the time required to enforce such guarantees, price trends and the Bank's ability and experience in realising the value of similar properties through enforcement in terms of prices and terms, as well as the costs of enforcement, maintenance and sale.

The calculation of credit losses on state-guaranteed loans granted as part of a government support scheme designed to address the impact of COVID-19, irrespective of the credit risk category or categories into which the transaction is classified throughout its life, is based on their expected credit loss less the positive impact of cash flows expected to be recovered with the state guarantee.

Backtesting of allowances for loan losses and real estate asset impairment

The Bank has established backtesting methodologies to compare estimated losses against actual losses.

Based on this backtesting exercise, the Bank makes amendments to its internal methodologies when this regular backtesting exercise reveals significant differences between estimated losses and actual losses.

The backtests show that the risk classification and credit loss allowances are adequate given the portfolio's credit risk profile.

1.3.4 Hedging transactions

The Bank uses financial derivatives to (i) provide these instruments to customers that request them, (ii) manage risks associated with the Bank's proprietary positions (hedging derivatives), and (iii) realise gains as a result of price fluctuations. To this end, it uses both financial derivatives traded in organised markets and those traded bilaterally with counterparties outside organised markets (over the counter, or OTC).

Financial derivatives that do not qualify for designation as hedging instruments are classified as derivatives held for trading. To be designated as a hedging instrument, a financial derivative must meet the following criteria:

- It must hedge against the exposure to changes in the value of assets and liabilities caused by interest rate and/or exchange rate fluctuations (fair value hedge), the exposure to variability in estimated cash flows that is attributable to a particular risk of financial assets and financial liabilities, firm commitments and highly probable forecast transactions (cash flow hedge), or the exposure associated with net investments in foreign operations (hedge of net investments in foreign operations).

- The financial derivative must effectively eliminate some portion of the risk that is inherent in the hedged item or position throughout the entire expected life of the hedge. This effectiveness should be measured both prospectively and retrospectively. To this end, the Bank analyses whether, at the time of its inception, a hedge is expected to operate with a high level of effectiveness in business-as-usual conditions. It also runs effectiveness tests throughout the life of the hedge, in order to verify that the results of these tests show an effectiveness that falls within a range of between 80% and 125%.

- Suitable documentation must be available to show that the financial derivative was acquired specifically to hedge against certain balances or transactions and to show the intended method for achieving and measuring hedge effectiveness, provided that this method is consistent with the Bank's own risk management processes.

Hedges are applied to either individual items and balances (micro-hedges) or to portfolios of financial assets and financial liabilities (macro-hedges). In the latter case, the set of financial assets and financial liabilities to be hedged must share the same type of risk, a condition that is met when the individual hedged items have a similar interest rate sensitivity.

Changes that take place after the designation of the hedge, changes in the valuation of financial instruments designated as hedged items and changes in financial instruments designated as hedging instruments are recognised in the following way:

- In fair value hedges, differences arising in the fair value of the derivative and the hedged item that are attributable to the hedged risk are recognised directly in the income statement, with a balancing entry under the headings of the balance sheet in which the hedged item is included or under the heading "*Derivatives – Hedge accounting*", as appropriate.

  In fair value hedges of interest rate risk of a portfolio of financial instruments, gains or losses arising when the hedging instrument is measured are recognised directly in the income statement. Losses and gains arising from fair value changes in the hedged item that can be attributed to the hedged risk are recognised in the income statement with a balancing entry under the heading *"Fair value changes of the hedged items in portfolio hedge of interest rate risk"* on either the asset side or the liability side of the balance sheet, as applicable. In this case, hedge effectiveness is assessed by comparing the net position of assets and liabilities in each time period against the hedged amount designated for each of them, immediately recognising the ineffective portion under the heading "*Gains or (-) losses on financial assets and liabilities, net*" of the income statement.

- In cash flow hedges, differences in the value of the effective portion of hedging instruments are recognised under the heading *"Accumulated other comprehensive income – Hedging derivatives. Cash flow hedges reserve [effective portion]"* on the statement of equity. These differences are recognised in the income statement when the losses or gains on the hedged item are recognised through profit or loss, when the envisaged transactions are executed, or on the maturity date of the hedged item.

- In hedges of net investments in foreign operations, measurement differences in the effective portion of hedging instruments are recognised temporarily in the statement of equity under *"Accumulated other comprehensive income – Hedge of net investments in foreign operations [effective portion]"*. These differences are recognised in the income statement when the investment in foreign operations is disposed of or derecognised from the balance sheet.

- Measurement differences in hedging instruments relating to the ineffective portion of cash flow hedges and net investments in foreign operations are recognised under the heading *"Gains or (-) losses on financial assets and liabilities, net*" of the income statement. Hedges of non-monetary items are treated as fair value hedges due to the exchange rate component.

If a derivative assigned as a hedging derivative does not meet the above requirements due to its termination, discontinuance, ineffectiveness, or for any other reason, it will be treated as a trading derivative for accounting purposes. Therefore, changes in its valuation will be recognised with a balancing entry through profit or loss.

When a fair value hedge is discontinued, any previous adjustments made to the hedged item are recognised in the income statement using the effective interest rate method, recalculated as at the date on which the item ceased to be hedged, and must be fully amortised upon maturity.

Where a cash flow hedge is discontinued, the accumulated gains or losses on the hedging instrument that had been recognised under *"Accumulated other comprehensive income"* in the statement of equity while the hedge was still effective, will continue to be recognised under that heading until the hedged transaction takes place, at which time the gain or loss will be recognised through profit or loss, unless the hedged transaction is not expected to take place, in which case it will be recognised in the income statement immediately.

1.3.5 Financial guarantees

Contracts by which the Bank undertakes to make specific payments for a third party in the event of the third party failing to do so, irrespective of their legal form, are considered financial guarantees. These can be bonds, bank guarantees, insurance contracts or credit derivatives, among others.

The Bank recognises financial guarantee contracts under the heading *"Financial liabilities measured at amortised cost – Other financial liabilities"* at their fair value which, initially and unless there is evidence to the contrary, is the present value of the expected fees and returns to be received. At the same time, fees and similar income received at the commencement of the operations, as well as the accounts receivable, measured at the present value of future cash flows pending collection, are recognised as loans on the asset side of the balance sheet.

In the particular case of long-term guarantees given in cash to third parties under service contracts, when the Bank guarantees a certain level or volume in terms of the provision of such services, it initially recognises these guarantees at their fair value. The difference between their fair value and the disbursed amount is considered an advance payment made or received in exchange for the provision of the service, and this is recognised in the income statement for the period in which the service is provided. Subsequently, the Bank applies analogous criteria to debt instruments measured at amortised cost.

Financial guarantees are classified according to the risk of incurring loan losses attributable to either customer insolvency or the transaction and, where appropriate, an assessment is made of whether provisions need to be allocated for these guarantees by applying criteria similar to the criteria used for debt instruments measured at amortised cost.

Income from guarantee instruments is recognised under the heading *"Fee and commission income"* in the income statement and calculated applying the rate laid down in the related contract to the nominal amount of the guarantee. Interest from long-term guarantees given in cash to third parties is recognised by the Bank under the heading *"Interest income"* in the income statement.

1.3.6 Transfers and derecognition of financial instruments from the balance sheet

Financial assets are only derecognised from the balance sheet when they no longer generate cash flows or when their inherent risks and benefits have been substantially transferred to third parties. Similarly, financial liabilities are only derecognised from the balance sheet when there are no further obligations associated with the liabilities or when they are acquired for the purpose of their termination or resale.

Note 3 provides details of asset transfers in effect at the end of 2020 and 2019, indicating those that did not involve the derecognition of the asset from the balance sheet.

1.3.7 Offsetting of financial instruments

Financial assets and financial liabilities are only offset for the purpose of their presentation in the balance sheet when the Bank has a legally enforceable right to offset the amounts recognised in such instruments and intends to settle them at their net value or realise the asset and settle the liability simultaneously.

1.3.8 Non-current assets and assets and liabilities included in disposal groups classified as held for sale

The "*Non-current assets and disposal groups classified as held for sale*" heading on the balance sheet includes the book values of assets – stated individually or combined in a disposal group, or as part of a business unit that the Bank intends to sell (discontinued operations) – which are very likely to be sold in their current condition within one year of the date of the annual financial statements.

It can therefore be assumed that the book value of these assets, which may be of a financial or non-financial nature, will be recovered through the disposal of the item concerned rather than from its continued use.

Specifically, real estate or other non-current assets received by the Bank for the full or partial settlement of borrowers' payment obligations are treated as non-current assets and disposal groups classified as held for sale, unless the Bank has decided to make continued use of these assets or to include them in its rental operations. Similarly, investments in joint ventures or associates that meet these criteria are also recognised as non-current assets and disposal groups classified as held for sale. For all of these assets, the Bank has specific units that focus on the management and sale of real estate assets.

The heading "*Liabilities included in disposal groups classified as held for sale*" includes credit balances associated with assets or disposal groups, or with the Bank's discontinued operations.

Non-current assets and disposal groups classified as held for sale are measured both on the acquisition date and thereafter, at the lower of their carrying amount and the net fair value of their estimated selling costs. The carrying amount at the acquisition date of non-current assets and disposal groups classified as held for sale deriving from foreclosure or recovery is defined as the outstanding balance of the loans or credit that gave rise to these purchases (net of any associated provisions), for as long as the tangible and intangible assets that would otherwise be subject to amortisation remain classified as non-current assets held for sale.

In order to determine the net fair value of real estate assets, the Bank uses its own internal methodology, which uses as a starting point the appraisal value, adjusting this based on its past experience of selling properties that are similar in terms of prices, the period during which each asset remains on the balance sheet and other explanatory factors. Similarly, agreements entered into with third parties for the disposal of these assets are also taken into account.

The appraisal value of real estate assets recognised in this heading is obtained following the policies and criteria described in the section entitled "Guarantees" in Note 1.3.3. The main appraisal firms and agencies used to obtain market values are listed in Note 5.

Gains and losses arising from the disposal of non-current assets and assets and liabilities included in disposal groups classified as held for sale, as well as impairment losses and their reversal, where applicable, are recognised under the heading "*Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations*" in the income statement. The remaining income and expenses relating to these assets and liabilities are disclosed based on their nature.

1.3.9 Discontinued operations

A discontinued operation is a component of an entity that has been sold or otherwise disposed of, or that is classified as non-current assets held for sale and which also meets the following conditions:

1. Represents a separate major line of business or geographical area of operations.

2. Is part of a single coordinated plan to sell or otherwise dispose of a separate major line of business or geographical area of operations.

3. Is a subsidiary acquired exclusively with a view to resale.

The profit/(loss) generated in the year on the Bank's components qualifying as discontinued operations are recorded net of taxes under the heading "*Profit or (-) loss after tax from discontinued operations*" in the income statement, both when the Bank's item has been derecognised from the asset side and when it remains there at the year-end closing. This heading also includes the profit or loss obtained from their sale or disposal.

1.3.10 Tangible assets

Tangible assets include (i) property, plant and equipment held by the Bank for current or future use that is expected to be used for more than year, (ii) property, plant and equipment loaned to customers under operating leases, and (iii) investment properties, which include land, buildings and other structures held in order to be leased out or to obtain a capital gain on their sale. This heading also includes tangible assets received in payment of debts classified on the basis of their final use.

As a general rule, tangible assets are valued at their acquisition cost less accumulated depreciation and, if applicable, less any impairment losses identified by comparing the net carrying amount of each item against its recoverable amount.

Depreciation of tangible assets is calculated on a straight-line basis, applying the estimated years of useful life of the various items to the acquisition cost of the assets less their residual value. The land on which buildings and other structures stand is considered to have an indefinite life and is therefore not depreciated.

The annual depreciation charge on tangible assets is reflected in the income statement and calculated based on the remaining years of their useful lives, estimated as an average of the different groups of components.

	Useful life (years)
Land and buildings	37,5 to 75
Fixtures and fittings	4,2 to 25
Furniture and office equipment	3,3 to 18
Vehicles	3,1 to 6,25
Cash dispensers, computers and computer equipment	4

The Bank reviews the estimated useful life of the various components of tangible assets at the end of every year, if not more frequently, in order to detect any major changes. Should any such changes arise, the useful life is adjusted, correcting the depreciation charge in the income statements for future years as required to reflect the new estimated useful life.

At each year-end closing, the Bank analyses whether there are internal or external indications that a tangible asset might be impaired. If there is evidence of impairment, the Bank assesses whether this impairment actually exists by comparing the asset's net book value against its recoverable value (the higher of its fair value less selling costs and its fair value less its value in use). When the asset's book value is higher than its recoverable amount, the Bank reduces the book value of the corresponding component to its recoverable amount and adjusts future depreciation charges in proportion to the adjusted book value and new remaining useful life, in the event this needs to be re-estimated. Where there are signs that the value of a component has been recovered, the Bank records the reversal of the impairment loss recognised in previous years and adjusts future depreciation charges accordingly. The reversal of an impairment loss on an asset component shall in no circumstances result in its book value being increased to a value higher than the value that the asset component would have had if impairment loss allowances had not been recognised in previous years.

In particular, certain items of property, plant and equipment are assigned to cash-generating units in the banking business. Impairment tests are conducted on these units to verify whether sufficient cash flows are generated to support the assets' value. To this end, the Bank (i) calculates the recurring net cash flow of each branch based on the accumulated contribution margin less an allocated recurring cost of risk, and (ii) this recurring net cash flow is regarded as a perpetual cash flow and a valuation is effected using the discounted cash flow method applying the cost of capital and growth rate to perpetuity determined by the Bank (see Note 15).

For real estate investments, the Bank uses valuations of third parties entered in the Bank of Spain's special register of appraisal firms, in accordance with criteria set forth in Order ECO/805/2003.

The costs of preserving and maintaining tangible assets are recognised in the income statement for the year in which they occur.

1.3.11 Leases

The Bank evaluates the existence of a lease contract at its commencement or when its terms are amended. A contract is deemed to be a lease contract when the contract identifies the asset and the party receiving the asset has the right to control its use.

Leases in which the Bank acts as lessee

The Bank recognises, for leases in which it acts as lessee, which mostly correspond to lease contracts for real estate and office spaces linked to its operating activity, a right-of-use asset of the leased asset and a liability for payments outstanding at the date on which the leased asset was made available to the Bank for use.

The lease term is the non-revocable period established in the contract, plus the periods covered by an extension option (if the exercise of that option by the lessee is reasonably certain) and the periods covered by a termination option (if the lessee is reasonably certain not to exercise that option).

For lease contracts with a specified lease term that include, or not, a unilateral option for early termination that can be exercised by the Bank and in which the cost associated with such termination is not significant, the term of the lease is generally equivalent to the duration initially set forth in the contract. However, if there are any circumstances that could result in contracts being terminated early, these will be taken into account.

For lease contracts with a specified lease term that include a unilateral option for extension that can be exercised by the Bank, the choice to exercise this option will be made on the basis of economic incentives and past experience.

The lease liability is initially recognised in the heading "*Financial liabilities measured at amortised cost – Other financial liabilities*" of the balance sheet (see Note 20), for a value equal to the present value of estimated payments outstanding, based on the envisaged maturity date. These payments comprise the following items:

- Fixed payments, less any lease incentives payable.
- Variable lease payments, than depend on an index or rate.
- Amounts expected to be paid for residual value guarantees provided to the lessor.
- The exercise price of a purchase option if the Bank is reasonably certain to exercise that option.
- Payments of penalties for terminating the lease, if the lease term shows that an option to terminate the lease will be exercised.

Lease payments are discounted using the implicit interest rate, if this can be easily determined and, if not, the incremental borrowing rate, understood as the rate of interest that the Bank would have to pay to borrow the funds necessary to purchase assets with a value similar to the rights of use acquired over the leased assets for a term equal to the estimated duration of the lease contracts.

The payments settled by the lessee in each period reduce the lease liability and accrue an interest expense that is recognised in the income statement over the lease term.

The right-of-use asset, which is classified as a fixed asset based on the type of leased property, is initially measured at cost, which comprises the following amounts:

- The amount of the initial measurement of the lease liability, as described above.
- Any lease payments made at or before the lease commencement date, less any incentives received.
- Any initial direct costs.
- An estimate of costs to be incurred in dismantling and removing the leased asset, restoring the site on which it is located or restoring the asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is depreciated on a straight-line basis at the shorter of the useful life of the asset or the lease term.

The criteria for impairing these assets are similar to those used for tangible assets (see Note 1.3.10).

The Bank exercises the option to recognise as an expense during the year the payments made on short-term leases (those that, at the commencement date, have a lease term of 12 months or less) and leases in which the leased asset has a low value.

Sale and leaseback

If the Bank does not retain control over the asset, (i) the asset sold is derecognised from the balance sheet and the right-of-use asset arising from the leaseback is recognised at the proportion of the previous carrying amount that relates to the right of use retained, and (ii) a lease liability is recognised.

If the Bank retains control over the asset, (i) the asset sold is not derecognised from the balance sheet and (ii) a financial liability is recognised for the amount of consideration received.

The profit or loss generated in the transaction is immediately recognised in the income statement, if a sale is determined to exist (only for the amount of the gain or loss relating to the rights over the transferred asset), as the buyer-lessor has acquired control over the asset.

Leases in which the Bank acts as lessor

Finance leases

Where the Bank is the lessor of an asset, the sum of the present values of payments receivable from the lessee is recorded as financing provided to a third party and is therefore included under the heading *"Financial assets at amortised cost"* on the balance sheet. This financing includes the exercise price of the purchase option payable to the lessee upon termination of the contract in cases where the exercise price is sufficiently lower than the fair value of the asset at the date of maturity of the option, such that it is reasonably likely to be exercised.

Operating leases

In operating leases, ownership of the leased asset and a substantial proportion of all of the risks and rewards incidental to ownership of the asset remain with the lessor.

The acquisition cost of the leased asset is recognised under the heading *"Tangible assets"*. These assets are depreciated in accordance with the same policies followed for similar tangible assets for own use and the revenue from the lease contracts is recognised in the income statement on a straight-line basis.

1.3.12 Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance that arise as a result of an acquisition from third parties or which are generated internally by the Bank. An intangible asset will be recognised when, in addition to meeting this definition, the Bank considers it likely that economic benefits deriving from the asset and its cost can be reliably estimated.

Intangible assets are initially recognised at their acquisition or production cost and are subsequently measured at cost less any accumulated depreciation and impairment loss which may have been sustained.

Goodwill

Positive differences between the cost of a business combination and the acquired portion of the net fair value of the assets, liabilities and contingent liabilities of the acquired and subsequently merged entities are recognised as goodwill on the asset side of the balance sheet. These differences represent an advance payment made by the Bank of the future economic benefits derived from the acquired entities that are not individually identified and separately recognised.

Goodwill is only recognised when acquired for good and valuable consideration and it is depreciated over a period of 10 years.

Goodwill is assigned to one or more cash-generating units (UGE, for their acronym in Spanish) which are expected to benefit from the synergies arising from the business combinations. These UGEs are the smallest identifiable group of assets which, as a result of their continuous operation, generate cash flows for the Bank, separately from other assets or groups of assets.

UGEs (or groups of UGEs) to which goodwill has been assigned are tested annually for impairment, or whenever there is evidence that impairment might have arisen. To this end, the Bank calculates the recoverable amount using mainly the distributed profit discount method in which the following parameters are taken into account:

- Key business assumptions: these assumptions are used as a basis for the cash flow projections used as part of the valuation. For businesses engaging in financial activities, projections are made for variables such as: changes in lending volumes, default rates, customer deposits, interest rates under a forecast macroeconomic scenario and capital requirements.

- Estimates of macroeconomic variables and other financial parameters.

- Projection period: this is usually five years, after which a recurring level is attained in terms of both income and profitability. These projections take into account the existing economic situation at the time of the valuation.

- Discount rate: the present value of future dividends, from which a value in use is obtained, is calculated using the Institution's cost of capital (Ke), from the standpoint of a market participant, as a discount rate. To determine the cost of capital the CAPM (Capital Asset Pricing Model) is used in accordance with the formula: "$Ke = Rf + \beta (Pm) + \alpha$", where: Ke = Required return or cost of capital, Rf = Risk-free rate, β = Company's systemic risk coefficient, Pm = Market premium and α = Non-systemic risk premium.

- Growth rate used to extrapolate cash flow projections beyond the period covered by the most recent forecasts: this is based on long-term estimates for the main macroeconomic figures and key business variables, and bearing in mind the existing financial market circumstances and outlooks at all times.

If the carrying amount of a UGE (or group of UGEs to which goodwill has been allocated) is higher than its recoverable amount, the Bank recognises an impairment loss that is allocated, firstly, by reducing the goodwill attributed to that UGE and, secondly, if any losses remain to be allocated, by reducing the carrying amount of the remaining allocated assets on a pro-rata basis. Impairment losses recognised for goodwill cannot subsequently be reversed.

Other intangible assets

This heading mainly includes intangible assets acquired in business combinations, such as the value of brands and contractual rights arising from relationships with customers of the acquired businesses, as well as computer software.

These intangible assets are amortised on the basis of their useful lives, applying similar criteria to those used for tangible assets. The useful life of brands and contractual rights arising from relationships with customers of the acquired businesses varies between 5 and 15 years, while for computer software the useful life ranges from 3 to 15 years.

The criteria for recognising impairment losses on these assets and any reversals of impairment losses recognised in earlier financial years are similar to those applied to tangible assets. To this end, the Bank determines whether there is evidence of impairment by comparing actual changes against the initial assumptions applied in the parameters used when they were first recognised. These include possible loss of customers, average customer balances, average ordinary income and the assigned cost-to-income ratio.

Changes in the estimated useful life of intangible assets are treated in a similar way to changes in the estimated useful life of tangible assets.

1.3.13 Own equity instruments

Own equity instruments are defined as equity instruments that meet the following criteria:

- Those that do not involve any contractual obligation for the issuer that entails: delivering cash or another financial asset to a third party, or exchanging financial assets or financial liabilities with a third party under terms that are potentially unfavourable to the issuer.

- In the case of a contract that will or may be settled in the issuer's own equity instruments: if it is a non-derivative financial instrument, it does not entail an obligation to deliver a variable number of its own equity instruments; or, if it is a derivative instrument, it is settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the issuer's own equity instruments net.

All transactions involving the Bank's own equity instruments, including their issuance or depreciation, are recognised directly with a balancing entry in equity.

Changes in the value of instruments classified as own equity instruments are not recognised in the financial statements. Any consideration received or paid in exchange for such instruments is directly added to or deducted from equity net of the associated transaction costs.

Equity instruments issued in full or partial settlement of a financial liability are recognised at fair value unless this cannot be reliably determined. In this case, the difference between the book value of the financial liability (or any part thereof) that has been settled and the fair value of the equity instruments issued is recognised in the income statement for the year.

On the other hand, compound financial instruments, which are those contracts that have both a liability and an equity component from the issuer's perspective (e.g. convertible bonds that grant their holder the option to convert them into equity instruments of the issuing entity), are recognised at issuance, separating their component parts and presenting them according to their substance.

Assigning the initial carrying amount to the various component parts of the compound instrument shall not imply, under any circumstances, a recognition of earnings. An amount shall first be assigned to the component part that is a financial liability, including any embedded derivative with an underlying asset that is anything other than an own equity instrument. This amount will be obtained based on the fair value of the Institution's financial liabilities that share similar characteristics with the compound instruments, but which are not associated with own equity instruments. The initial carrying amount assigned to the equity instrument will be the residual portion of the initial carrying amount of the compound instrument as a whole, after deducting the fair value assigned to the financial liability.

1.3.14 Remuneration in equity instruments

The delivery to employees of the Bank's own equity instruments in payment for their services (where these instruments are determined at the start of, and delivered upon completion of, a specified period of service) is recognised as a service expense over the period during which the services are being provided, with a balancing entry under the heading *"Other equity"* in the statement of equity. On the date these instruments are awarded, the services received are measured at fair value unless this cannot be reliably estimated, in which case they are measured by reference to the fair value of the committed equity instruments, bearing in mind the terms and other conditions envisaged in the commitments.

The amounts recognised in equity cannot be subsequently reversed, even when employees do not exercise their right to receive the equity items.

For transactions involving share-based remuneration paid in cash, the Bank records a service expense over the period during which the services are being provided, with a balancing entry on the liabilities side of the balance sheet. The Bank recognises this liability at fair value until it is settled. Changes in value are recognised in the income statement for the year.

1.3.15 Provisions, contingent assets and contingent liabilities

Provisions are present obligations of the Bank resulting from past events and whose nature as at the date of the financial statements is clearly specified, but which are of uncertain timing and amount; when such obligations mature or become due for settlement, the Bank expects to settle them with an expenditure.

In general, the Bank's annual financial statements include all significant provisions based on which it is estimated that it is more likely than not that the obligation will need to be settled. These provisions include, among others, pension commitments undertaken with employees (see Note 1.3.16), as well as provisions for tax litigation and other contingencies.

Contingent liabilities are any possible obligations in the Bank that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Bank. Contingent liabilities include present obligations of the Bank for which payment is not probable or whose amount, in extremely rare cases, cannot be measured reliably. Contingent liabilities are not recognised in the annual financial statements, rather, they are disclosed in the notes to the annual financial statements.

If the disclosure of some or all of the information required regarding provisions and contingent liabilities can be expected to seriously undermine the position of the Bank in disputes with third parties in relation to the situations that consider these provisions and contingent liabilities (such as those linked to litigation or arbitration issues), the Bank can choose not to disclose this information.

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of events not wholly within the control of the Bank. These contingent assets are not recognised on the balance sheet or in the income statement, but they are disclosed in the corresponding report where an inflow of economic benefits is probable.

1.3.16 Provisions for pensions

The Group's pension commitments to its employees are as follows:

Defined contribution plans

These are plans under which fixed contributions are made to a separate entity in accordance with the agreements entered into with each particular group of employees, without any legal or constructive obligation to pay further contributions if the separate entity is unable to pay all employee benefits relating to employee service in the current and prior periods.

These contributions are recognised each year in the income statement (see Note 30).

Defined benefit plans

Defined benefit plans provide for all existing commitments arising from the application of Articles 42, 43, 44 and 48 of the 23rd Collective Bargaining Agreement for Banks (*XXIII Convenio Colectivo de Banca*).

These commitments are financed in the following ways: the pension plan, insurance contracts, the voluntary social welfare agency ("E.P.S.V.") and internal funds.

1. The pension plan

Banco Sabadell's employee pension plan covers benefits payable under the aforementioned collective bargaining agreement with employees belonging to regulated groups, with the following exceptions:

- Additional commitments due to early retirement, as set out in Article 43 of the Collective Bargaining Agreement.

- Disability or incapacity arising in certain circumstances.

- Widowhood and orphanhood benefits arising from the death of a retired member of staff who began their employment in the entity after 8 March 1980.

The Banco Sabadell employee pension plan is regarded to all intents and purposes as a plan asset for the obligations insured by entities that are not a related party of the Group. Obligations of the pension plan insured by companies that are related parties of the Group are not considered plan assets.

A Control Committee has been created for the pension plan, formed of representatives of the sponsor and representatives of the participants and beneficiaries. This Control Committee is the body responsible for supervising its operation and execution.

2. Insurance contracts

Insurance contracts generally provide cover for certain commitments arising from Articles 43 and 44 of the 23rd Collective Bargaining Agreement for Banks, including:

- Commitments that are expressly excluded from the Banco Sabadell employee pension plan (listed in the previous section).

- Serving employees covered by a collective bargaining agreement of Banco Atlántico.

- Pension commitments in respect of some serving employees not provided for under the collective bargaining agreement.

- Commitments towards employees on extended leave of absence who are not entitled to benefits under the Banco Sabadell employee pension plan.

- Commitments towards early retirees. These may be partly financed with benefits accrued under the Banco Sabadell employee pension plan.

These insurance policies have been arranged with insurers separate from the Group, whose insured commitments are mainly those towards former Banco Atlántico employees and BanSabadell Vida, S.A. de Seguros y Reaseguros.

3. The voluntary social welfare agency "E.P.S.V.".

The acquisition and subsequent merger of Banco Guipuzcoano resulted in the takeover of Gertakizun, E.P.S.V., which covers defined benefit commitments in respect of serving and former employees, who are insured by policies. It was set up by Banco Guipuzcoano in 1991 as an agency with a separate legal personality. All of the pension commitments to serving and former employees are insured by entities separate from the Group.

4. Internal funds

Internal funds are used to settle obligations with early retirees up to their legal retirement age and relate to employees previously working for Banco Sabadell, Banco Guipuzcoano and Banco CAM.

Accounting record of defined benefit obligations

The *"Provisions – Pensions and other post-employment defined benefit obligations"* heading on the liabilities side of the balance sheet includes the current actuarial value of pension commitments, which is calculated individually using the projected unit credit method on the basis of the financial and actuarial assumptions set out below. This is the same method used for the sensitivity analysis described in Note 21.

From the obligations thus calculated, the fair value of the plan assets has been deducted. Plan assets are assets that will be used to settle obligations, including insurance policies, since they meet the following requirements:

- They are not owned by the Bank but by a legally separate third party not qualifying as a related party.
- They are available only to pay or fund employee benefits and are not available to creditors of the Bank, even in the event of the Bank becoming insolvent.
- They cannot be returned to the Bank unless the assets remaining in the plan are sufficient to settle all obligations, of the plan or of the entity, relating to employee benefits, or unless assets are to be returned to the Bank to reimburse it for employee benefits previously paid.
- They are not non-transferable financial instruments issued by the Group.

The assets that back pension commitments shown in the individual balance sheet of BanSabadell Vida, S.A. de Seguros y Reaseguros are not plan assets as the company is a related party of the Bank.

Pension commitments are recognised as follows:

- In the income statement, net interest on the defined benefit liability (asset) net of pension commitments as well as the cost of the services, which includes (i) the cost of services in the current period, (ii) the cost of past services arising from past changes made to existing commitments or from the introduction of new benefits and (iii) any gain or loss arising from a settlement of the plan.
- Under the heading *"Accumulated other comprehensive income"* in the statement of equity, the remeasurement of the net defined benefit liability (asset) for pension commitments, which includes (i) actuarial gains and losses generated in the year arising from differences between the previous actuarial assumptions and the real situation and from changes in the actuarial assumptions made, (ii) the return on plan assets, and (iii) any change in the effect of the asset ceiling, excluding, for the last two items, the amounts included in net interest on the defined benefit liability (asset).
- The amounts recognised in the statement of equity are not reclassified into the income statement in subsequent years, rather, they are reclassified under the heading *"Other reserves – Other"* of the statement of equity.

The heading "*Provisions – Other long term employee benefits*" on the liabilities side of the balance sheet mainly includes the value of commitments undertaken with early retirees. Changes occurring during the year in the value of liabilities are recognised in the income statement.

Actuarial assumptions

The most significant actuarial assumptions used in the valuation of pension commitments are as follows:

	2020	2019
Tables	PER2020_Col_1er.orden	PERM / F 2000 New production
Discount rate, pension scheme	0.50% per annum	0.75% per annum
Discount rate, internal fund	0.50% per annum	0.75% per annum
Discount rate, related insurance	0.50% per annum	0.75% per annum
Discount rate, non-related insurance	0.50% per annum	0.75% per annum
Inflation	1.50% per annum	2.00% per annum
Rate of increase in salaries	2.50% per annum	3.00% per annum
Retirement due to disability	SS90-Absolute	SS90-Absolute
Staff turnover	None assumed	None assumed
Early retirement	Allowed for	Allowed for
Normal retirement age	65 or 67 years	65 or 67 years

In 2020 and 2019, the technical interest rate on all commitments has been determined by reference to the return on AA-rated corporate bonds (iBoxx € Corporates AA 10+), with an average duration of 12.60 years in 2020 and 12.5 years in 2019.

The early retirement age considered is the earliest retirement date after which pension entitlements cannot be revoked by the employer for all employees.

The return on long-term assets corresponding to plan assets and insurance policies linked to pensions has been determined by applying the same technical interest rate used in actuarial assumptions (in 2020 it was 0.50% and in 2019 it was 0.75%).

1.3.17 Transactions in foreign currency

The Bank's functional and presentation currency is the euro. Consequently, all balances and transactions denominated in currencies other than the euro are treated as denominated in a foreign currency.

On initial recognition, debit and credit balances denominated in foreign currency are translated to the functional currency at the spot exchange rate, defined as the exchange rate for immediate delivery, on the recognition date. Subsequent to the initial recognition, the following rules are used to translate foreign currency balances to the functional currency:

- Monetary assets and liabilities are translated at the closing rate, defined as the average spot exchange rate at the end of the reporting period.

- Non-monetary items measured at historical cost are translated at the exchange rate ruling on the acquisition date.

- Non-monetary items measured at fair value are translated at the exchange rate ruling on the date on which the fair value was determined.

- Income and expenses are translated at the exchange rate ruling at the transaction date.

In general, exchange differences arising on the translation of debit and credit balances denominated in foreign currency are recognised in the income statement. However, for exchange differences arising on non-monetary items measured at fair value where the fair value adjustment is made and recognised under the heading *"Accumulated other comprehensive income"* in the statement of equity, a breakdown is given for the exchange rate component of the remeasurement of the non-monetary item.

1.3.18 Recognition of income and expense

Interest income and expense and other similar items

Interest income and expense and other similar items are generally accounted for over the period in which they accrue using the effective interest rate method, under the headings *"Interest income" or "Interest expense"* of the income statement, as applicable. Dividends received from other entities are recognised as income at the time the right to receive them originates.

Commissions, fees and similar items

Generally, income and expense in the form of commissions and similar fees are recognised in the income statement based on the following criteria:

- Those linked to financial assets and financial liabilities measured at fair value through profit or loss are recognised at the time of disbursement.

- Those related to transactions carried out or services rendered over a given period of time are recognised throughout that period.

- Those related to a transaction or service that is carried out or rendered in a single act are recognised when the originating act takes place.

Financial fees and commissions, which form an integral part of the effective cost or yield of a financial transaction, are accrued net of associated direct costs and recognised in the income statement over their expected average life.

Assets managed by the Bank but owned by third parties are not included in the balance sheet. Fees generated by this activity are recognised under the heading *"Fee and commission income"* in the income statement.

Non-financial income and expense

These items are recognised in the accounts upon delivery of the non-financial asset or upon the provision of the non-financial service. To determine the carrying amount and when this item should be recognised, a model is used that consists of five steps: identification of the contract with the customer, identification of the separate obligations of the contract, calculation of the transaction price, allocation of the transaction price to the identified obligations and, lastly, recognition of the revenue when, or as, the obligations are settled.

Deferred payments and collections

Deferred payments and collections are accounted for at the carrying amount obtained by discounting expected cash flows at market rates.

Levies

For levies and tax obligations whose amount and date of payment are certain, the obligation is recognised when the event that leads to its payment takes place in line with the legislative terms and conditions. Therefore, the item to be paid is recognised when there is a present obligation to pay the tax.

Deposit guarantee fund

The Bank is a member of the Deposit Guarantee Fund. In 2020, the Management Committee of the Deposit Guarantee Fund of Credit Institutions, in accordance with that established in Royal Decree Law 16/2011 and Royal Decree 2606/1996, set the contribution for all entities covered by the Fund's deposit guarantee at 0.18% of the amount of the deposits guaranteed as at 30 June 2020 (0.18% of the amount of deposits guaranteed as at 30 June 2019 in 2019). Each entity's contribution is calculated based on the amount of deposits guaranteed and its risk profile, taking into account indicators such as capital adequacy, asset quality and liquidity, which have been defined in Bank of Spain Circular 5/2016 of 27 May. Furthermore, the contribution to the securities guarantee offered by the Fund has been set at 0.2% of 5% of the amount of the securities guaranteed as at 31 December 2020 (0.2%f 5% of the amount of the securities guaranteed as at 31 December 2019 in 2019). In accordance with current regulations, the transaction is recognised whenever there is a payment obligation, recorded as at 31 December each year (see Note 29).

Single Resolution Fund

Law 11/2015 of 18 June, together with its implementing regulation through Royal Decree 1012/2015, entailed the transposition into Spanish law of Directive 2014/59/EU. This Directive established a new framework for the resolution of credit institutions and investment firms, and it is also one of the standards that have contributed to the establishment of the Single Resolution Mechanism, created through Regulation (EU) No 806/2014. This regulation sets out standard rules and procedures for the resolution of credit institutions and investment firms within the framework of a Single Supervisory Mechanism and a Single Resolution Fund at European level.

As part of the implementation of this regulation, on 1 January 2016 the Single Resolution Fund entered into effect, to operate as a financing instrument which the Single Resolution Board can use. The Single Resolution Board is the European authority that makes decisions on the resolution of failing banks, in order to efficiently undertake the resolution measures that have been adopted. The Single Resolution Fund receives contributions from credit institutions and investment firms subject to the same.

The calculation of each entity's contribution to the Single Resolution Fund, governed by Regulation (EU) 2015/63, is based on the proportion that each entity represents with respect to the aggregate total liabilities of the Fund's member entities, after deducting own funds and the guaranteed amount of the deposits. The latter is then adjusted to the entity's risk profile (see Note 29).

1.3.19 Corporation tax

Corporation tax and similar taxes applicable to foreign branches and offices is considered to be an expense and is recognised under the heading *"Tax expense or income related to profit or loss from continuing operations"* in the income statement, except when it arises as a result of a transaction that has been directly recognised in the statement of equity, in which case it is directly recorded in the latter.

The total corporation tax expense is equivalent to the sum of current tax, calculated by applying the relevant levy to taxable income for the year (after applying fiscally admissible deductions and benefits), and the variation in deferred tax assets and deferred tax liabilities recognised in the income statement.

Taxable income for the year may be at variance with the income for the year as shown in the income statement, as it excludes items of income or expenditure that are taxable or deductible in other years as well as items that are non-taxable or non-deductible.

Deferred tax assets and deferred tax liabilities relate to taxes expected to be payable or recoverable arising from differences between the carrying amount of the assets and liabilities appearing in the financial statements and the related tax bases ("tax value"), as well as tax losses carried forward and unused tax credits that might be offset or applied in the future. They are calculated by applying to the relevant timing differences or tax credits the tax rate at which they are expected to be recovered or settled (see Note 35).

A deferred tax asset such as a tax prepayment or a credit in respect of a tax deduction or tax benefit, or a credit in respect of tax-loss carry-forwards, is always recognised provided that the tax group is likely to obtain sufficient future taxable profits against which the tax asset can be realised, and that these are not derived from the initial recognition (except in a business combination) of other assets and liabilities in an operation that does not affect either the tax result or the accounting result.

Deferred tax assets arising due to deductible timing differences arising from investments in subsidiaries, branches and associates, or from equity interests in joint ventures, are only recognised insofar as that difference is expected to be reversed due to the dissolution of the company.

Deferred tax liabilities arising from timing differences associated with investments in subsidiaries and associates are recognised in the accounts unless the Bank is capable of determining when the timing difference will reverse and, in addition, such a reversal is unlikely.

The "*Tax assets*" and "*Tax liabilities*" on the balance sheet include all tax assets and tax liabilities, differentiating between current tax assets/liabilities (to be recovered/paid in the next 12 months) and deferred tax assets/liabilities (to be recovered/paid in future years).

At each year-end closing, recognised deferred tax assets and liabilities are reviewed to ascertain whether they are still current and to ensure that there is sufficient evidence of the likelihood of generating future tax profits that will allow them to be realised, in the case of assets, by applying relevant adjustments as necessary.

To conduct the aforementioned analysis, the following variables are taken into account:

- Forecasts of results of the Spanish tax group and of the other entities, based on the financial budgets approved by the Bank's administrators for a five-year period, subsequently applying constant growth rates similar to the mean long-term growth rates of the sector in which the various companies of the Group operate.

- Estimate of the reversal of timing differences on the basis of their nature;

- The period or limit set forth in current legislation in each country for the reversal of the different tax assets.

Income or expenses recognised directly in the statement of equity that do not affect profits for tax purposes, and income or expenses that are not recognised directly and do affect profits for tax purposes, are recorded as timing differences.

1.3.20 Statement of changes in equity

Statement of recognised income and expenses

This statement sets out the recognised income and expenses resulting from the Bank's activity during the year, distinguishing between items recognised as profit or loss in the income statement and those recognised directly in equity.

As such, this statement shows:

- Profit or loss for the year

- Changes in "Accumulated other comprehensive income" in equity, which includes:

  Gross recognised income and expenses, distinguishing between those that reclassified through profit or loss and those which may be reclassified through the income statement.

  Corporation tax due on profits from recognised income and expenses, with the exception of adjustments arising in shareholdings in associated companies or joint ventures measured using the equity method, which are shown net.

- Total recognised income and expenses, calculated as the sum of the two preceding items.

Statement of total changes in equity

This statement sets out all changes in the Bank's equity, including those arising from accounting changes and the correction of errors. It sets out a reconciliation of the book value at the beginning and end of the year of all items that comprise equity, grouping changes by type in the following items:

- Adjustments for changes in accounting criteria and the corrections of errors: includes the changes in equity that arise as a result of retroactive restatement of financial statement balances, distinguishing between those that arise from changes to accounting criteria and those that correspond to the correction of errors.

- Total recognised income and expenses: includes, in aggregate form, the total of items recognised in the aforesaid statement of recognised income and expenses.

- Other changes in equity: includes the other items recognised in equity, such as other increases or decreases in equity, distribution of dividends, transactions with own equity instruments, payments with own equity instruments, transfers between equity items and any other increase or decrease of equity.

1.3.21 Cash flow statement

The cash flow statement includes certain items which are defined as follows:

- Cash flows: inflows and outflows of cash and cash equivalents, where 'cash equivalents' are short-term, highly liquid investments with a low risk of changes in value. For these purposes, in addition to cash, deposits held with central banks and demand deposits held with credit institutions are also classified as cash components or equivalents.

- Operating activities: typical day-to-day activities of the Bank and other activities that cannot be classified as investment or financing activities.

- Investment activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents or in operating activities.

- Financing activities: activities that result in changes in the size and composition of equity and of liabilities that do not form part of operating activities.

No situations requiring the application of significant judgements to classify cash flows have arisen during the year.

There have been no significant transactions that have generated cash flows not reflected in the cash flow statement.

1.4 Comparability

The information presented in these annual financial statements for 2019 is provided solely and exclusively for purposes of comparison with the information for the year ended 31 December 2020 and therefore does not constitute the Bank's annual financial statements for 2019.

Note 2 – Shareholder remuneration and earnings per share

Set out below is the distribution of the profits earned by Banco de Sabadell, S.A. in 2020, which the Board of Directors will propose to the shareholders at the Annual General Meeting for approval, together with the proposed distribution of Banco de Sabadell S.A.'s 2019 profits, which was approved by shareholders at the AGM on 26 March 2020.

Thousand euro

	2020	2019
To dividends	-	223,356
To Canary Island investment reserve	216	1,174
To voluntary reserves	93,565	828,737
Profit for the year of Banco de Sabadell, S.A.	**93,781**	**1,053,267**

The Annual General Meeting held on 26 March 2020 approved shareholder remuneration, supplementary to the dividend corresponding to 2019, of 0.02 euros per share, which was paid on 3 April 2020. Previously, in December 2019, shareholders received remuneration in the form of a dividend of 0.02 euros per share, paid out of the earnings of 2019, which was paid on 24 December 2019.

As indicated in the section entitled "Impacts arising from COVID-19" in Note 1, the Bank's Board of Directors, in its meeting held on 8 April 2020, resolved that no dividends would be paid out for 2020, as a prudent measure in light of the crisis caused by COVID-19.

Earnings per share

Basic earnings (or loss) per share are calculated by dividing the net profit attributable to the Group, adjusted by earnings on other equity instruments, by the weighted average number of ordinary shares outstanding in the year, excluding any treasury shares acquired by the Group. Diluted earnings (or loss) per share are calculated by applying adjustments for the estimated effect of potential conversions of ordinary shares to the net profit attributable to the Group and the weighted average number of ordinary shares outstanding.

The Group's earnings per share calculations are shown in the following table:

	2020	2019
Profit or loss attributable to owners of the parent (thousand euro)	2,002	767,822
Adjustment: Remuneration of other equity instruments (thousand euro)	(73,227)	(73,250)
Profit or (-) loss after tax from discontinued operations (thousand euro)	-	-
Adjusted net profit attributable to the owners of the parent company (thousand euros)	(71,225)	694,572
Weighted average number of ordinary shares outstanding (*)	5,582,484,318	5,538,122,771
Conversion undertaken of convertible debt and other equity instruments	-	-
Adjusted weighted average number of ordinary shares outstanding	5,582,484,318	5,538,122,771
Earnings (or loss) per share (euros)	(0.01)	0.13
Basic earnings (or loss) per share adjusted for the effect of mandatory convertible bonds (euros)	(0.01)	0.13
Diluted earnings (or loss) per share (euros)	(0.01)	0.13

(*) Average number of shares outstanding, excluding the average number of own shares held in treasury stock during the year.

As at 31 December 2020 and 2019, there were no other share-based financial instruments or commitments with employees with a material impact on the calculation of diluted earnings (or loss) per share for the periods presented. For this reason, basic earnings (loss) per share coincide with diluted earnings (loss) per share.

Note 3 – Risk management

3.1 Introduction

Throughout 2020, Banco Sabadell Group has continued to strengthen its risk management and control framework by incorporating improvements in accordance with supervisory expectations and market trends.

Bearing in mind that Banco Sabadell Group takes risks during the course of its activities, good management of these risks is a key part of the business. To this end, the Group has established a set of principles that are set out in policies and rolled out through procedures, strategies and processes that aim to increase the likelihood of achieving the strategic objectives of the Group's various activities, facilitating management in an uncertain environment. This set of principles is called the Global Risk Framework.

In its management of risks, the Group considers the macroeconomic environment and the regulatory environment. The most significant aspects of 2020 are set out below:

- The health crisis arising from COVID-19 has been the key factor shaping the performance of both the economy and global financial markets.

- Authorities have, generally speaking, responded swiftly and decisively to the crisis, seeking to soften its economic effects and maintain financial stability.

- Central banks have injected significant amounts of liquidity into the financial markets.

- The ECB has taken a number of measures, which included launching a new Pandemic Emergency Purchase Programme (PEPP), increasing its former Quantitative Easing (QE) programme and improving conditions for TLTROs.

- Governments adopted expansionary fiscal policies with the aim of strengthening the health system, ensuring continued finance for businesses and safeguarding employment and household income.

- In Spain, support measures mainly took the shape of secured loans designed to strengthen businesses' liquidity, and measures intended to safeguard household income, such as the Spanish furlough scheme (ERTE).

- On a European scale, a significant step was taken towards European integration with the creation of NextGenerationEU, a facility set up as a mechanism to achieve economic stability.

- Supervisory authorities allowed for more flexibility in the use of capital and liquidity buffers and in the interpretation of accounting regulations, opting to temporarily alleviate the supervisory burden.

- The health crisis reignited tensions between the United States and China, ultimately resulting in new actions being taken against Chinese companies, particularly those involved in the tech industry.

- Brexit was the source of much uncertainty throughout the year. At the very end of 2020, an agreement was reached on the future relationship between the United Kingdom and the EU.

- Joe Biden's electoral victory in the US marked a turning point for the country's domestic politics and for multilateral relations across the globe.

- Economic activity recorded an unprecedented slump, with disparate impacts between the different territories and sectors. Catering, leisure and tourism were among the hardest-hit industries.

- Spain has been one of the European economies most affected by the crisis, given the size of its tourism industry and the number of small companies operating in this country, and also due to the initial severity of the measures taken to contain COVID-19.

- China has led the way in terms of global economic recovery and is one of the few countries to have recovered pre-pandemic GDP levels.

- The new NAFTA agreement finally came into effect on 1 July, eliminating a source of uncertainty for the automotive sector in Mexico, which has been classed as an essential activity during this crisis and which has been a key factor in driving the country's economic recovery.

- Inflation was weighed down by the impact of COVID-19 on demand. In the Eurozone, inflation fell to negative figures for the first time since mid-2016.

- The end of the year saw positive results in terms of the efficacy of some of the vaccines and, in fact, some countries were able to start rolling out their vaccination programmes.

- Yields on German long-term government bonds fell to a historic low, influenced by the crisis and the actions taken by the ECB.

- Yields on Spanish 10-year government bonds dropped to negative figures for the first time in history.

- The dollar depreciated against the euro, mainly influenced by the new zero interest rate environment in the US and the support provided for the single currency following the announcement of the EU Recovery Fund.

- In the financial markets of emerging countries, risk premiums ended the year practically at pre-COVID levels, thanks to the global economic and financial support measures, the change of government in the US and positive news regarding the development of vaccines. The same factors also provided support for the Mexican peso.

Brexit

The Group has considered the potential developments and consequences of Brexit throughout the year.

Its baseline scenario considers an orderly Brexit, similar to the eventual outcome of negotiations, after the UK and the EU reached an agreement at the end of 2020 regarding their future relationship. The relationship between the UK and the EU will be more distant, but the agreement allows new business arrangements to be established. The agreement leaves a significant portion of financial services and other matters to be negotiated at a later stage. All this has occurred in an environment in which the economic players involved face significant challenges to recover from the COVID-19 crisis. The Group had also considered the possibility of a disorderly Brexit, with significant negative impacts on the economy of both the UK and the EU, although this outcome has successfully been avoided thanks to the agreement that has been reached.

From an operational point of view, it does not show any vulnerability in terms of existing contracts with counterparties, cross dependency on financial market infrastructures, reliance on funding markets, etc. As such, it is worth noting that TSB has a low risk profile, with one of the most robust capital positions in the UK (fully-loaded CET1 capital ratio of 14.8%), an evenly distributed balance sheet between loans and deposits (loan-to-deposit ratio of 97%), as well as a loan portfolio in which approximately 90% of loans are secured with a mortgage. The quality of this mortgage portfolio is also very high, with an average LTV of c.45%, and it has a relatively small exposure to London and high-risk segments.

In 2020, the Bank has carried out an analysis of the recoverability of the capital invested in TSB, based on the financial forecasts approved by the Board for the Group. The result of this analysis shows that there are no signs of impairment of this investment, as explained in Note 16.

3.2 Key milestones during the year

3.2.1 The Group's risk profile during the year

The following milestones have been achieved in relation to the Group's risk profile during 2020:

(i) Reduction of non-performing assets:

- The NPL ratio has fallen from 3.83% to 3.60% over the year, due to, on one hand, fewer new NPLs and the active management of existing arrears, after a slight increase in the second quarter of 2020, and, on the other hand, due to the portfolio sales carried out in the fourth quarter of 2020.
- The net NPAs to total assets ratio has also been brought down from 1.7% as at 2019 year-end to 1.4%.

(ii) Lending performance

- Performing loans continue to increase year-on-year in all regions, with annual growth figures of +13.0% in Mexico, +7.1% in the UK and +3.2% in Spain.
- In Spain, ICO-guaranteed loans granted to large corporations, SMEs and the self-employed were the drivers behind the growth of performing loans in the second quarter, which was followed by a steady recovery and consolidation of loans granted to individuals in the third quarter. It is also worth noting that a significant volume of loan moratoria have matured without any impact on credit quality.
- In TSB, there has been steady growth in all loan categories after the first COVID-19 lockdown. The growth of mortgages benefited from a more active mortgage market and TSB's operational resilience to absorb this increase in demand. There was an upturn in consumer lending and unsecured lending volumes after lockdown restrictions were eased. Business loan volumes also increased due to demand for the UK government's Bounce Back Loan Scheme, particularly in the second quarter of 2020.

(iii) Concentration

- From a sectoral point of view, the loan portfolio is diversified and has limited exposure to the sectors most sensitive to COVID-19, which account for just 8% of the Group's EAD. It is also worth noting that 80% of the exposure to large enterprises and SMEs is rated BB+ or investment grade.
- Similarly, in terms of individual concentration, risk metrics relating to concentration of large exposures have also declined, while the credit rating of top borrowers has improved.
- Geographically, the portfolio is positioned in the most dynamic regions, in Spain and worldwide. International lending continues to account for around a third of the loan book.

(iv) Strong capital position:

- The CET1 ratio improved to 12.0% in fully-loaded terms as at 2020 year-end, largely driven by organic capital generation. Generalised fulfilment of regulatory capital requirements.
- The Total Capital ratio was 15.9% at 2020 year-end, while the Leverage ratio was 5.05%, vs. 4.75% a year earlier (in fully-loaded terms).

(v) Sound liquidity position:

- The LCR stood at 198% (compared to 172% as at 2019 year-end) and the loan-to-deposit ratio was 98%.
- The MREL requirement is still being met.

3.2.2 Strengthened credit risk management and control environment

The health emergency created by COVID-19 has had a significant impact on economic activity in the countries where Banco Sabadell Group operates and on borrowers at risk in terms of solvency, liquidity and turnover. The Group has responded to the situation and met the liquidity needs of both individuals (mainly through loan moratoria in Spain / payment holidays in the UK) and companies (mainly through the COVID-19 ICO guarantees).

Main solutions offered in Spain

The main solutions offered to individuals have consisted of applying the following moratoria:

- Government (i.e. legislative) moratoria for mortgages and personal loans (see Note 1 section entitled "Impacts arising from COVID-19").

- Sector-specific (i.e. non-legislative) moratoria additional to the public measures put in place (see Note 1 section entitled "Impacts arising from COVID-19").

In the case of Banco Sabadell, the total amount granted in payment holidays over the year, including both statutory (legislative) and sector-specific (non-legislative) moratoria, amounted 3,244 million euros. As at 31 December 2020, total live payment holidays amounted to 2,578 million euros, of which 197 million euros corresponded to statutory (legislative) moratoria and 2,381 million euros corresponded to sector-specific (non-legislative) moratoria. It is worth noting that, of the total payment holidays granted, 86% relate to mortgage loans. In terms of performance, only around 68 million euros of expired payment holidays are in default.

In terms of business lending, the main solution has consisted of granting loans and credit facilities guaranteed by the ICO (COVID-19 ICO guarantee lines). As at 2020 year-end, Banco Sabadell had granted over 11 billion euros of ICO-guaranteed loans, with an average guarantee of more than 75%.

3.3 General principles of risk management

Global Risk Framework

The Global Risk Framework aims to establish the common basic principles relating to the risk management and control activity of Banco Sabadell Group, including, *inter alia*, all those actions associated with the identification, decision, measurement, assessment, monitoring and control of the various risks to which the Group is exposed. With the Global Risk Framework, the Group aims to:

- Follow a structured and consistent approach to risk throughout the Group.

- Foster an open and transparent culture with regard to risk management and control, encouraging the involvement of the entire organisation.

- Facilitate the decision-making process.

- Align the accepted risk to the risk strategy and the risk appetite.

- Understand the risk environment in which it operates.

- Ensure, following the guidelines of the Board of Directors, that critical risks are identified, understood, managed and controlled efficiently.

The Group's Global Risk Framework consists of the following elements:

- The Group's Global Risk Framework Policy.
- Risk Appetite Framework (RAF) of the Group and subsidiaries.
- Risk Appetite Statement (RAS) of the Group and subsidiaries.
- Specific policies for the various material risks to which the Group and subsidiaries are exposed.

3.3.1 Global Risk Framework Policy

As an integral part of the Global Risk Framework, the Global Risk Framework Policy establishes the common basic principles for Banco Sabadell Group's risk management and control activity, including, among other things, all actions associated with the identification, decision, measurement, assessment, monitoring and control of the different risks to which the Group is exposed. These activities comprise the duties carried out by the various areas and business units of the Group as a whole.

Consequently, the Global Risk Framework Policy sets out a general framework for the establishment of other policies related to risk management and control, determining core/common aspects that are applicable to the various risk management and control policies.

The Global Risk Framework is applied in all of the Group's business lines and entities, taking into account proportionality criteria in relation to their size, the complexity of their activities and the materiality of the risks taken.

Global Risk Framework Principles

For risk management and control to be effective, the Group's Global Risk Framework must comply with the following principles:

- <u>Risk governance and involvement of the Board of Directors through the model of three lines of defence, among others.</u>

The risk governance arrangements established in the various policies that form part of the Global Risk Framework promote a sound organisation of risk management and control activities, categorising risk, defining limits and establishing clear responsibilities at all levels of the organisation through policies, procedures and manuals specific to each risk.

Among other duties, the Board of Directors of Banco de Sabadell, S.A. is responsible for identifying the Group's main risks, implementing and monitoring appropriate internal control and reporting systems, which include challenging and monitoring the Group's strategic planning, and supervising the management of material risks and their alignment with the risk profile defined by the Group.

Similarly, the equivalent bodies of the Group's various subsidiaries have the same level of involvement in risk management and control activities at the local level.

- <u>Alignment with the Group's business strategy, particularly through the implementation of the risk appetite throughout the organisation;</u>

Through the set of policies, procedures, manuals and other documents that comprise it, the Group's Global Risk Framework is aligned with the Group's business strategy, adding value as it is designed to contribute to the achievement of objectives and improve medium-term performance. It is therefore integrated in key processes such as strategic and financial planning, budgeting, capital and liquidity planning and, in general, business management.

- <u>Integration of the risk culture, focusing on aligning remuneration to the risk profile;</u>

Corporate culture and corporate values are a key element, as they strengthen the ethical and responsible behaviour of all members of the organisation.

The Group's risk culture is based on compliance with the regulatory requirements applicable to it in all areas in which it carries out its activities, ensuring compliance with supervisory expectations and best practices in risk management, monitoring and control.

The Group establishes as one of its priorities the maintenance of a solid risk culture in the aforesaid terms, on the understanding that this lays the groundwork for appropriate risk-taking, makes it easier to identify and manage emerging risks, and encourages employees to carry out their activities and engage in the business in a legal and ethical manner.

- <u>A holistic view of risk that translates into the definition of a taxonomy of first and second-tier risks based on their nature; and</u>

The Global Risk Framework, through the set of documents that comprise it, considers a holistic view of risk: it includes all risks, paying particular attention to the correlation between them (inter-risk) and within the risk itself (intra-risk), as well as the effects of concentration.

- <u>Alignment with the interests of stakeholders</u>

The Group regularly makes material disclosures to the public, so that market participants can maintain an informed opinion as to the suitability of the management and control framework for these risks, thus ensuring transparency in risk management.

Similarly, risks are managed and controlled with a view to safeguarding the interests of the Group and its shareholders at all times.

3.3.2 Risk Appetite Framework (RAF)

The risk appetite is a key element in determining the risk strategy, as it defines the scope of activity. The Group has a Risk Appetite Framework (RAF) that sets out the governance framework governing its risk appetite.

Consequently, the RAF establishes the structure and mechanisms associated with the governance, definition, disclosure, management, measurement, monitoring and control of the Group's risk appetite established by the Board of Directors of Banco de Sabadell, S.A.

An effective implementation of the RAF requires an adequate combination of policies, processes, controls, systems and procedures that enable a set of defined objectives to not only be achieved, but to be done so effectively and continuously.

The RAF covers all the Group's business lines and units, in accordance with the proportionality principle, and it is designed to enable suitably informed decisions to be made, taking into account the material risks to which it is exposed, including both financial and non-financial risks.

The RAF is aligned with the Group's strategy and with the processes of strategic planning and budgeting, its internal capital and liquidity adequacy assessments, the Recovery Plan and the remuneration framework, among other things, and it takes into account the material risks to which the Group is exposed, as well as their impact on stakeholders such as shareholders, customers, investors, employees and the general public.

3.3.3 Risk Appetite Statement (RAS)

The Risk Appetite Statement (RAS) is the written articulation of the types of risks the Group is willing to accept, or wishes to avoid, in order to achieve its business objectives. Depending on the nature of each risk, the RAS includes both qualitative aspects and quantitative metrics, which are expressed in terms of capital, asset quality, liquidity, profitability or any other relevant measure. The RAS is therefore a key element in determining the risk strategy, as it defines the scope of activity.

Qualitative aspects of the RAS

The Group's RAS incorporates the definition of a set of qualitative aspects, which essentially help to define the Group's position regarding certain risks, especially when those risks are difficult to quantify.

These qualitative aspects complement the quantitative metrics, establish the general tone of the Group's approach to risk-taking and define the reasons for taking or avoiding certain types of risks, products, geographical exposures and other matters.

Quantitative aspects of the RAS

The set of quantitative metrics defined in the RAS are intended to provide objective elements with which to compare the Group's situation against the goals or challenges proposed at the risk management level. These quantitative metrics follow a hierarchical structure, as established in the RAF, with three levels: Board (or first-tier), Executive (or second-tier) and Operational (or third-tier) metrics.

Each of these levels has its own approval, monitoring and action arrangements that should be followed in the event a threshold is ruptured.

In order to gradually detect possible situations in which the risk position might deteriorate and thus be able to better monitor and control them, the RAS defines a system of thresholds associated with the quantitative metrics. These thresholds reflect the desirable levels of risk for each metric, as well as the levels that should be avoided. A rupture of these thresholds can trigger the activation of remediation plans designed to remedy the situation.

The different thresholds are set at levels that reflect the severity of the situation, which allows preventive actions to be taken before extreme levels are reached. Depending on the metric, some or all of the thresholds will be set depending on the nature of that metric and its hierarchical level within the structure of RAS metrics.

3.3.4 Specific policies for the different material risks

The various policies in place for each of the risks, together with the operating and conceptual procedures and manuals that form part of the set of regulations of the Group and its subsidiaries, are tools on which the Group and subsidiaries rely to expand on the more specific aspects of each of risk.

For each of the Group's material risks, the policies describe the principles and critical management parameters, the main people and units involved and their duties (including the roles and responsibilities of the various divisions and committees in relation to risks and their control systems), the associated procedures, as well as monitoring and control mechanisms.

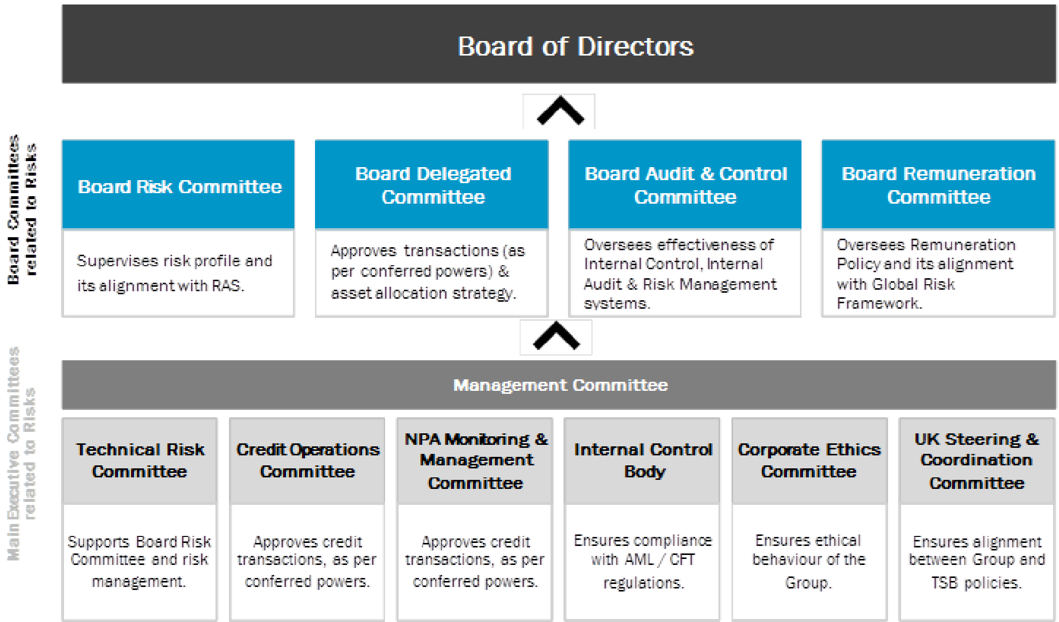
3.3.5 Overall organisation of the risk function

Governance structure

The Board of Directors of Banco de Sabadell, S.A. is the body responsible for establishing the general guidelines for the organisational distribution of the risk management and control functions, as well as determining the main strategies in this regard, ensuring consistency with the Group's short and long-term strategic objectives, as well as with the business plan, capital and liquidity planning, risk-taking capacity and remuneration schemes and policies.

The Board of Directors of Banco de Sabadell, S.A. is also responsible for approving the Group's Global Risk Framework.

In addition, within the Board of Directors of Banco de Sabadell, S.A., there are four committees involved in the Group's Global Risk Framework and, therefore, in risk management and control (the Delegated Committee, the Board Risk Committee, the Remuneration Committee and the Audit and Control Committee). There are also other committees and divisions with a significant level of involvement in the risk function.



The governance structure that has been defined aims to ensure a suitable execution and implementation of the Global Risk Framework and, consequently, of the risk management and control activity within the Group, while at the same time it aims to facilitate:

- The participation and involvement of the Group's governing bodies and Senior Management in decisions regarding risks, and also in their supervision and control.
- The alignment of objectives at all levels, monitoring of their achievement and implementing corrective measures where necessary.
- The existence of an adequate management and control environment for all risks.

Organisation

The Group establishes an organisational model for assigning and coordinating risk control responsibilities based on the model of three lines of defence. This model is described, for each of the risks, in the various policies that make up the Group's regulations, which assign specific responsibilities to each of the three lines of defence.

For each line of defence, the risk policies describe and assign responsibilities, as appropriate, to the following functions (or any other additional ones to be considered):

- First line of defence: responsible for maintaining adequate and effective internal controls and implementing corrective actions to rectify deficiencies in its processes and controls. The responsibilities attributed to this line under the Global Risk Framework are:

  - Maintaining effective internal controls and performing risk assessment and control procedures on a daily basis;

  - Identifying, quantifying, controlling and mitigating risks, following internal policies and procedures and ensuring that activities are consistent with the Bank's goals and objectives;

  - Implementing adequate management and oversight processes to ensure compliance with regulations, focusing mainly on control errors, inadequate processes and unforeseen events.

- Second line of defence: in general, the second line of defence ensures that the first line of defence is well designed and performs its assigned duties. It also puts forward suggestions for its continuous improvement. The core responsibilities attributed to this line are:

  - Proposing the Global Risk Framework, for risk management and control.

  - Guiding and ensuring the implementation of risk policies, defining responsibilities and objectives for their effective implementation.

  - Overseeing the implementation of risk management processes and controls.

  - Participating in decision-making processes, providing an overview in terms of risk.

  - Ensuring and monitoring compliance with the established risk appetite.

  - Verifying compliance with the regulations applicable to the Group in the course of its business activities.

  - Analysing and comparing existing and potential incidents by reviewing available information.

  - Ensuring that the models work as expected and that the results obtained from them are appropriate to their various uses, both internal and regulatory.

  - Promoting and pursuing the highest possible levels of compliance with current legislation and professional ethics within the Group.

  - Endeavouring to uphold processes for the operational continuity of ordinary business activities and the security of the information on which such activities are based.

- Third line of defence: helps the Group to achieve its objectives by providing a systematic, disciplined approach to assess the adequacy and effectiveness of the organisation's governance processes and its risk management and internal control activities.

In light of the situation generated by the health crisis, the Group has made some organisational changes in order to adequately respond to the challenge posed by the new economic environment. The implementation of this new structure will increase coordination between risk and commercial units, thus imprinting a deeper risk culture and vision on the business.

3.4 Management and monitoring of the main material risks

In relation to the first-tier risks identified in the Banco Sabadell Group risk taxonomy, the most salient aspects of their management and the actions taken in this regard in 2020 are set out below:

3.4.1 Strategic risk

Strategic risk is associated with the risk of losses or negative impacts materialising as a result of strategic decisions or their subsequent implementation. It also includes the inability to adapt the Group's business model to changes in the environment in which it operates.

The Group prepares a Strategic Business Plan which sets out the Institution's strategy over a certain period of time (currently 2018-2020). In 2021, Banco Sabadell will define a new Strategic Business Plan, under which to seize the opportunity to consolidate its position as a major domestic bank over the next few years.

In addition, the Plan is periodically monitored in order to study the Group's most recent performance and changes in the environment, as well as the risks taken. This projection is carried out on the basis of the most likely economic scenario for the key regions (baseline scenario), and it is also included in the ICAAP as a baseline scenario. The economic scenario is described in terms of the key risk factors impacting the Group's income statement and balance sheet.

The projection exercises of the Strategic Business Plan and its monitoring are integrated into management procedures, as they set out the key aspects of the Group's strategy in the medium and long term. The Plan is prepared at business unit level, on the basis of which the Group manages its activities, and annual results are also assessed in terms of compliance with the target risk appetite.

It is also worth highlighting the launch of a new efficiency programme in Spain, which includes initiatives designed to increase the digitisation of customer services as well as projects for organisational restructuring and simplification. A project is also under way to accelerate TSB's restructuring process, which will deliver recurrent cost savings. With this initiative, it is hoped that TSB will complete its restructuring plan one year ahead of schedule and break even in 2021.

Strategic risk includes the management and control of four risks:

- Solvency risk: this is the risk of the Group having insufficient capital, either in quality or quantity, to achieve strategic and business objectives, withstand operational losses or meet regulatory requirements and/or the expectations of the market in which it operates.

- Business risk: this refers to the possibility of incurring losses as a result of adverse events that negatively affect the capacity, resilience and recurrence of the income statement, either because of its viability (short-term) or sustainability (medium-term).

- Reputational risk: this is the current or future risk of incurring losses as a result of failures in the areas of processes and operations, strategy and corporate governance, which generate a negative perception among customers, counterparties, shareholders, investors or regulators and which may negatively affect the Group's ability to maintain its business relationships or establish new ones, and to continue to access funding sources.

- Environmental risk: this is the risk associated with "physical environmental factors", related to adverse weather events (such as floods or heat waves) or changes in climate over the long term (such as rising sea levels), and "environmental transition factors", arising from the processes of transitioning towards a low-emission economy (such as regulatory changes, the emergence of disruptive technologies, etc.).

3.4.1.1 Solvency risk

The CET1 ratio improved throughout 2020, standing at 12.0% (fully-loaded) as at 31 December 2020.

The Total Capital ratio also improved, standing at 15.9% as at 31 December 2020. The Leverage ratio stood at 5.05% as at December 2020 compared to 4.75% one year previously.

As at 31 December 2020, Banco Sabadell's phase-in CET1 capital ratio stood at 12.6% and its Total Capital ratio stood at 16.1%.

Banco Sabadell's ratios are above the minimum requirements established by the European Central Bank in the decision it sent to the Group in December 2020 and which are applicable to it for 2021. Therefore, the Group is not subject to any caps on the distribution of dividends, variable remuneration or coupon payments made to holders of AT1 capital instruments.

The current levels of solvency show that Banco Sabadell's capital levels are generally compliant with regulatory requirements.

Banco Sabadell is also compliant with the minimum MREL requirement, which coincides with supervisory expectations and is in line with its funding plans.

For further details on own funds and capital management, see Section 5 of the consolidated annual financial statements.

3.4.1.2 Business risk

Despite the interest rate environment and the uncertainty brought about by the health crisis, business activity in Spain is close to pre-COVID levels. The resilience of the Group's core banking revenue remained solid throughout the year. Fee and commission income also performed well. As a result, consolidated Group profit as at December 2020 amounted to 2 million euros.

Throughout the year, the Bank has laid the foundations for greater future profitability built on the growth of core revenue, mainly by driving digitisation and divesting non-strategic businesses.

Additionally, as part of its strategy, a series of efficiency initiatives have been launched in Spain, which will help reduce recurrent costs and which include further digitisation of customer services and process re-engineering.

Lastly, note should be taken of the good progress TSB has made in its strategic plan, allowing it to record its highest business activity levels since early 2018.

3.4.1.3 Reputational risk

As regards reputational risk, in 2020 Banco Sabadell has continued to hold a prominent position in terms of being by the side of its customers during the scenario brought about by COVID-19 and in terms of its transition towards a more digital business model. The Group's actions and its interactions with customers and society in general through social networks and the media has placed Banco Sabadell in a better position in terms of reputational impact than other banks in the sector.

Additionally, in the last few months of the year the Group has actively managed the impacts of a number of important strategic initiatives, which notably include the agreement with union representatives to arrange voluntary redundancy packages (see Note 30), the analysis and negotiations regarding a potential merger with BBVA, and the announcement of its main strategies going forward.

3.4.1.4 Environmental risk

In the last few years, regulators and supervisors both in Spain and on a global scale have significantly stepped up their involvement in climate action and sustainable development in order to deal with the consequences of climate change.

There is widespread consensus regarding the importance of the financial sector's involvement in this collective undertaking when it comes to bringing about change.

Consequently, the commitment to sustainability has been incorporated into all areas of Banco Sabadell's business model, as well as its risk management and assessment arrangements, steering its activity and processes in order to make a firm contribution to sustainability and the fight against climate change.

As part of this corporate goal, Banco Sabadell has implemented a series of initiatives throughout 2020, adding to its already considerable track record of projects that pursue a more sustainable economy.

In the same vein, the new Sustainable Finance Plan (in effect since 2020) has expanded its portfolio of sustainable products with the aim of making it easier for customers to transition towards an environmentally friendly economy. It has also launched new financing solutions including products such as ‘eco-leases’ and the ‘*eco-reformas*’ loan for energy-efficient and sustainable home renovations.

Additionally, it is worth mentioning that Banco Sabadell has issued 500 million euros worth of green bonds and sustainability bonds in the capital market.

3.4.2. Credit risk

Credit risk refers to the risk of incurring losses as a result of borrowers’ failure to fulfil their payment obligations, as well as the risk of experiencing a loss of value due to the deterioration of borrowers’ creditworthiness.

3.4.2.1 Credit risk management framework

Acceptance and monitoring

Credit risk exposures are rigorously managed and monitored through regular assessments of borrowers’ creditworthiness and their ability to honour their payment obligations undertaken with the Group, adjusting the exposure limits for each counterparty to levels that are deemed to be acceptable. It is also normal practice to mitigate credit risk exposures by requiring borrowers to provide collateral or other guarantees to the Bank.

The Board of Directors grants powers and discretions to the Delegated Committee to allow the latter to delegate responsibilities to different decision-making levels. The implementation of authority thresholds in credit approval management systems ensures that the conferral of powers established at each level is linked to the expected loss calculated for each transaction.

To optimise the business opportunities provided by each customer and guarantee an appropriate level of security, responsibility for accepting and monitoring risks is shared between the account manager and the risk analyst who, by maintaining effective communication with the corresponding units, are able to obtain a comprehensive (360°) and forward-looking view of each customer’s individual circumstances and needs.

The account manager monitors the business aspect through direct contact with customers and by handling their day-to-day banking activity, whilst the risk analyst takes a more system-based approach making use of his/her specialised knowledge.

The implementation of advanced risk management methodologies also benefits the process in ensuring that proactive measures can be taken once a risk has been identified. Of vital importance in this process are tools such as credit rating systems for companies and credit scoring systems for individuals, as well as early warning indicators for monitoring risk. These are integrated into a single tool that provides a comprehensive and forward-looking vision of customers.

The analysis of indicators and early warnings, in addition to credit rating reviews, allow an integrated and continuous measurement to be made of the level of risk taken. The establishment of efficient procedures to manage performing loans also benefits the management of past-due loans as it enables a proactive policy to be devised based on a timely identification of any cases with propensity to default.

Risk monitoring is carried out for all exposures in order to identify potentially problematic situations and prevent credit impairment. In general, this monitoring is based on early warnings systems at both transaction/borrower level and at portfolio level, and both systems use the firm's internal information and external information in order to obtain results. Risk monitoring is carried out prior to any default and on a forward-looking basis, i.e. with an outlook based on the foreseeable future development of circumstances, in order to determine both actions to strengthen the business (increase lending) and prevent risk (risk mitigation, improvement of guarantees, etc.).

The early warnings system allows an integrated measurement to be made of the level of the risk taken and allows it to be transferred to recovery management specialists, who determine the different types of procedures that should be implemented. Therefore, different groups or categories are established based on risks that exceed a set limit and according to predicted default rates, so that they can be treated individually. These warnings are additionally managed by the account manager and the risk analyst.

NPA risk management

Generally, during stages of weakness in the economic cycle, debt refinancing and restructuring are the main risk management techniques used. The Bank's objective, when faced with debtors and borrowers that have, or are expected to have, financial difficulties to honour their payment obligations under the agreed contractual terms, is to facilitate the repayment of the debt by reducing the probability of default as much as possible. A number of common policies to achieve this are in place in the Institution, as well as procedures for the approval, monitoring and control of potential debt forbearance (refinancing and restructuring) processes, the most significant of which are the following:

- The existence of a sufficiently long good payment history by the borrower and a manifest intention to repay the loan, assessing the period of time during which the customer is likely to continue to experience financial difficulties.

- Forbearance conditions based on a realistic repayment schedule which is in line with the borrower's current and expected payment capacity, preventing issues from being put off until a later date.

- If new guarantees are provided, these must be regarded as a secondary and exceptional means for recovering the debt, so as to avoid adversely affecting existing means. All ordinary interest accrued must always be paid up to the refinancing date.

- A maximum length is applied to grace periods.

The Group continually monitors compliance with the agreed terms and with the above policies.

Internal risk models

Banco Sabadell Group also has a system in place which is made up of three lines of defence to ensure the quality and oversight of internal models, as well as a governance process which has been specifically designed to manage and monitor these models and to ensure compliance with regulations and the supervisor's instructions.

The governance framework of internal credit risk and impairment models (risk management, regulatory capital and provisions) is based on the following pillars:

- Effective management of changes to internal models.

- Ongoing monitoring of internal models.

- Regular reporting, both internal and external.

- Management tools for internal models.

One of the main bodies within the governance framework of internal credit risk and impairment models is the Models Committee, which meets on a monthly basis and has internal approval responsibilities, depending on the materiality of the risks, and which also monitors internal credit risk models.

Banco Sabadell Group also has an advanced NPA risk management model in place to manage the impaired assets portfolio. The purpose of managing NPA risk is to identify the best solution for the customer upon detecting the first signs of impairment, whilst reducing the entry into default of customers with financial difficulties, ensuring intensive management and avoiding downtime between the different phases.

For further quantitative information, see Schedule VI "*Other risk information: Forbearance*" to these annual financial statements.

Real estate credit risk management

As part of its general policy on risks and, in particular, its policy on the construction and real estate development sector, the Group has a number of specific policies in place for mitigating risks.

The main measure taken in relation to this portfolio is the continuous monitoring of risks and the reappraisal of borrowers' financial viability based on their new economic circumstances. If the results of the reappraisal are satisfactory, the existing arrangements continue on the basis agreed, with new commitments being required where appropriate in light of the new circumstances.

The Bank has established three strategic lines of approach:

- New lending: real estate development business

New lending to developers is governed by a "Real Estate Development Framework", which defines the optimum allocation of the new business on the basis of the quality of the customer and development project. This analysis is based on models that allow an objective appraisal to be obtained, taking into account experts' views of real estate.

To this end, the Bank has:

- The Real Estate Business Division (a unit within the Business Banking Division), with a team of real estate specialists who exclusively manage the Bank's developer customers. This unit has a monitoring approach that enables the Group to have detailed information about the projects being analysed by the unit (including surface area, number of units, sales volume, construction budget and the extent of pre-marketing activities).

- Two Real Estate Investment Analysis and Monitoring Divisions, one for the East and one for the West (both report to the Real Estate Lending and Investees Division), which are responsible for analysing all of the real estate projects that the Bank is thinking of financing, strictly from the point of view of real estate business, analysing the location and suitability of the product, as well as the potential supply and demand, and comparing these in each case against the figures of the business plan submitted by the customer (particularly costs, sales and timelines). This analysis model is coupled with a model for monitoring approved real estate development projects. The progress of each real estate development project is monitored using standardised reports in order to track drawdowns and compliance with the business plan (sales, costs and timelines).

This management model has allowed warning levels to be defined so that they can be monitored by the Analysis and Monitoring Divisions.

- Management of non-performing real estate exposures

Non-performing exposures are managed in line with the defined policy. In general, they are managed taking into account:

- The customer.

- The guarantees.

- The status of the loan (from the time when a warning is triggered, warning of a potential deterioration of the current status, up until the properties are surrendered in payment of debt (payment in kind)/purchased in an amicable settlement, or until an auction is held following a mortgage enforcement process and whenever there is a ruling in favour of foreclosure).

After analysing the three aforementioned aspects, an optimal solution is sought to stabilise or settle the position (whether through an amicable settlement or through judicial proceedings), which differs depending on the evolution of each customer/case.

Cases in which the stabilisation or settlement of the loan by the customer is not a feasible option are managed using support models on the basis of the type of loan or item financed.

In the case of completed real estate developments or completed non-residential properties, these can be put on sale at prices that drive market traction.

For other funded real estate, the possibility of entering into sale agreements with third parties is considered, amicable settlement solutions are proposed (purchase, payment in kind, which in the case of properties owned by individuals can be arranged under favourable conditions for relocation or social rental depending on the needs of the customer), or else judicial proceedings are initiated.

- Management of foreclosed assets

Once the loan has been converted into a real estate asset, a management strategy is defined depending on the type of asset and its location, in order to identify the potential of each asset according to its potential demand.

The main disposal mechanism is the sale of the asset, for which the Bank, through Solvia, has developed different channels on the basis of the type of property and customer.

The Group, given the past significance of high concentrations of this type of risk, has a first-tier RAS metric in place which establishes a maximum level of concentration of exposures associated with real estate development based on the Tier 1 capital in Spain. This metric is monitored on a monthly basis and reported to the Technical Risk Committee, the Board Risk Committee and the Board of Directors.

Lastly, it is worth highlighting that the Risk Control Division, together with the Business and Risk Management Divisions, regularly monitors the adequacy of new loans granted to real estate developers. The monitoring process includes a review of compliance with policies and asset allocation. The results of this monitoring exercise are escalated to the Technical Risk Committee for information.

For further quantitative information, see Schedule VI "*Credit risk: Risk concentration and exposure to the construction and real estate development sector*" to these annual financial statements.

3.4.2.2. Risk management models

Credit ratings

Credit risks incurred with corporates, real estate developers, specialised lending projects, financial institutions and countries are rated using a rating system based on predictive factors and an internal estimate of the probability of default.

The rating model is reviewed annually based on the analysis of performance patterns of actual defaulted loans. A predicted default rate is assigned to each internal credit rating level, which also allows a uniform comparison to be made against other segments and ratings issued by external credit rating agencies using a master ratings scale.

%

Breakdown of Sabadell corporates portfolio by rating										
9	8	7	6	5	4	3	2	1	0	**TOTAL**
0.39%	6.00%	19.46%	24.55%	29.34%	11.42%	6.35%	1.83%	0.52%	0.15%	100%

Credit scores

In general, credit risks undertaken with individuals are rated using credit scoring systems, which are in turn based on a quantitative model of historical statistical data, where the relevant predictive factors are identified. In regions where credit scoring takes place, credit scores are divided into two types:

Behavioural credit scores: the system automatically classifies customers based on information regarding their activity and each of the products that they have acquired. These credit scores are mainly used to: authorise transactions, establish (authorised) overdraft limits, design advertising campaigns and monitor and segment claims and/or recovery procedures.

Reactive credit scores: these are used to assess applications for consumer loans, mortgage loans and credit cards. Once all of the data relating to the transaction has been entered, the system calculates a result based on the estimated borrowing power, financial profile and, if applicable, the level of assets pledged as collateral.

If no credit scoring system exists, individual assessments supplemented with policies are used instead.

%

Breakdown of Sabadell individuals portfolio by rating										
9	8	7	6	5	4	3	2	1	0	**TOTAL**
0.36%	4.65%	20.57%	35.02%	20.80%	12.54%	3.89%	1.13%	0.31%	0.73%	100%

Excluding transactions relating to TSB.

Warning tools

In general, Banco Sabadell Group has a system of warning tools in place, which include both individual warnings and advanced early warning models for both the Companies segment and the Individuals segment. These warning tools are based on performance factors obtained from available sources of information (credit ratings or credit scores, customer files, balance sheets, CIRBE (Bank of Spain Central Credit Register), information relating to the industry or past banking activity, etc.). They measure the risk presented by the customer on a short-term basis (predicted propensity to default), obtaining a high level of predictability to detect potential defaulters. The resulting rating or score, which is obtained automatically, is used as a basic input in monitoring the risk of companies and individuals.

This warnings system enables:

- Efficiency to be improved, as monitoring exercises focus on customers with the lowest credit rating or credit score (different cut-off points for each group).

- The Institution to anticipate actions required to manage any negative change in the situation of the customer (change in rating, new severe warnings, etc.).

- Customers whose situation remains unchanged and who have been assessed by the Basic Management Team to be regularly monitored.

3.4.2.3 Credit risk exposure

In relation to credit risk, COVID-19 and the serious health situation arising from it have had an impact on economic activity and on the Group's at-risk borrowers in terms of solvency, liquidity and turnover. In view of this, the Group has continued to offer options to meet the liquidity needs of its customers, including COVID-19 ICO-guaranteed loans for its business customers and payment holidays for its individual customers.

Additionally, this situation has caused impairment allowances in 2020 to be significantly higher than in 2019.

The tables below show the breakdown, by headings of the balance sheet of Banco de Sabadell, S.A. and of its off-balance sheet exposures, of the Bank's maximum gross credit risk exposure as at 31 December 2020 and 2019, without deducting collateral or credit enhancements received in order to ensure the fulfilment of payment obligations, broken down by portfolios and in accordance with the nature of the financial instruments:

Thousand euro

Maximum credit risk exposure	Note	2020	2019
Financial assets held for trading		**287,718**	**579,042**
Debt securities	7	287,718	579,042
Non-trading financial assets mandatorily at fair value through profit or loss		**70,236**	**119,164**
Equity instruments		12,516	-
Debt securities	7	57,720	119,164
Financial assets at fair value through other comprehensive income		**5,179,469**	**5,551,698**
Equity instruments	8	169,024	239,401
Debt securities	7	5,010,445	5,312,297
Financial assets at amortised cost		**142,293,023**	**151,652,607**
Debt securities	7	16,171,219	18,425,483
Loans and advances	10	126,121,804	133,227,124
Derivatives	**9, 11**	**2,540,815**	**2,082,780**
Total credit risk due to financial assets		**150,371,261**	**159,985,291**
Loan commitments provided	24	23,214,810	23,867,895
Financial guarantees provided	24	2,404,071	2,830,293
Other commitments provided	24	7,617,469	10,362,133
Total off-balance sheet exposures		**33,236,350**	**37,060,321**
Total maximum credit risk exposure		**183,607,611**	**197,045,612**

The Bank has also given borrowers guarantees and loan commitments, materialising in the establishment of guarantees given or commitments inherent in credit agreements up to an availability level or limit that ensures that customers can access funding when required. These facilities also require the Group to take on credit risk and they are subject to the same management and monitoring systems described above. For further information, see Note 24.

Schedule VI to these annual financial statements shows quantitative data relating to credit risk exposures by region.

3.4.2.4. Credit risk mitigation

Credit risk exposures are rigorously managed and monitored through regular assessments of borrowers' creditworthiness and their ability to honour their payment obligations undertaken with the Group, adjusting the exposure limits for each counterparty to levels that are deemed to be acceptable. It is also normal practice to mitigate credit risk exposures by requiring borrowers to provide collateral or other guarantees to the Bank.

Generally, these take the form of collateral, mainly mortgages on properties used as housing, whether finished or under construction. The Group also accepts, although to a lesser degree, other types of collateral, such as mortgages on retail properties, industrial warehouses, etc. and financial assets. Another credit risk mitigation technique commonly used by the Institution is the acceptance of sureties, in this case subject to the surety presenting a certificate of good standing.

All of these mitigation techniques are established ensuring their legal certainty, i.e. under legal contracts that are legally binding on all parties and which are enforceable in all relevant jurisdictions, thus guaranteeing that the collateral can be seized at any time. The entire process is subject to an internal verification of the legal adequacy of these contracts, and legal opinions of international specialists can be requested and applied where these contracts have been entered into under foreign legislation.

All collateral is executed before a notary public through a public document, thus ensuring its enforceability before third parties. In the case of property mortgages, these public documents are also registered with the corresponding land registries, thus gaining constitutive effectiveness before third parties. In the case of pledges, the pledged items are generally deposited with the Institution. Unilateral cancellation by the obligor is not permitted, and the guarantee remains valid until the debt has been fully repaid.

Personal guarantees or sureties are established in favour of the Institution and, except in certain exceptional cases, these are also executed before a notary public through a public document, to vest the agreement with the highest possible legal certainty and to allow legal claims to be filed through executive proceedings in the event of default. They constitute a credit right with respect to the guarantor that is irrevocable and payable on first demand.

In addition to the mitigation of the risk arising from guarantees executed between the obligors and the Institution, as a result of the acquisition of Banco CAM, the Group also has an additional guarantee for a particular asset portfolio, provided by the APS, with retroactive effects from 31 July 2011 and for a period of ten years (see Note 13).

The Bank has not received any significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of the referred guarantees, except for those intrinsic to treasury activities, which are mostly repos with maturities of no more than three months, therefore their fair value does not differ substantially from their carrying value (see Note 5). The fair value of the assets sold in connection with repos is included under the heading "*Financial liabilities held for trading*" as part of the short positions of securities.

Assets assigned under the same transactions amounted to 491,891 thousand euros and are included by type under the repos heading in Notes 17 and 18.

There have been no significant changes to the Group's policies in relation to guarantees during this year. Neither have there been any significant changes in the quality of the Group's guarantees with respect to the preceding year.

The values of the guarantees received to ensure collection, broken down into collateral and other guarantees, as at 31 December 2020 and 2019 are as follows:

Thousand euro

Guarantees received	**2020**	**2019**
Value of collateral	54,589,074	56,347,871
Of which: securing Stage 2 loans	*3,579,998*	*2,804,733*
Of which: securing Stage 3 loans	*1,609,065*	*2,365,467*
Value of other guarantees	15,397,551	9,504,076
Of which: securing Stage 2 loans	*1,890,505*	*608,882*
Of which: securing Stage 3 loans	*411,057*	*351,667*
Total value of guarantees received	**69,986,625**	**65,851,947**

The main risk concentration in relation to all of these types of collateral and credit enhancements corresponds to the use of mortgage guarantees as a credit risk mitigation technique in exposures of loans intended for the financing or construction of housing or other types of real estate. On a like-for-like basis, exposures secured with mortgages represent 45.7% of total gross lending.

In the case of market transactions, counterparty credit risk is managed as explained in section 3.4.2.7.

3.4.2.5. Credit quality of financial assets

As stated earlier, in general terms, the Group uses internal models to rate most borrowers (or transactions) through which credit risk is incurred. These models have been designed considering the best practices proposed by the New Basel Capital Accord (NBCA). However, not all portfolios in which credit risk is incurred have internal models, partly due to the fact that these models can only be reasonably designed if a minimum level of experience with cases of non-payment is available.

The exposure percentage calculated by the Institution using internal models, for solvency purposes, is 82%. This percentage has been calculated following the TRIM guidelines (Article 31a).

The breakdown of the Group's total exposures, rated based on the various internal rating levels, as at 31 December 2020 and 2019 is as follows:

Million euro

Breakdown of exposure by rating	Loans assigned rating/score				
	2020				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	15,044	280	-	-	15,324
A	5,310	28	-	-	5,338
BBB	66,998	157	-	*1*	67,155
BB	28,988	1,115	-	*1*	30,103
B	45,181	3,932	-	*89*	49,113
Rest	2,821	5,707	5,294	*83*	13,822
No rating/score assigned	3,206	62	26	-	3,294
Total gross amount	**167,548**	**11,281**	**5,320**	**174**	**184,149**
Impairment allowances	**(448)**	**(465)**	**(2,170)**	***(3)***	**(3,083)**
Total net amount	**167,100**	**10,816**	**3,150**	***171***	**181,066**

Million euro

Breakdown of exposure by rating	Loans assigned rating/score				
	2019				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	14,347	111	-	*74*	14,458
A	7,724	25	-	-	7,749
BBB	75,193	115	-	-	75,308
BB	41,977	482	2	*2*	42,461
B	23,055	2,991	-	*104*	26,046
Rest	2,824	4,168	5,863	*82*	12,855
No rating/score assigned	13,261	39	58	*4*	13,358
Total gross amount	**178,381**	**7,931**	**5,923**	**266**	**192,235**
Impairment allowances	**(400)**	**(269)**	**(2,265)**	***(3)***	**(2,934)**
Total net amount	**177,981**	**7,662**	**3,658**	***263***	**189,301**

The breakdown of the Group's total off-balance sheet exposures, rated based on the various internal rating levels, as at 31 December 2020 and 2019 is as follows:

Million euro

Breakdown of exposure by rating	Loans assigned rating/score 2020				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	944	36	-	-	981
A	823	-	-	-	823
BBB	7,288	18	-	-	7,306
BB	9,188	83	-	-	9,270
B	17,309	688	-	*12*	17,997
Rest	235	553	587	*1*	1,375
No rating/score assigned	352	821	-	-	1,174
Total gross amount	**36,139**	**2,200**	**587**	***14***	**38,926**
Impairment allowances	**(57)**	**(15)**	**(102)**	**-**	**(174)**
Total net amount	**36,082**	**2,185**	**485**	**14**	**38,752**

Million euro

Breakdown of exposure by rating	Loans assigned rating/score 2019				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	1,757	28	-	*3*	1,785
A	1,628	1	-	-	1,629
BBB	11,072	27	-	-	11,099
BB	13,586	220	-	-	13,806
B	6,492	655	-	*19*	7,147
Rest	302	344	250	*1*	896
No rating/score assigned	3,683	20	5	-	3,708
Total gross amount	**38,520**	**1,295**	**255**	***23***	**40,070**
Impairment allowances	**(48)**	**(12)**	**(51)**	**-**	**(111)**
Total net amount	**38,472**	**1,283**	**204**	**23**	**39,959**

Further details on the credit rating and credit scoring models are included in section 3.4.2.2 of these annual financial statements.

For borrowers included within business in Spain whose coverage has been assessed using internal models as at 31 December 2020, the following table shows the breakdown by segment of the average EAD-weighted PD and LGD parameters, differentiating between on-balance sheet and off-balance sheet exposures, and the stage in which the transactions are classified according to their credit risk.

%

	Average ECL parameters for on-balance sheet exposures							
	Stage 1		Stage 2		Stage 3		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Loans and advances	1.50%	18.20%	21.80%	18.90%	100.00%	39.80%	7.00%	19.10%
Other financial corporations	2.00%	22.60%	35.80%	30.20%	100.00%	18.60%	3.20%	22.60%
Non-financial corporations	2.10%	26.60%	22.60%	23.70%	100.00%	47.60%	7.70%	27.20%
Households	1.10%	11.60%	21.00%	14.10%	100.00%	34.30%	6.60%	12.80%

%

	Average ECL parameters for off-balance sheet exposures							
	Stage 1		Stage 2		Stage 3		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Loans and advances	1.80%	31.30%	21.20%	23.30%	100.00%	34.20%	2.80%	31.10%
Other financial corporations	1.80%	30.10%	21.90%	31.40%	0.00%	0.00%	1.80%	30.10%
Non-financial corporations	2.20%	29.60%	23.30%	26.60%	100.00%	34.20%	3.50%	29.50%
Households	1.00%	35.50%	13.40%	10.90%	100.00%	22.00%	1.30%	35.00%

During 2020, the Group's stage 3 assets have been reduced by 333 million euros, thus bringing down the Group's NPL ratio as shown in the table below:

%

	2020	2019
NPL ratio (*)	3.60	3.83
NPL coverage ratio (*)	56.45	49.58

(*) The NPL ratio excluding TSB stands at 4,28% and the NPL coverage ratio at 56,37% (in 2019, 4,62% and 50,09%, respectively).

A more detailed breakdown of allowances and assets classified as Stage 3 can be found in Note 10 and a more detailed breakdown of refinanced and restructured transactions is included in Schedule VI.

3.4.2.6. Concentration risk

Concentration risk refers to the level of exposure to a series of economic groups which could, given their materiality, give rise to significant credit losses in the event of an adverse economic situation.

Exposures can be concentrated within a single customer or economic group, or within a given sector or region.

Concentration risk can be caused by two risk subtypes:

- Individual concentration risk: this refers to the possibility of incurring significant credit losses as a result of maintaining large exposures with specific customers, either with a single customer or with an economic group.

- Sector concentration risk: imperfect diversification of systematic components of risk within the portfolio, which can be sector-based factors, geographical factors, etc.

Banco Sabadell has a series of specific tools and policies in place to ensure its concentration risk is managed efficiently:

- Quantitative metrics from the Risk Appetite Statement and their subsequent monitoring, both first-tier (Board) metrics and second-tier (Executive) metrics.

- Individual limits for risks and customers considered to be significant, which are set by the Delegated Committee.

- A structure of conferred powers which requires transactions with significant customers to be approved by the Credit Operations Committee, or even by the Delegated Committee.

In order to control its concentration risk, Banco Sabadell Group has deployed the following critical control parameters:

Consistency with the Global Risk Framework

The Group ensures that its concentration risk exposures are consistent with its concentration risk tolerance defined in the RAS. Overall concentration risk limits and adequate internal controls are in place to ensure that concentration risk exposures do not go beyond the risk appetite levels established by the Group.

Establishment of limits and metrics for concentration risk control

Given the nature of the Group's activity and its business model, concentration risk is primarily linked to credit risk, and various metrics along with their associated limits are in place.

Credit risk exposure limits are set based on the Institution's past loss experience, seeking to ensure that exposures are in line with the Group's level of capitalisation as well as the expected level of profitability under different scenarios.

The metrics used to measure such levels, as well as appetite limits and tolerance thresholds for the identified risks, are described as part of the RAS metrics.

Risk control monitoring and regular reporting

Banco Sabadell Group ensures that concentration risk is monitored on a regular basis, in order to enable any weaknesses in the mechanisms implemented to manage this risk to be quickly identified and resolved. This information is also reported to the Board of Directors on a recurring basis in accordance with the established risk governance arrangements.

Action plans and mitigation techniques

When dealing with exceptions to internally established limits, the criteria based on which such exceptions can be approved must be included.

The Group will take any measures required to match the concentration risk to the levels approved in the RAS by the Board of Directors.

Exposure to customers or significant risks

As at 31 December 2020, there were no borrowers with an approved lending transaction that individually exceeded 10% of the Group's own funds.

Country risk: geographical exposure to credit risk

Country risk is defined as the risk associated with a country's debts, taken as a whole, due to factors inherent to the sovereignty and the economic situation of a country, i.e. for circumstances other than regular credit risk. It manifests itself in the eventual inability of obligors to honour their foreign currency payment obligations undertaken with external creditors due to, among other reasons, the country preventing access to that foreign currency, the inability to transfer it or the non-enforceability of legal actions against borrowers for reasons of sovereignty, or for reasons of war, expropriation or nationalisation.

Country risk not only affects debts undertaken with a state or entities guaranteed by it, but also all private debtors that belong to that state and who, for reasons outside their control and not at their volition, are generally unable to satisfy their debts.

An exposure limit is set for each country which is applicable across the whole of Banco Sabadell Group. These limits are approved by the Delegated Committee and the corresponding decision-making bodies, as per their conferred powers, and they are continuously monitored to ensure that any deterioration in the political, economic or social situation of a country can be detected in good time.

The main component of the procedure for the acceptance of country risk and financial institution risk is the structure of limits for different metrics. This structure is used to monitor the various risks and it is also used by Senior Management and the delegated bodies to establish the Group's risk appetite.

Different indicators and tools are used to manage country risk: credit ratings, credit default swaps, macroeconomic indicators, etc.

Schedule VI includes quantitative data relating to the breakdown of the concentration of risks by activity and on a global scale.

Exposure to sovereign risk and exposure to the construction and real estate development sector

Schedule VI includes quantitative data relating to sovereign risk exposures and exposures to the construction and real estate development sector.

3.4.2.7. Counterparty credit risk

This heading considers credit risk associated with activities in financial markets involving specific transactions that have an associated counterparty credit risk. Counterparty credit risk is a type of credit risk that refers to the risk of a counterparty defaulting before definitively settling cash flows of either a transaction with derivatives or a transaction with a repurchase commitment, with deferred settlements or collateral financing.

The amount exposed to a potential default by the counterparty does not correspond to the notional amount of the contract, instead, it is uncertain and depends on market price fluctuations until the maturity or settlement of the financial contracts.

Exposure to counterparty credit risk is mainly concentrated in customers, financial institutions and central counterparty clearing houses.

The following two tables show the breakdown of exposures by credit rating and by the regions in which the Group operates.

%

2020															
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	Rest	**TOTAL**
0.0%	0.3%	10.1%	28.8%	21.9%	13.1%	5.0%	3.4%	5.1%	3.2%	1.5%	1.9%	2.1%	0.4%	3.2%	**100.0%**

%

2019															
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	Rest	**TOTAL**
0.0%	0.0%	7.2%	38.7%	18.1%	11.7%	6.3%	5.7%	3.5%	1.8%	1.0%	3.1%	1.4%	0.3%	1.3%	**100.0%**

%

	2020	2019
Euro Zone	65.6%	73.8%
Rest of Europe	25.7%	18.9%
U.S.A. and Canada	6.3%	5.6%
Rest of the world	2.5%	1.7%
Total	**100.0%**	**100.0%**

As can be seen in the table, the risk is concentrated in counterparties with a high credit quality, with 79% of the risk relating to counterparties rated A.

In 2016, under the European Market Infrastructure Regulation (EMIR) (Regulation 648/2012), the obligation to settle and clear certain over-the-counter derivatives through central counterparty clearing houses (CCPs) has been applicable to the Group. For this reason, the derivatives subscribed by the Group and subject to the foregoing are channelled via these agents. At the same time, the Group has improved the standardisation of OTC derivatives with a view to fostering the use of CCPs. The exposure to risk with CCPs largely depends on the value of the deposited guarantees.

With regard to derivative transactions in organised markets (OMs), based on management criteria, it is considered that there is no exposure, given that there is no risk as the OMs act as counterparties in the transactions and a daily settlement and guarantee mechanism is in place to ensure the transparency and continuity of the activity. In OMs the exposure is equivalent to the deposited guarantees.

The breakdown of transactions involving derivatives in financial markets depending on whether the counterparty is another financial institution, clearing house or organised market is as follows:

Million euro

	2020	2019
Transactions with organised markets	4,992	3,779
OTC transactions	115,560	127,232
Settled through clearing houses	*48,689*	*44,532*
Total	**120,552**	**131,011**

There are currently no transactions that meet the accounting criteria for offsetting transactions involving financial assets and financial liabilities on the balance sheet. The netting of derivative and repo transactions is only material when calculating the amount pending collateralisation, and it is not material in terms of their presentation on the balance sheet.

The following table shows the aggregate amount reflected on the balance sheet for the financial instruments subject to a master netting and collateral agreement for 2020 and 2019:

Thousand euro

	2020				
	Financial assets subject to collateral agreements				
			Guarantee received		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net value
Financial assets	(a)	(b)	(c)	(d)	(a) - (b) - (c) - (d)
Derivatives	1,882,724	1,648,081	298,048	-	(63,405)
Repos	5,485,382	-	13,901	5,844,055	(372,574)
TOTAL	**7,368,106**	**1,648,081**	**311,949**	**5,844,055**	**(435,979)**

Thousand euro

	2020				
	Financial liabilities subject to collateral agreements				
			Guarantee given		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net value
Financial liabilities	(a)	(b)	(c)	(d)	(a) - (b) - (c) - (d)
Derivatives	2,554,073	1,648,081	1,082,326	2,920	(179,254)
Repos	6,785,687	-	33,087	6,782,288	(29,688)
TOTAL	**9,339,760**	**1,648,081**	**1,115,413**	**6,785,208**	**(208,942)**

Thousand euro

	2019				
	Financial assets subject to collateral agreements				
			Guarantee received		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net value
Financial assets	(a)	(b)	(c)	(d)	(a) - (b) - (c) - (d)
Derivatives	1,610,914	1,446,017	169,143	-	(4,246)
Repos	11,801,144	-	24,870	11,958,955	(182,681)
Total	**13,412,058**	**1,446,017**	**194,013**	**11,958,955**	**(186,927)**

Thousand euro

	2019				
	Financial liabilities subject to collateral agreements				
			Guarantee given		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net value
Financial liabilities	(a)	(b)	(c)	(d)	(a) - (b) - (c) - (d)
Derivatives	1,996,922	1,446,017	739,792	3,103	(191,991)
Repos	8,442,811	-	617,509	8,416,140	(590,838)
Total	**10,439,733**	**1,446,017**	**1,357,301**	**8,419,243**	**(782,829)**

The values of derivative financial instruments which are settled through a clearing house as at 31 December 2020 and 2019 are indicated hereafter:

Thousand euro

	2020	2019
Derivative financial assets settled through a clearing house	986,806	744,659
Derivative financial liabilities settled through a clearing house	1,146,359	752,209

The philosophy behind counterparty credit risk management is consistent with the business strategy, and seeks to ensure the creation of value at all times whilst maintaining a balance between return and risk. To this end, criteria have been established for controlling and monitoring counterparty credit risk arising from activity in financial markets, to ensure that the Bank can carry out its business activity whilst adhering to the risk thresholds approved by Senior Management.

The approach for quantifying counterparty credit risk exposure takes into account current and future exposure. Current exposure represents the cost of substituting a transaction at market value in the event of a default by a counterparty. To calculate it, the current or Mark to Market (MtM) value of the transaction is required. The future exposure represents the risk that a transaction could potentially represent over a certain period of time, given the characteristics of the transaction and the market variables on which it depends. In the case of transactions carried out under a collateral agreement, the future exposure represents the possible fluctuation of the MtM between the time of default and the replacement of such transactions in the market. If the transaction is not carried out under a collateral agreement, it represents the possible changes in MtM throughout the life of the transaction.

Each day at close of business, all of the exposures are recalculated in accordance with the transaction inflows and outflows, changes in market variables and risk mitigation mechanisms established by the Group. Exposures are thus subjected to daily monitoring and controlled in accordance the limits approved by Senior Management. This information is included in risk reports for disclosure to the departments and units responsible for their management and monitoring.

With regard to counterparty credit risk, the Group has different mitigation techniques. The main techniques are:

- Netting agreements for derivatives (ISDA and CMOF).
- Variation margin collateral agreements for derivatives (CSA and Schedule 3 - CMOF), repos (GMRA, EMA) and securities lending (GMSLA).

Netting agreements allow positive and negative MtM to be aggregated for transactions with a single counterparty, in such a way that in the event of default, a single payment or collection obligation is established in relation to all of the transactions closed with that counterparty.

By default, the Group has netting agreements with all of the counterparties that wish to trade in derivatives.

Variation margin collateral agreements, as well as including the netting effect, also include the regular exchange of guarantees which mitigate the current exposure with a counterparty in respect of the transactions subject to such agreement.

In order to operate in derivatives or repos with financial institutions, the Group has established the requirement of having variation margin collateral agreements. Furthermore, for derivative transactions with these institutions, the Group is required to exchange variation margin collateral with financial counterparties pursuant to Delegated Regulation (EU) 2251/2016. The Group's standard variation margin collateral agreement, which complies with the aforementioned regulation, is bilateral (i.e. both parties are obliged to deposit collateral) and includes a daily exchange of guarantees in the form of cash and in euros.

3.4.2.8 Assets pledged in financing operations

As at the end of 2020 and 2019, there were certain financial assets pledged in financing operations, i.e. offered as collateral or guarantees for certain liabilities. These assets correspond mainly to loans linked to the issuance of covered bonds, public sector covered bonds and long-term securitisation bonds (see Note 19 and Schedules III and IV). The remaining pledged assets are debt securities which are submitted in transactions involving assets sold under repurchase agreements, pledged collateral (loans or debt instruments) to access certain financing operations with central banks and all types of collateral provided to secure derivatives transactions.

Information on mortgage-secured loans granted in Spain, included in "*Loans and advances – Customers*" and linked to the issuance of covered bonds pursuant to the Spanish Mortgage Market Law, is included in Schedule III on "Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register", a special accounting record of the issuing entity Banco Sabadell, as required by Bank of Spain Circular 5/2011, applying Royal Decree 716/2009 of 24 April (implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market).

The Bank has used part of its portfolio of loans and similar credit in fixed-income securities by transferring assets to various securitisation funds created for this purpose. Under current regulations, securitisations in which there is no substantial risk transfer cannot be derecognised from the balance sheet.

The balance of the financial assets securitised under these programmes by the Bank, identifying those in which the risks and associated rewards of ownership have been transferred, is as follows:

Thousand euro

	2020	2019
Fully derecognised from the balance sheet:	**752,548**	**1,069,491**
Securitised mortgage assets	113,369	165,571
Other securitised assets	632,599	896,022
Other transferred financial assets	6,580	7,898
Fully retained on the balance sheet:	**8,176,528**	**9,392,993**
Securitised mortgage assets	7,730,400	8,673,159
Other securitised assets	446,128	719,834
Other transfers to credit institutions	-	-
Total	**8,929,076**	**10,462,484**

The assets and liabilities associated with securitisation funds of assets originated after 1 January 2004, and for which inherent risks and rewards of ownership have not been transferred to third parties, have been maintained in the balance sheet. In terms of the assets shown, the risk is not transferred as some form of subordinated loan or credit enhancement has been granted to the securitisation funds. As at 31 December 2020, there was no significant aid from the Group for off-balance sheet securitisations.

Schedule II to these annual financial statements includes certain information regarding the securitisation funds.

3.4.3. Financial risks

Financial risk is defined as the possibility of obtaining inadequate returns or insufficient levels of liquidity that prevent an institution from meeting future requirements and expectations.

3.4.3.1. Liquidity risk

Liquidity risk refers to the possibility of losses being incurred as a result of the Institution being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or unable to access the markets to refinance debts at a reasonable cost. This risk may be associated with factors of a systemic nature or specific to the Institution itself.

In this regard, the Group aims to maintain a liquid asset base and a funding structure that, in line with its strategic objectives and based on its Risk Appetite Statement, allows it to honour its payment commitments normally and at a reasonable cost, both under business-as-usual conditions and under a stress situation caused by systemic and/or idiosyncratic factors.

The fundamental pillars of Banco Sabadell's governance structure for liquidity management and control are the direct involvement of governing bodies, management bodies and Senior Management, following the model of three lines of defence, and a strict separation of duties, as well as a clear-cut structure of responsibilities.

Liquidity management

Banco Sabadell's liquidity management seeks to ensure funding for its business activity at an appropriate cost and term while minimising liquidity risk. The Institution's funding policy focuses on maintaining a balanced funding structure, based mainly on customer deposits, and it is supplemented with access to wholesale markets that allows the Group to maintain a comfortable liquidity position at all times.

The Group follows a structure based on Liquidity Management Units ("UGLs", for their acronym in Spanish) to manage its liquidity. Each UGL is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, working together with the Group's corporate functions. At present, these UGLs are Banco Sabadell (includes Banco Sabadell, S.A., which incorporates activity in foreign branches, as well as the business in Mexico of Banco de Sabadell, S.A., I.B.M. (IBM) and Sabcapital S.A. de C.V., SOFOM, E.R. (SOFOM), which will generally have financial autonomy and manage their own risk), BancSabadell d'Andorra (BSA) and TSB.

In order to achieve these objectives, the Group's current liquidity risk management strategy is based on the following principles and pillars, in line with the UGLs' retail business model and the defined strategic objectives:

- Risk governance and the involvement of the Board of Directors and Senior Management in the management and control of liquidity risk. The Board of Directors has the highest level of responsibility for the oversight of liquidity risk.

- Integration of the risk culture, based on prudent liquidity risk management and its alignment with the established risk appetite.

- Clear separation of responsibilities and duties between the organisation's various units and bodies, with a clear identification of the three lines of defence, ensuring the involvement of the governing bodies and Senior Management.

- Implementation of best practices in liquidity risk management and control, ensuring not only compliance with regulatory requirements but also, under a criterion of prudence, the availability of sufficient liquid assets to overcome possible stress events.

- Decentralised liquidity management system for the more significant units but with a centralised risk oversight and management system.

- Sound identification, measurement, management, control and reporting processes for the different liquidity sub-risks to which the Group is exposed.

- Existence of a funds transfer pricing system to transfer the cost of funding.

- Balanced funding structure largely based on customer deposits.

- Ample base of unencumbered liquid assets that can be accessed immediately to generate liquidity and which comprise the Group's first line of liquidity.

- Diversification of sources of funding, with controlled use of short-term wholesale funding without having to depend on individual fund suppliers.

- Self-funding by the main banking subsidiaries outside of Spain.

- Monitoring of the balance sheet volume being used as collateral in funding transactions.

- Maintenance of a second line of liquidity that includes the capacity to issue covered bonds.

- Holistic view of risk, complying with regulatory requirements, recommendations and guidelines.

- Alignment with stakeholders' interests through regular public disclosure of liquidity risk information.

- Availability of a Liquidity Contingency Plan.

In 2020, the main aspects that have had a negative impact on the Group's liquidity position as a result of the COVID-19 crisis have been the substantial increases in lending, particularly loans given to SMEs and corporations to make them better able to deal with the crisis, and high levels of market volatility. Nevertheless, the mitigating actions taken by central banks, which offered greater flexibility in relation to liquidity, making it easier to access central bank funding, the asset purchase programmes designed to inject liquidity into the market, and the support put in place for bank lending, allowing banks to accept a larger number of loans as collateral and reducing the deduction from the market value of collateral pledged for loans, have all helped to offset the impact that granting loans to customers has had on liquidity.

Tools/metrics for monitoring and controlling liquidity risk management

Banco Sabadell Group has a system of metrics and thresholds which are provided in the RAS and which define the appetite for liquidity risk that has been previously approved by the Board of Directors. The system enables liquidity risk to be assessed and monitored, ensuring the achievement of strategic objectives, adherence to the risk profile, as well as compliance with regulations and supervisory guidelines. Within the Group level monitoring of liquidity metrics, there are metrics that have been established at the Group level and which are calculated on a consolidated basis, metrics established at the Group level and rolled out to each Group UGL, as well as metrics established at the UGL level to reflect specific local characteristics.

Both the metrics defined in the Banco Sabadell Group RAS and those defined in the local RAS of subsidiaries are subject to governance arrangements relating to the approval, monitoring and reporting of threshold breaches, as well as remediation plans established in the RAF on the basis of the hierarchical level of each metric (these are classified into three levels).

It should be mentioned that the Group has designed and implemented a system of early warning indicators (EWIs) at the UGL level, which includes market and liquidity indicators adapted to the funding structure and business model of each UGL. The deployment of these indicators at the UGL level complements the RAS metrics and allows tensions in the local liquidity position and funding structure to be detected early, thereby facilitating the implementation of corrective measures and actions and reducing the risk of contagion between the different management units.

The risk of each UGL is also monitored daily through the Structural Treasury Report, which measures the daily changes in the funding needs of the balance sheet, the daily changes in the outstanding balance of transactions in capital markets, as well as the daily changes in the first line of liquidity maintained by each UGL.

The reporting and control framework involves, among other aspects:

- Monitoring the RAS metrics and their thresholds on a consolidated basis, as well as those established for each UGL, in line with the established monitoring frequency.

- Reporting to the relevant committees, governing bodies and management bodies depending on the tiers into which those metrics have been classified and in line with the overall vision of liquidity risk.

- In the event a threshold breach is detected, activating the communication protocols and necessary plans for its resolution.

Within the Group's overall budgeting process, Banco Sabadell plans its liquidity and funding requirements over different time horizons, which it aligns with the Group's strategic objectives and risk appetite. Each UGL has a 1-year and 5-year funding plan in which they set out their potential funding needs as well as their management strategy, and they regularly analyse compliance with that plan, any deviations from the projected budget and the adequacy of the plan in terms of the market environment.

The Institution also has an internal funds transfer pricing system to transfer the funding costs to business units.

Lastly, Banco Sabadell has a Liquidity Contingency Plan (LCP) in place, which sets forth the strategy for ensuring that the Institution has sufficient management capabilities and measures in place to minimise the negative impacts of a crisis situation on its liquidity position and to allow it to return to a business-as-usual situation. The LCP also aims to facilitate operational continuity in the management of liquidity, particularly in the event a crisis is caused by a subpar performance of one or more financial market infrastructures. The LCP can be invoked in response to different crisis situations affecting either the markets or the Institution itself. The key components of the LCP include: measures available to generate liquidity in business-as-usual situations or in a crisis situation linked to the activation of the LCP and a communication plan (both internal and external) for the LCP.

Residual maturity periods

The table below shows the breakdown by contractual term to maturity, excluding, in some cases, valuation adjustments and impairment losses, of certain balance sheet items as at 31 December 2020 and 2019, under business-as-usual market conditions:

Thousand euro

2020										
Time to maturity	**On demand**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	-	30,918,284	1,480,595	891,004	780,601	420,911	77,418	126,314	45,398	**34,740,525**
Loans and advances	-	5,435,472	5,224,181	16,220,929	11,193,870	16,661,454	9,894,711	6,996,155	40,682,214	**112,308,987**
Debt securities	-	44,423	96,379	559,230	601,343	2,391,659	1,569,054	1,356,830	13,004,609	**19,623,527**
Other assets	-	-	-	-	-	-	-	-	-	**-**
Total assets	**-**	**36,398,179**	**6,801,155**	**17,671,163**	**12,575,815**	**19,474,024**	**11,541,183**	**8,479,299**	**53,732,221**	**166,673,039**
Money Market	-	6,159,054	1,895,541	554,381	195,900	27,000,000	-	10,108	-	**35,814,984**
Of which: Repos	-	4,724,170	1,374,497	510,558	195,900	-	-	-	-	***6,805,125***
Customer deposits	94,458,168	1,723,262	1,882,910	8,700,801	1,554,586	434,852	593,625	342,246	50,139	**109,740,589**
Issues of marketable securities (*)	-	31,756	1,112,351	2,094,437	3,573,181	2,988,603	4,320,748	2,761,172	3,771,297	**20,653,545**
Of which: Secured senior debt	-	*13,368*	*436,261*	*1,629,262*	*1,240,966*	*1,499,603*	*1,938,081*	*939,472*	*2,756,272*	***10,453,285***
Of which: Unsecured senior debt	-	*8,149*	*22,508*	*346,775*	*1,182,215*	*989,000*	*2,382,667*	*1,521,700*	*500,000*	***6,953,014***
Of which: Subordinated liabilities	-	-	-	-	*1,150,000*	*500,000*	-	*300,000*	*515,025*	***2,465,025***
Other liabilities	-	36,707	128,683	305,799	288,769	232,672	199,362	163,350	941,911	**2,297,254**
Total liabilities	**94,458,168**	**7,950,779**	**5,019,486**	**11,655,417**	**5,612,437**	**30,656,127**	**5,113,735**	**3,276,876**	**4,763,347**	**168,506,372**
Of which:										
Secured liabilities	-	*4,737,538*	*1,810,758*	*2,139,820*	*1,436,866*	*1,499,603*	*1,938,081*	*939,472*	*2,756,272*	***17,258,410***
Unsecured liabilities	*94,458,168*	*3,213,242*	*3,208,727*	*9,515,598*	*4,175,570*	*29,156,524*	*3,175,654*	*2,337,404*	*2,007,076*	***151,247,962***
Trading and Hedging Derivatives										
Receivable	-	5,712,866	12,063,318	11,449,953	7,198,836	8,542,659	14,239,127	4,141,875	33,052,889	**96,401,523**
Payable	-	5,232,619	10,679,889	14,409,763	7,152,113	8,412,122	14,113,726	3,879,306	32,749,860	**96,629,398**
Net	**-**	**480,247**	**1,383,429**	**(2,959,810)**	**46,723**	**130,537**	**125,401**	**262,569**	**303,029**	**(227,875)**
Contingent risks										
Financial guarantees	1,208	51,408	85,664	385,391	159,303	94,464	53,596	41,080	1,531,957	**2,404,071**

(*) For details of maturities of issues aimed at institutional investors, see the section entitled "Funding strategy and liquidity trends in 2020" in this note.

Thousand euro

2019										
Time to maturity	**On demand**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	-	15,240,386	1,611,854	2,172,218	1,042,214	489,946	156,667	155,777	59,903	**20,928,965**
Loans and advances	-	7,986,580	6,265,346	18,339,482	9,657,342	11,537,215	8,962,212	6,931,415	40,655,535	**110,335,125**
Debt securities	-	186,226	137,604	1,317,124	525,155	392,330	197,309	1,513,158	16,845,072	**21,113,977**
Other assets	-	-	-	-	-	-	-	-	-	**-**
Total assets	**-**	**23,413,192**	**8,014,804**	**21,828,824**	**11,224,711**	**12,419,490**	**9,316,188**	**8,600,350**	**57,560,509**	**152,378,067**
Money Market	-	7,587,381	2,606,919	4,900,064	10,893,765	-	-	-	-	**25,988,129**
Of which: Repos	-	*4,758,554*	*1,610,538*	*1,797,785*	*393,765*	-	-	-	-	***8,560,642***
Customer deposits	86,907,998	1,905,139	2,374,550	11,685,894	1,633,244	707,334	275,767	914,616	9,536	**106,414,078**
Issues of marketable securities	-	154,890	1,569,000	3,478,533	2,451,175	3,071,643	2,990,734	4,320,070	4,753,890	**22,789,935**
Of which: Secured senior debt	-	*15,426*	*311,100*	*2,044,377*	*2,092,891*	*1,239,428*	*1,501,734*	*1,936,736*	*2,717,164*	***11,858,857***
Of which: Unsecured senior debt	-	-	*491,122*	*9,975*	*358,284*	*682,215*	*989,000*	*2,383,333*	*1,521,700*	***6,435,630***
Of which: Subordinated liabilities	-	-	-	*424,600*	-	*1,150,000*	*500,000*	-	*515,025*	***2,589,625***
Other liabilities	-	46,145	93,012	383,878	355,660	271,468	216,377	184,644	1,017,406	**2,568,589**
Total liabilities	**86,907,998**	**9,693,554**	**6,643,481**	**20,448,369**	**15,333,845**	**4,050,445**	**3,482,878**	**5,419,330**	**5,780,832**	**157,760,732**
Of which:										
Secured liabilities	-	*4,771,834*	*1,921,638*	*3,842,162*	*2,486,656*	*1,239,428*	*1,501,734*	*1,936,736*	*2,717,164*	***20,417,353***
Unsecured liabilities	*86,907,998*	*4,921,720*	*4,721,843*	*16,606,207*	*12,847,189*	*2,811,016*	*1,981,144*	*3,482,593*	*3,063,668*	***137,343,378***
Trading and Hedging Derivatives										
Receivable	-	5,202,921	6,055,049	16,199,259	11,271,554	5,394,036	6,853,934	14,593,557	32,064,774	**97,635,084**
Payable	-	6,135,270	9,408,311	19,087,579	11,087,959	5,480,385	6,938,206	14,173,087	32,026,036	**104,336,833**
Net	**-**	**(932,349)**	**(3,353,262)**	**(2,888,320)**	**183,595**	**(86,349)**	**(84,272)**	**420,470**	**38,738**	**(6,701,749)**
Contingent risks										
Financial guarantees	15,613	29,919	152,478	350,188	248,845	115,578	56,500	46,599	1,814,573	**2,830,293**

In this analysis, very short-term maturities traditionally represent funding requirements, as they include continuous maturities of short-term liabilities, which in typical banking activities see higher turnover rates than assets, but as they are continuously renewed they actually end up satisfying these requirements and even resulting in an increase in outstanding balances.

It should be noted that the Group's funding capacity in capital markets is systematically checked to ensure it can meet its short, medium and long-term needs.

With regard to the information included in this table, it is worth highlighting that the table shows the residual term to maturity of the asset and liability positions on the balance sheet, broken down into different time brackets.

The information provided is static and does not reflect foreseeable funding requirements, as it does not include behaviour models of asset and/or liability items.

It should also be noted that cash flow breakdowns in the parent company have not been deducted.

In order to present the contractual maturities of financial liabilities with certain particular characteristics, the parent company has applied the following approach:

- For any transaction that includes flows corresponding to early repayments (regular or irregular), each capital flow is shown in the time bracket in which the payment/collection is expected to take place (in accordance with the contractual repayment schedule).

  Demand liabilities are included in the "on demand" tranche, without taking into account their type (stable vs. unstable).

- There are also contingent commitments which could lead to changes in liquidity requirements. These are fundamentally credit facilities with amounts undrawn by the borrowers as at the balance sheet date. The Board of Directors also establishes limits in this regard for control purposes.

- Balances from financial guarantee contracts have been included in the parent company's table, assigning the maximum amount of the guarantee to the first year in which the guarantee can be enforced.

- Financing in the capital markets via instruments which include clauses that could lead to accelerated repayment (puttables or instruments with clauses linked to a credit rating downgrade) is reduced in line with the Group's financial liabilities. It is for this reason that the estimated impact on the parent company would not be significant.

- As at 31 December 2020, the Bank had no instruments in addition to those regulated by master agreements associated with the acquisition of derivatives and repos/reverse repos.

- The Bank does not have any instruments which allow the Institution to decide whether to settle its financial liabilities using cash (or another financial asset) or through the submission of its own shares as at 31 December 2020.

Funding strategy and evolution of liquidity in 2020

The Group's primary source of funding is customer deposits (mainly sight deposits and term deposits acquired through the branch network), supplemented with funding raised through interbank and capital markets in which the Institution has various short-term and long-term funding programmes in order to achieve an adequate level of diversification by type of product, term and investor. The Institution maintains a diversified portfolio of liquid assets that are largely eligible as collateral in exchange for access to funding operations with the European Central Bank (ECB).

On-balance sheet customer funds

As at 31 December 2020 and 2019, on-balance sheet customer funds by maturity were as follows:

Million euro / %

	Note	2020	3 months	6 months	12 months	>12 months	No mat.
Total on-balance sheet customer funds (*)		**112,885**	**4.9%**	**2.7%**	**4.8%**	**3.2%**	**84.4%**
Deposits with agreed maturity		16,434	32.9%	16.5%	32.8%	17.8%	-
Sight accounts	18	95,326	-	-	-	-	100.0%
Retail issues		1,125	5.5%	28.4%	4.9%	61.2%	-

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: non-convertible bonds issued by Banco Sabadell, commercial paper and others.

Million euro / %

	Note	2019	3 months	6 months	12 months	>12 months	No mat.
Total on-balance sheet customer funds (*)		**112,079**	**7.8%**	**3.1%**	**7.1%**	**3.7%**	**78.3%**
Deposits with agreed maturity		22,604	35.3%	14.5%	35.4%	14.8%	-
Sight accounts	18	87,782	-	-	-	-	100.0%
Retail issues		1,693	42.3%	13.2%	0.1%	44.4%	-

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: non-convertible bonds issued by Banco Sabadell, commercial paper and others.

The downward trend of interest rates in financial markets has caused a shift in the composition of on-balance sheet customer funds from term deposits to demand deposit accounts.

Off-balance sheet customer funds managed by the Group and those sold but not under management are shown in Note 25 to these annual financial statements.

The Group's deposits are sold through the following business units/companies of the Group (Commercial Banking, Corporate Banking and Global Businesses, Private Banking and TSB). Details of the volumes of these business units are included in the "Businesses" section of the Directors' Report.

In 2020, the positive trend in terms of the generation of a customer funding gap observed in recent years has continued, which has allowed the Group to continue reducing its Loan-to-Deposit (LtD) ratio (from 147% as at 2010 year-end to 97.6% as at 2020 year-end).

Capital Markets

In 2020, the level of funding in capital markets remained steady because of the need to meet MREL (Minimum Requirement for own funds and Eligible Liabilities), focusing on products that have a lower cost for a given term given the Bank's credit rating. The outstanding nominal amount of funding in capital markets, by type of product, as at 31 December 2020 and 2019, is shown below:

Million euro

	2020	2019
Outstanding nominal balance	**20,788**	**22,480**
Covered Bonds	10,862	11,951
Of which: TSB	*1,390*	*1,469*
Commercial paper and ECP	-	633
Senior debt	4,621	3,626
Senior non-preferred debt	1,451	1,451
Subordinated debt and preference shares	2,888	3,025
Of which: TSB	*428*	*453*
Securitisation bonds	953	1,779
Of which: TSB	-	*501*
Other	13	14

Maturities of issues (excluding securitisations and commercial paper), by type of product and considering their legal maturity, aimed at institutional investors as at 31 December 2020 are analysed below:

Million euro

	2021	2022	2023	2024	2025	2026	>2026	Balance
Covered bonds (*)	1,808	1,696	1,388	2,684	836	390	2,060	10,862
Senior Debt (**)	294	25	1,473	729	1,600	-	500	4,621
Senior non-preferred debt (**)	-	-	-	951	500	-	-	1,451
Subordinated Debt and Preferred Securities (**)	-	-	-	-	-	923	1,965	2,888
Other medium/long term financial instruments (**)	10	-	-	3	-	-	-	13
Total	**2,112**	**1,721**	**2,861**	**4,367**	**2,936**	**1,313**	**4,525**	**19,835**

(*) Secured issues.

(**) Unsecured issues.

The Group is an active participant in capital markets and has a number of funding programmes in operation, with a view to diversifying its different funding sources.

In terms of short-term funding, as at year-end the Bank only had one corporate commercial paper programme in operation, which governs issues of commercial paper and is aimed at institutional and retail investors. The Banco Sabadell 2020 Commercial Paper Programme was registered with the CNMV on 14 May 2020 and had an issuance limit of 7 billion euros, which can be extended to 9 billion euros. The outstanding balance of the commercial paper programme has been declining over the course of the year. As at 31 December 2020, the outstanding balance of the programme was 374 million euros (net of commercial paper subscribed by Group companies), compared with 790 million euros as at 31 December 2019.

27 October 2020 marked the end of the Euro Commercial Paper (ECP) programme aimed at institutional investors, whereby short-term securities were issued in different currencies (EUR, USD and GBP).

Regarding medium and long-term funding, the Institution has the following programmes in operation:

- Programme for the issuance of non-equity securities ("Fixed Income Programme") registered with the CNMV on 16 June 2020, with an issuance limit of 10 billion euros: this programme regulates the issuance of ordinary, non-convertible, non-preferred, subordinated or structured bonds and debentures, in addition to mortgage covered bonds, public sector covered bonds and mortgage bonds issued under Spanish law through the CNMV and aimed at institutional and retail investors, both domestic and foreign. The limit available for new issues under the Banco Sabadell programme for the issue of non-equity securities for 2020, as at 31 December 2020, was 8,500 million euros (as at 31 December 2019, the limit available under the Fixed Income Programme for 2019 was of 13,080 million euros).

Banco Sabadell's public issuance volume under the Fixed-Income Programme in 2020 amounted to a total of 1,000 million euros. Throughout the year, Banco Sabadell has issued the following:

Million euro

	ISIN Code	Type of investor	Issue Date	Amount	Term
Covered Bonds 1/2020	ES0413860745	Institutional	January-20	1,000	8

- Euro Medium Term Notes (EMTN) programme, registered with the Irish Stock Exchange on 26 May 2020, and supplemented on 13 July, 27 August and 03 November 2020. This programme allows senior debt (preferred and non-preferred) and subordinated bonds to be issued in various currencies, with a maximum limit of 15 billion euros.

  Banco Sabadell's total issuance volume under the EMTN Programme in effect during 2020 amounted to 1,420 million euros and included the 6 non-call 5 year inaugural green senior preferred debt issuance of 500 million euros on 11 September 2020, and a 10 non-call 5 year Tier 2 subordinated debt issuance with a nominal value of 300 million euros on 17 January 2020. Throughout the year, Banco Sabadell has issued the following:

Million euro

	ISIN Code	Type of investor	Issue Date	Amount	Term
Subordinated Bonds 1/2020	XS2102931677	Institutional	January-20	300	10NC5
Senior bond 1/2020	XS2193960668	Institutional	June-20	500	3NC2
Senior bond 2/2020	XS2228245838	Institutional	September-20	500	6,5NC5,5
Senior bond 3/2020	XS2243903510	Institutional	October-20	120	4,5NC3,5

In relation to asset securitisation:

- Since 1993, the Group has been a very active participant in this market and it takes part in a number of securitisation programmes, in some cases in conjunction with other institutions, awarding mortgage loans, SME loans, consumer loans and finance lease receivables.
- There are currently 18 outstanding asset securitisation transactions fully recognised on the balance sheet. Although part of the bonds issued were retained by the Institution as liquid assets eligible for access to the European Central Bank's funding operations, the rest of the bonds were placed in capital markets. As at the end of 2020, the nominal value of asset-backed securities placed in the market stood at 952.7 million euros.
- Banco Sabadell called the fund GC Sabadell 1, FTH early in March, on the date of the clean-up call. It also called early, due to the clean-up call in December, the multi-seller fund TDA 15 mixto, FTA. In July and September, TSB called its two securitisation funds early, calling Duncan Funding 2016 as there were no more outstanding bonds in the market and Duncan Funding 2015 as it had reached its step-up call date. At present, TSB has no outstanding balances in securitisation funds.

In March 2016, the European Central Bank announced new economic stimulus measures through a new targeted longer-term refinancing operations programme (TLTRO II), consisting of four 4-year liquidity auctions taking place between June 2016 and March 2017. Banco Sabadell took part in TLTRO II, withdrawing a total amount of 20.5 billion euros (10 billion euros in the first auction of June 2016 and 10.5 billion euros in the last auction of March 2017). In 2019 it made two early repayments of the balance drawn: one amounting to 5 billion euros on 26 June and another amounting to 2 billion euros on 25 September. The remaining 13.5 billion euros were repaid on 24 June 2020.

In light of current circumstances, the European Central Bank announced measures designed to mitigate the impact arising from COVID-19, which included easing the conditions for TLTRO III. Specifically, TLTRO III ensures an interest rate that will be no higher than the average deposit facility rate (currently -0.50%) for the period between 24 June 2020 and 23 June 2022. An interest rate of up to 50 basis points below the aforesaid rate will be applied on all TLTRO III operations outstanding over the period from 24 June 2020 to 23 June 2021, for counterparties whose eligible net lending between 1 March 2020 and 31 March 2021 reaches the benchmark, and on all TLTRO III operations outstanding over the period from 24 June 2021 to 23 June 2022, for counterparties whose eligible net lending between 1 October 2020 and 31 December 2021 reaches the lending performance threshold, and in any case not higher than -1%. From 23 June 2022 onwards, if the aforesaid benchmark has been achieved, the interest rate applied to operations up to March 2021 will be the average deposit facility rate. Similarly, if the lending performance threshold mentioned above is reached, the interest rate applied to operations between June 2021 and December 2021 will be the average deposit facility rate. If the aforesaid benchmark or threshold is not achieved, the interest rate will be no higher than the current legal interest rate (currently 0%).

For this reason, and coinciding with the repayment of TLTRO II, on 24 June 2020 Banco Sabadell requested a withdrawal of 27 billion euros from TLTRO III.

The Bank believes that the possible reduction of the interest rate by 50 basis points at which the European Central Bank lends money under TLTRO III qualifies as a grant, as it sets the interest rate on the loan below market rates. This grant is recognised as net interest income, provided that there is reasonable certainty that the conditions linked to the grant will be met and that the amount of that grant will be received. Given that the growth of the Bank's eligible net lending since 1 March 2020 has been significant, and as this growth trend is expected to continue until 31 March 2021, the Bank has assumed that it will benefit from the -1% interest rate up to 23 June 2021, having recognised 143,250 thousand euros in interest income on TLTRO III during 2020.

In 2016, the Bank of England also implemented a package of measures to support economic growth. Among other things, this package introduced the Term Funding Scheme (TFS), a scheme to incentivise lending which was implemented in August 2016 by the Bank of England, through which British banks could carry out 4-year drawdowns in exchange for the provision of collateral eligible as consideration. TSB, as a member of the Sterling Monetary Framework (SMF), made use of the TFS throughout 2017, withdrawing 6,251 million euros, and also in February 2018, with an additional drawdown of 945 million euros. In 2019, TSB made early repayments of the amounts withdrawn from the TFS amounting to a total value of 2,225 million euros. On 25 June 2020, it repaid 1,563 million euros withdrawn from the aforesaid scheme, meaning that the amount owing to the Bank of England as at the end of December 2020 amounted to 3,409 million euros, which in 2021 will likely be rolled over into the Bank of England's new TFSME facility, designed to incentivise lending to small and medium-sized enterprises.

Liquid assets

In addition to these sources of funding, the Group maintains a liquidity buffer in the form of liquid assets to meet potential liquidity needs.

Million euro

	2020	2019
Cash(*) + Net Interbank Position	29,560	7,044
Funds available in Bank of Spain facility	7,728	7,633
ECB eligible assets not pledged in facility	3,387	21,335
Other non-ECB eligible marketable assets (**)	3,710	3,518
Memorandum item:		
Balance drawn from Bank of Spain facility(***)	*27,978*	*14,613*
Balance drawn from Bank of England Term Funding Scheme	*3,409*	*5,254*
Total Liquid Assets Available	**44,385**	**39,530**

(*) Excess reserves at Central Banks.

(**) Market value, and after applying the Liquidity Coverage Ratio (LCR) haircut. Includes Fixed Income qualifying as a high quality liquid asset according to LCR (HQLA) and other marketable assets from different Group entities.

(***) Includes TLTRO-III and borrowing of USD 1,200 million from the ECB for a period of 3 weeks.

With regard to 2019, the Group's first line of liquidity (available liquid assets) increased over the year by 4,855 million euros, mainly reflecting the positive impact of the measures introduced by the European Central Bank as a result of COVID-19 to reduce haircuts on eligible assets and the increased range of credit transactions eligible as collateral in its operations. The balance of central bank reserves and the net interbank position increased by 22,516 million euros, mainly related to access to TLTRO III. There is also a volume of ECB eligible liquid assets, whose balance as at 31 December 2020 has decreased by 17,853 million euros, while available non-ECB eligible assets have increased by 192 million euros.

In the case of TSB, the first line of liquidity as at 31 December 2020 comprised 2,718 million euros of liquid assets (2,578 million euros as at 31 December 2019), mainly gilts, and a surplus of reserves in the Bank of England amounting to 5,084 million euros (4,803 million euros as at 31 December 2019).

In addition to the first line of liquidity, a buffer is maintained comprising mortgage loans and loans to general governments eligible as collateral for mortgage covered bonds and public sector covered bonds, respectively, which as at 31 December 2020 contributed a cash value of 9,791 million euros in terms of capacity to issue new own covered bonds eligible as collateral in return for access to the ECB facility (4,640 million euros as at 2019 year-end). As at 31 December 2020, available liquidity amounted to 54,176 million euros in cash equivalent, corresponding to the amount of the first line of liquidity plus the issuing capacity of the Institution's mortgage covered bonds and public sector covered bonds as at that date adjusted by the average valuation haircut applied by the ECB to covered bonds (44,170 million euros in cash equivalent as at 31 December 2019).

It should be noted that the Group follows a decentralised liquidity management model. This model tends to limit the transfer of liquidity between the various subsidiaries involved in liquidity management, thereby limiting intra-group exposures beyond any restrictions imposed by local regulators on each subsidiary. Thus, the subsidiaries involved in liquidity management determine their liquidity position by considering only those assets in their possession that meet the eligibility, availability and liquidity criteria set forth both internally and in regulations in order to comply with regulatory minima.

There are no significant amounts of cash or cash equivalents that are unavailable for use by the Group.

Compliance with regulatory ratios

As part of its liquidity management approach, Banco Sabadell Group monitors the short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) and reports the necessary information to the regulator on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of liquidity risk control arrangements in UGLs.

In terms of the LCR, since 1 January 2018, the regulatory required minimum LCR is 100%, a level which is amply surpassed by all of the Institution's UGLs. At the Group level, throughout the year, the LCR has consistently been well above 100%. As at 31 December 2020, the LCR was 219% excluding TSB and 201% at TSB.

As for the NSFR, it is due to come into force in June 2021. However, the Group has already started to monitor this ratio as a liquidity metric for UGLs.

Given the Group's funding structure, with a preponderance of customer deposits, and as the majority of its market funding is in the medium/long term, the Group has maintained stable levels consistently well over 100%.

3.4.3.2. Market risk

Market risk is defined as the risk of financial asset positions losing their market value due to changes in risk factors affecting their quoted price or market performance, their volatility, or the interconnections that exist between them.

Positions that generate market risk are usually held in connection with trading activity, which consists of hedging transactions arranged by the Bank to provide services to its customers as well as discretionary proprietary positions.

Market risk can also arise from the mere maintenance of overall (also known as structural) balance sheet positions that in net terms are left open. This risk is described in the sections on structural risks.

The items of the consolidated balance sheet as at 31 December 2020 and 2019 are shown below, making a distinction between positions included in trading activity and other positions. In the case of items not included in trading activity, their main risk factor is indicated:

Thousand euro

31/12/2020				
	On-balance sheet balance	Trading activity	Rest	Main risk factor for balance sheet under "Rest"
Assets subject to market risk	**188.909.020**	**2.495.230**	**186.413.789**	
Cash, cash balances at central banks and other demand deposits	28.723.571	-	28.723.571	Interest rate
Financial assets held for trading	2.434.831	2.412.144	22.687	Interest rate; credit spread
Financial assets designated at fair value through profit or loss	70.236	10.566	59.670	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	5.066.571	72.520	4.994.051	Interest rate; credit spread
Financial assets at amortised cost	137.243.172	-	137.243.171	Interest rate
Derivatives – Hedge accounting	393.702	-	393.702	Interest rate
Investments in joint ventures and associates	5.557.864	-	5.557.864	Equity; Exchange rate
Other financial assets	369.688	-	369.688	Interest rate
Other non-financial assets	9.049.385	-	9.049.385	-
Liabilities subject to market risk	**177.812.598**	**2.308.943**	**175.503.655**	
Financial liabilities held for trading	2.316.140	2.308.943	7.197	Interest rate
Financial liabilities designated at fair value through profit or loss	-	-	-	Interest rate
Derivatives – Hedge accounting	521.384	-	521.384	Interest rate
Financial liabilities measured at amortised cost	172.930.575	-	172.930.575	Interest rate
Provisions	1.024.950	-	1.024.950	Interest rate
Other financial liabilities	241.550	-	241.550	Interest rate
Other non-financial liabilities	777.999	-	777.999	-
Equity	**11.096.422**	-	**11.096.422**	

Thousand euro

	31/12/2019			
	On-balance sheet balance	Trading activity	Rest	Main risk factor for balance sheet under "Rest"
Assets subject to market risk	**178.398.801**	**1.757.516**	**176.641.286**	
Cash, cash balances at central banks and other demand deposits	8.792.496	-	8.792.496	Interest rate
Financial assets held for trading	2.303.449	1.665.843	637.607	Interest rate; credit spread
Non-trading financial assets mandatorily at fair value through profit or loss	119.164	-	119.164	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	5.419.218	91.673	5.327.545	Interest rate; credit spread
Financial assets at amortised cost	146.894.393	-	146.894.394	Interest rate
Derivatives – Hedge accounting	358.373	-	358.373	Interest rate
Investments in joint ventures and associates	5.490.128	-	5.490.129	Exchange rate
Other financial assets	225.437	-	225.437	Interest rate
Other non-financial assets	8.796.143	-	8.796.141	-
Liabilities subject to market risk	**167.082.294**	**2.012.614**	**165.069.680**	
Financial liabilities held for trading	2.563.334	2.012.614	550.720	Interest rate
Financial liabilities designated at fair value through profit or loss				Interest rate
Derivatives – Hedge accounting	380.884	-	380.884	Interest rate
Financial liabilities measured at amortised cost	162.419.750	-	162.419.750	Interest rate
Provisions	823.452	-	823.452	Interest rate
Other financial liabilities	173.129	-	173.129	Interest rate
Other non-financial liabilities	721.745	-	721.745	-
Equity	**11.316.507**	**-**	**11.316.506**	

The market risk acceptance, management and oversight system is based on managing positions expressly assigned to different trading desks and establishing limits for each one, in such a way that the trading desks have the obligation to manage their positions within the limits established by the risk unit.

Trading activity

The main market risk factors considered by the Group in its trading activity are:

- Interest rate risk: risk associated with the possibility of interest rate fluctuations adversely affecting the value of a financial instrument. This is reflected, for example, in transactions involving interbank deposits, fixed income and interest rate derivatives.

- Credit spread risk: this risk arises from fluctuations in the credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This risk occurs mainly in fixed-income instruments.

- Foreign exchange risk: risk associated with the fluctuation of exchange rates with respect to the functional currency. In the case of Banco Sabadell, the functional currency is the euro. This risk occurs mainly in currency exchange transactions and currency derivatives.

- Equity price risk: risk arising from fluctuations in the value of capital instruments (shares and quoted indices). This risk is reflected in the market prices of the securities and their derivatives.

Changes in commodities prices have not had an impact in the year, as the Group has residual (both direct and underlying) exposures.

Market risk in trading activities is measured using the VaR and stressed VaR methodologies. This allows for risks to be standardised across different types of financial market transactions.

VaR provides an estimate of the maximum potential loss associated with a position due to adverse, but normal, movements of one or more of the identified parameters generating market risk. This estimate is expressed in monetary terms and refers to a specific date, a particular level of confidence and a specific time horizon. A 99% confidence interval is used. Due to the low complexity of the instruments and the high level of liquidity of the positions, a time horizon of 1 day is used.

The methodology used to calculate VaR is historical simulation. The advantages of this methodology are that it is based on a full revaluation of transactions under recent historical scenarios, and that no assumptions need to be made as regards the distribution of market prices. The main limitation to this methodology is its reliance on historical data, given that, if a possible event has not materialised within the range of historical data used, it will not be reflected in the VaR information.

The reliability of the VaR methodology used can be checked using backtesting techniques, which serve to verify that the VaR estimates fall within the confidence level considered. Backtesting consists of comparing daily VaR against daily results. If losses exceed the level of VaR, an exception occurs. In 2020, three exceptions occurred in the backtesting exercise due to the impact of COVID-19 on sovereign bond spreads in the European periphery during the first quarter.

Stressed VaR is calculated in the same way as VaR but with a historical insight into variations of the risk factors in stressed market conditions. This stress situation is determined on the basis of currently outstanding transactions, and it can vary if the portfolios' risk profile changes. The methodology used for this risk metric is historical simulation.

Its supervision is supplemented with additional measurements such as risk sensitivities, which refer to a change in the value of a position or portfolio in response to a change in a specific risk factor, and also with the calculation of management results, which are used to monitor stop-loss limits.

Furthermore, specific simulation exercises are carried out applying extreme market scenarios (stress testing), which analyse the impacts of different historical and theoretical scenarios on the portfolios.

Market risk is monitored on a daily basis and reports are made to the supervisory bodies on the existing risk levels and on the compliance with the limits set forth by the Board Risk Committee for each management unit (limits based on nominal, VaR and sensitivity, as applicable). This makes it possible to keep track of changes in exposure levels and measure the contribution of market risk factors.

The market risk incurred on trading activity in terms of 1-day VaR with a 99% confidence interval for 2020 and 2019 was as follows:

Million euro

	2020			2019		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest rate risk	1.42	2.71	0.60	0.63	1.23	0.42
Currency risk-trading	0.46	3.22	0.01	0.04	0.13	0.01
Equities	0.19	0.23	0.08	0.43	1.36	0.13
Credit spread	1.10	2.14	0.20	0.54	1.27	0.08
Aggregate VaR	**3.17**	**5.05**	**1.26**	**1.64**	**2.32**	**0.97**

During 2020, particularly in the first six months of the year, the VaR figures for trading activity increased, mainly driven by the interest rate and credit spread, as a result of more volatile markets due to COVID-19 and despite the absence of any significant increase in the portfolio's size. High levels of foreign exchange volatility were also recorded, along with declines in equity prices, which mainly occurred during the first quarter and whose effect on portfolios was not significant given the limited exposure to these risk factors during this period.

Structural interest rate risk

Structural interest rate risk is inherent in banking activity and is defined as the current or future risk to both the income statement (income and expenses) and the economic value of equity (present value of assets, liabilities and off-balance sheet positions) arising from adverse interest rate fluctuations affecting interest rate-sensitive instruments in non-trading activities (also known as IRRBB, Interest Rate Risk in the Banking Book).

Banco Sabadell identifies three interest rate sub-risks:

- Mismatch risk refers to the gap that arises as a result of the different rate at which assets and liabilities renew their interest rate. It covers both parallel and non-parallel changes in the interest rate curve (i.e. changes in the slope and shape of the curve).
- Basis risk arises from having financial instruments with similar repricing periods but based on different benchmarks.
- Optionality risk: arises from explicit or implicit options in assets and liabilities, in which the Institution, customer or counterparty may alter the level and/or timing of their flows. Automatic options related to the movements of interest rates, and those related to the behaviour of customers that do not only depend on interest rates, are considered.

The management of this risk pursues two fundamental objectives:

- To stabilise and protect the net interest margin, preventing interest rate movements from causing excessive variations in the budgeted margin.
- To minimise the volatility of the economic value of equity, this perspective being complementary to that of the margin.

Interest rate risk is managed through a Group-wide approach on the basis of the RAS, approved by the Board of Directors. A decentralised model is followed based on Balance Sheet Management Units (UGBs, for their acronym in Spanish). In coordination with the Group's corporate functions, each UGB has the autonomy and capacity to carry out risk management and control duties.

The Group's current interest rate risk management strategy is based particularly on the following principles, in line with the business model and the defined strategic objectives:

- Each UGB has appropriate tools and processes and robust systems in order to properly identify, measure, manage, control and report on IRRBB. Thus, the Group obtains information about all of the identified sources of IRRBB, assesses their effect on the net interest margin and the economic value of equity and measures the vulnerability of the Group/UGB in the event of potential losses arising from IRRBB under different stress scenarios.
- At the corporate level, a set of limits are established for overseeing and monitoring the exposure to IRRBB that are appropriate to its internal risk tolerance policies. However, each UGB has the autonomy and structure required to properly manage and control IRRBB and CSRBB. Specifically, each UGB has sufficient autonomy to choose the management target that it will pursue, although all UGBs should follow the principles and critical parameters set by the Group, adapting them to the specific characteristics of the region in which they operate.
- The existence of a funds transfer pricing system.
- The set of systems, processes, metrics, limits, reporting arrangements and governance arrangements included within the IRRBB strategy must comply with regulatory requirements at all times.

As defined in the IRRBB management and control policy, the first line of defence is undertaken by the Balance Sheet Management Unit (UGB), which reports to the Asset and Liability Committee. Their main role is to manage interest rate risk, ensuring it is assessed on a recurrent basis through management and regulatory metrics, taking into account the modelling of the various balance sheet totals and the level of risk taken.

The metrics developed to control and monitor Banco Sabadell's structural interest rate risk are aligned with the market's best practices and implemented by the Asset and Liability Committee. The diversification effect between currencies is taken into account when presenting overall figures.

The metrics that Banco Sabadell calculates monthly are as follows:

- Interest rate gap: static metric showing the breakdown of maturities and repricing of sensitive balance sheet items. This metric compares the values of assets that are due to be revised or that mature in a given period and the liabilities that mature or reprice in that same period.

- Net interest margin sensitivity: dynamic metric that measures the short and medium-term impact of interest rate fluctuations. It is obtained by comparing the net interest margin over 1 year in the baseline scenario, which would be the one obtained from implied market interest rates, and the one obtained in a scenario of instant disruption, always considering the result obtained in the most unfavourable scenario.
- Economic value of equity sensitivity: static metric that measures the long-term impact of interest rate fluctuations. It is obtained by comparing the economic value of the balance sheet in the baseline scenario against the one obtained in a scenario of instant disruption, always considering the result obtained in the most unfavourable scenario. This is done by calculating the present value of interest rate-sensitive items as an update in the risk-free yield curve, on the reference date, of future payments of principal and interest without taking account of the profit margins, in line with the way in which IRRBB is managed.

In the quantitative interest rate risk estimations made by Banco Sabadell, a series of interest rate scenarios are designed which allow the different sources of risk mentioned above to be identified. These scenarios include, for each significant currency, parallel movements and non-parallel movements in the yield curve. Based on these, sensitivity is calculated as the difference resulting from:

- Baseline scenario: market interest rate movements based on implied interest rates.

- Stressed scenario: a shift in interest rates in relation to the baseline scenario, with the extent of this shift varying depending on the scenario to be calculated. A minimum post-disruption interest rate is applied, starting at -100 basis points for current maturities and increasing by 5 basic point intervals to 0% after 20 years.

Furthermore, in accordance with the Group's corporate principles, Banco Sabadell regularly carries out stress tests, which allow it to forecast high-impact situations with a low probability of occurrence that could place the Bank in a position of extreme exposure in relation to interest rate risk, and it also considers mitigating actions for such situations.

The following table gives details of the Bank's interest rate gap as at 31 December 2020 and 2019:

Thousand euro

	2020								
Time to maturity	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**TOTAL**
Money Market	32,265,936	1,644,388	634,301	195,900	-	-	-	-	**34,740,525**
Loans and advances	13,096,557	17,922,290	38,677,284	8,190,312	11,963,587	5,685,765	3,058,892	13,714,299	**112,308,987**
Debt securities	1,000,724	184,400	356,330	368,443	1,891,120	1,569,054	1,356,830	12,896,626	**19,623,527**
Other assets	-	-	-	-	-	-	-	-	**-**
Total assets	**46,363,217**	**19,751,077**	**39,667,915**	**8,754,656**	**13,854,707**	**7,254,819**	**4,415,722**	**26,610,925**	**166,673,039**
Money Market	33,159,054	1,895,541	554,381	195,900	-	-	10,108	-	**35,814,984**
Customer deposits	96,325,944	2,102,371	8,501,377	1,455,406	415,602	553,058	336,692	50,139	**109,740,589**
Issues of marketable securities	1,233,361	2,448,214	1,773,175	3,026,659	2,539,000	3,510,000	2,658,110	3,465,025	**20,653,545**
Of which: Subordinated liabilities	-	-	-	*1,150,000*	*500,000*	-	*300,000*	*515,025*	***2,465,025***
Other liabilities	85,539	202,717	468,804	221,647	183,456	159,018	129,675	846,396	**2,297,254**
Total liabilities	**130,803,898**	**6,648,844**	**11,297,737**	**4,899,613**	**3,138,058**	**4,222,075**	**3,134,586**	**4,361,561**	**168,506,372**
Hedging Derivatives	1,768,309	(2,436,835)	394,793	1,013,774	(587,157)	1,452,469	592,523	(2,197,876)	**-**
Interest rate gap	**(82,672,372)**	**10,665,399**	**28,764,971**	**4,868,817**	**10,129,492**	**4,485,213**	**1,873,660**	**20,051,489**	**(1,833,333)**

Thousand euro

Time to maturity	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	TOTAL
				2019					
Money Market	16,821,818	1,602,952	1,958,581	517,913	27,700	-	-	-	**20,928,965**
Loans and advances	14,977,134	23,844,020	39,437,163	5,622,290	7,224,351	4,472,393	2,678,139	12,079,636	**110,335,125**
Debt securities	644,613	239,023	913,024	492,755	392,330	197,309	1,513,158	16,721,766	**21,113,977**
Other assets	-	-	-	-	-	-	-	-	**-**
Total assets	**32,443,564**	**25,685,995**	**42,308,768**	**6,632,958**	**7,644,380**	**4,669,701**	**4,191,297**	**28,801,402**	**152,378,067**
Money Market	7,587,381	2,871,010	4,635,973	10,893,765	-	-	-	-	**25,988,129**
Customer deposits	39,077,458	6,914,621	17,850,772	7,943,595	5,463,917	3,942,706	2,678,925	22,542,085	**106,414,078**
Emisiones de valores negociables	1,325,409	3,372,642	3,102,089	1,956,000	2,526,659	2,539,000	3,630,000	4,338,136	**22,789,935**
Of which: Subordinated liabilities	-	-	*424,600*	-	*1,150,000*	*500,000*	-	*515,025*	***2,589,625***
Other liabilities	114,192	193,420	605,057	257,827	203,178	166,437	143,618	884,860	**2,568,589**
Total liabilities	**48,104,439**	**13,351,693**	**26,193,891**	**21,051,188**	**8,193,755**	**6,648,143**	**6,452,543**	**27,765,080**	**157,760,732**
Hedging Derivatives	2,614,149	(862,437)	(1,561,368)	(69,049)	487,666	239,188	1,929,229	(2,777,378)	**-**
Interest rate gap	**(13,046,726)**	**11,471,865**	**14,553,509**	**(14,487,279)**	**(61,708)**	**(1,739,254)**	**(332,017)**	**(1,741,055)**	**(5,382,665)**

The following table shows the interest rate risk levels in terms of the sensitivity of the Bank's main currencies, as at 2020 year-end, to the most frequently used interest rate scenarios in the sector:

Interest rate sensitivity	Instant and parallel increase of 100 bps	
	Impact on net interest margin	Impact on economic value of equity
EUR	4.6%	(2.2%)
USD	0.8%	0.1%

The calculation of the metrics takes into account the assumptions regarding the performance of items with no contractual maturity and those whose expected maturity is different from the maturity established in the agreements, in order to obtain a view that is more realistic and therefore more effective for management purposes. The most significant of these include:

- Prepayment of the loan portfolio and early cancellation of term deposits (implicit optionality): in order to reflect customers' reactions to interest rate movements, prepayment/cancellation assumptions are defined, broken down by type of product. To this end, the Bank uses historical data to ensure it is in line with the market's best practices.
- Modelling of sight deposits and other liabilities with no contractual maturity: a model has been defined on the basis of historical monthly data in order to reproduce customer behaviour, establishing stability parameters, the percentage of interest rate movements that is passed through to the interest paid on the deposit and the delay with which this occurs, depending on the type of product and the type of customer, enabling the Institution to meet current regulatory requirements.
- Modelling of non-performing loans: a model has been defined that enables the expected flows associated with non-performing exposures (net of provisions), i.e. those expected to be recovered, to be included in pools of interest rate-sensitive balance sheet items. To this end, both existing balances and expected recovery periods have been incorporated.

The process to approve and update IRRBB models is part of the corporate governance arrangements for models, whereby these models are reviewed and validated by a Division that is always separate from the division that created them. This process is included in the corresponding model risk policy and establishes both the duties of the different areas involved in the models and the internal validation framework to be followed.

As for the measurement systems and tools used, all sensitive transactions are identified and recorded taking into account their interest rate characteristics, the sources of information being the official ones of the Bank. These transactions are aggregated according to predefined criteria, so that calculations can be made faster without undermining the quality or reliability of the data. The entire data process is subject to the requirements of information governance and data quality, to ensure compliance with the best practices in this area. Additionally, a regular process is carried out to reconcile the information uploaded onto the measurement tool against accounting information. The calculation tool includes sensitive transactions, and its parameters are also set to reflect the result of the behavioural models described above, the volumes and prices of the new business, defined according to the Business Plan, and the yield curves on which the aforesaid scenarios are built.

Based on the balance sheet position and the market situation and outlooks, mitigation techniques are proposed and agreed upon to adapt this position to the one desired by the Bank. Interest rate instruments additional to the natural hedges of balance sheet items are used to act as mitigation techniques, such as fixed-income bond portfolios or hedging derivatives that enable metrics to be placed at levels appropriate to the Institution's risk appetite. In addition, proposals can be put forward to redefine the interest rate characteristics of commercial products or the creation of new products.

Derivatives, mainly interest rate swaps (IRS), which qualify as hedges for accounting purposes, are arranged in financial markets to be used as risk hedging instruments. Two separate types of macro-hedges are used:

- Cash flow macro-hedges of interest rate risk, the purpose of which is to reduce the volatility of the net interest margin due to changes in interest rates over one-year time horizon.
- Fair value macro-hedges of interest rate risk, the purpose of which is to maintain the economic value of the hedged items, consisting of fixed-rate assets and liabilities.

For each type of macro-hedge, there is a framework document that includes the hedging strategy, defining it in terms of management and accounting and establishing its governance.

In Banco Sabadell, as part of the continuous improvement process, structural interest rate risk management and monitoring activities are implemented and regularly updated, aligning the Institution with best market practices and current regulations.

The COVID-19 crisis has resulted in a series of elements that can alter the structure of the Group's balance sheet and have an impact on net interest income and/or the economic value of equity, both in absolute terms and relative to sensitivity. Specifically, in the Bank the crisis has had an impact on customer lending positions due, on one hand, to the Spanish Government's measures related to ICO guarantees or moratoria on the repayment of loan principal and interest and, on the other hand, because of the credit facilities granted by the Bank to its customers to help them cope with financial difficulties stemming from the crisis. On the liabilities side, the main change was access to TLTRO III amounting to 27 billion euros, having made early repayment of 10.5 billion euros on TLTRO II, as the financial conditions of the new TLTRO III differ from those of the previous one, as described in section 3.4.3.1 of this note.

In terms of interest rates, these have remained low throughout 2020. The European Central Bank's marginal deposit rate has been maintained at -0.50%. Interbank rates on the three currencies relevant to the Bank have fallen since the onset of the crisis, increasing the probability of a slower recovery of interest rates.

In other respects, the Bank pays close attention to possible changes in customer behaviour deriving from the COVID-19 crisis that could become more widespread over time, in order to keep the behaviour assumptions used to measure and manage IRRBB in line with expectations. This concerns customer behaviour related to non-maturing items (changes in the stability of sight deposits) and items with an expected maturity that may be different to the contractually established maturity (due to early repayment of loans, early termination of term deposits or recovery time and balance of non-performing exposures).

Balance sheet management has enabled the Bank to keep its IRRBB metrics within its risk appetite, taking into consideration the structural changes outlined previously as well as the episodes of market volatility and interest rate variations.

Structural foreign exchange risk

Structural foreign exchange risk occurs when changes in market exchange rates between different currencies generate losses on financial investments and on permanent investments in foreign branches and subsidiaries with functional currencies other than the euro.

The purpose of managing structural foreign exchange risk is to minimise the impact on the value of the portfolio/the Institution's equity in the event of any adverse movements in currency markets. The foregoing takes into account the potential impacts on the capital (CET1) ratio and on the net interest margin, subject to the risk appetite defined in the RAS. Furthermore, the levels set for the established risk metrics must be complied with at all times.

Foreign exchange risk is monitored regularly, and reports on existing risk levels and on compliance with the limits set forth by the Board Risk Committee are sent to the risk control bodies. The main monitoring metrics are, on one hand, currency exposure (measured as a percentage of Tier 1), which measures the sum of the net open position (assets less liabilities) maintained by the Institution in each currency through any type of financial instrument (FX spots, forwards and options), valued in euros and in relation to Tier 1. Also, on the other hand, Stressed VaR, understood as the maximum potential loss on a foreign currency open position with a time horizon of 20 business days and a confidence interval of 99%, calculated using a range of historical changes in market risk factors at times of market stress. This last metric is calculated in a manner consistent with Stressed VaR and market risk.

Compliance with, and the effectiveness of, the Group's objectives and policies are monitored and reported on a monthly basis to the Board Risk Committee and to the Audit and Control Committee, respectively.

The Bank's Financial Division, through the ALCO, designs and executes strategies to hedge structural FX positions in order to achieve its objectives in relation to the management of structural foreign exchange risk.

The most significant permanent investments are denominated in US dollars, pounds sterling and Mexican pesos.

As regards permanent investments in US dollars, the structural position in this currency has gone from 958 million US dollars as at 31 December 2019 to 1,039 million US dollars as at 31 December 2020. With regard to this structural position, as at 31 December 2020, a hedge is in place for 14% of the total investment (see Note 11, section on *"Hedges of net investments in foreign operations"*).

With regard to permanent investments in Mexican pesos, volumes of business in Mexico and changes in the EUR/MXN currency pair are monitored. This has enabled the capital buffer to go from 9,998 million Mexican pesos as at 31 December 2019 (of a total exposure of 13,175 million Mexican pesos) to 8,583 million Mexican pesos as at 31 December 2020 (of a total exposure of 12,505 million Mexican pesos), representing 69% of the total investment made (see Note 11, section on "*Hedges of net investments in foreign operations*").

As for the structural position in pounds sterling, the Group has been implementing a hedging policy that seeks to mitigate any negative effects on capital ratios and on revenue generated by its business in pounds sterling that may result from fluctuations in the aforementioned EUR/GBP exchange rate. The Bank has continuously monitored the political situation in the United Kingdom and its impact on the exchange rate. Considering the foregoing, during 2020 the capital buffer has gone from 573 million pounds as at 31 December 2019 to 213 million pounds as at 31 December 2020, representing 12% of the total investment made (excluding intangibles) (see Note 11, section on "*Hedges of net investments in foreign operations*").

Currency hedges are continuously monitored in light of market movements.

The exchange value in euros of assets and liabilities in foreign currencies maintained by the Bank as at 31 December 2020 and 2019, classified in accordance with their nature, is as follows:

Thousand euro

	2020			
	USD	GBP	Other currencies	TOTAL
Assets denominated in foreign currency:	**8,808,846**	**4,123,978**	**1,026,231**	**13,959,055**
Cash, cash balances with central banks and other demand deposits	203,415	30,217	48,396	282,028
Debt securities	1,015,189	500,628	85,464	1,601,281
Loans and advances	7,339,474	1,318,975	299,562	8,958,011
Central banks and Credit institutions	466,215	629	22,356	489,200
Customers	6,873,259	1,318,346	277,206	8,468,811
Other assets	250,768	2,274,158	592,809	3,117,735
Liabilities denominated in foreign currency:	**6,624,351**	**579,474**	**274,090**	**7,477,915**
Deposits	6,318,478	529,944	252,604	7,101,026
Central banks and Credit institutions	2,036,793	50,373	120,962	2,208,128
Customers	4,281,685	479,571	131,642	4,892,898
Other liabilities	305,873	49,530	21,486	376,889

Thousand euro

	2019			
	USD	GBP	Other currencies	TOTAL
Assets denominated in foreign currency:	**9,626,262**	**3,759,934**	**1,098,403**	**14,484,599**
Cash, cash balances at central banks and other demand deposits	461,998	21,676	39,320	522,994
Debt securities	1,245,879	-	43,342	1,289,221
Loans and advances	7,754,656	1,457,290	357,136	9,569,082
Central banks and Credit institutions	857,656	5,075	45,371	908,102
Customers	6,897,000	1,452,215	311,765	8,660,980
Other assets	163,729	2,280,968	658,605	3,103,302
Liabilities denominated in foreign currency:	**9,429,442**	**429,105**	**289,182**	**10,147,729**
Deposits	9,201,660	400,224	271,531	9,873,415
Central banks and Credit institutions	2,018,717	45,741	153,739	2,218,197
Customers	7,182,943	354,483	117,792	7,655,218
Other liabilities	227,782	28,881	17,651	274,314

The net position of foreign currency assets and liabilities includes the structural position of the Institution, valued at the closing exchange rate of 31 December 2020, which amounted to 2,596 million euros, including 1,668 million euros corresponding to permanent equity holdings in pounds sterling, 724 million euros corresponding to permanent equity holdings in US dollars and 161 million euros to permanent equity holdings in Mexican pesos. Net assets and liabilities valued at historic exchange rates are hedged with forwards and options denominated in foreign currencies in line with the Group's risk management policy.

As at 31 December 2020, the equity exposure sensitivity to a 2.6% exchange rate depreciation in the main currencies to which the Bank is exposed, against the euro, amounted to 67 million euros, of which 64% corresponded to the pound sterling, 28% to the US dollar and 6% to the Mexican peso. This potential depreciation is in line with historical quarterly volatility in recent years.

During 2020 the US dollar depreciated by 8.5%, the pound sterling depreciated by 5.4% and the Mexican peso depreciated by 13.1% against the euro. The Bank's strategy, which has consisted of protecting the capital ratio against exchange rate movements during this period, has remained unchanged from the pre-crisis situation.

3.4.4. Operational risk

Operational risk is defined as the risk of incurring losses due to inadequacies or failures of processes, staff or internal systems or due to external events. This definition includes but is not limited to legal risk, model risk and information and communication technology (ICT) risk and excludes strategic risk and reputational risk.

The management of operational risk is decentralised and devolved to process managers throughout the organisation. The processes that they manage are indicated in the corporate process flowchart, which facilitates the integration of data according to the organisational structure. The Group has a central unit that specialises in the management of operational risk, whose main duties are to coordinate, oversee and promote the identification, assessment and management of risks by the process managers, based on the management model adopted by Banco Sabadell Group.

Senior Management and the Board of Directors are directly involved and effectively take part in managing this risk by approving the management framework and its implementation as proposed by the Board Risk Committee. The latter is formed of Senior Management members from different functional areas within the Institution. The management of this risk also requires regular audits to be carried out of the application of the management framework and the reliability of the information provided, as well as internal validation tests of the operational risk model. Operational risk is managed with two lines of approach:

The first line of approach is based on the analysis of processes, the identification of risks associated with those processes that may result in losses, and a qualitative assessment of the risks and the associated controls. The foregoing are carried out jointly between process managers and the central operational risk unit. This provides an assessment of the future exposure to the risk in terms of expected and unexpected loss and also allows trends to be foreseen and the corresponding mitigating actions to be adequately planned.

This is complemented by the identification, monitoring and active management of the risk through the use of key risk indicators. These allow warnings to be established, which alert the Bank to any increase in this exposure, and also enable the Bank to identify the causes of that increase and measure the effectiveness of the implemented controls and improvements.

At the same time, the Bank checks that specific business continuity plans have been defined and implemented for processes identified as being highly critical in the event of any service disruption. In terms of the identified risks, a qualitative estimate is made of the reputational impact that these risks could cause in the event of their occurrence.

The second line of approach is based on experience. It consists of recording all losses incurred by the Institution in a database, which provides information about operational risks encountered by each business line as well as their causes, so that action may be taken to minimise these risks and detect potential weaknesses in the processes that require action plans to be drawn up aimed at mitigating the associated risks. Also included are the recoveries that make it possible to reduce the level of loss either as a result of direct management or by having an insurance policy that covers all or part of the resulting impacts.

Additionally, this information allows the consistency between estimated losses and actual losses to be determined, in terms of both frequency and severity, iteratively improving the estimates of exposure levels.

Within operational risk, the following risks are also managed and controlled:

- Conduct risk is defined as the current or future risk of incurring losses as a result of the inadequate provision of financial services, including cases of wilful misconduct or negligence. It is comprehensively managed using the elements defined in the methodological framework for operational risk and through the governance arrangements and lines of defence provided in the same document.

- Technology risk: Technology risk (or ICT (information and communication technology) risk) is defined as the current or future risk of incurring losses due to inadequacies or failures of technical infrastructures' hardware and software, which could compromise the availability, integrity, accessibility and security of these infrastructures and data, or make it impossible for IT platforms to be changed at a reasonable cost and within a reasonable time frame to respond to changes in the needs of the environment or of the business.

  It also includes security risks resulting from inadequacies or failures of internal processes or external events, including cyberattacks or inadequate physical security in data centres.

- Outsourcing risk: the possibility of incurring losses as a result of suppliers failing to provide subcontracted services or discontinuing their provision, weaknesses in their systems' security, disloyal employees or a breach of applicable regulations. It also includes other related risks such as concentration risk, country risk, legal risk and compliance risk.

- Model risk: the possibility of incurring losses due to decisions made using inadequate models.

- Tax risk: the probability of failing to achieve the objectives set out in Banco Sabadell's tax strategy from a dual perspective and due to either internal or external factors:

  - On one hand, the probability of failing to fulfil tax obligations, potentially resulting in an undue shortfall of income, or the occurrence of any other event that could be detrimental to the Bank in terms of meeting its objectives.

  - On the other hand, the probability of receiving an undue surplus of income as a result of failing to fulfil tax obligations, thus negatively affecting shareholders and other stakeholders.

- Compliance risk: the risk of incurring legal or administrative sanctions, significant financial losses or a loss or damage to the Institution's reputation as a result of an infringement of laws, regulations, internal procedures or codes of conduct applicable to the Group's activity.

Reputational risk, understood as the possibility of incurring losses as a result of negative publicity related to the Institution's practices and business, is also managed and controlled according to the methodological framework for operational risk, as this is a potentially significant source of reputational risk. This risk also considers the loss of trust in the Institution, which could affect its solvency.

In response to the emergency brought about by COVID-19, Group entities in all regions activated their various protocols and plans intended for use in pandemics and contingencies, which had been reviewed and updated once monitoring of the developments and spread of COVID-19 had begun. This activation enabled the pre-emptive management of potential operational risks that could potentially arise from the situation and helped to prepare Group entities to adapt their systems, processes and activities to the new situation, ensuring that they work properly and minimising, to the extent possible, the exposure to operational risks, as well as facilitating the introduction of new activities, products and services developed and implemented due to the COVID-19 crisis, such as the assistance measures introduced by official bodies, government bodies, or by other bodies in the sector or the Bank itself.

Senior Management and, in particular, the Board Risk Committee, have closely monitored the Group's risk profile through specific reports containing information and indicators associated with the main operational risks (including technology, human error, conduct, process, security and fraud risk) and reputational impacts that could potentially affect the Group's different stakeholders (employees and partners, customers, suppliers, supervisors), without finding impacts of particular note.

3.4.4.1 Technology risk

In relation to technology risk, it should be noted that this has become a key focus area for Banco Sabadell Group's risk management for different reasons:

- Increase in the significance, complexity and use of technology in banking processes.
- Increase in external threats (cybercrime) and their potential impacts on institutions and the financial system in general.
- Implementation of new business models based on data and new technology which bring with them new risks (emerging risks) that could potentially alter the risk profile.

Additionally, this risk is not only applicable to the Bank's own systems, but it is also applicable to suppliers, given the widespread use of third parties for support in technological and business processes, and this therefore represents a significant risk when it comes to managing outsourcing.

3.4.4.2 Tax risk

Banco Sabadell Group's tax risk policies aim to set out principles and guidelines in order to ensure that any tax risks that may affect the Group's tax strategy and fiscal objectives are systematically identified, assessed and managed so as to comply with the new requirements of the Spanish Capital Companies Act and of Banco Sabadell Group stakeholders.

In terms of tax risk, Banco Sabadell Group aims to fulfil its tax obligations at all times, adhering to the existing legal framework in matters relating to taxation.

Banco Sabadell Group's tax strategy reflects its commitment to promoting responsible taxation, promoting preventive measures and developing key transparency schemes in order to gain the confidence and trust of its various stakeholders.

The tax strategy is governed by the principles of efficiency, prudence, transparency and mitigation of tax risk, and it is generally aligned with the business strategy of Banco Sabadell Group.

The Board of Directors of Banco Sabadell, under the mandate set out in the Spanish Capital Companies Act for the improvement of corporate governance, is responsible, and cannot delegate such responsibility, for the following:

- Setting the Institution's tax strategy.
- Approving investments and operations of all types which are considered strategic or to have a particular tax risk due to their amounts or particular characteristics, except when such approval corresponds to the Annual General Meeting.
- Approving the creation and acquisition of shareholdings in special purpose entities or entities domiciled in countries or territories classified as tax havens.
- Approving any transaction which, due to its complexity, might undermine the transparency of the Institution and its Group.

As such, the duties of the Board of Directors of Banco Sabadell include the obligation to approve the corporate tax policy and ensure compliance therewith by implementing an appropriate control and oversight system, which is enshrined in the general risk management and control framework of the Group.

3.4.4.3 Compliance risk

As regards compliance risk, one of the essential aspects of Banco Sabadell Group's policy, and the basis of its organisational culture, is strict compliance with all legal provisions, meaning that the achievement of business objectives must be compatible, at all times, with adherence to the law and the established legal system.

To this end, the Group has a Compliance Division whose mission is to seek the highest levels of compliance with existing legislation and ensure that professional ethics are present in all areas of the Group's activity.

This Division assesses and manages compliance risk in order to minimise the possibility of any failure to comply with such legislation, and to ensure that any instances of non-compliance are identified, reported and diligently resolved. It does this by:

- Monitoring and overseeing the adaptation to new regulations through proactive management to ensure regular and systematic monitoring of legal updates.
- Identifying and periodically assessing compliance risks in the different areas of activity and contributing to their management in an efficient manner. To this end, establishing, applying and maintaining appropriate procedures to prevent, detect, correct and minimise any compliance risk.
- Establishing, in accordance with the above, an updated oversight and control programme, with the appropriate tools and methodologies for control.
- Supervising the risk management activities carried out by the 1st line of defence to ensure that they are aligned with the established policies and procedures.
- Keeping, for at least the period of time established by the legislation in force at any given time, the documentary justification of the controls carried out by the Compliance Division, as well as any other policies and procedures implemented for the best possible fulfilment of regulatory obligations.
- Submitting to the administrative and management bodies the regular or ad-hoc reports on compliance that are legally required at any given time.
- Reporting to the administrative and management bodies on any information relevant to compliance arising from all areas and activities of each Group entity.
- Assisting the Board of Directors and Senior Management in compliance matters.
- Acting as a spokesperson before the relevant regulatory bodies, overseeing the responses to requirements and inspections by official or supervisory bodies, as well as compliance with their recommendations, in relation to anti-money laundering and counter-terrorist financing (SEPBLAC, Bank of Spain, etc.), and in relation to securities markets (CNMV), insurance distribution (DGS) and data protection (AEPD).
- Assigning functional responsibilities for compliance where necessary.
- Intervening in the process for establishing remuneration policies and practices.
- With regard to Anti-Money Laundering, Counter-Terrorist Financing (AML/CTF) and International Sanctions, implementing, managing and updating policies and procedures; carrying out the classification of the AML/CTF risk of customers, both at the time of onboarding and during the business relationship; applying due diligence measures in accordance with the risk level assigned to customers, paying particular attention to those classified as high risk to whom enhanced measures will be applied for onboarding purposes so that they can be accepted beforehand and updated as required; managing tracking alerts and detecting matches against lists of designated persons and transactions of countries subject to international sanctions; performing special analyses of suspicious activities and reporting them as necessary; preparing training plans; approving new products, services, channels and business areas and preparing a periodic risk assessment of internal control procedures in the area of AML/CTF and international sanctions, providing support to the Internal Control Body (ICB) responsible for compliance in these matters.
- Promoting a culture of compliance and appropriate conduct in each of the Group entities, adopting measures that will enable employees to obtain the training and experience they need to carry out their duties properly.
- Collaborating in the development of training programmes in order to advise and make employees aware of the importance of complying with the established internal procedures.

- Informing, reviewing or proposing corrective measures and/or responses to incidents detected in matters of conduct or to queries submitted to the Corporate Ethics Committee (CEC), whose mission is to promote the Group's ethical conduct to ensure compliance with the action principles set forth in Banco Sabadell Group Code of Conduct, the Banco Sabadell Group Internal Code of Conduct relating to the securities market, the Banco Sabadell Group General Policy on Conflicts of Interest and the Banco Sabadell Group Corporate Crime Prevention Policy.

Note 4 – Minimum own funds and capital management

As at 31 December 2020 and 2019, the Bank's eligible own funds exceeded those required by the current capital regulatory framework (Directive 2013/36/EU and Regulation EU 575/2013).

Note 5 to Banco Sabadell Group's consolidated annual financial statements describes data and information on capital management.

Note 5 – Fair value of assets and liabilities

Financial assets and financial liabilities

The fair value of a financial asset or financial liability at a given date is understood as the amount at which it could be sold or transferred, respectively, as at that date, between two independent and knowledgeable parties acting freely and prudently and without coercion, under market conditions. The most objective and commonly used reference for the fair value of a financial asset or financial liability is the price that would be paid in an organised, transparent and deep market ("quoted price" or "market price").

When there is no market price for a particular financial asset or financial liability, the fair value is estimated from the values established for similar instruments in recent transactions or, alternatively, by using mathematical valuation models that have been suitably tested by the international financial community. When using these models, the particular characteristics of the financial asset or financial liability to be valued are taken into account, particularly the different types of risk that may be associated therewith. The above notwithstanding, the limitations inherent in the valuation models that have been developed and possible inaccuracies in the assumptions and parameters required by these models may result in the estimated fair value of a financial asset or financial liability not precisely matching the price at which the asset or liability could be delivered or settled on the valuation date.

The fair value of financial derivatives quoted on an active market is the daily quoted price.

In the case of instruments for which quoted prices cannot be determined, prices are estimated using internal models developed by the Bank, most of which take data based on observable market parameters as significant inputs. Otherwise, the models make use of other inputs which rely on internal assumptions based on generally accepted practices within the financial community.

For financial instruments, the fair values disclosed in the financial statements are classified according to the following fair value levels:

- Level 1: Fair values are obtained from the (unadjusted) prices quoted on active markets for that instrument.

- Level 2: Fair values are obtained from the prices being quoted on active markets for similar instruments, the prices of recent transactions, expected flows or other valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

- Level 3: Fair values are obtained through valuation techniques in which some significant inputs are not based on observable market data.

Set out below are the main valuation methods, assumptions and inputs used when estimating the fair value of financial instruments classified in Levels 2 and 3, according to the type of financial instrument concerned:

Level 2 financial instruments	Valuation techniques	Main assumptions	Main inputs used
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account: - An estimate of pre-payment rates - Issuers' credit risk.	- Issuers' credit spreads - Observable market interest rates
Equity instruments	Sector multiples (P/BV)	Based on the NACE code that best represents the company's primary activity, the price-to-book value (P/BV) ratio obtained from peers is applied.	- NACE codes - Share price listings in organised markets
Simple derivatives (a)	Net present value method	Implicit curves calculated based on quoted market prices.	- Observable yield curve - FX swaps curve and spot curve
Rest of derivatives (a)	For equity derivatives, currencies and commodities: Black-Scholes model (analytic/semi-analytic formulae)	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term.	- Forward structure of the underlying asset, given by market data (dividends, swap points, etc.) - Volatility surfaces of options. - For forex derivatives Probability of default for the calculation of CVA and DVA (b)
	For equity derivatives, currencies and commodities: - Monte Carlo simulations - SABR	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term. - SABR: stochastic volatility model.	
	For interest rate derivatives: - Standard Model - Shifted Libor Market Model	These models assume that: - The standard and shifted models allow negative interest rates. - Forward rates in the term structure of the interest rate curve are fully correlated.	- Term structure of interest - Volatility surfaces of Libor rate options (caps) and swap rates (swaptions) Probability of default to calculate CVA and DVA (b).
	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates.	- Price listings of Credit Default Swaps (CDS) - Historic volatility of credit spreads

Level 3 financial instruments	Valuation techniques	Main assumptions	Main non-observable inputs
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account in each case: - An estimate of pre-payment rates - Issuers' credit risk - Other estimates for variables that affect future cash flows: claims, losses, amortisations.	- Estimated credit spreads of the issuer or a similar issuer. - Rates of claims, losses and/or amortisations.
Equity instruments	Cash flow discount method	Calculation of the present value of future cash flows discounted at current market interest rates adjusted for risk (CAPM method), taking into account: - An estimate of the company's estimated cash flows - Risk in the company's sector - Macroeconomic inputs	- Entity's business plans - Risk premiums of the company's sector. - Adjustment for systemic risk (Beta Parameter)
Derivatives (a)	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates.	For credit derivatives: - Estimated credit spreads of the issuer or a similar issuer. - Historic volatility of credit spreads

(a) Given the small net position of Banco Sabadell, the funding value adjustment (FVA) is estimated to have a non-material impact on the valuation of derivatives.

(b) To calculate CVA and DVA, levels of severity fixed at 60% have been used, which corresponds to the market standard for senior debt. Average future, positive and negative exposures have been estimated using market models, Libor for interest rates and the Black-Scholes model for currencies, using market inputs. The probability of default of customers with no quoted debt instruments or CDS have been obtained using the IRB model and for Banco Sabadell those obtained from the CDS stock prices have been assigned.

Determination of the fair value of financial instruments

A comparison between the value at which the financial assets and liabilities are recognised on the accompanying balance sheets and the related fair value is given below:

Thousand euro

		2020		2019	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Cash, cash balances at central banks and other demand deposits	6	28,723,571	28,723,571	8,792,496	8,792,496
Financial assets held for trading	7, 9	2,434,831	2,434,831	2,303,449	2,303,449
Non-trading financial assets mandatorily at fair value through profit or loss	7	70,236	70,236	119,164	119,164
Financial assets at fair value through other comprehensive income	7, 8	5,066,571	5,066,571	5,419,218	5,419,218
Financial assets at amortised cost	7, 10	137,243,172	144,813,375	146,894,393	154,156,365
Derivatives – Hedge accounting	11	393,702	393,702	358,373	358,373
Fair value changes of the hedged items in portfolio hedge of interest rate risk		369,688	369,688	225,437	225,437
Total assets		**174,301,771**	**181,871,974**	**164,112,530**	**171,374,502**

Thousand euro

	Note	2020 Carrying amount	2020 Fair value	2019 Carrying amount	2019 Fair value
Liabilities:					
Financial liabilities held for trading	9	2,316,140	2,316,140	2,563,334	2,563,334
Financial liabilities measured at amortised cost	17, 18, 19, 20	172,930,575	173,426,061	162,419,750	161,444,505
Derivatives – Hedge accounting	11	521,384	521,384	380,884	380,884
Fair value changes of the hedged items in portfolio hedge of interest rate risk		241,550	241,550	173,129	173,129
Total liabilities		**176,009,649**	**176,505,135**	**165,537,097**	**164,561,852**

In relation to financial instruments whose book value differs from their fair value, the latter has been calculated as follows:

– The fair value of the heading "*Cash, cash balances at central banks and other demand deposits*" has been likened to its book value, as these are mainly short-term balances.

– The fair value of the headings "*Financial assets at amortised cost*" and "*Financial liabilities measured at amortised cost*" has been estimated by the discounted cash flow method, using market interest rates at the end of each year, with the exception of debt securities, for which it has been estimated using year-end market prices. The majority of the valuations of these financial assets are considered as Level 2.

– Under the heading "*Fair value changes of hedged items in portfolio hedge of interest rate risk*" of the accompanying balance sheets, (positive or negative) adjustments are recorded measured at the fair value of the financial assets or financial liabilities included in the amortised cost portfolio, which correspond exclusively to hedged interest rate risk. Fair value is calculated using internal models and observable market data variables.

The following tables show the main financial instruments recognised at fair value in the accompanying balance sheets, broken down according to the valuation method used when estimating their fair value:

Thousand euro

	Note	2020 Level 1	2020 Level 2	2020 Level 3	2020 Total
Assets:					
Financial assets held for trading		267,910	2,166,921	-	2,434,831
Derivatives	9	-	2,147,113	-	2,147,113
Equity instruments		-	-	-	-
Debt securities	7	267,910	19,808	-	287,718
Loans and advances – Customers		-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		13,499	612	56,125	70,236
Equity instruments		12,481	35	-	12,516
Debt securities	7	1,018	577	56,125	57,720
Loans and advances		-	-	-	-
Financial assets designated at fair value through profit or loss		-	-	-	-
Debt securities		-	-	-	-
Loans and advances – Credit institutions		-	-	-	-
Financial assets at fair value through other comprehensive income		4,907,709	139,173	19,689	5,066,571
Equity instruments	8	2,500	50,076	3,550	56,126
Debt securities	7	4,905,209	89,097	16,139	5,010,445
Loans and advances		-	-	-	-
Derivatives – Hedge accounting	11	-	393,702	-	393,702
Total assets		**5,189,118**	**2,700,408**	**75,814**	**7,965,340**

Thousand euro

	Note	2020 Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		215,930	2,100,210	-	2,316,140
Derivatives	9	-	2,100,210	-	2,100,210
Short positions		215,930	-	-	215,930
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Derivatives – Hedge accounting	11	-	521,384	-	521,384
Total liabilities		**215,930**	**2,621,594**	**-**	**2,837,524**

Thousand euro

	Note	2019 Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		548,524	1,754,825	100	2,303,449
Derivatives	9	-	1,724,407	-	1,724,407
Equity instruments		-	-	-	-
Debt securities	7	548,524	30,418	100	579,042
Loans and advances – Customers		-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		1,424	354	117,386	119,164
Equity instruments		-	-	-	-
Debt securities	7	1,424	354	117,386	119,164
Loans and advances		-	-	-	-
Financial assets designated at fair value through profit or loss		-	-	-	-
Debt securities		-	-	-	-
Loans and advances – Credit institutions		-	-	-	-
Financial assets at fair value through other comprehensive income		5,141,458	257,666	20,094	5,419,218
Equity instruments	8	21,443	81,245	4,233	106,921
Debt securities	7	5,120,015	176,421	15,861	5,312,297
Loans and advances		-	-	-	-
Derivatives – Hedge accounting	11	-	358,373	-	358,373
Total assets		**5,691,406**	**2,371,218**	**137,580**	**8,200,204**

Thousand euro

	Note	2019 Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		871,812	1,691,522	-	2,563,334
Derivatives	9	-	1,691,522	-	1,691,522
Short positions		871,812	-	-	871,812
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Derivatives – Hedge accounting	11	-	380,884	-	380,884
Total liabilities		**871,812**	**2,072,406**	**-**	**2,944,218**

Derivatives without a collateral contract (CSAs) include Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA) in their fair value. The fair value of these derivatives represents 5.90% of the total, and their adjustment for credit and debit risks represents 3.79% of their fair value.

The movements in the balances of the financial assets and financial liabilities recognised at fair value and classified as Level 3 that are disclosed in the accompanying balance sheets are as follows:

Thousand euro

	Assets	Liabilities
Balance as at 31 December 2018	**79,344**	**-**
Valuation adjustments recognised in profit and loss (*)	(38,434)	-
Valuation adjustments not recognised in profit and loss	(5,124)	-
Purchases, sales and write-offs	(433)	-
Net additions/removals in Level 3	103,256	-
Exchange differences and other	(1,029)	-
Balance as at 31 December 2019	**137,580**	**-**
Valuation adjustments recognised in profit and loss (*)	(8,447)	-
Valuation adjustments not recognised in profit and loss	(2,186)	-
Purchases, sales and write-offs	(47,997)	-
Net additions/removals in Level 3	834	-
Exchange differences and other	(3,971)	-
Balance as at 31 December 2020	**75,813**	**-**

(*) Relates to securities retained on the balance sheet.

Details of financial instruments that were transferred between valuation levels in 2020 and 2019 are as follows:

Thousand euro

	2020					
From:	**Level 1**		**Level 2**		**Level 3**	
To:	**Level 2**	**Level 3**	**Level 1**	**Level 3**	**Level 1**	**Level 2**
Assets:						
Financial assets held for trading	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	834	-	-	-	-
Derivatives – Hedge accounting	-	-	-	-	-	-
Liabilities:						
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Derivatives – Hedge accounting	-	-	-	-	-	-
Total	**-**	**834**	**-**	**-**	**-**	**-**

Transfers from Level 1 to Level 3 are due to the fact that the markets in which these instruments (asset-backed securities) are traded are no longer considered as active markets; therefore, their valuations are now calculated using valuation techniques in which one of the main significant inputs (prepayment rate of securitised loans) is based on data that is unobservable in the market.

Thousand euro

	2019					
From:	Level 1		Level 2		Level 3	
To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:						
Financial assets held for trading	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	22,399	-	62,229	-	505
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	5,209	4,147	-	14,987	-	-
Derivatives – Hedge accounting	-	-	-	-	-	-
Liabilities:						
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Derivatives – Hedge accounting	-	-	-	-	-	-
Total	**5,209**	**26,546**	**-**	**77,216**	**-**	**505**

As at 31 December 2020, the effect of replacing the main assumptions used in the valuation of Level 3 financial instruments with other reasonably possible assumptions, taking the highest value (most favourable assumption) or lowest value (least favourable assumption) of the range that is considered likely, is not significant.

At the end of both years, there were no derivatives using equity instruments as underlying assets or material interests in discretionary gains in any companies.

Loans and financial liabilities at fair value through profit or loss

As at 31 December 2020 and 2019, there were no loans or financial liabilities recognised at fair value through profit or loss.

Financial instruments at cost

As at the end of 2020 and 2019, there were also no equity instruments valued at their cost of acquisition that could be considered significant.

Non-financial assets

Real estate assets

As at 31 December 2020 and 2019, net book values of real estate assets do not differ significantly from the fair values of these assets (see Notes 12 and 14).

The selection criteria for valuation suppliers and the update of appraisals are defined in the section “Guarantees”, in Note 1.3.3 of these annual financial statements.

Valuation techniques are generally used by all appraisal companies based on the type of each real estate asset.

As per regulatory requirements, in the valuation techniques used, the valuation companies maximise the use of observable market data and other factors which would be taken into account by market operators when setting prices, endeavouring to keep the use of subjective considerations and unobservable or non-verifiable data to a minimum.

The main valuation methods used fall into the following measurement levels:

Level 2

- Comparison method: applicable to all kinds of properties provided that there is a representative market of comparable properties and that sufficient data is available relating to transactions that reflect the current market situation.

- Rental update method: applicable when the valued property generates or may generate rental income and there is a representative market of comparable data.

- Statistical model: this model adjusts the value of the assets based on the date of acquisition and their location, updating the value in accordance with price trends in the area concerned as from the date of purchase. To this end, it includes statistical information on price trends in all provinces, as provided by external valuation firms, as well as demographic data from the Spanish Office for National Statistics (INE) to calculate sensitivity at a municipality level. The value obtained is in turn adjusted based on the construction progress (finished product, development in progress, plots or land under management) and use (residential, industrial, etc.) of the asset.

Level 3

- Cost method: applicable to determine the value of buildings being planned, under construction or undergoing renovations.

- Residual method: in the present macroeconomic climate, the dynamic calculation procedure is being used preferentially in new land valuations to the detriment of the static procedure, which is reserved for specific cases in which the envisaged time frames for project completion are in line with the relevant regulations.

Depending on the type of asset, the methods used in the valuation of the Bank's portfolio are the following:

- Completed works: valued in comparable terms, based on updates to income or the statistical model (Level 2).

- Works in progress: valued using the cost method as a sum of the land value and the value of the work carried out (Level 3).

- Land: valued using the residual method (Level 3).

Determination of the fair value of real estate assets

The following tables show the main real estate assets broken down using the valuation method used in their fair value estimate as at 31 December 2020 and 2019:

Thousand euro

	2020			
	Level 1	Level 2	Level 3	Total
Housing	-	583,157	-	583,157
Offices, retail establishments and other real estate	-	712,854	-	712,854
Land and building plots	-	-	21,019	21,019
Work in progress	-	-	5,113	5,113
Total assets	**-**	**1,296,011**	**26,132**	**1,322,143**

Thousand euro

	2019			
	Level 1	Level 2	Level 3	Total
Housing	-	514,632	-	514,632
Offices, retail establishments and other real estate	-	723,734	-	723,734
Land and building plots	-	-	64,081	64,081
Work in progress	-	-	7,431	7,431
Total assets	**-**	**1,238,366**	**71,512**	**1,309,878**

Significant unobservable variables used in valuations classed as Level 3 have not been developed by the Group but by the independent third party valuation companies that performed the appraisals. Given the widespread use of the appraisals, the valuation techniques of which are clearly set out in the regulation governing the valuation of properties, the unobservable variables used reflect the assumptions frequently used by all valuation firms. In terms of proportional weight, unobservable variables represent almost all of the value of these appraisals.

The main unobservable variables used in the valuation of assets in accordance with the dynamic residual method are the future sale price, the estimated construction costs, the costs of development, the time required for land planning and development and the discount rate. The main unobservable variables used in accordance with the static residual method are construction costs, the costs of development and the profit for the developer.

The number of plots in the Bank's possession is very fragmented, and they are very varied, both in terms of location and in terms of the stage of development of the urban infrastructure and the possibility of future development. For this reason, no quantitative information can be provided regarding the unobservable variables affecting the fair value of these types of assets.

Movements in the balances of real estate assets classified as Level 3 in 2020 and 2019 are shown below:

Thousand euro

	For house purchase	Offices, retail establishments and other real estate	Land
Balance as at 31 December 2018	-	-	**239,943**
Purchases	-	-	17,011
Sales	-	-	(9,855)
Net additions/removals in Level 3	-	-	(175,587)
Balance as at 31 December 2019	-	-	**71,512**
Purchases	-	-	6,629
Sales	-	-	(47,729)
Net additions/removals in Level 3	-	-	(4,280)
Balance as at 31 December 2020	-	-	**26,132**

During 2020, certain real estate assets have been transferred between the different valuation levels, due to the transformation of assets that were in the process of construction into finished products.

The following table shows a comparison between the value at which the real estate assets were recognised under the headings "*Non-current assets and disposal groups classified as held for sale*" and "*Investment properties*" and their appraisal value, as at the end of 2020 and 2019:

Thousand euro

		2020				2019			
	Note	Carrying amount (*)	Impairment	Net carrying amount	Valuation amount	Carrying amount (*)	Impairment	Net carrying amount	Valuation amount
Investment properties	14	73,424	(4,739)	68,685	78,769	139,532	(6,777)	132,755	192,385
Non-current assets held for sale	12	891,428	(253,816)	637,612	1,040,938	689,815	(143,337)	546,478	869,842
Total		**964,852**	**(258,555)**	**706,297**	**1,119,707**	**829,347**	**(150,114)**	**679,233**	**1,062,227**

(*) Cost less accumulated depreciation.

The fair value of real estate assets valued by appraisal companies and included in the headings "*Non-current assets and disposal groups classified as held for sale*" and "*Investment properties*" in 2020 is as follows:

Thousand euro

Valuation firm	Non-current assets held for sale	Investment properties
Afes Técnicas de Tasación, S.A.	-	3,081
Alia Tasaciones, S.A.	82,722	3,735
Arco Valoraciones, S.A.	60	-
Eurovaloraciones, S.A.	85,106	7,851
Gestión de Valoraciones y Tasaciones, S.A.	52,417	5,334
Gloval Valuation, S.A.U.	26,618	2,173
Ibertasa, S.A.	2,374	906
Instituto de Valoraciones, S.A.	1,228	-
JLL Valoraciones, S.A.	886	-
Krata, S.A.	877	1,834
Sociedad de Tasación, S.A.	207,345	20,264
Tabimed Gestión de Proyectos, S.L.	311	-
Tasalia Sociedad de Tasación, S.A.	343	-
Tasasur Sociedad de Tasaciones, S.A.	69	-
Tasiberica, S.A.	34	-
Tecnitasa Técnicos en Tasación, S.A	3,600	-
Thirsa	265	-
Tinsa Tasaciones Inmobiliarias, S.A.	57,713	13,082
Valoraciones Mediterráneo, S.A.	112,751	10,142
Resto	2,893	283
Total	**637,612**	**68,685**

The fair value of property, plant and equipment for own use does not differ significantly from its value in euros.

Note 6 – Cash, cash balances at central banks and other demand deposits

The composition of this heading as at 31 December 2020 and 2019 was as follows:

Thousand euro

	2020	2019
By nature:		
Cash	567,987	680,295
Cash balances at central banks	27,946,361	7,749,624
Other demand deposits	209,223	362,577
Total	**28,723,571**	**8,792,496**
By currency:		
In euro	28,441,543	8,269,502
In foreign currency	282,028	522,994
Total	**28,723,571**	**8,792,496**

Cash balances at central banks include balances held to comply with the central bank's mandatory minimum reserve requirement. Throughout 2020 Banco Sabadell has complied with minimum requirements set out in applicable regulations regarding this ratio.

The increase during 2020 of the 'Cash balances at central banks' heading is mainly due to the Bank's participation in the TLTRO III liquidity auctions (see Note 3).

Note 7 – Debt securities

Debt securities reported in the accompanying balance sheets as at 31 December 2020 and 2019 are analysed below:

Thousand euro

	2020	2019
By heading:		
Financial assets held for trading	287,718	579,042
Non-trading financial assets mandatorily at fair value through profit or loss	57,720	119,164
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	5,010,445	5,312,297
Financial assets at amortised cost	16,171,219	18,425,483
Total	**21,527,102**	**24,435,986**
By nature:		
Central banks	-	-
General governments	19,643,717	22,489,641
Credit institutions	136,470	182,538
Other sectors	1,521,960	1,374,725
Stage 3 assets	73	73
Impairment allowances	-	-
Other valuation adjustments (interest, fees and commissions, other)	224,882	389,009
Total	**21,527,102**	**24,435,986**
By currency:		
In euro	19,925,821	23,146,765
In foreign currency	1,601,281	1,289,221
Total	**21,527,102**	**24,435,986**

In March 2020, the Bank sold Italian sovereign debt instruments which had a book value of 2,835 million euros and which were recognised under the heading "*Financial assets at amortised cost*". These sales were executed with the aim of managing the increased credit risk associated with Italian debt instruments as a result of the impact of COVID-19 on the Italian economy. Consequently, following the sales, the book value of Italian sovereign debt instruments recorded at amortised cost stood at 2,792 million euros as at 31 December 2020. The Bank considered that these sales were consistent with the business model under which these assets were managed (held to collect contractual cash flows).

In the last quarter of 2020, the Bank sold Spanish and Portuguese sovereign debt instruments which had a book value of 4,032 million euros and which were recognised under the heading *"Financial assets at amortised cost"*. These sales were made in order to preserve the Bank's solvency as part of a series of actions carried out to improve future profitability and the quality of its balance sheet (such as the disposal of certain portfolios of impaired financial assets or the agreement on retirement, early retirement and voluntary redundancy mentioned in Note 30), in response to the economic crisis triggered by COVID-19. The Bank has considered that these sales are consistent with the business model under which these assets are managed (held to collect contractual cash flows) as they are sales made due to exceptional circumstances beyond the control of the Bank, without modifying the criteria under which debt instruments classified in the amortised cost portfolio which have not been disposed of are managed.

The results obtained from these disposals were recognised under the headings *"Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net – Financial assets at amortised cost"* of the income statement (see Note 28).

Additionally, during 2020, based on the latest strategic plan presented by the Spanish company for the management of assets proceeding from the restructuring of the banking system (SAREB, for its acronym in Spanish), the book value of subordinated debt held by the Bank in this company was written down by 27 billion euros, which was charged to the heading *"Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net – Other gains or losses"* of the income statement, reducing the book value to zero (see Note 28).

The breakdown of the debt securities classified based on their credit risk and the movement of value adjustments due to impairment associated with these instruments are included, together with those of other financial assets, in Note 10.

Details of debt instruments included under the "*Financial assets at fair value through other comprehensive income*" heading are as follows:

Thousand euro	2020	2019
Amortised cost	5,036,299	5,342,637
Fair value (*)	5,010,445	5,312,297
Accumulated losses recognised in equity	(87,335)	(80,264)
Accumulated capital gains recognised in equity	63,273	52,004
Value adjustments made for credit risk	(1,792)	(2,080)

(*) Includes net gains/(-) losses due to impairment in the profit and loss account for 2020 and 2019 of 308 and 3,761 thousand euros, of which those due to provisions during the year amount to (1,455) and (1,080) thousand euros, and those due to reversal of impairment amount to 1,763 and 4,841 thousand in 2020 and 2019 (see Note 31).

The breakdown of public debt securities classified as "*Financial assets at fair value through other comprehensive income*" is as follows:

Thousand euro	2020	2019
Amortised cost	4,183,725	4,590,994
Fair value	4,155,766	4,557,767
Accumulated losses recognised in equity	(84,205)	(71,455)
Accumulated capital gains recognised in equity	56,355	38,330
Value adjustments made for credit risk	(109)	(102)

The portfolio of "*Financial assets at amortised cost*" breaks down as follows:

Thousand euro	2020	2019
Central banks	-	-
General governments	15,722,451	17,963,157
Credit institutions	11,014	-
Other sectors	437,754	462,326
Impairment allowances	-	-
Total	**16,171,219**	**18,425,483**

Note 8 – Equity instruments

The breakdown of the balance of equity instruments as at 31 December 2020 and 2019 was as follows:

Thousand euro

	2020	2019
By heading:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	12,516	-
Financial assets at fair value through other comprehensive income	56,126	106,921
Total	**68,642**	**106,921**
By nature:		
Resident sector	51,697	83,830
Credit institutions	5,081	7,065
Other	46,616	76,765
Non-resident sector	1,929	1,965
Credit institutions	-	-
Other	1,929	1,965
Participations in investment vehicles	15,016	21,126
Total	**68,642**	**106,921**
By currency:		
In euro	68,463	106,562
In foreign currency	179	359
Total	**68,642**	**106,921**

As at 2020 year-end, there were no investments in listed equity instruments for which their quoted market price has not been considered as a reference of their fair value.

As at 31 December 2020, there were no investments in equity instruments included in the portfolio of "*Financial assets at fair value through other comprehensive income*" considered to be individually significant.

Details of equity instruments included under the *"Financial assets at fair value through other comprehensive income"* heading are as follows:

Thousand euro

	2020	2019
Cost of acquisition	172,057	207,112
Fair value	56,126	106,921
Accumulated capital losses recognised in equity at reporting date	(146,416)	(142,693)
Accumulated capital gains recognised in equity at reporting date	30,485	42,502
Transfers of gains or losses within equity during the period	3,137	-
Recognised dividends from investments held at the end of the year	979	3,653
Recognised dividends from investments derecognised during the year	5	-

Note 9 – Asset and liability derivatives held for trading

The breakdown by type of risk of this heading on the asset and liability sides of the balance sheets as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Securities risk	151,419	149,448	97,646	97,909
Interest rate risk	1,247,375	1,198,362	1,082,473	1,032,395
Currency risk	502,005	506,121	357,610	373,731
Other types of risk	246,313	246,279	186,678	187,487
Total	**2,147,112**	**2,100,210**	**1,724,407**	**1,691,522**
By currency:				
In euro	1,923,361	1,894,716	1,610,411	1,592,932
In foreign currency	223,752	205,494	113,996	98,590
Total	**2,147,113**	**2,100,210**	**1,724,407**	**1,691,522**

The fair values of derivatives held for trading, broken down by type of derivative instrument as at 31 December 2020 and 2019, are shown below:

Thousand euro

	2020	2019
Assets		
Swaps, CCIRS, Call Money Swap	1,464,171	1,238,786
Currency options	80,147	30,743
Interest rate options	29,015	28,683
Index and securities options	148,436	97,584
Currency forwards	421,858	326,867
Fixed income forwards	537	1,715
Equity forward	2,948	-
Interest rate forwards	-	29
Total derivatives on asset side held for trading	**2,147,112**	**1,724,407**
Liabilities		
Swaps, CCIRS, Call Money Swap	1,417,685	1,186,640
Currency options	78,468	30,773
Interest rate options	20,915	24,214
Index and securities options	155,489	105,362
Currency forwards	427,653	342,958
Fixed income forwards	-	927
Equity forward	-	583
Interest rate forwards	-	65
Total derivatives on liability side held for trading	**2,100,210**	**1,691,522**

Note 10 – Loans and advances

Credit Institutions

The composition of the heading "*Loans and advances - Credit institutions*" of the balance sheets as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
By heading:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	-	-
Financial assets at amortised cost	8,845,708	16,065,122
Total	**8,845,708**	**16,065,122**
By nature:		
Deposits with agreed maturity	3,304,208	3,504,944
Repos	5,424,127	11,805,180
Hybrid financial assets	-	-
Other	102,348	741,427
Stage 3 assets	5	304
Impairment allowances	(1,424)	(492)
Other valuation adjustments (interest, fees and commissions, other)	16,444	13,759
Total	**8,845,708**	**16,065,122**
By currency:		
In euro	8,356,508	15,157,020
In foreign currency	489,200	908,102
Total	**8,845,708**	**16,065,122**

Customers

The breakdown of the heading *"Loans and advances - Customers"* (General governments and Other sectors) as at 31 December 2020 and 2019 is as follows:

Thousand euro	2020	2019
By heading:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	-	-
Financial assets at amortised cost	112,226,245	112,403,788
Total	**112,226,245**	**112,403,788**
By nature:		
Overdrafts, etc.	3,822,163	5,965,448
Commercial loans	4,890,861	6,302,002
Finance leases	1,924,820	2,216,680
Secured loans	51,497,125	52,193,830
Repos	63,494	-
Other term loans	50,540,880	45,282,509
Stage 3 assets	4,650,635	5,303,990
Impairment allowances	(5,048,425)	(4,757,722)
Other valuation adjustments (interest, fees and commissions, other)	(115,308)	(102,949)
Total	**112,226,245**	**112,403,788**
By sector:		
General governments	10,070,660	10,489,703
Other sectors	102,668,683	101,470,766
Stage 3 assets	4,650,635	5,303,990
Impairment allowances	(5,048,425)	(4,757,722)
Other valuation adjustments (interest, fees and commissions, other)	(115,308)	(102,949)
Total	**112,226,245**	**112,403,788**
By currency:		
In euro	103,757,434	103,742,808
In foreign currency	8,468,811	8,660,980
Total	**112,226,245**	**112,403,788**
By geography:		
Spain	101,782,221	102,436,551
United Kingdom	2,249,072	2,448,539
Rest of European Union	5,338,915	4,505,449
Americas	6,174,621	6,292,073
Rest of the world	1,729,841	1,478,898
Impairment allowances	(5,048,425)	(4,757,722)
Total	**112,226,245**	**112,403,788**

The balance sheet heading "*Loans and advances – Customers*" includes certain assets pledged in financing operations, i.e. those pledged as collateral or guarantees with respect to certain liabilities. For further information, see Note 3 "*Financial risk management*" in the section entitled "*Credit risk*".

In June 2020, the Bank carried out the synthetic securitisation of a 1.6 billion euro SME and mid-cap loan portfolio, having received a guarantee from the European Investment Fund for 96 million euros, which covers losses in the range of 1.5%–7.5% on the securitised portfolio. This guarantee has an annual cost of 5.4%, taking into account a 1.5% retrocession fee, and is subject to an undertaking to grant 576 million euros in loans to Spanish SMEs and mid-caps. This operation did not produce any substantial transfer of risks or rewards pertaining to the assets concerned and, as such, did not involve their derecognition from the balance sheet. The operation receives preferential treatment for capital consumption purposes, in accordance with Article 270 of Regulation (EU) 2017/2401.

Finance leases

Certain information concerning financial leasing transactions carried out by the Bank in which it acts as lessor is set out below:

Thousand euro

	2020	2019
Finance leases		
Total gross investment	2,106,506	2,453,966
Impairment allowances	*(51,291)*	(45,861)
Interest income	55,081	61,749

As at 31 December 2020 and 2019, the reconciliation of undiscounted lease receipts to the net investment on the leases is as follows:

Thousand euro

	2020	2019
Undiscounted lease receipts	1,942,846	2,266,505
Unguaranteed residual value	163,661	187,461
Gross investment in the lease	**2,106,507**	**2,453,966**
Unearned financial income	155,592	193,287
Net investment in the lease	**1,950,915**	**2,260,679**

The table below shows a breakdown by term of the minimum undiscounted future amounts receivable by the Group during the period of mandatory compliance (assuming that no extensions or existing purchase options will be exercised) as set out in the financial lease contracts:

Thousand euro

	2020	2019
Undiscounted lease receipts		
Up to 1 year	558,005	600,035
1-2 years	397,735	508,523
2-3 years	259,396	333,006
3-4 years	188,853	207,397
4-5 years	135,585	151,723
More than 5 years	403,272	465,821
Total	**1,942,846**	**2,266,505**

Past-due financial assets

The balance of "*Loans and advances – Customers*" past-due and pending collection not classified as Stage 3 as at 31 December 2020 amounted to 77,343 thousand euros (126,789 thousand euros as at 31 December 2019). Of this total, over 80% of the balance as at 31 December 2020 (78% of the balance as at 31 December 2019) had become due in a period no longer than one month.

Financial assets classified on the basis of their credit risk

The breakdown of the gross book values, excluding valuation adjustments, of financial assets classified on the basis of their credit risk as at 31 December 2020 and 2019 is as follows:

Thousand euro

Stage 1	2020	2019
Debt securities	21,297,650	24,046,905
Loans and advances	109,984,404	123,144,566
Customers	101,154,440	107,104,603
Central banks and Credit institutions	8,829,964	16,039,963
Total *stage 1*	**131,282,054**	**147,191,472**
By sector:		
General governments	29,687,574	32,941,745
Central banks and Credit institutions	8,966,434	16,222,500
Other private sectors	92,628,046	98,027,226
Total *stage 1*	**131,282,054**	**147,191,472**
Stage 2		
Debt securities	4,500	-
Loans and advances	11,585,626	4,867,452
Customers	11,584,907	4,855,864
Central banks and Credit institutions	718	11,588
Total *stage 2*	**11,590,126**	**4,867,452**
By sector:		
General governments	26,803	37,598
Central banks and Credit institutions	718	11,588
Other private sectors	11,562,604	4,818,266
Total *stage 2*	**11,590,126**	**4,867,452**
Stage 3		
Debt securities	73	73
Loans and advances	4,650,639	5,304,294
Customers	4,650,635	5,303,990
Central banks and Credit institutions	5	304
Total *stage 3*	**4,650,712**	**5,304,367**
By sector:		
General governments	10,231	11,772
Central banks and Credit institutions	5	304
Other private sectors	4,640,477	5,292,291
Total *stage 3*	**4,650,712**	**5,304,367**
Total stages	**147,522,892**	**157,363,291**

Movements of gross values, excluding valuation adjustments, of assets subject to impairment by the Group during the years ended 31 December 2020 and 2019 were as follows:

Thousand euro

	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
Balance as at 31 December 2018	**139,762,584**	**5,693,412**	**5,919,414**	***207,573***	**151,375,410**
Transfers between impairment stages	(1,193,848)	261,488	932,360	-	-
To stage 1	1,737,340	(1,695,380)	(41,959)	-	-
To stage 2	(2,673,394)	2,939,783	(266,389)	-	-
To stage 3	(257,794)	(982,915)	1,240,709	-	-
Increases	39,587,502	592,032	331,622	926	40,511,157
Decreases	(31,007,420)	(1,682,272)	(1,390,209)	(132,602)	(34,079,902)
Transfers to write-offs	-	-	(490,300)	-	(490,300)
Adjustments for exchange differences	42,655	2,792	1,479	-	46,926
Balance as at 31 December 2019	**147,191,472**	**4,867,452**	**5,304,367**	***75,897***	**157,363,291**
Transfers between impairment stages	(7,123,177)	5,839,400	1,283,777	-	-
To stage 1	1,658,342	(1,624,055)	(34,286)	-	-
To stage 2	(8,350,538)	8,580,128	(229,590)	-	-
To stage 3	(430,980)	(1,116,673)	1,547,653	-	-
Increases	40,275,757	2,248,364	425,292	-	42,949,413
Decreases	(48,716,131)	(1,348,925)	(1,906,697)	(61,836)	(51,971,753)
Transfers to write-offs	-	-	(449,757)	-	(449,757)
Adjustments for exchange differences	(345,866)	(16,165)	(6,270)	-	(368,301)
Balance as at 31 December 2020	**131,282,055**	**11,590,126**	**4,650,712**	***14,061***	**147,522,893**

The breakdown of assets classified as Stage 3 by type of guarantee as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Secured with a mortgage (*)	1,942,961	2,821,115
Of which: Stage 3 financial assets with guarantees covering all of the risk	*1,483,721*	*2,018,798*
Other collateral (**)	272,977	308,360
Of which: Stage 3 financial assets with guarantees covering all of the risk	*176,901*	*184,338*
Rest	2,434,775	2,174,892
Total	**4,650,713**	**5,304,367**

(*) Assets secured with a mortgage with an outstanding exposure below 100% of their valuation amount.
(**) Includes the rest of assets secured with collateral.

The breakdown by region of the balance of assets classed as Stage 3 as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Spain	4,391,945	5,073,593
United Kingdom	64,795	53,830
Rest of European Union	44,098	40,700
Americas	72,740	109,045
Rest of the world	77,134	27,199
Total	**4,650,712**	**5,304,367**

Accumulated financial income on impaired financial assets incurred but not recorded in the income statement amounted to 444,568 thousand euros as at 31 December 2020 and to 328,871 thousand euros as at 31 December 2019.

The movements in impaired financial assets derecognised due to the remote likelihood of their recovery during 2020 and 2019 are as follows:

Thousand euro	
Balance as at 31 December 2018	**5,078,146**
Additions	**541,058**
Use of accumulated impairment balance	490,334
Directly recognised on income statement	-
Contractually payable interests	50,724
Other items	-
Disposals	**(1,033,624)**
Collections of principal in cash from counterparties	(64,591)
Collections of interest in cash from counterparties	(1,001)
Debt forgiveness	(29,285)
Referrals	-
Sales	(894,762)
Other items	(43,985)
Exchange differences	**-**
Balance as at 31 December 2019	**4,585,580**
Additions	**494,322**
Use of accumulated impairment balance	449,749
Directly recognised on income statement	-
Contractually payable interests	44,573
Other items	-
Disposals	**(371,722)**
Collections of principal in cash from counterparties	(28,063)
Collections of interest in cash from counterparties	(1,248)
Debt forgiveness	(19,276)
Referrals	(129,542)
Sales	(137,173)
Foreclosure of tangible assets	(7,099)
Other items	(49,321)
Exchange differences	**-**
Balance as at 31 December 2020	**4,708,180**

Allowances

The values of financial asset impairment allowances under the different headings on the asset side, listed according to risk, as at 31 December 2020 and 2019, are as follows:

Thousand euro

Stage 1	2020	2019
Debt securities	-	-
Loans and advances	316,212	2,452,929
Central banks and Credit institutions	1,032	191
Customers	315,180	2,452,737
Total *stage 1*	**316,212**	**2,452,929**
Stage 2		
Debt securities	-	-
Loans and advances	2,747,484	213,836
Central banks and Credit institutions	-	-
Customers	2,747,484	213,836
Total *stage 2*	**2,747,484**	**213,836**
Stage 3		
Debt securities	-	-
Loans and advances	1,986,153	2,091,448
Central banks and Credit institutions	392	300
Customers	1,985,761	2,091,148
Total *stage 3*	**1,986,153**	**2,091,448**
Total *stages*	**5,049,850**	**4,758,213**

Detailed movements in impairment allowances allocated to cover credit risk during the 2020 and 2019 financial years are as follows:

Thousand euro

	Individually measured		Collectively measured			Total
	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Balance as at 31 December 2018	**18,262**	**742,645**	**2,553,580**	**240,782**	**1,816,037**	**5,371,307**
Movements reflected in impairment gains/(losses) (*)	**(6,105)**	**81,173**	**(64,226)**	**25,612**	**320,811**	**357,264**
Increases due to origination	-	-	181,617	-	-	181,617
Changes due to credit risk variance	(6,243)	72,264	(48,845)	(9,001)	392,107	400,281
Changes in calculation approach	-	-	-	-	-	-
Other movements	138	8,909	(196,998)	34,613	(71,296)	(224,634)
Movements not reflected in impairment gains/(losses)	**(4,820)**	**(360,668)**	**(37,371)**	**(59,995)**	**(509,081)**	**(971,935)**
Transfers between impairment stages	(4,820)	98,703	(36,802)	(22,141)	(34,940)	-
To stage 1	(1,023)	(5,417)	35,066	(18,446)	(10,180)	-
To stage 2	2,763	(570)	(46,773)	67,341	(22,761)	-
To stage 3	(6,560)	104,690	(25,095)	(71,036)	(1,999)	-
Utilisation of allocated provisions	(1)	(456,642)	(477)	(37,521)	(364,853)	(859,494)
Other movements (**)	-	(2,729)	(92)	(333)	(109,288)	(112,442)
Adjustments for exchange differences	**8**	**511**	**946**	**93**	**20**	**1,578**
Balance as at 31 December 2019	**7,346**	**463,661**	**2,452,929**	**206,491**	**1,627,787**	**4,758,214**
Scope additions / exclusions	**-**	**-**	**-**	**-**	**-**	**-**
Movements reflected in impairment gains/(losses) (*)	**1,109**	**205,348**	**(20,878)**	**567,559**	**924,444**	**1,677,581**
Increases due to origination	-	-	205,443	-	-	205,443
Changes due to credit risk variance	1,037	220,228	25,679	494,037	913,757	1,654,738
Changes in calculation approach	-	-	-	-	-	-
Other movements	72	(14,880)	(252,000)	73,522	10,687	(182,600)
Movements not reflected in impairment gains/(losses)	**2,435,109**	**(102,985)**	**(2,112,371)**	**(469,893)**	**(1,126,163)**	**(1,376,303)**
Transfers between impairment stages	2,436,057	78,653	(2,071,874)	(433,466)	(9,370)	-
To stage 1	1,418	(1,583)	52,570	(41,245)	(11,160)	-
To stage 2	2,439,838	(620)	(2,109,648)	(311,390)	(18,180)	-
To stage 3	(5,199)	80,856	(14,796)	(80,831)	19,970	-
Utilisation of allocated provisions	(948)	(172,669)	(40,461)	(36,158)	(1,053,919)	(1,304,155)
Other movements (**)	-	(8,969)	(36)	(269)	(62,874)	(72,148)
Adjustments for exchange differences	**(14)**	**(5,573)**	**(3,468)**	**(222)**	**(366)**	**(9,643)**
Balance as at 31 December 2020	**2,443,550**	**560,451**	**316,212**	**303,934**	**1,425,702**	**5,049,850**

(*) This figure, corresponding to the amortisation charged to results on impaired financial assets derecognised from the asset side of the balance sheet and the recovery of write-offs, has been recognised with a contra account under the heading 'Impairment and gains or losses on changes in cash flows of financial assets not measured at fair value through profit or loss and net gains or (-) losses on changes' (see Note 31).

(**) Corresponds to credit loss allowances transferred to non-current assets held for sale (see Note 12) and investment property (see Note 14).

The breakdown by region of the balance of impairment allowances as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Spain	4,860,607	4,633,485
United Kingdom	35,430	28,834
Rest of European Union	44,185	33,855
Americas	58,248	44,331
Rest of the world	51,380	17,708
Total	**5,049,850**	**4,758,213**

Sensitivity analysis of the key variables of macroeconomic scenarios

An analysis of the sensitivity of the Group's expected loss and its impact by stage in the event of a change, *ceteris paribus*, from the actual macroeconomic environment, relative to the most probable baseline macroeconomic scenario included in the Group's business plan, is set out below. The results of this analysis are shown below:

	Change in the variable (*)	Impact on expected loss - Stage 1	Impact on expected loss - Stage 2	Impact on expected loss - Stage 3	Impact on expected loss - Total
Deviation of GDP growth	- 100 pb	6.4%	10.9%	4.3%	5.5%
	+ 100 pb	-4.9%	-6.0%	-3.8%	-4.2%
Deviation in unemployment rate	+ 350 pb	7.8%	24.6%	6.1%	8.8%
	- 350 pb	-7.2%	-16.5%	-5.1%	-6.9%
Changes in housing prices	- 300 pb	7.3%	16.8%	4.0%	6.2%
	+ 300 pb	-5.9%	-11.8%	-3.4%	-4.9%

(*) In Spain, changes in macroeconomic variables reflect the impacts, in absolute values, on the macroeconomic scenario in this country. In all other regions, changes in variables proportionate to those in Spain are applied to the macroeconomic scenario of each region.

Note 11 – Derivatives - asset and liability hedge accounting

Hedging management

The main hedges arranged by the Bank are described below:

Interest rate risk hedge

Based on the balance sheet positioning and the market situation and outlook, interest rate risk mitigation strategies are proposed and agreed in order to adjust the aforesaid positioning to that desired by Banco Sabadell. With this aim in mind, Banco Sabadell establishes interest rate hedging strategies for positions that are not included in the trading book and, to that end, derivative instruments are used, whether fair value instruments or cash flows, and a distinction is made between them depending on the items hedged:

- Macro-hedges: hedges intended to mitigate the risk of balance sheet components.
- Micro-hedges: hedges intended to mitigate the risk of a particular asset or liability.

When a transaction is designated as a hedging operation, it is classified as such from the outset of the transaction or the inception of the instruments included in the hedge, and a document is prepared which covers the hedging strategy, defining it in management and accounting terms, and setting out its governance. The said document clearly identifies the item hedged and the hedging instrument, the risk that it seeks to hedge and the criteria or methodologies followed by the Bank to evaluate its effectiveness.

The Bank operates with the following types of hedges intended to mitigate structural interest rate risk:

- Fair value hedges: hedges against the exposure to changes in the fair value of assets and liabilities recognised on the balance sheet, or against the analogous exposure of a specific selection of such assets and liabilities, that can be attributed to interest rate risk. These are used to keep a stable economic value of equity.

  The main types of balance sheet items hedged are:

  - Fixed-rate loans included in the lending portfolio.
  - Debt securities included in the portfolio of "*Financial assets at fair value through other comprehensive income*" and the portfolio of "*Financial assets at amortised cost*".
  - Fixed-rate liabilities, including fixed-term deposits and the Institution's capital market funding transactions.

  If the hedge relates to assets, the Bank enters into a fixed-for-floating swap, whereas if the macro-hedge relates to liabilities, it enters into a floating-to-fixed interest rate swap. These derivatives can be traded in cash or as F&O. The hedged risk is the interest rate risk arising from a potential change in the risk-free interest rate that gives rise to changes in the value of the hedged balance sheet items. As such, the hedge will not cover any risk inherent to the hedged items other than the risk of a change in the risk-free interest rate.

In order to assess the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated monthly variance in the fair value of the hedged item against the accumulated monthly variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that future changes to the fair value of the hedged balance sheet items are offset by future changes in the fair value of the derivative.

- Cash flows: hedging against the exposure to changes in cash flows arising from a particular risk associated with a previously recognised asset or liability, or a forecast transaction that is highly likely to materialise and which could affect the results for the year. They are used to reduce net interest income volatility.

  The main types of balance sheet items hedged are:

  - Floating rate mortgage loans indexed to the mortgage Euribor.
  - Floating rate liabilities indexed to the 3-month Euribor.

  If the hedge relates to assets, the Bank enters into a floating-to-fixed interest rate swap, whereas if the macro-hedge relates to liabilities, it enters into a fixed-for-floating swap. These derivatives can be traded in cash or as F&O. The hedged risk is the interest rate risk associated with the effect that a potential change in the benchmark interest rate could have on the future interest accrued on balance sheet items. The credit spread and risk premium which, together with the benchmark index, make up the contractual interest rate applicable to the hedged balance sheet items is expressly excluded from the hedge.

  In order to assess the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated variance in the fair value of the hedged item against the accumulated variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that the expected cash flows on the hedged items are still highly likely to materialise.

Possible causes of partial or total ineffectiveness include changes in the sufficiency of the portfolio of hedged balance sheet items or differences in their contractual characteristics in relation to hedging derivatives.

Every month the Bank calculates the interest rate risk metrics and establishes hedging strategies in accordance with the established risk appetite framework. Hedges are therefore managed, establishing hedges or discontinuing them, as required, on the basis of the evolution of the balance sheet items described previously within the management and control framework defined by the Bank in its policies and procedures.

Exchange rate risk hedges - Permanent investments

The Bank has investments in foreign subsidiaries that are consolidated in its financial statements. These positions implicitly entail exposure to exchange rate risk, which is managed by creating hedges through the use of forward contracts.

The maturities of these instruments are periodically renewed on the basis of prudential and forward-looking criteria.

2020 hedging disclosures

The nominal values and the fair values of the hedging instruments as at 31 December 2020 and 2019, broken down by risk category and type of hedge, are as follows:

Thousand euro

	2020			2019		
	Nominal	Assets	Liabilities	Nominal	Assets	Liabilities
Micro-hedges:						
Fair value hedges	**4,874,975**	**37,219**	**12,057**	**7,900,922**	**44,420**	**77,479**
Exchange rate risk	866,531	2,025	8,259	1,450,233	644	25,212
For funding operations (A)	-	-	-	-	-	-
Of permanent investments (B)	*866,531*	*2,025*	*8,259*	*1,450,233*	*644*	*25,212*
Of non-monetary items	-	-	-	-	-	-
Interest rate risk	2,217,302	27,698	623	4,392,056	36,764	41,868
For funding operations (A)	*15,866*	-	*623*	*15,866*	-	*1,010*
For lending operations (C)	*2,201,436*	*27,698*	-	*4,376,190*	*36,764*	*40,858*
Risk associated with shares	1,791,142	7,496	3,175	2,058,633	7,012	10,399
For funding operations (A)	*1,791,142*	*7,496*	*3,175*	*2,058,633*	*7,012*	*10,399*
Cash flow hedges	**1,358,400**	**138,992**	**6,137**	**2,010,996**	**181,560**	**236**
Exchange rate risk	-	-	-	-	-	-
Of non-monetary items	-	-	-	-	-	-
Interest rate risk	-	-	-	-	-	-
Of future transactions	-	-	-	-	-	-
For securitisation operations	-	-	-	-	-	-
Rest	-	-	-	-	-	-
Risk associated with shares	3,400	-	11	9,996	-	100
For funding operations (D)	*3,400*	-	*11*	*9,996*	-	*100*
Other risks	1,355,000	138,992	6,126	2,001,000	181,560	136
For inflation-linked bonds (E)	*1,355,000*	*138,992*	*6,126*	*2,001,000*	*181,560*	*136*
Hedge of net investment in foreign operations	**122,239**	**1,538**	**-**	**178,031**	**1,912**	**-**
Exchange rate risk (B)	122,239	1,538	-	178,031	1,912	-
Macro-hedges:						
Fair value hedges	**12,538,500**	**215,954**	**498,155**	**7,252,500**	**130,481**	**290,805**
Interest rate risk	12,538,500	215,954	498,155	7,252,500	130,481	290,805
For funding operations (F)	*5,635,000*	*215,954*	-	*3,350,000*	*130,481*	*2,095*
For lending operations (G)	*6,903,500*	-	*498,155*	*3,902,500*	-	*288,710*
Cash flow hedges	**250,000**	**-**	**5,035**	**400,000**	**-**	**12,366**
Interest rate risk	250,000	-	5,035	400,000	-	12,366
For funding operations (H)	*250,000*	-	*5,035*	*400,000*	-	*12,366*
For lending operations	-	-	-	-	-	-
Total	**19,144,114**	**393,703**	**521,384**	**17,742,449**	**358,373**	**380,886**
By currency:						
In euro	18,109,520	393,236	520,891	15,599,859	357,757	379,999
In foreign currency	1,034,595	466	493	2,142,590	616	885
Total	**19,144,115**	**393,702**	**521,384**	**17,742,449**	**358,373**	**380,884**

The types of hedges according to their composition that are identified in the table are as follows:

A. Micro-hedges of interest rate risk on funding transactions in capital markets, transactions involving term deposits opened by customers and recognised under the heading "*Financial liabilities measured at amortised cost*".
B. Hedges against exchange rate risk on permanent shareholdings, recognised under the heading "*Investments in subsidiaries, joint ventures and associates*", currently cover 213 million pounds sterling and 8,583 million Mexican pesos corresponding to shareholdings in Group entities, considered as fair value hedges (573 million pounds sterling and 9,998 million Mexican pesos as at 31 December 2019), and 150 million US dollars corresponding to shareholdings in foreign branches (200 million US dollars as at 31 December 2019), which are considered as hedges of net investments in foreign operations (see Note 3). All of these hedges are carried out through currency forwards.
C. Micro-hedges of transactions involving customer loans, recognised under the heading "*Financial assets at amortised cost*". As at 31 December 2019, it also included micro-hedges of debt securities classified in the portfolio under "fair value through other comprehensive income".

D. Micro-hedges for transactions involving term deposits arranged by customers and which are currently being sold.
E. Micro-hedges of interest rates on inflation-linked bonds recognised under the headings "*Financial assets at fair value through other comprehensive income*" and "*Financial assets at amortised cost*". The Bank has arranged financial swaps to hedge future changes in cash flows that will be settled by ILBs.
F. Macro-hedges of funding transactions in capital markets, transactions involving term deposits opened by customers and recognised under the heading "*Financial liabilities measured at amortised cost*". The average rate of interest rate swaps used for this hedge was 0.22% (0.47% as at 31 December 2019).
G. Macro-hedges of debt securities classified in the portfolio under "fair value through other comprehensive income" and "amortised cost". The average rate of financial interest rate swaps used to hedge debt securities was 0.55% and 0.42%, respectively, (1.06% and 0.83%, respectively, as at 31 December 2019).
H. Cash flow macro-hedges the purpose of which is to reduce the volatility of the buy-sell spread as a result of interest rate fluctuations, for a one-year time horizon. Thus, this macro-hedge covers future cash flows based on the net exposure of a portfolio consisting of floating rate liabilities recognised under the heading "*Financial liabilities measured at amortised cost*". The average rate of interest rate swaps used for this hedge was -0.54% (-0.40% as at 31 December 2019).

The maturity profiles of the hedging instruments used by the Bank as at 31 December 2020 and 2019 are shown below:

Thousand euro

	2020					
	Nominal					
	Up to 1 month	1 to 3 months	3 to 12 months	1 and 5 years	More than 5 years	Total
Exchange rate risk	506,233	482,537	-	-	-	988,770
Interest rate risk	-	-	250,000	4,135,866	10,619,936	15,005,802
Risk associated with shares	8,475	19,726	219,837	1,492,680	53,824	1,794,542
Other risks	-	11,000	-	449,000	895,000	1,355,000
Total	**514,708**	**513,263**	**469,837**	**6,077,546**	**11,568,760**	**19,144,114**

Thousand euro

	2019					
	Nominal					
	Up to 1 month	1 to 3 months	3 to 12 months	1 and 5 years	More than 5 years	Total
Exchange rate risk	706,675	921,589	-	-	-	1,628,264
Interest rate risk	1,869,952	-	150,000	2,055,866	7,968,738	12,044,556
Risk associated with shares	15,406	59,835	242,785	1,717,835	32,768	2,068,629
Other risks	-	-	-	11,000	1,990,000	2,001,000
Total	**2,592,033**	**981,424**	**392,785**	**3,784,701**	**9,991,506**	**17,742,449**

In 2020 and 2019 there were no reclassifications from equity to the income statement due to cash flow hedges and hedges of net investments in foreign operations for transactions that were ultimately not executed.

The following table shows the accounting information of items covered by the fair value micro-hedges contracted by the Bank:

Thousand euro

	2020					2019	
	Carrying amount of hedged item		Accumulated fair value adjustments in the hedged item		Accumulated amount of adjustments in hedged items for which hedge accounting no longer applies	Carrying amount of hedged item	
	Assets	Liabilities	Assets	Liabilities		Assets	Liabilities
Micro-hedges:							
Fair value hedges							
Exchange rate risk	588,454	-	-	-	-	1,144,639	-
Interest rate risk	1,944,618	67,598	(26,867)	738	9,979	3,701,998	66,978
Risk associated with shares	-	1,903,259	-	29,635	(22)	-	2,182,389
Total	**2,533,072**	**1,970,857**	**(26,867)**	**30,373**	**9,957**	**4,846,637**	**2,249,367**

In terms of fair value macro-hedges, the book value of the hedged items recognised in assets and liabilities for 2020 amounts to 17,534,513 and 54,170,421 thousand euros, respectively (18,750,613 and 43,898,869 thousand euros in 2019). Similarly, fair value adjustments of the hedged items amount to 369,688 and 241,550 thousand euros as at 31 December 2020, respectively (225,437 and 173,129 thousand euros as at 31 December 2019).

In relation to fair value hedges, the losses and gains recognised in 2020 and 2019, arising from both hedging instruments and hedged items are detailed hereafter:

Thousand euro

	2020		2019	
	Hedging instruments	Hedged items	Hedging instruments	Hedged items
Microhedges:	**73,123**	**(73,500)**	**(126,604)**	**126,371**
Fixed-rate assets	(9,408)	9,405	(53,306)	53,574
Capital markets	(93)	93	998	(997)
Fixed-rate liabilities	1,832	(1,598)	24,045	(24,354)
Assets denominated in foreign currency	80,792	(81,400)	(98,341)	98,148
Macrohedges:	**(129,137)**	**133,494**	**(63,103)**	**60,241**
Capital markets and fixed-rate liabilities	84,849	(85,937)	162,129	(161,823)
Fixed-rate assets	(213,986)	219,431	(225,232)	222,064
Total	**(56,014)**	**59,994**	**(189,707)**	**186,612**

In cash flow hedges, the amounts recognised in the statement of equity during the year and the amounts derecognised from the statement of equity and included in earnings during the year are indicated in the statement of total changes in equity of the Bank.

The hedge ineffectiveness in the results for 2020 related to cash flow hedges amounted to losses of 1,154 thousand euros (losses of 555 thousand euros in 2019).

Note 12 – Non-current assets and assets and liabilities included in disposal groups classified as held for sale

The composition of these headings in the balance sheets as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Assets	**1,204,556**	**868,947**
Loans and advances	243,282	-
Credit institutions	-	-
Customers	243,282	-
Debt securities	-	-
Real estate exposure	949,474	715,767
Tangible assets for own use	53,074	30,967
Foreclosed assets	896,400	684,800
Rest of other assets	11,800	153,180
Impairment allowances	**(265,213)**	**(151,421)**
Non-current assets and disposal groups classified as held for sale	**939,343**	**717,526**
Liabilities	-	-
Liabilities included in disposal groups classified as held for sale	-	-

On 5 February 2019, the Bank began a competitive bidding process to sell 100% of the share capital of Solvia Desarrollos Inmobiliarios, S.L.U. (SDIn), together with a pool of plots and real estate developments managed by this company and owned by Banco Sabadell. SDIn is the result of the divestiture and transfer in share blocks of part of the equity of Solvia Servicios Inmobiliarios, S.L.U., a company engaging in the provision of real estate development services.

On 3 August, the Bank transferred 100% of the share capital of this investee company, together with the aforementioned plots and real estate developments, to an entity controlled by funds managed and/or advised by Oaktree Capital Management. The total amount of the transaction, referenced to the existing pool as at 1 January 2019, amounted to 882 million euros. The assets belonging to the Bank included under this scope had a book value of 40 million euros as at 31 December 2019 and are recognised under the heading "*Non-current assets and disposal groups classified as held for sale*" on the balance sheet.

The Bank, after obtaining the necessary authorisations, completed this transaction on 21 September 2020. The closing of the transaction generated a capital gain of 36 million euros after tax (8 million euros in the consolidated income statement).

Furthermore, on 21 January 2020, Banco Sabadell and Amundi Asset Management (Amundi) entered into a long-term strategic partnership for the distribution of Amundi products through Banco Sabadell's commercial network in Spain. The agreement included the sale of 100% of the share capital of Sabadell Asset Management, S.A., S.G.I.I.C, Sociedad Unipersonal (SabAM) for an amount of 430 million euros and an earn-out of up to 30 million euros, payable in 2024, depending on the assets under management pertaining to customers of Banco Sabadell on such date.

As at 31 December 2019, the scope of SabAM's assets under management was approximately 21,800 million euros, excluding third-party funds, and it obtained a net profit of 34 million euros (derived from, among other items, 65 million euros of net fees and commissions and 17 million euros of operating and staff expenses). The transfer of SabAM included its subsidiary, Sabadell Asset Management Luxembourg, S.A., but excluded Sabadell Urquijo Gestión, S.A., S.G.I.I.C. Sociedad Unipersonal, which continues to belong to Banco Sabadell Group (see Note 13).

On 30 June 2020, having obtained all of the necessary authorisations, the Bank sold 100% of the share capital of SabAM to Amundi.

This transaction will generate a capital gain net of tax of 376 million euros (349 million euros in the consolidated income statement) for Banco Sabadell. Of the aforementioned capital gain, 56 million euros is subject to certain guarantees in place over the period of the distribution agreement and is, therefore, recognised proportionally over the 10 years following the closing date of this transaction. The remaining 320 million euros of capital gain has been recognised under the heading "*Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations*" of the income statement for 2020 (see Note 34).

The increase in the amount of loans and advances recognised as non-current assets held for sale is mainly due to the transfer of two credit portfolios agreed on 21 December 2020 and 30 December 2020. These loans and advances have been reclassified as *"Non-current assets and disposal groups classified as held for sale"* at their net book value until the closing of these transactions is completed once the relevant authorisations are obtained and the relevant conditions are met.

Details of the gross value and impairment allowances on loans in these portfolios classified as *"Non-current assets and disposal groups classified as held for sale"*, grouped according to their credit risk and purpose, are shown below:

Thousand euro

	Gross amount	Allowances	Net value
Portfolio of loans for which a sale agreement has been reached	**848,927**	**605,037**	**243,890**
Loans and advances previously classified in Stage 3	**797,897**	**573,837**	**224,060**
Real estate development and construction	41,388	36,167	5,221
Non-real estate construction	1,133	1,120	13
Corporates	6,870	5,910	960
SMEs and self-employed	57,424	37,436	19,988
Individuals	691,082	493,204	197,878
Loans and advances previously classified in Stage 2	**40,916**	**25,925**	**14,991**
Real estate development and construction	3,361	1,513	1,848
Non-real estate construction	-	-	-
Corporates	244	63	181
SMEs and self-employed	7,041	3,074	3,967
Individuals	30,270	21,275	8,995
Loans and advances previously classified in Stage 1	**10,114**	**5,275**	**4,839**
Real estate development and construction	157	56	101
Non-real estate construction	-	-	-
Corporates	361	82	279
SMEs and self-employed	1,668	556	1,112
Individuals	7,928	4,581	3,347
Other loans and advances	**-**	**-**	**-**
Total	**848,927**	**605,037**	**243,890**

Tangible assets for own use relate mainly to commercial establishments.

In respect of real estate assets originating in foreclosures, 93.51% of the balance corresponds to residential properties, 5.91% to industrial properties and 0.58% to agricultural properties.

The average term during which assets remained within the category of "*Non-current assets and assets and liabilities in disposal groups classified as held for sale - Foreclosed assets*" was 34.6 months in 2020 (21.9 months in 2019).

The percentage of foreclosed assets sold with financing granted to the buyer by the Bank in 2020 was 4.7% (8.7% in 2019).

Movements in "*Non-current assets and disposal groups classified as held for sale*" during 2020 and 2019 were as follows:

Thousand euro

	Note	Non-current assets held for sale
Cost:		
Balances as at 31 December 2018		**4,079,213**
Additions		467,818
Disposals		(3,586,167)
Transfer of credit losses (*)		(112,400)
Other transfers/reclassifications		20,483
Balances as at 31 December 2019		**868,947**
Additions		496,108
Disposals		(364,378)
Transfer of credit losses (*)		(41,916)
Other transfers/reclassifications		245,794
Balances as at 31 December 2020		**1,204,555**
Impairment allowances:		
Balances as at 31 December 2018		**803,462**
Impairment through profit or loss	34	243,903
Reversal of impairment through profit or loss	34	(138,826)
Utilisations		(750,998)
Other transfers/reclassifications		(6,120)
Balances as at 31 December 2019		**151,421**
Impairment through profit or loss	34	343,589
Reversal of impairment through profit or loss	34	(168,524)
Utilisations		(72,242)
Other transfers/reclassifications		10,968
Balances as at 31 December 2020		**265,212**
Net balances as at 31 December 2019		**717,526**
Net balances as at 31 December 2020		**939,343**

(*) Allowance arising from provisions allocated to cover credit risk.

Details of the net carrying value of transfers shown in the table above are as follows:

Thousand euro

	Note	2020	2019
Loans and advances		243,282	-
Tangible assets	14	102,519	26,603
Rest		(110,974)	-
Total		**234,827**	**26,603**

Note 13 – Investments in subsidiaries, joint ventures and associates

The breakdown of the balance of this heading of the balance sheets as at 31 December 2020 and 2019 was as follows:

Thousand euro

	2020		
	Group entities	Associates	Total
By nature:			
Credit institutions	698,903	-	698,903
Other resident sectors	2,314,122	307,216	2,621,338
Other non-resident sectors	2,218,479	19,144	2,237,623
Total	**5,231,504**	**326,360**	**5,557,864**
By quote:			
Quoted	2,312	397	2,709
Not quoted	5,229,192	325,963	5,555,155
Total	**5,231,504**	**326,360**	**5,557,864**
By currency:			
In euro	2,425,721	307,216	2,732,937
In foreign currency	2,805,783	19,144	2,824,927
Total	**5,231,504**	**326,360**	**5,557,864**

Thousand euro

	2019		
	Group entities	Associates	Total
By nature:			
Credit institutions	768,507	-	768,507
Other resident sectors	2,180,550	266,155	2,446,705
Other non-resident sectors	2,255,772	19,144	2,274,916
Total	**5,204,829**	**285,299**	**5,490,128**
By quote:			
Quoted	2,312	397	2,709
Not quoted	5,202,517	284,902	5,487,419
Total	**5,204,829**	**285,299**	**5,490,128**
By currency:			
In euro	2,292,149	266,155	2,558,304
In foreign currency	2,912,680	19,144	2,931,824
Total	**5,204,829**	**285,299**	**5,490,128**

Movements during 2020 and 2019 were as follows:

Thousand euro

		Group entities	Associates	Total
Balance as at 31 December 2018	**Note**	**5,231,121**	**131,381**	**5,362,502**
Additions due to acquisition(s)		-	1,233	1,233
Contributions		-	150,657	150,657
Capital increases		18	11,289	11,307
Sale, dissolution, recovery of investment(s)		(110,937)	(11,025)	(121,962)
Transfers	12	(15)	924	909
Exchange differences		78,907	-	78,907
Impairments		5,735	840	6,575
Balance as at 31 December 2019		**5,204,829**	**285,299**	**5,490,128**
Additions due to acquisition(s)		7,177	-	7,177
Contributions		-	66,413	66,413
Capital increases		23,936	-	23,936
Sale, dissolution, recovery of investment(s)		(29,009)	(5,562)	(34,571)
Transfers (*)		136,335	(1,641)	134,694
Exchange differences		(81,400)	-	(81,400)
Impairments		(30,364)	(18,149)	(48,513)
Balance as at 31 December 2020		**5,231,504**	**326,360**	**5,557,864**

(*) In 2020 this corresponds to reclassifications of the heading "Non-current assets and assets and liabilities included in disposal groups classified as held for sale" (see Note 12).

The section of the cash flow statements relating to "*Investment activities -- Collections from investments in joint ventures and associates*", shows a figure of 53,257 thousand euros, which correspond to "Sales, settlement, recovery of the investment" amounting to 5,562 thousand euros, dividends received from associates amounting to 45,455 thousand euros and results of derecognitions of associates amounting to 2,240 thousand euros.

The section of the cash flow statements relating to *"Investment activities -- Collections from investments in other business units"* shows a figure of 41,297 thousand euros, which correspond to "Sales, settlement, recovery of the investment" amounting to 29,009 thousand euros, dividends received from Group entities amounting to 12,766 thousand euros and results of derecognitions of Group entities amounting to -478 thousand euros.

Most significant changes in investments during 2020

Schedule I sets out details of the recognition and derecognition of equity interests in 2020 and 2019.

Group entities

- In the context of the divestment in 2020 of 100% of the share capital of Sabadell Asset Management, S.A., S.G.I.I.C. (see Note 12), the Bank acquired its stake in Urquijo Gestión, S.A., S.G.I.I.C. from this institution for 7,177 thousand euros.

- The most significant capital increases were:

    - Banco de Sabadell, S.A. de I.B.M for 19,225 thousand euros.
    - Sabcapital, S.A. de C.V., SOFOM, E.R. for 4,710 thousand euros.

- In addition, in 2020 dividends have been distributed that resulted in the recovery of the following investments:

    - Gestión Financiera del Mediterráneo, S.A.U. for 12,183 thousand euros.
    - Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L. for 9,500 thousand euros.
    - Guipuzcoano Valores, S.A. for 6,651 thousand euros.

Associates

In 2020, a contribution of 62,061 thousand euros was made to Promontoria Challenger I. S.A.

Most significant changes in investments during 2019

Group entities

- In 2019, Gestión Financiera del Mediterráneo distributed dividends which resulted in an investment recovery amounting to 44,521 thousand euros.

- In 2019, SabCapital, S.A. de C.V., SOFOM reduced its share capital through shareholder returns which represented an investment recovery of 41,301 thousand euros.

Associates

- In the section concerning additions to and withdrawals from the scope of consolidation, the addition of Promontoria Challenger I. S.A. (see Note 12) is included , which had a book value of 161,958 thousand euros as at 31 December 2019.

- In 2019, Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros distributed dividends charged to the share premium which resulted in an investment recovery of 11,000 thousand euros.

Other significant corporate transactions and contracts

Agreement for the sale of the institutional depository business

On 28 March 2020, the Bank and BNP Paribas Securities Services S.C.A., Sucursal en España (BP2S) entered into an agreement by virtue of which BP2S has undertaken to acquire, subject to certain conditions, the institutional depositary business of Banco Sabadell for an amount of 115 million euros.

The agreement foresees additional collections after closing, subject to the achievement of certain objectives linked to the volume of the assets under deposit of BP2S and revenues from their fees.

As at the end of 2020, Banco Sabadell's institutional depositary business included approximately 21 billion euros of assets under deposit. The transaction is expected to close in the second quarter of 2021, once the relevant authorisations have been obtained.

The transaction will generate a net capital gain of 75 million euros, of which 58 million euros will be recognised at closing, the remaining 17 million euros being accrued over the following years.

Asset Protection Scheme

As a result of the acquisition of Banco CAM on 1 June 2012, the Asset Protection Scheme (hereinafter, APS) envisaged in the protocol on financial assistance measures for the restructuring of Banco CAM came into force with retroactive effect from 31 July 2011. Under the scheme, which covers a specified portfolio of assets with a gross value of 24,644 million euros as at 31 July 2011, the Deposit Guarantee Fund (hereinafter, "DGF") will bear 80% of the losses on the portfolio for a period of ten years, once impairment allowances in respect of those assets, which amounted to 3,882 million euros at the aforementioned date, have been fully applied.

The portfolio of assets protected by the APS on the date it entered into force (31 July 2011) breaks down as follows:

Million euro

	On individual balance sheet		On Group balance sheet	
	Balance	Provision	Balance	Provision
Loans and advances	21,711	2,912	19,117	2,263
Of which: amount drawn	*21,091*	-	*18,460*	-
Of which: guarantees and contingent liabilities	*620*	-	*657*	-
Real estate assets	2,380	558	4,663	1,096
Investments in joint ventures and associates	193	52	504	163
Write-offs	360	360	360	360
Total	**24,644**	**3,882**	**24,644**	**3,882**

For all of the losses that have been accounted for (those deriving from loan loss provisions, loan reductions, impairment allowances for real estate assets and losses from the disposal of these assets), the Bank keeps an account receivable classed under the *"Loans and receivables"* heading and recognised on the income statement, in order to reflect the rights of collection from the DGF as a result of its guarantee. The accumulated amount recognised as at 31 December 2020 amounted to 1,761 million euros (3,092 million euros as at 31 December 2019).

Note 14 – Tangible assets

The composition of this item as at 31 December 2020 and 2019 was as follows:

Thousand euro

	2020				2019			
	Cost	Depreciation and amortisation	Impairment	Net value	Cost	Depreciation and amortisation	Impairment	Net value
Property, plant and equipment	**3,242,248**	**(1,255,979)**	**(5,548)**	**1,980,721**	**3,181,237**	**(1,110,694)**	**(5,548)**	**2,064,995**
For own use (*):	3,242,248	(1,255,979)	(5,548)	1,980,721	3,181,237	(1,110,694)	(5,548)	2,064,995
Computer equipment and related facilities	461,816	(329,817)	-	131,999	430,785	(296,178)	-	134,607
Furniture, vehicles and other facilities	926,722	(559,527)	-	367,195	914,254	(533,573)	-	380,681
Buildings	1,834,308	(366,635)	(5,548)	1,462,125	1,817,545	(280,943)	(5,548)	1,531,054
Work in progress	-	-	-	-	-	-	-	-
Other	19,402	-	-	19,402	18,653	-	-	18,653
Investment properties:	**81,485**	**(8,061)**	**(4,739)**	**68,685**	**147,371**	**(7,839)**	**(6,777)**	**132,755**
Buildings	81,485	(8,061)	(4,739)	68,685	147,371	(7,839)	(6,777)	132,755
Total	**3,323,733**	**(1,264,040)**	**(10,287)**	**2,049,406**	**3,328,608**	**(1,118,533)**	**(12,325)**	**2,197,750**

(*) As at 31 December 2020, the cost of property, plant and equipment for own use includes right-of-use assets relating to the leased tangible assets in which the Bank acts as lessee amounting to 1,060,754 thousand euros, of which 167,379 thousand euros have been depreciated as at that date (1,011,089 thousand euros as at 31 December 2019, of which 82,360 thousand euros have been depreciated as at that date).

Movements in the balance under the "*Tangible assets*" heading during 2020 and 2019 were as follows:

Thousand euro

	Note	Own use - Buildings and other	Own use - Computer equipment, furniture and related facilities	Investment properties	Total
Cost:					
Balances as at 31 December 2018		**845,129**	**1,363,112**	**147,955**	**2,356,196**
Additions (*)		1,027,817	90,247	11,324	1,129,388
Disposals		(21,419)	(108,320)	(1,550)	(131,289)
Other transfers		(15,329)	-	(10,316)	(25,645)
Transfer of credit losses		-	-	(42)	(42)
Balances as at 31 December 2019		**1,836,198**	**1,345,039**	**147,371**	**3,328,608**
Additions		50,422	69,057	20,669	140,148
Disposals		(69)	(25,315)	(2,983)	(28,367)
Other transfers		(32,842)	(243)	(83,572)	(116,657)
Transfer of credit losses		-	-	-	-
Balances as at 31 December 2020		**1,853,709**	**1,388,538**	**81,485**	**3,323,732**
Accumulated depreciation:					
Balances as at 31 December 2018		**190,591**	**850,294**	**6,712**	**1,047,597**
Additions (**)		94,426	76,850	2,870	174,146
Disposals		(970)	(97,393)	(21)	(98,384)
Other transfers		(3,104)	-	(1,722)	(4,826)
Balances as at 31 December 2019		**280,943**	**829,751**	**7,839**	**1,118,533**
Additions (**)		97,309	78,938	2,777	179,024
Disposals		(42)	(19,312)	(25)	(19,379)
Other transfers		(11,575)	(33)	(2,530)	(14,138)
Balances as at 31 December 2020		**366,635**	**889,344**	**8,061**	**1,264,040**
Impairment losses:					
Balances as at 31 December 2018		**6,223**	**-**	**9,769**	**15,992**
Impairment through profit or loss	32	-	-	12,982	12,982
Reversal of impairment through profit or loss	32	-	-	(22,241)	(22,241)
Utilisations		(411)	-	(117)	(528)
Other transfers		-	-	-	-
Balances as at 31 December 2019		**5,548**	**-**	**6,777**	**12,325**
Impairment through profit or loss	32	-	-	10,614	10,614
Reversal of impairment through profit or loss	32	-	-	(10,444)	(10,444)
Utilisations		-	-	(2,208)	(2,208)
Other transfers		-	-	-	-
Balances as at 31 December 2020		**5,548**	**-**	**4,739**	**10,287**
Net balances as at 31 December 2019		**1,549,707**	**515,288**	**132,755**	**2,197,750**
Net balances as at 31 December 2020		**1,481,526**	**499,194**	**68,685**	**2,049,405**

(*) Includes 1,060,754 thousand euro corresponding to the recognition in the balance sheet of the right-of-use assets in leased property, plant and equipment where the bank acts as lessee, of which 925,230 correspond to the impact of the adoption of Bank of Spain Circular 2/2018.

(**) Includes 85,019 thousand euros in 2020 and 82,360 thousand euros in 2019 corresponding to the recognition in the income statement of the depreciation of right-of-use assets of the leased tangible assets in which the Bank acts as lessee.

Details of the net carrying value of transfers shown in the table above are as follows:

Thousand euro

	Note	2020	2019
Non-current assets and disposal groups classified as held for sale	12	(102,519)	(26,603)
Credit losses		-	(42)
Other assets		-	(336)
Total		**(102,519)**	**(26,981)**

Specific information relating to tangible assets as at 31 December 2020 and 2019 is shown hereafter:

Thousand euro

	2020	2019
Gross value of tangible assets for own use in use and fully amortised	296,306	241,809
Net carrying value of tangible assets of foreign operations	16,248	4,407

Lease contracts in which the Group acts as lessee

Information is set out below concerning the operating lease contracts in which the Group acts as lessee:

Thousand euro

	2020	2019
Interest expense on lease liabilities	(15,709)	(16,760)
Expense related to short-term low-value leases (*)	(7,886)	(14,157)
Total lease payments in cash (**)	89,915	91,089

(*) Recognised in the "Administrative expenses" heading, in the item on "Of property, plant and equipment" (see note 33).

(**) Payments of the principal and interest components of the lease liability are recognised as cash flows from financing activities in the bank's cash flow statement.

Minimum future payments over the period that cannot be cancelled for lease contracts in effect as at 31 December 2020 and 2019 are indicated below:

Thousand euro

	2020	2019
Undiscounted future lease payments		
Up to 1 month	7,434	13,747
1 to 3 months	14,063	9,536
3 to 12 months	60,513	68,350
1 to 5 years	343,229	308,216
More than 5 years	469,077	683,936

The future cash outflows to which the Bank may potentially be exposed and which are not included in the amount recorded under Lease liabilities as at 31 December 2020 are not significant.

Sale and leaseback transactions

Between 2009 and 2012, the Bank completed transactions for the sale of properties and simultaneously entered into a lease contract with the buyers for the same properties (maintenance, insurance and taxes to be borne by the Bank), whose main features are set out below:

2020				
Operating lease contracts	**No. properties sold**	**No. contracts with purchase option**	**No. contracts without purchase option**	**Mandatory term**
2009	68	28	40	10 to 20 years
2010	379	378	1	10 to 25 years
2011 (acquisition B.Guipuzcoano)	82	64	18	8 to 20 years
2012 (acquisition Banco CAM)	22	22	-	10 to 25 years
2012	4	4	-	15 years

Specific information in connection with this set of lease contracts is given below:

Thousand euro

	2020
Undiscounted future lease payments	
Up to 1 month	3,686
1 to 3 months	7,017
3 to 12 months	32,601
1 to 5 years	211,669
More than 5 years	403,689

During 2020, no individually material gain or loss was obtained through sale and leaseback transactions.

Note 15 – Intangible assets

The composition of this heading as at 31 December 2020 and 2019 was as follows:

Thousand euro

	2020	2019
Goodwill	**73,378**	**126,547**
Grupo Banco Guipuzcoano	11,889	40,424
BS Profesional, S.A.	148	246
From acquisition of Banco BMN Penedés assets	61,341	85,878
Other intangible assets:	**28,722**	**34,177**
With a finite useful life:	28,722	34,177
Contractual relations with customers (Banco Guipuzcoano)	-	5,007
Private Banking Business, Miami	11,332	16,244
Administrative franchises	1,191	1,181
Computer applications	16,116	11,624
Other	83	121
Total	**102,100**	**160,724**

Movements in the balance of goodwill and intangible assets during 2020 and 2019 were as follows:

Thousand euro

	Goodwill:		
	Cost	Depreciation and amortisation	Total
Balance as at 31 December 2018	**1,005,530**	**(825,813)**	**179,717**
Additions	-	(53,169)	(53,169)
Balance as at 31 December 2019	**1,005,530**	**(878,982)**	**126,548**
Additions	-	(53,169)	(53,169)
Balance as at 31 December 2020	**1,005,530**	**(932,151)**	**73,379**

Thousand euro

	Other intangible assets:		
	Cost	Depreciation and amortisation	Total
Balance as at 31 December 2018	**607,041**	**(563,169)**	**43,872**
Additions	10,046	(18,736)	(8,690)
Disposals	(130,337)	128,926	(1,411)
Other	1,155	(750)	406
Balance as at 31 December 2019	**487,905**	**(453,729)**	**34,177**
Additions	10,857	(14,727)	(3,870)
Disposals	(149)	-	(149)
Other	(5,060)	3,624	(1,436)
Balance as at 31 December 2020	**493,553**	**(464,832)**	**28,722**

The gross value of items included under other intangible assets that were in use and fully amortised as at 31 December 2020 and 2019 amounted to 409,863 thousand euros and 351,770 thousand euros, respectively.

Goodwill

As set forth in the regulatory frame of reference, Banco Sabadell has carried out an analysis to evaluate the existence of any potential impairment of its goodwill.

Since the first half of 2020, Banco Sabadell Group has been monitoring the Group's total goodwill across the ensemble of Cash-Generating Units (CGUs) that make up the Banking Business Spain operating segment, rather than doing so individually for each CGU.

As at 31 December 2020, the Banking Business Spain operating segment comprises all CGUs to which goodwill was originally allocated.

Banco Sabadell Group made this decision as a result of the operational changes related to monitoring of the development of business resulting from the reorganisation of Banking Business in Spain in which Private Banking became part of Commercial Banking and was integrated within that operating segment. In addition, the development of the Corporate Banking business has led to an increasing portion of its customers executing transactions through foreign branches; the income from those transactions is not allocated to this cash-generating unit. It has also led to asset portfolios being transferred between this business and the Commercial Banking business, which has produced modifications to the scope of both CGUs.

The valuation method used in this analysis was that of discounting future net distributable profit associated with the activity carried out by the Banking Business Spain operating segment until 2026. To calculate the terminal value, 2026 has been taken as the reference year, using a perpetual growth rate of 1.6%. A discount rate of 9.0% was used, a figure reached using the CAPM (Capital Asset Pricing Model) approach.

The key variables on which the financial projections are based are: growth in the buy-sell spread (determined by expected trading volumes and interest rates) and changes of other items on the income statement and solvency levels.

The recoverable value obtained is higher than the book value and, therefore, no impairment has taken place.

Moreover, the Group has carried out a sensitivity analysis using reasonable adjustments to the most significant assumptions for the calculation of the recoverable value.

This analysis consisted of adjusting the following:

- Discount rate +/- 0.5%.
- Growth rate in perpetuity +/- 0.5%.
- Minimum capital requirement +/-0.5%.
- NIM/ATAs in perpetuity +/- 5bps.
- Cost of risk in perpetuity +/- 10bps.

The sensitivity analysis does not alter the conclusions drawn from the impairment test. In all scenarios defined in this analysis, the recoverable value obtained is higher than the carrying amount.

The impairment of goodwill is calculated taking into account the central macroeconomic scenario described in Note 1.

The main transactions that generated goodwill were the acquisition of Banco Urquijo in 2006, of Banco Guipuzcoano in 2010 and of certain assets of BMN-Penedès in 2013.

In accordance with the specifications of the restated text of the Corporation Tax Law, the goodwill generated is not tax-deductible.

Other intangible assets

Private Banking business, Miami

The intangible assets associated with various acquisitions related to businesses in Miami (2008 Private Banking business, Miami, 2012 Caja de Ahorros del Mediterráneo Miami branch and 2013 Private Banking of Lloyds Bank in Miami) include the value of contractual rights arising from customer relationships taken over, basically short-term lending, deposits and contractual relationships with specific customers. These assets are amortised over a period of between 10 and 15 years.

IT applications

Software purchase costs comprise mainly the capitalised costs of developing the Group's computer software and the purchase of software licences.

Note 16 – Other assets

The *"Other assets"* heading on the balance sheets as at 31 December 2020 and 2019 breaks down as follows:

Thousand euro

	Note	2020	2019
Insurance contracts linked to pensions	21	133,757	133,960
Rest of other assets		290,534	270,449
Total		**424,291**	**404,409**

The heading "*Rest of other assets*" includes mainly prepaid expenses, the accrual of fees and commissions and transactions in progress pending settlement.

Note 17 – Deposits in central banks and credit institutions

The breakdown of deposits in credit institutions and central banks in the balance sheets as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
By heading:		
Financial liabilities measured at amortised cost	37,918,708	25,820,046
Total	**37,918,708**	**25,820,046**
By nature:		
Demand deposits	386,159	478,944
Deposits with agreed maturity	30,561,030	17,506,477
Repurchase agreements	6,789,993	7,607,237
Other accounts	178,619	222,586
Valuation adjustments	2,907	4,802
Total	**37,918,708**	**25,820,046**
By currency:		
In euro	35,710,581	23,601,849
In foreign currency	2,208,127	2,218,197
Total	**37,918,708**	**25,820,046**

Note 18 – Customer deposits

The customer deposits heading on the balance sheets as at 31 December 2020 and 2019 breaks down as follows:

Thousand euro

	2020	2019
By heading:		
Financial liabilities measured at amortised cost	113,321,650	113,059,709
Total	**113,321,650**	**113,059,709**
By nature:		
Demand deposits	95,325,754	87,781,838
Deposits with agreed maturity	16,032,196	22,068,454
Fixed term	13,402,974	19,050,874
Non-marketable covered bonds and bonds issued	1,397,479	1,476,891
Rest	1,231,743	1,540,689
Hybrid financial liabilities	1,847,448	2,126,646
Repurchase agreements	15,133	953,405
Valuation adjustments	101,119	129,366
Total	**113,321,650**	**113,059,709**
By sector:		
General governments	6,420,343	6,576,864
Other sectors	106,800,188	106,353,479
Other valuation adjustments (interest, fees and commissions, other)	101,119	129,366
Total	**113,321,650**	**113,059,709**
By currency:		
In euro	108,428,751	105,404,491
In foreign currency	4,892,899	7,655,218
Total	**113,321,650**	**113,059,709**

Note 19 – Debt securities issued

Details of the *"Debt securities issued"* heading by type of issuance and recognised on the balance sheets as at 31 December 2020 and 2019 are as follows:

Thousand euro

	2020	2019
Straight bonds/debentures	6,915,615	6,422,112
Straight bonds	6,810,415	6,311,712
Structured bonds	105,200	110,400
State guaranteed straight bonds	-	-
Commercial paper	782,221	1,905,823
Covered bonds	8,041,000	8,925,100
Public-sector covered bonds	-	-
Covered bonds (TSB)	-	-
Asset-backed bonds	-	-
Subordinated marketable debt securities	2,450,000	2,574,600
Subordinated liabilities	1,300,000	1,424,600
Preference shares	1,150,000	1,150,000
Valuation and other adjustments	29,982	36,360
Total	**18,218,818**	**19,863,995**

Schedule V shows details of the outstanding issuances as at 2020 and 2019 year-end.

Two issues of preference shares contingently convertible into the Bank's ordinary shares (Additional Tier 1), offered exclusively to qualified investors, were carried out in 2017. On 18 May 2017, Banco Sabadell carried out its first Additional Tier 1 issuance, amounting to 750,000 thousand euros with a fixed coupon rate of 6.5%. Subsequently, on 23 November 2017, it carried out a second Additional Tier 1 issuance, amounting to 400,000 thousand euros with a fixed coupon rate of 6.125%.

These securities are perpetual, although they may be converted into newly issued Banco Sabadell shares, if Banco Sabadell, or its consolidated Group had a Common Equity Tier 1 (CET1) ratio lower than 5.125%, calculated in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June, on prudential requirements for credit institutions and investment firms.

The remuneration for preference shares contingently converted into ordinary shares amounts to 73,250 thousand euros in 2020 (73,250 thousand euros in 2019) and is recognised under the heading *"Other reserves"* of equity.

Note 20 – Other financial liabilities

The breakdown of the balance of other financial liabilities as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
By heading:		
Financial liabilities measured at amortised cost	3,471,400	3,676,000
Total	**3,471,400**	**3,676,000**
By nature:		
Debentures payable	151,418	217,622
Guarantee deposits received	73,364	53,337
Clearing houses	607,792	537,099
Collection accounts	1,331,309	1,522,405
Lease liabilities	907,907	937,036
Other financial liabilities	399,610	408,500
Total	**3,471,400**	**3,675,999**
By currency:		
In euro	3,367,777	3,594,868
In foreign currency	103,623	81,132
Total	**3,471,400**	**3,676,000**

The following table shows information relating to the average payment period to suppliers, as required by Additional Provision Three of Law 15/2010, taking into account the amendments introduced by Law 31/2014 of 3 December, amending the Capital Companies Act in order to improve corporate governance:

Number of days and thousand euro

	2020	2019
Days		
Average time taken to pay suppliers	15.72	18.19
Ratio of paid operations	15.72	18.19
Ratio of operations pending payment	-	-
Amount		
Total payments made	1,353,633	1,382,717
Total payments pending	-	-

Note 21 – Provisions and contingent liabilities

Movements during 2020 and 2019 under the heading of "*Provisions*" are shown below:

Thousand euro

	Pensions and other post employment defined benefit obligations	Other long term employee benefits	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total
Balance as at 31 December 2018	**88,456**	**6,562**	**58,219**	**384,207**	**126,264**	**663,708**
Scope additions / exclusions	-	-	-	-	-	-
Interest and similar charges - pension commitments	**1,279**	**68**	-	-	-	**1,347**
Allowances charged to income statement - staff expenses (*)	**1,630**	**2**	-	-	-	**1,632**
Allowances not charged to income statement	-	-	-	-	-	-
Allowances charged to income statement – provisions	**1,990**	**789**	**23,088**	**189,755**	**(2,912)**	**212,710**
Allocation of provisions	840	821	36,925	352,272	6,789	397,647
Reversal of provisions	-	-	(13,837)	(162,517)	(9,701)	(186,055)
Actuarial losses / (gains)	1,150	(32)	-	-	-	1,118
Exchange differences	-	-	-	**(393)**	-	**(393)**
Utilisations:	**(8,841)**	**(3,835)**	**(22,911)**	-	**(37,143)**	**(72,730)**
Net contributions by the sponsor	(136)	2	-	-	-	(134)
Pension payments	(8,705)	(3,837)	-	-	-	(12,542)
Other	-	-	(22,911)	-	(37,143)	(60,054)
Other movements	**10,542**	**(3)**	**8,486**	**(1,857)**	**10**	**17,178**
Balance as at 31 December 2019	**95,056**	**3,583**	**66,882**	**571,712**	**86,219**	**823,452**
Scope additions / exclusions	-	-	-	-	-	-
Interest and similar charges - pension commitments	**679**	**18**	-	-	-	**697**
Allowances charged to income statement - staff expenses (*)	**1,454**	**7**	-	-	**286,112**	**287,573**
Allowances not charged to income statement	-	-	-	-	-	-
Allowances charged to income statement – provisions	**1,224**	**(38)**	**70,002**	**(148,762)**	**50,170**	**(27,404)**
Allocation of provisions	14	-	70,878	413,844	50,170	534,906
Reversal of provisions	-	-	(876)	(562,606)	-	(563,482)
Actuarial losses / (gains)	1,210	(38)	-	-	-	1,172
Exchange differences	-	-	-	**(1,847)**	-	**(1,847)**
Utilisations:	**(3,950)**	**(2,342)**	**(22,795)**	-	**(28,913)**	**(58,000)**
Net contributions by the sponsor	(39)	1	-	-	-	(38)
Pension payments	(8,536)	(2,317)	-	-	-	(10,853)
Other	4,625	(26)	(22,795)	-	(28,913)	(47,109)
Other movements	-	-	-	**469**	**10**	**479**
Balance as at 31 December 2020	**94,463**	**1,228**	**114,089**	**421,572**	**393,598**	**1,024,950**

(*) See Note 30.

The headings "*Pensions and other post-employment defined benefit obligations*" and "*Other long-term employee benefits*" include the amount of provisions for the coverage of post-employment remuneration and commitments undertaken with early retirees and similar commitments.

The heading *"Provisions for commitments and guarantees given"* includes the amount of provisions for the coverage of commitments given and contingent risks arising from financial guarantees or other types of contract.

During the usual course of business, the Bank is exposed to fiscal, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of third party experts when necessary and, where appropriate, provisions are recognised under the headings "*Pending legal issues and tax litigation*" and "*Other provisions*". As at 31 December 2020 and 2019, these headings mainly include:

- Provisions for the possible reimbursement of amounts paid as a result of the application of mortgage floor clauses, whether as a result of the hypothetical voiding by the courts of law of floor clauses or whether due to the implementation of Royal Decree-Law 1/2017 of 20 January on measures to protect consumers regarding floor clauses, for the amount of 84.6 million euros as at 31 December 2020 (76.7 million euros as at 31 December 2019). In a remote scenario that is not considered likely of potential additional claims, both through the procedures established by the entity, in accordance with that set forth in Royal Decree, and through court proceedings applying the percentages set forth in the current agreement, the maximum contingency would amount to 113.3 million euros.

  With regards to these provisions, the Bank considers its floor clauses to be transparent and clear to customers, and in general, these have not been definitively cancelled with a final ruling. On 12 November 2018, Section 28 of the Civil Division of the Provisional Court of Madrid issued a ruling in which it partially supported the appeal brought forth by Banco de Sabadell against the ruling issued by the Commercial Court no.11 of Madrid on the invalidity of the restrictive interest rate clauses, considering that some of the clauses established by Banco Sabadell are transparent and valid in their entirety. With regards to the rest of the clauses, the Bank considers that it has legal arguments which should be reviewed in the legal appeal which the Institution presented to the Supreme Court, with regards to the ruling made by the Provincial Court of Madrid.

- Provisions for legal contingencies amounting to 77 million euros as at 31 December 2020 (63 million euros as at 31 December 2019).

- Provisions to cover the anticipated costs relating to the voluntary redundancy scheme amounting to 286 million as at 31 December 2020 (see Note 30).

The final disbursement amount and the payment schedule are uncertain due to the difficulties inherent in estimating the factors used to determine the amount of the provisions.

Pensions and similar obligations

The origins of liabilities recognised in respect of post-employment benefits and other similar long-term obligations on the Bank's balance sheet are shown below:

Thousand euro

	2020	2019	2018	2017	2016
Obligations arising from pension and similar commitments	811,819	796,260	762,853	787,671	857,006
Fair value of defined benefit plan assets	(716,128)	(697,621)	(667,835)	(692,537)	(749,295)
Net liability recognised on balance sheet	**95,691**	**98,639**	**95,018**	**95,134**	**107,711**

The return on the pension plan was 0.24% and that of E.P.S.V. was 0.63% in 2020.

The return on the pension plan was 2.33% and that of E.P.S.V. was 1.15% in 2019.

Movements during 2020 and 2019 in obligations due to pensions and similar commitments and the fair value of the scheme assets are as follows:

Thousand euro

	Obligations arising from pension and similar commitments	Fair value of defined benefit plan assets	Net liability recognised on balance sheet
Balance as at 31 December 2018	**762,853**	**667,835**	**95,018**
Interest costs	11,092	-	11,092
Interest income	-	9,745	(9,745)
Normal cost in year	1,632	-	1,632
Past service cost	1,629	-	1,629
Benefits paid	(48,578)	(36,035)	(12,543)
Settlements, curtailments and terminations	4,705	3,483	1,222
Net contributions by the institution	-	(44)	44
Actuarial gains or losses from changes in demographic assumptions	-	-	-
Actuarial gains or losses from changes in financial assumptions	64,491	-	64,491
Actuarial gains or losses from changes in actuarial assumptions	3,188	-	3,188
Yield on defined benefit plan assets excluding interest income	-	57,389	(57,389)
Other movements	(4,752)	(4,752)	-
Balance as at 31 December 2019	**796,260**	**697,621**	**98,639**
Interest costs	5,790	-	5,790
Interest income	-	5,092	(5,092)
Normal cost in year	1,461	-	1,461
Past service cost	-	-	-
Benefits paid	(47,331)	(36,478)	(10,853)
Settlements, curtailments and terminations	(8,695)	(9,905)	1,210
Net contributions by the institution	-	(62)	62
Actuarial gains or losses from changes in demographic assumptions	23,964	-	23,964
Actuarial gains or losses from changes in financial assumptions	22,339	-	22,339
Actuarial gains or losses from changes in actuarial assumptions	(5,327)	-	(5,327)
Yield on defined benefit plan assets excluding interest income	-	39,788	(39,788)
Other movements	23,358	20,072	3,286
Balance as at 31 December 2020	**811,819**	**716,128**	**95,691**

The breakdown of the Bank's pension commitments and similar obligations as at 31 December 2020 and 2019, based on its financing vehicle, coverage and the interest rate applied in its calculation is listed below:

Thousand euro

		2020	
Financing vehicle	Coverage	Amount	Interest rate
Pension plans		**413,423**	
Insurance policies with related parties	Matched	39,817	0.50%
Insurance policies with unrelated parties	Matched	373,606	0.50%
Insurance policies		**396,163**	
Insurance policies with related parties	Matched	88,078	0.50%
Insurance policies with unrelated parties	Matched	308,085	0.50%
Internal funds	Without cover	**2,233**	0.50%
Total obligations		**811,819**	

Thousand euro

		2019	
Financing vehicle	Coverage	Amount	Interest rate
Pension plans		**415,354**	
Insurance policies with related parties	Matched	35,067	0,75%
Insurance policies with unrelated parties	Matched	380,287	0,75%
Insurance policies		**377,386**	
Insurance policies with related parties	Matched	86,958	0,75%
Insurance policies with unrelated parties	Matched	290,428	0,75%
Internal funds	Without cover	**3,520**	0,75%
Total obligations		**796,260**	

The amount of the commitments covered by matched insurance policies as at 31 December 2020 was 809,585 thousand euros (792,740 thousand euros as at 31 December 2019) and therefore in 99.72% of its commitments (99.56% as at 31 December 2019), the Bank has no mortality risk (mortality tables) or profitability risk (interest rate). Therefore, the evolution of interest rates throughout the year has not had an impact on the Bank's financial situation.

The sensitivity analysis for each key actuarial assumption, as at 31 December 2020 and 31 December 2019, shows how the obligation would have been affected, and the cost of the services during the current year, by reasonably likely changes on such date:

%

	2020	2019
Sensitivity analysis	**Percentage change**	
Discount rate		
Discount rate -50 basis points:		
Assumption	-	0.25%
Change in obligation	6.25%	6.16%
Change of service cost in current year	10.44%	10.09%
Discount rate +50 basis points:		
Assumption	1.00%	1.25%
Change in obligation	(5.66%)	(5.52%)
Change of service cost in current year	(9.09%)	(8.87%)
Rate of salary increase		
Rate of salary increase -50 basis points:		
Assumption	2.00%	2.50%
Change in obligation	(0.17%)	(0.25%)
Change of service cost in current year	(2.69%)	(3.29%)
Rate of salary increase +50 basis points:		
Assumption	3.00%	3.50%
Change in obligation	0.19%	0.28%
Change of service cost in current year	2.99%	3.80%

The estimate of probability-weighted present values, as at 31 December 2020, of benefits payable for the next ten years, is set out below:

Thousand euro

	Years										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total
Future benefit payments	11,347	10,297	9,853	9,553	9,227	8,889	8,551	8,201	7,841	7,470	**91,229**

The fair value of assets linked to pensions recognised on the asset side of the Bank's balance sheet amounts to 133,757 thousand euros as at 31 December 2020 and 133,960 thousand euros as at 31 December 2019 (see Note 16).

The principal categories of the plan assets as a percentage of total are listed below:

%

	2020	2019
Equity instruments issued by Banco Sabadell	-	0.02%
Debt securities	-	0.21%
Mutual funds	1.63%	2.03%
Deposits and guarantees	0.18%	0.10%
Derivatives	-	0.01%
Other (non-linked insurance policies)	98.18%	97.63%
Total	**100%**	**100%**

The following financial instruments issued by the Bank are included in the fair value of the plan assets:

Thousand euro

	2020	2019
Equity instruments	36	105
Deposits and guarantees	902	397
Total	**938**	**502**

Contingent liabilities

- In its judgement of 22 November 2017, the Supreme Court ruled on the validity of the use of the IRPH as a reference index for the variation of interest rates on mortgage loans as it is not possible to control its transparency since it is an index defined and regulated by a rule of law. Barcelona's Court no. 38, deviating from the criteria of the Supreme Court, referred a case to the Court of Justice of the European Union (CJEU) for a preliminary ruling on whether or not this index is subject to a transparency control when applied to consumers, requesting that it be determined whether to replace it with another index or simply stop applying it altogether.

  On 3 March 2020, the Court of Justice of the European Union (CJEU) ruled on the issues raised by the Court of First Instance no. 38 of Barcelona in relation to IRPH, concluding that the index is open to scrutiny for transparency by national courts.

  The Supreme Court issued four rulings on 12 November 2020 in which, while admitting a possible lack of transparency, it ruled out the existence of abuse in the arrangement of loans linked to the IRPH index. The criterion established in this Supreme Court ruling has been followed in practically all Spanish courts and tribunals. As at 31 December 2020, the outstanding balance of mortgage loans to IRPH-indexed consumers was 654 million euros.

- The judgment of the Supreme Court dated 4 March 2020, relating to revolving card contracts and/or with deferred payment of a third-party institution, modifies the previous doctrine of the court itself and clarifies that the specific benchmark interest rate for this category of credit transactions published in the Statistical Bulletin of the Bank of Spain, is the one that should be used as a reference to determine what is the normal interest rate of money for the purposes of the Law on the Repression of Usury. In the case in question, the average rate published was somewhat higher than 20%. The court does not set specific criteria to determine what a manifestly disproportionate interest rate means; therefore, each marketed contract must be analysed on a case-by-case basis. Banco Sabadell considers that the Supreme Court ruling should not have a significant effect on its financial statements.

Note 22 – Own funds

The breakdown of the balance of own funds recognised on the balance sheet as at 31 December 2020 and 2019 is the following:

Thousand euro

	2020	2019
Capital	703,371	703,371
Share premium	7,899,227	7,899,227
Equity instruments issued other than capital	-	-
Other equity	8,755	17,077
Retained earnings	4,402,722	3,481,494
Revaluation reserves	-	-
Other reserves	(1,930,114)	(1,776,853)
(-) Treasury shares	(37,457)	(8,503)
Profit or loss attributable to owners of the parent	93,781	1,053,267
(-) Interim dividends	-	(110,817)
Total	**11,140,285**	**11,258,263**

Capital

The Bank's share capital as at 31 December 2020 and 2019 stood at 703,370,587.63 euros, represented by 5,626,964,701 registered shares with a par value of 0.125 euros each. All shares are fully paid-up and are numbered in sequential order from 1 through 5,626,964,701, inclusive.

The Bank's shares are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and on Spain's continuous securities market managed by Sociedad de Bolsas, S.A.

None of the other subsidiary companies included in the scope of consolidation are listed on the stock exchange.

The rights conferred to equity instruments are those regulated by the Capital Companies Act. During the Annual General Meeting, shareholders may exercise a percentage of votes equivalent to the percentage of the share capital in their possession.

There were no changes in share capital in 2020 and 2019.

Significant investments in the Bank's capital

As required by Articles 23 and 32 of Royal Decree 1362/2007 of 19 October, implementing the Securities Market Law 24/1988 of 28 July, on transparency requirements relating to information on the issuers whose securities have been admitted to trading on an official secondary market or on any other European Union regulated market, the following table gives details of significant investments in the capital of Banco Sabadell as at 31 December 2020:

Direct owner of the shareholding	% of voting rights assigned to shares	% of voting rights through financial instruments	% of total voting rights	Indirect owner of the shareholding
Various subsidiaries of BlackRock Inc.	2.89%	0.42%	3.31%	Blackrock Inc.
Fintech Europe S.A.R.L.	3.45%	-	3.45%	David Martínez Guzmán
Norges Bank	3.06%	-	3.06%	-
Sanders Capital LLC	3.47%	-	3.47%	Lewis A. Sanders y clientes de Sanders Capital LLC que delegan sus derechos de voto

The sources for the information provided are communications sent by shareholders to the National Securities Market Commission (CNMV) or directly to the institution.

Share premium

The balance of the share premium as at 31 December 2020 amounted to 7,899,227 thousand euros, remaining unchanged from the amounts in 2020 and 2019.

Retained earnings and Other reserves

The balance of these headings are broken down as follows on the balance sheet as at 31 December 2020 and 2019:

Thousand euro

	2020	2019
Restricted reserves:	**195,966**	**322,094**
Statutory reserve	140,674	140,674
Reserves for treasury shares pledged as security	41,832	133,149
Capitalisation reserve Law 27/2014	-	35,985
Canary Island investment reserve	10,345	9,171
Reserve for share capital redenomination in euro	113	113
Capital redemption reserve	3,002	3,002
Unrestricted reserves	**2,276,642**	**1,382,547**
Total	**2,472,608**	**1,704,641**

Other equity

Items incorporated under "Other equity" include share-based remuneration pending settlement which as at 31 December 2020 and 2019 amounted to 8,755 and 17,077 thousand euros, respectively.

Business on own equity instruments

The movements of the parent company's shares acquired by the Bank during 2020 and 2019 are as follows:

	No. of shares	Nominal value *(in thousand euro)*	Average price *(in euro)*	% Shareholding
Balance as at 31 December 2018	**88,788,514**	**11,098.57**	**1.57**	**1.58**
Purchases	225,036,359	28,129.54	0.93	4.00
Sales	307,818,009	38,477.25	0.98	5.47
Balance as at 31 December 2019	**6,006,864**	**750.86**	**1.42**	**0.11**
Purchases	342,926,719	42,865.84	0.42	6.09
Sales	300,372,716	37,546.59	0.39	5.34
Balance as at 31 December 2020	**48,560,867**	**6,070.11**	**0.77**	**0.86**

Net gains and losses arising from transactions in own equity have been included under the heading "*Own funds - Other reserves*" on the balance sheet, and they are shown in the statement of changes in equity, in the row corresponding to the sale or cancellation of treasury shares.

As at 31 December 2020, 118,169,913 bank shares are pledged as operation guarantees for a nominal value of 14,771 thousand euros (128,027,778 shares for a nominal value of 16,033 thousand euros as at 31 December 2019).

The number of Banco de Sabadell, S.A. equity instruments owned by third parties, yet managed by the different Group companies amounts to 12,669,119 and 21,638,760 securities as at 31 December 2020 and 2019, respectively, with a nominal value of 1,584 thousand euros and 2,705 thousand euros, respectively. In both years, 100% of the securities corresponded to Banco Sabadell shares.

Note 23 – Accumulated other comprehensive income

The composition of this heading of equity as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Items that will not be reclassified to profit or loss	(83,433)	(66,175)
Actuarial gains or (-) losses on defined benefit pension plans	173	(1,754)
Non-current assets and disposal groups classified as held for sale	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	(83,606)	(64,421)
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Items that may be reclassified to profit or loss	39,570	124,419
Hedge of net investments in foreign operations [effective portion] (*)	13,392	(221)
Foreign currency translation	(29,673)	46,576
Hedging derivatives. Cash flow hedges (effective portion) (**)	70,959	96,461
Amount deriving from outstanding operations	26,499	44,896
Amount deriving from discontinued operations	44,460	51,565
Fair value changes of debt instruments measured at fair value through other comprehensive income	(15,108)	(18,397)
Hedging instruments [not designated elements]	-	-
Non-current assets and disposal groups classified as held for sale	-	-
Total	**(43,863)**	**58,244**

(*) The value of the hedge of net investments in foreign operations is fully obtained from outstanding transactions.

(**) Cash flow hedges mainly mitigate interest rate risk and other risks (see note 11).

The breakdown of the items in the statement of recognised income and expense as at 31 December 2020 and 2019, showing their gross and net of tax effect amounts, is as follows:

Thousand euro	2020			2019		
	Gross amount	Tax effect	Net	Gross amount	Tax effect	Net
Items that will not be reclassified to profit or loss	(12,988)	(4,270)	(17,258)	(15,491)	10,360	(5,131)
Actuarial gains or (-) losses on defined benefit pension plans	2,753	(826)	1,927	(2,036)	611	(1,425)
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	(15,741)	(3,444)	(19,185)	(13,455)	9,749	(3,706)
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-	-	-	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-	-	-	-	-
Items that may be reclassified to profit or loss	(95,192)	10,343	(84,849)	181,058	(47,383)	133,675
Hedge of net investments in foreign operations [effective portion]	13,613	-	13,613	(343)	-	(343)
Foreign currency translation	(76,248)	-	(76,248)	19,946	-	19,946
Hedging derivatives. Cash flow hedges reserve [effective portion]	(36,432)	10,929	(25,503)	126,362	(37,909)	88,453
Fair value changes of debt instruments measured at fair value through other comprehensive income	3,875	(586)	3,289	35,093	(9,474)	25,619
Hedging instruments [not designated elements]	-	-	-	-	-	-
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-
Total	**(108,180)**	**6,073**	**(102,107)**	**165,567**	**(37,023)**	**128,544**

Note 24 – Off-balance sheet exposures

The composition of off-balance sheet exposures as at 31 December 2020 and 2019 is as follows:

Thousand euro

Commitments and guarantees given	Note	2020	2019
Loan commitments provided		**23,214,812**	**23,867,895**
Of which, amount classified as Stage 2		*1,176,007*	164,573
Of which, amount classified as Stage 3		*94,029*	*23,538*
Can be drawn by third parties		23,214,812	23,867,895
By credit institutions		273,364	339,366
By general governments		1,458,461	1,206,414
By other resident sectors		17,159,781	18,148,459
By non-residents		4,323,206	4,173,656
Amount recognised within liabilities on the balance sheet	21	312,469	507,691
Financial guarantees provided (*)		**2,404,071**	**2,830,293**
Of which, amount classified as Stage 2		*136,415*	90,063
Of which, amount classified as Stage 3		*108,143*	*41,534*
Amount recognised within liabilities on the balance sheet (**)	21	38,743	21,246
Other commitments provided		**7,617,470**	**10,362,134**
Of which, amount classified as Stage 2		*479,396*	315,842
Of which, amount classified as Stage 3		*349,677*	*156,918*
Other guarantees given		7,307,949	7,588,252
Assets earmarked for third-party obligations		-	-
Irrevocable letter of credit		760,160	806,313
Additional settlement guarantee		20,000	20,000
Other guarantees and sureties given		6,527,789	6,761,939
Other contingent risks		-	-
Other commitments provided		309,521	2,773,882
Financial asset forward purchase commitments		204,692	2,468,533
Conventional financial asset purchase contracts		-	159,000
Capital subscribed but not paid up		19	19
Underwriting and subscription commitments		-	-
Other loan commitments given		104,810	146,330
Amount recognised within liabilities on the balance sheet	21	70,360	42,774
Total		**33,236,353**	**37,060,322**

(*) Includes 73,5480 and 135,624 thousand euro as of 31 December 2020 and 2019, respectively, corresponding to financial guarantees provided in connection with construction and real estate development.

(**) Includes 5,373 and 6,410 thousand euro as of 31 December 2020 and 2019, respectively, in connection with construction and real estate development.

Total commitments drawable by third parties as at 31 December 2020 included credit commitments secured with a mortgage in the amount of 3,108,154 thousand euros (3,924,788 thousand euros as at 31 December 2019). As regards other commitments, in the majority of cases there are other types of guarantees which are in line with the Group's risk management policy.

Guarantees given classed as Stage 3

The movement of the balance of guarantees given classed as Stage 3 during 2020 was the following:

Thousand euro

Balances as at 31 December 2019	198,452
Additions	339,290
Disposals	(79,922)
Balances as at 31 December 2020	**457,820**

The breakdown by region of the balance of guarantees given classed as Stage 3 as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Spain	456,808	195,951
United Kingdom	5	5
Rest of European Union	437	437
Americas	4	1,726
Rest of the world	566	333
Total	**457,820**	**198,452**

Credit risk allowances corresponding to guarantees given and the credit risk of off-balance sheet exposures as at 31 December 2020 and 2019, broken down by the method used to determine such allowances, are as follows:

Thousand euro

	2020	2019
Specific individually measured allowances:	**71,469**	**38,939**
Stage 2	934	1,403
Stage 3	70,535	37,536
Specific collectively measured allowances:	**37,634**	**24,872**
Stage 1	7,556	10,457
Stage 2	7,360	4,623
Stage 3	22,220	9,284
Allowances for country risk	498	508
Total	**109,103**	**63,811**

The movement of this coverage during the periods 2020 and 2019, together with the coverage of other loan commitments given is shown in Note 21.

Note 25 – Off-balance sheet customer funds

Off-balance sheet customer funds managed by the Bank, those sold but not under management and the financial instruments deposited by third parties as at 31 December 2020 and 2019 are shown below:

Thousand euro

	2020	2019
Managed by the bank:	**5,461,582**	**21,849,343**
Investment firms and funds	2,342,138	18,666,625
Asset management	3,119,444	3,182,718
Sold by the bank	**32,945,769**	**21,466,934**
Mutual Funds	19,545,317	7,669,938
Pension funds	3,349,080	3,366,513
Insurance	10,051,372	10,430,483
Financial instruments deposited by third parties	**70,088,149**	**77,367,688**
Total	**108,495,500**	**120,683,965**

The decrease in assets under management during this financial year is due to the sale of SabAM, which has largely become traded assets (see Note 13).

Note 26 – Interest income and expense

These headings in the income statement include interest accrued during the year on all financial assets and liabilities the yield of which, implicit or explicit, is obtained by applying the effective interest rate approach, irrespective of whether they are measured at fair value or otherwise, and using product adjustments due to accounting hedges. Interest is recorded at its gross value, without subtracting any tax withholdings deducted at source.

The majority of interest income is generated by financial assets measured either at amortised cost or at fair value through other comprehensive income.

The breakdown of net interest income is as follows:

Thousand euro

	2020	2019
Interest income		
Loans and advances	2,334,737	2,656,259
Central banks	680	4,483
Credit institutions	33,250	47,395
Customers	2,300,807	2,604,381
Debt securities (*)	248,000	307,263
Stage 3 assets	39,278	43,527
Correction of income from hedging operations	162,577	324,076
Other interest (**)	223,059	119,906
Total	**3,007,651**	**3,451,031**
Interest expense		
Deposits	(253,693)	(391,734)
Central banks	(3,168)	(5,367)
Credit institutions	(21,626)	(54,939)
Customers	(228,899)	(331,428)
Debt securities issued	(236,882)	(228,602)
Correction of expenses on hedging operations	(159,098)	(314,839)
Other interest (***)	(91,044)	(87,751)
Total	**(740,717)**	**(1,022,926)**

(*) Includes 92 thousand euro in 2020 and 174 thousand euro in 2019 corresponding to interest from financial assets recognised at fair value through profit and loss (trading portfolio).

(**) Includes negative returns on liability products.

(***) Includes negative returns on asset products.

The average annual interest rate during 2020 and 2019 of the indicated balance sheet headings is shown below:

%	2020	2019
Assets		
Cash, cash balances at central banks and other demand deposits	0.39	0.75
Debt securities	0.62	1.32
Loans and advances		
Customers	2.02	2.35
Liabilities		
Deposits		
Credit institutions	(0.27)	0.57
Customers	0.04	0.12

Note 27 – Fee and commission income and expenses

Income and expenses arising from fees and commissions for financial operations and the provision of services are as follows:

Thousand euro	2020	2019
Fees from risk transactions	**255,416**	**247,134**
Lending operations	156,272	139,830
Sureties and other guarantees	99,144	107,304
Service fees	**634,516**	**668,676**
Payment cards	154,157	217,549
Payment orders	54,160	60,409
Securities	64,423	57,936
Sight accounts	190,477	138,554
Rest	171,299	194,228
Asset management fees	**253,589**	**250,935**
Mutual funds	85,560	73,610
Sale of pension funds and insurance products	146,849	152,865
Asset management	21,180	24,460
Total	**1,143,521**	**1,166,745**
Memorandum item		
Fee and commission income	1,279,947	1,310,421
Fee and commission expenses	(136,426)	(143,676)
Fees and commissions (net)	**1,143,521**	**1,166,745**

Note 28 – Gains or (-) losses on financial assets and liabilities, net

The composition of this heading of the income statement for the years ended 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	761,882	124,207
Financial assets at fair value through other comprehensive income	33,770	58,988
Financial assets at amortised cost (Note 7)	728,213	65,282
Financial liabilities measured at amortised cost	(101)	(63)
Gains or (-) losses on financial assets and liabilities held for trading, net	461,983	(65,881)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(8,999)	(3,227)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or (-) losses from hedge accounting, net	2,826	(3,651)
Total	**1,217,692**	**51,448**
By type of financial instrument:		
Net gain/(loss) on debt securities	774,545	64,676
Net gain/(loss) other equity instruments	318	-
Net gain/(loss) on derivatives	459,126	(73,003)
Net gain/(loss) on other items (*)	(16,297)	59,775
Total	**1,217,692**	**51,448**

(*) Mainly includes gains/(losses) on the sale of various loan portfolios sold during the year.

During 2020, the Bank has carried out sales of certain debt securities which it held in its portfolio of financial assets at fair value through other comprehensive income, generating profits of 33,770 thousand euros as at 31 December 2019 (58,988 thousand euros as at 31 December 2019).

In addition, during 2020, the Bank sold certain debt securities held in the financial asset portfolio at amortised cost in order to manage the increase in credit risk and preserve the Bank's solvency as part of a series of actions taken to improve the future profitability and quality of its balance sheet in response to the economic crisis triggered by COVID-19 (see Note 7).

Likewise, the "*Net gain/(loss) on derivatives*" heading in the table above includes, mainly, the change in the fair value of derivatives used to hedge against the foreign exchange risk of debit and credit balances denominated in foreign currencies. The results obtained from these derivatives are recognised under the heading "*Gains or (-) losses on financial assets and liabilities held for trading, net*" of the income statement, while the exchange differences generated by debit and credit balances denominated in foreign currencies hedged with these derivatives are recognised under the heading "*Exchange differences (gain or (-) loss), net*" of the income statement.

Note 29 – Other operating expenses

The composition of this heading of the income statement for the years ended 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Contribution to deposit guarantee schemes	(110,587)	(110,673)
Contribution to resolution fund	(78,124)	(58,647)
Other items	(131,508)	(159,524)
Monetisation rates (*)	(48,173)	(48,133)
Rest	(83,335)	(111,391)
Total	**(320,219)**	**(328,844)**

(*) See Note 35.

The "*Other*" subheading includes expenses corresponding to Tax on Deposits to Credit Institutions, amounting to 32,369 thousand euros in 2020 (31,239 thousand euros in 2019), as well as expenses associated with non-financial activities.

Note 30 – Administrative expenses

This heading in the income statement includes expenses incurred by the Bank in respect of staff and other general administrative expenses.

Staff expenses

The staff expenses recognised in the income statement for the years ended 31 December 2020 and 2019 are as follows:

Thousand euro

	Note	2020	2019
Payrolls and bonuses for active staff		(791,356)	(805,760)
Social Security payments		(196,737)	(202,820)
Contributions to defined benefit pension plans	21	(1,461)	(1,632)
Contributions to defined contribution pension plans		(29,084)	(29,869)
Other staff expenses		(326,786)	(52,783)
Of which: Collective Agreement on voluntary redundancy (*)		*(286,112)*	-
Total		**(1,345,424)**	**(1,092,864)**

(*) Refers to Collective Agreement on voluntary redundancy, early retirement and incentivised resignation signed by the Bank and trade unions on 1 December 2020, affecting approximately 1,700 employees who will cease to be employed by the Bank in the first quarter of 2021 (see Note 21).

As at 31 December 2020 and 2019, the breakdown of the Bank's average workforce by category and gender is as follows:

Average number of employees

	2020			2019		
	Men	Women	Total	Men	Women	Total
Management staff	394	133	527	371	111	482
Technical staff	7,042	7,800	14,842	7,129	7,819	14,948
Administrative staff	-	-	-	-	-	-
Total	**7,436**	**7,933**	**15,369**	**7,500**	**7,930**	**15,430**

The breakdown of Bank's average, workforce by category as at 31 December 2020 and 2019 with a disability of 33% or more is as follows:

Average number of employees

	2020	2019
Management staff	3	3
Technical staff	161	156
Administrative staff	-	-
Total	**164**	**159**

As at 31 December 2020 and 2019, the breakdown of the Bank's average workforce by category and gender is as follows:

Number of employees

	2020			2019		
	Men	Women	Total	Men	Women	Total
Management staff	394	134	528	369	111	480
Technical staff	6,987	7,741	14,728	7,072	7,804	14,876
Administrative staff	-	-	-	-	-	-
Total	**7,381**	**7,875**	**15,256**	**7,441**	**7,915**	**15,356**

Of the total workforce as at 31 December 2020, 167 employees had informed the Bank that they had some form of recognised disability (162 as at 31 December 2019).

Long-term share-based complementary incentive scheme

Pursuant to the Remuneration Policy, members of the Group's Identified Staff, with the exception of non-executive directors, will be allocated long-term remuneration through the schemes described below:

Share-based complementary incentive scheme

At the Annual General Meeting held on 30 March 2017, the shareholders approved an incentive scheme, based on the increase in value of Banco de Sabadell, S.A. shares, for 3 executive directors, 7 members of Senior Management and 466 Group management staff ("ICLP 2017"). During the period of validity of this scheme, 830,861 stock options were derecognised with settlement by delivery of shares. In March 2020, this scheme expired with no settlement since the exercise price (1.353 euros) was above the listed share price.

At the Annual General Meeting held on 19 April 2018, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares and which takes into account multi-year objectives, for members of the Group's Identified Staff with allocated variable remuneration (ICLP 2018). It consists of assigning a specific number of rights to the beneficiaries, which carry the right to receive the increase in value of the same number of shares of Banco de Sabadell, S.A., based on the share's market price, while also being tied to the Bank's attainment of certain multi-year indicators over a given period of time, to be paid 55% in the form of shares of Banco de Sabadell, S.A. and the remaining 45% in cash. The number of rights to be settled may be equal to or less than the number of vested rights in the first quarter of 2019, depending on the level to which Banco de Sabadell, S.A. attains four indicators during the lifetime of the ICLP 2018. The period for evaluating the level of attainment will cover the years 2018, 2019 and 2020, and during this period targets are established for the following indicators and with the following weights: shareholder return (25%), for which the benchmark will be the share's closing price, rounded to the third decimal place, in the first 20 sessions of 2018 and the first 20 sessions of 2021; liquidity coverage ratio (25%); CET1 capital (25%); and the Bank's return on risk-adjusted capital (RoRAC) (25%). The last three indicators will be measured at the end of the multi-year period, taking the average of the last three months of 2020.

Their main characteristics are shown below:

Incentives Schemes in effect	End date	Exercise price	Maximum number of rights affected
ICLP 2018	4/18/2022	1.841	21,000,000

The fair value of services is calculated based on the fair value of pledged capital instruments, i.e. bank stock options, as indicated in Note 5, employing the Monte Carlo simulations valuation technique and the Black-Scholes valuation model.

Movements in rights associated with the aforementioned schemes were as follows:

Rights - ICLP 2018	
Balance as at 31 December 2018	**20,600,000**
Granted	-
Cancelled	(2,447,500)
Balance as at 31 December 2019	**18,152,500**
Granted	-
Cancelled	(467,199)
Balance as at 31 December 2020	**17,685,301**

Long-term remuneration schemes

The Board of Directors, at its meeting of 31 January 2019, at the proposal of the Remuneration Committee, approved a Long-Term Remuneration 2019-2021, aimed at members of the Group's Identified Staff with allocated variable remuneration, with the exception of management staff who are assigned to TSB Banking Group Plc or its subsidiaries, and which consists of the allocation of a certain amount to each beneficiary, the amount of which is determined based on a monetary amount corresponding to a percentage of each beneficiary's fixed remuneration. The incentive will be paid 55% in bank shares (to calculate the number of shares, the weighted average price of the last 20 sessions of December 2019 was used) and 45% in cash. The incentive vesting period started on 1 January 2019 and ends on 31 December 2021, and comprises two sub-periods:

- Period of measurement of individual annual targets: this is the period from 1 January 2019 to 31 December 2019, in which the annual targets of each beneficiary (composed of Group targets, management targets and individual targets) established to determine the "Adjusted Target" were measured, which was subject to the Risk Correction Factor, with capital (CET1) and liquidity (LCR) indicators.

- Group multi-year target measurement period: this is the period from 1 January 2019 to 31 December 2021, in which multi-year Group targets are measured for the purpose of determining the final incentive, which is also subject to the Risk Correction Factor. The Group's multi-year targets relate to the following indicators: total shareholder return (25%), the Group's liquidity coverage ratio (25%), the CET1 capital indicator (25%) and the Group's return on risk-adjusted capital (RoRAC) (25%).

In addition to meeting the annual and multi-year targets described above, payment of the incentive will be subject to the requirements set out in the General Terms and Conditions of the Long-Term Remuneration 2019-2021.

Furthermore, the Board of Directors, at its meeting of 18 December 2019, at the proposal of the Remuneration Committee, approved a Long-Term Remuneration 2020-2022, aimed at members of the Group's Identified Staff with allocated variable remuneration, with the exception of management staff who are assigned to TSB Banking Group Plc or its subsidiaries, and which consists of the allocation of a certain amount to each beneficiary, the amount of which is determined based on a monetary amount corresponding to a percentage of each beneficiary's fixed remuneration. The incentive will be paid 55% in bank shares (to calculate the number of shares, the weighted average price of the last 20 sessions of December 2020 was used) and 45% in cash. The incentive vesting period started on 01 January 2020 and ends on 31 December 2022, and comprises two sub-periods:

- Period of measurement of individual annual targets: this is the period from 01 January 2020 to 31 December 2020, in which the annual targets of each beneficiary (composed of Group targets, management targets and individual targets) established to determine the "Adjusted Target" were measured, which was subject to the Risk Correction Factor, with capital (CET1) and liquidity (LCR) indicators.

- Group multi-year target measurement period: this is the period from 01 January 2020 to 31 December 2022, in which multi-year Group targets are measured for the purpose of determining the final incentive, which is also subject to the Risk Correction Factor. The Group's multi-year targets relate to the following indicators: total shareholder return (25%), the Group's liquidity coverage ratio (25%), the CET1 capital indicator (25%) and the Group's return on risk-adjusted capital (RoRAC) (25%).

In addition to meeting the annual and multi-year targets described above, payment of the incentive will be subject to the requirements set out in the General Terms and Conditions of the Long-Term Remuneration 2019-2022.

As regards the staff expenses associated with long-term complementary incentives schemes (see Note 1.3.14), the contra account for such expenses is recognised in equity in the case of rights settled using shares (see statement of equity – share-based payments), while those settled in cash are recognised in the "*Other liabilities*" heading of the balance sheet.

Thousand euro

	2020	2019
Settled in Shares	3,215	5,827
Settled in Cash	1,386	675
Total	**4,601**	**6,502**

Other general administrative expenses

The composition of this heading in the income statement for the years 2020 and 2019 was as follows:

Thousand euro

	2020	2019
Property, plant and equipment	(40,248)	(47,793)
Information technology	(344,046)	(265,135)
Communication	(7,418)	(5,357)
Publicity	(39,615)	(49,083)
Subcontracted administrative services	(104,475)	(115,271)
Contributions and taxes	(142,334)	(126,745)
Technical reports	(26,584)	(23,168)
Security services and fund transfers	(14,315)	(17,429)
Entertainment expenses and staff travel expenses	(3,501)	(10,996)
Membership fees	(2,566)	(41,954)
Other expenses	(26,357)	(38,100)
Total	**(751,459)**	**(741,031)**

Fees with auditing companies

The fees received by KPMG Auditores, S.L. in 2020 for statutory auditing services and other audit-related services provided in Spain amounted to 1,793 and 65 thousand euros, respectively (1,161 and 671 thousand euros received by PricewaterhouseCoopers Auditores, S.L. in 2019).

Audit services corresponding to overseas branches provided by KPMG Auditores, S.L. in Spain amounted to 25 thousand euros (27 thousand euros provided by PricewaterhouseCoopers Auditores, S.L. in 2019 for this same service) and by other companies in the KPMG network provided abroad amounted to 280 thousand euros in 2020 (324 thousand euros received by other companies in the PwC network in 2019 for the same service).

Fees charged by auditors other than KPMG for statutory audit services and for other audit-related services provided for foreign branches amounted to 9 thousand and 5 thousand euros in 2020, respectively (2019: 18 thousand and 21 thousand euros).

No fees have been accrued from auditors other than KPMG in 2020 or other than PwC in 2019 for audit services provided in Spain.

Fees received by other companies in the KPMG network for tax advisory services and other services provided in Spain in 2020 amounted to 0 and 214 thousand euros, respectively (0 and 95 thousand euros received in Spain by other companies in the PwC network in 2019).

No fees were accrued for tax advisory and other services provided abroad by companies in the KPMG network in 2020 and the PwC network in 2019.

Note 31 – Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or (-) losses, net

The composition of this heading of the income statement for the years ended 31 December 2020 and 2019 is as follows:

Thousand euro

	Note	2020	2019
Financial assets at fair value through other comprehensive income		308	3,761
Debt securities	7	308	3,761
Other equity instruments		-	-
Financial assets at amortised cost (*)	10	(1,825,422)	(396,947)
Debt securities		54	58
Loans and advances		(1,825,476)	(397,005)
Total		**(1,825,114)**	**(393,186)**

(*) This figure mainly includes allowances recorded in the income statement allocated to cover credit risk exposures, as shown in the impairment allowances movements of Note 10.

Note 32 – Impairment or (-) reversal of impairment of non-financial assets

The composition of this heading of the income statement for the years ended 31 December 2020 and 2019 is as follows:

Thousand euro

	Note	2020	2019
Property, plant and equipment		-	-
Investment properties	14	(170)	9,260
Goodwill and other intangible assets		-	-
Total		**(170)**	**9,260**

Impairment allowances of tangible assets during 2020 and 2019 have been estimated based on Level 2 valuations (see Note 5).

Note 33 – Gains or (-) losses on derecognition of non-financial assets, net

The composition of this heading of the income statement for the years ended 31 December 2020 and 2019 is as follows:

Thousand euro

	Nota	2020	2019
Property, plant and equipment		(5,982)	(2,804)
Investment properties		-	-
Intangible assets		-	-
Interests		1,762	21,948
Other capital instruments		-	-
Other items		9,650	14,203
Total		**5,430**	**33,347**

The sale of tangible assets under finance leases in which the Bank acts as the lessor did not have a material impact on the 2020 income statement.

Note 34 – Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The composition of this heading of the income statement for the years ended 31 December 2020 and 2019 is as follows:

Thousand euro

	Note	2020	2019
Property, plant and equipment for own use and foreclosed		(166,697)	(171,582)
Gains/losses on sales		(15,111)	(66,505)
Impairment/Reversal	12	(151,586)	(105,077)
Investment properties		-	-
Intangible assets		-	-
Interests (*)		365,092	188,535
Other capital instruments		-	-
Other items		(23,479)	-
Total		**174,916**	**16,953**

(*) Mainly corresponds to gains on sale of SabAM, amounting to 320 million euros (see Note 12) and on sale of SDIN, amounting to 36 million euros. Additionally, Schedule I - Exclusions from the scope of consolidation includes a list of the companies disposed of by the Group in 2020, together with the gains/(losses) on the sale recognised in the consolidated income statement.

The impairment of non-current assets available for sale and disposal groups classified as held for sale excludes income from the increase in fair value less sale costs.

Total impairment provisions in 2020 have been allocated on the basis of Level 2 valuations (see Note 5).

Note 35 – Tax situation (income tax relating to continuing operations)

Consolidated tax group

Banco de Sabadell, S.A. is the parent company of a consolidated tax group for corporation tax purposes, comprising all the Spanish entities in which Banco de Sabadell, S.A. holds an interest that meet the requirements of the Spanish Corporation Tax Law.

The amount of this tax in the year has been calculated bearing in mind this circumstance and it will be paid to Banco de Sabadell S.A., as the parent company of the Group, settling this consolidated tax with the tax authority.

Reconciliation

The reconciliation of the difference between accounting results and income subject to corporation tax is as follows:

Thousand euro

	2020	2019
Profit/(loss) before tax	10,147	1,309,682
Increases in taxable income	1,127,399	814,757
From profits	1,122,836	814,757
From equity	4,563	-
Decreases in taxable income	(798,832)	(1,489,082)
From profits	(725,605)	(1,415,832)
From equity	(73,227)	(73,250)
Taxable income	**338,714**	**635,357**
Tax payable (30%)	**(101,614)**	**(190,607)**
Deductions for double taxation, training and other	1,227	2,046
Tax payable (less tax credits)	**(100,387)**	**(188,561)**
Due to timing differences (net)	193,338	(39,285)
Other adjustments (net) (*)	(9,317)	(28,569)
(Tax expense or (-) income related to profit or loss from continuing operations)	**83,634**	**(256,415)**

(*) Includes (2.6) million euros (34.9 million euros in 2019) of expenses associated with the corporation tax of foreign branches.

Taxable income – increases and decreases

The increases and decreases in taxable income are analysed in the following table on the basis of whether they arose from temporary or permanent differences:

Thousand euro

	2020	2019
Permanent difference	223,205	254,637
Temporary difference arising during the year	705,081	340,629
Temporary difference arising in previous years	199,113	219,491
Increases	**1,127,399**	**814,757**
Permanent difference	(465,872)	(798,011)
Temporary difference arising during the year	(73,227)	(81,390)
Temporary difference arising in previous years	(259,733)	(609,681)
Decreases	**(798,832)**	**(1,489,082)**

Deferred tax assets and liabilities

Under current tax and accounting regulations, certain temporary differences should be taken into account when quantifying the relevant tax expense related to profit from continuing operations.

In 2013, Spain made a provision (Royal Decree-Law 14/2013) for tax assets generated by allowances for the impairment of loans and other assets arising from the potential insolvency of debtors not related to the relevant taxable person, as well as those corresponding to contributions or provisions in respect of social welfare systems and, where appropriate, early retirement schemes, to be afforded the status of assets guaranteed by the Spanish State (hereinafter, "monetisable tax assets").

Monetisable tax assets can be converted into credit enforceable against the Spanish Tax Authority in cases where the taxable person incurs accounting losses or the Institution is liquidated or legally declared insolvent. Similarly, they can be exchanged for Public Debt securities, once the 18-year term has elapsed, calculated from the last day of the tax period in which these assets were recognised in the accounting records. In order to maintain the guarantee offered by the State, these are subject to an annual contribution of 1.5% of their amount as of 2016 (see Note 29).

The sources of the deferred tax assets / liabilities recognised in the balance sheets as at 31 December 2020 and 2019 are as follows:

Thousand euro

Deferred tax assets	2020	2019
Monetisable	**3,998,199**	**4,026,182**
Due to credit impairment	3,353,754	3,347,399
Due to real estate asset impairment	518,525	551,035
Due to pension funds	125,920	127,748
Non-monetisable	**833,471**	**702,415**
Tax credits for losses carried forward	**272,469**	**263,595**
Total	**5,104,139**	**4,992,192**

Deferred tax liabilities	2020	2019
Property restatements	56,678	79,218
Adjustments to value of wholesale debt issuances arising in business combinations	19,871	29,336
Other financial asset value adjustments	34,666	53,802
Other	6,943	7,588
Total	**118,158**	**169,944**

As indicated in Note 1.3.19, according to the information available as at year-end, and the projections taken from the Group's business plan for the coming years, the Group estimates that it will be able to generate sufficient taxable income to offset tax loss carry-forwards and non-monetisable tax assets when these can be deducted on the basis of current tax regulations, and that it will be able to generate this within a maximum of 12 years.

Monetisable tax assets are guaranteed by the State; therefore, their recoverability does not depend on the generation of future tax benefits.

The Bank has no deferred tax assets that have not been recognised in the balance sheet.

Other information

At the end of 2020, Banco Sabadell Group estimates that it has covered all of its reinvestment commitments originating in sales during previous years.

In compliance with the accounting obligations set out in Article 86 of Law 27/2014, of 27 November, on Corporation Tax, with regard to the mergers carried out to date between Banco de Sabadell, S.A. and Solbank SBD, S.A., Banco Herrero, S.A., Banco de Asturias, S.A., BanSabadell Leasing EFC, S.A., Solbank Leasing EFC, S.A., BanAsturias Leasing EFC, S.A., Banco Atlántico, S.A., Banco Urquijo, S.A., Europea de Inversiones y Rentas S.L., Banco CAM, S.A., Banco Guipuzcoano, S.A., BS Profesional, Axel Group, Sabadell Solbank S.A.U. (previously Lloyds Bank) and Banco Gallego, S.A., the requisite information was included in the first annual report of Banco de Sabadell, S.A. approved following each of the aforesaid mergers.

Reserves for investments in Canary Islands

As set out in Note 2 to these Annual financial statements, the Annual General Meeting held on 26 March 2020 approved an allocation to the reserve for investments in the Canary Islands amounting to 1,174 thousand euros. This reserve was fully realised in 2019 through investments carried out in that same year in various items of property, plant and equipment classified as fixtures and fittings.

Impairments of securities representing stakes in the capital or own funds of entities

As from year-end 2013, and as a result of the approval of Law 16/2013, of 29 October, the Bank has not included in its taxable income any amount arising from changes in the underlying book value of stakes in Group companies, associates and joint ventures in its taxable income.

In addition, a transitional arrangement was established for the reversal of impairments which had been tax deductible; the arrangement was modified in December 2016, when a minimum reversal amount was established. The amounts pending reversal are indicated hereafter:

Thousand euro

	Taxable income pending inclusion	*Of which: Adjusted in tax consolidation*
Balance as at 31 December 2018	**579,464**	**322,911**
Change over year	(291,651)	(162,517)
Balance as at 31 December 2019	**287,813**	**160,394**
Change over year	(287,813)	(160,394)
Balance as at 31 December 2020	**-**	**-**

Income/Expenses charged to reserves as a result of the first application of Circular 4/2017

Pursuant to that set forth in Royal Decree 27/2018 of 29 December, any income or expenses directly recognised in reserves as a consequence of the first application of Circular 4/2017 and which give rise to tax effects in accordance with current regulations shall be included within the fiscal group's taxable income for three years (starting in 2018). The amounts pending inclusion in the next year are shown below:

Thousand euro

	Taxable income pending inclusion
Balance as at 31 December 2019 (*)	**(53,126)**
Taxable income included	53,126
Balance as at 31 December 2020	**-**

(*) Amounts after filing the annual tax return.

Years subject to tax inspections

As at 31 December 2020, Corporation Tax of Banco Sabadell S.A is open to review for 2015 and subsequent years.

During 2019, inspection procedures initiated in relation to the items and periods of Banco de Sabadell, S.A. were completed, as detailed below:

Tax	**Period**
Tax withholdings/prepayments from wages and professional fees	07/2012 a 12/2014
Tax withholdings/prepayments from income from movable capital	07/2012 a 12/2014
Income tax	01/2011 a 12/2014
Value added tax	07/2012 a 12/2014

Of the procedures indicated, the only one that is in progress as at 31 December 2020 is that relating to the challenge of the settlement agreement issued in relation to the certificate of disagreement concerning Value Added Tax (07/2012 to 12/2014), which contained an adjustment of 6,938 thousand euros in respect of various sector-based issues. A Tax Appeal was filed against it with the Central Tax Appeal Board (Tribunal Económico-Administrativo Central) on 25 March 2019, having submitted the corresponding arguments on 15 October 2019. As of 31 December 2020, the aforesaid body had not yet issued a decision in that regard.

Details of the outcome of proceedings completed during 2019 can be viewed in Note 35 “Tax situation” of the annual financial statements for 2019.

Additionally, the Bank has a tax litigation in progress as at the end of the year corresponding to the appeal for judicial review before the Spanish National Court in relation to the rebuttal of the settlement of the disputed tax assessment for the VAT between 2008-2010 for an amount of tax due of 1,831 thousand euros, after a tax settlement has been issued in execution of a resolution made by the Central Tax Appeal Board that is partially upheld.

The Bank has, in any event, made suitable provisions for any contingencies that it is considered may arise in relation to these tax settlements.

In relation to other tax periods and items for which the statute of limitations is unexpired, due to potential differences in the interpretation of tax regulations, the results of the tax authority inspections for the years subject to review may give rise to contingent tax liabilities, which it is not possible to quantify objectively. However, the Bank considers that the possibility of such liabilities materialising is remote, and if they did materialise the resulting tax charge would not be such as to have any significant impact on these Annual financial statements.

Note 36 – Related party transactions

There are no transactions with the company’s administrators or directors that could be considered significant. Those that did take place were in the normal course of the company’s business or were conducted at market prices or under the terms normally applicable to employees.

The Group is not aware of any transactions carried out at non-market prices with any persons or entities related to the Bank’s administrators or Senior Management staff.

The most significant balances recognised in dealings with related parties, and the effect on the income statement of related party transactions, are shown below:

Thousand euro

	2020					2019
	subsidiaries	Associates	Key personnel	Other related parties	TOTAL	TOTAL
Assets:						
Loans and advances – Credit institutions	1,989,707	21,385	-	-	2,011,092	3,188,082
Loans and advances – Customers	9,681,188	87,828	3,602	166,803	9,939,421	10,529,640
Liabilities:						
Deposits from credit institutions	42,882	2,364	-	-	45,246	24,946
Customer deposits	3,652,987	331,969	6,337	83,939	4,075,232	3,725,622
Debt securities issued (*)	407,904	100,000	-	-	507,904	931,837
Off-balance sheet exposures:						
Financial guarantees provided	457,032	302	-	371	457,705	805,222
Loan commitments given	1,583,344	1,784	395	38,717	1,624,129	3,297,762
Other commitments provided	97,398	6,749	-	817	104,964	121,994
Income statement:						
Interest income	62,710	3,255	40	3,678	69,683	126,709
Interest expense	(80,552)	(77)	(4)	(2)	(80,635)	(86,466)
Fees and commissions (net)	132,405	3,320	37	450	136,212	197,397
Other general expenses	(414,341)	(5,465)	-	(2,331)	(422,137)	(360,676)

(*) Of which 5,000 thousand euro relate to subordinated bonds as of 31 December 2020 (16,500 thousand euro as of 31 December 2019).

Note 37 – Remuneration of members of the Board of Directors and Senior Management and their respective balances

The following table shows, for the years ended 31 December 2020 and 2019, the amount paid to directors in remuneration and in contributions to meet their pension commitments for services provided by them in that capacity:

Thousand euro

	Remuneration		Pension commitments		Total	
	2020	2019	2020	2019	2020	2019
Josep Oliu Creus (*)	234	234	35	35	269	269
José Javier Echenique Landiribar	207	205	-	-	207	205
Jaime Guardiola Romojaro (*)	100	100	-	-	100	100
Anthony Frank Elliott Ball (1)	150	141	-	-	150	141
Aurora Catá Sala	166	160	-	-	166	160
Pedro Fontana García	198	195	-	-	198	195
María José García Beato (*)	100	100	-	-	100	100
Maria Teresa Garcia-Milà Lloveras (2)	38	161	-	-	38	161
Mireya Giné Torrens (3)	39	-	-	-	39	-
George Donald Johnston III	188	186	-	-	188	186
David Martínez Guzmán	100	100	-	-	100	100
José Manuel Martínez Martínez	138	185	-	-	138	185
José Ramón Martínez Sufrategui	140	129	-	-	140	129
José Luis Negro Rodríguez (*) (4)	74	100	-	18	74	118
Alicia Reyes Revuelta (5)	-	-	-	-	-	-
Manuel Valls Morató	160	160	-	-	160	160
David Vegara Figueras (*) (6)	100	106	-	-	100	106
Total	**2,132**	**2,262**	**35**	**53**	**2,167**	**2,315**

(*) Perform executive functions.

(1) On 28 March 2019, he was appointed Lead Independent Director, succeeding Maria Teresa Garcia-Milà Lloveras.

(2) Submitted her resignation from her position as Director, effective from 26 March 2020.

(3) On 26 March 2020, the Annual General Meeting approved her appointment as member of the Board of Directors, in the capacity of Independent Director. She accepted the position on 1 September 2020.

(4) Submitted his resignation from his position as Director, effective from 24 September 2020.

(5) On 24 September 2020, the Board of Directors approved her appointment as member of the Board of Directors, in the capacity of Independent Director. She accepted the position on 21 December 2020.

(6) Executive director since 15 February 2019.

Aside from the items mentioned above, members of the Board of Directors received 60 thousand euros as fixed remuneration in 2020 (31 thousand euros in 2019) by reason of their membership of boards of directors in Banco Sabadell Group companies or advisory boards (these amounts are included in the Annual Report on Directors' Remuneration).

Contributions for life insurance premiums covering pension commitments in respect of pension rights accruing in 2020 amounted to 2,174 thousand euros (1,740 thousand euros in 2019), of which 35 thousand euros are detailed in the table above and 2,139 thousand euros correspond to directors for the discharge of their executive duties.

Remuneration earned by directors for discharging their executive duties during 2020 amounted to 4,588 thousand euros (7,382 thousand euros in 2019).

Total risk transactions granted by the Bank and consolidated companies to directors of the parent company amounted to 2,037 thousand euros as at 31 December 2020, of which 1,850 thousand euros corresponded to loans and receivables and 187 thousand euros related to loan commitments given (2,284 thousand euros as at 31 December 2019, consisting of 2,607 thousand euros in loans and receivables and 217 thousand euros in loan commitments given). These transactions are in the ordinary course of the Bank's business and are carried out under normal market conditions. Liabilities amounted to 5,254 thousand euros as at 31 December 2020 (8,839 thousand euros as at 31 December 2019).

Total Senior Management remuneration earned during 2020 amounted to 5,077 thousand euros. Pursuant to applicable regulations, this amount includes the remuneration of the Senior Management members plus the Internal Audit Officer.

With regard to the remuneration corresponding to 2020, the Chairman, CEO, executive directors and members of Senior Management have waived their variable remuneration corresponding to 2020. The Board of Directors accepted this waiver in its extraordinary meeting of 8 April 2020.

Risk transactions granted by the Bank and consolidated companies to Senior Management staff (with the exception of those who are also executive directors, for whom details are provided above) amounted to 3,429 thousand euros as at 31 December 2020 (6,556 thousand euros in 2019), comprising 3,221 thousand euros in loans and receivables and 208 thousand euros related to loan commitments given (in 2019, 6,020 thousand euros related to loans and receivables and 536 thousand euros to loan commitments given). Liabilities amounted to 1,081 thousand euros as at 31 December 2020 (985 thousand euros as at 31 December 2019).

In addition, stock appreciation rights granted under incentive schemes and the long-term remuneration scheme to members of Senior Management, including executive directors (see Note 30) in 2020, gave rise to staff expenses amounting to 2 million euros (2 million euros in 2019).

Details of existing agreements between the company and members of the Board and management staff with regard to severance pay are set out in the Group's Annual Report on Corporate Governance, which forms part of the Directors' Report.

The directors and management staff mentioned above are specified below with their positions held in the Bank as at 31 December 2020:

Executive Directors	
Josep Oliu Creus	Chair
Jaime Guardiola Romojaro	Sabadell Group CEO
María José García Beato	Director Secretary General
David Vegara Figueras	Director-General Manager
Senior Management	
Tomás Varela Muiña	General Manager
Miquel Montes Güell	General Manager
Carlos Ventura Santamans	General Manager
José Nieto de la Cierva	General Manager
Rafael José García Nauffal	Deputy General Manager
Jaime Matas Vallverdú	Deputy General Manager
Ramón de la Riva Reina	Deputy General Manager
Enric Rovira Masachs	Deputy General Manager
Manuel Tresànchez Montaner	Deputy General Manager

Other information relating to the Board

Pursuant to Article 229 of the Capital Companies Act, in accordance with the wording set out in Law 31/2014 of 3 December, amending the Spanish Capital Companies Act in order to improve corporate governance, and in order to strengthen transparency in public limited companies, the directors have notified the company that, during 2020, they or persons related to them, as defined in Article 231 of the Spanish Capital Companies Act:

a. Have not carried out transactions with the company, without taking into account usual operations, performed under standard conditions for customers and whose significance is immaterial, understanding such operations to be those that do not need to be reported to give a true and fair view of the company's equity, financial situation and income.

b. Have not used the name of the company or their position as administrator to unduly influence the performance of personal transactions.

c. Have not made use of corporate assets, including the company's confidential information, for personal purposes.

d. Have not taken undue advantage of the company's business opportunities.

e. Have not obtained advantages or remuneration from third parties other than the company or group in connection with the discharge of their duties, with the exception of acts of mere courtesy.

f. Have not carried out activities on their own behalf or on behalf of a third party that involve competition with the company, whether on an isolated or potential basis, or that might otherwise place them in permanent conflict with the company's interests.

The Bank has entered into a liability insurance policy for 2020 that covers the Institution's administrators and Senior Management staff. The total premium paid was 2,651 thousand euros (752 thousand euros in 2019).

Note 38 – Other information

Transactions with significant shareholders

No major transactions with significant shareholders have been carried out during 2020 and 2019.

Information relating to the environment

All operations of the Group as a whole are subject to legal requirements on environmental protection and health and safety in the workplace. The Group considers that it substantially complies with these laws and it has procedures in place which have been designed to foster and guarantee such compliance.

The Group has adopted the corresponding measures relating to the protection and improvement of the environment and the minimisation of any environmental impacts of its activities, complying with the regulations in force in this regard. During 2020, the Group has continued to implement a number of Group-wide waste treatment, consumables recycling and energy saving schemes. It has not considered it necessary to recognise any provision for risks or expenses relating to the environment, as there are no contingencies related to the protection and improvement of the environment.

For further details on the policies and activities adopted by the Bank relating to the environment, see the Non-Financial Disclosures Report, which is included as part of the Directors' Report.

Relationships with agents

In accordance with the provisions of Article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, the Bank has not kept in force any agency contracts with agents who they have authorised to operate routinely with their customers, in the name of or on behalf of the principal, to negotiate or arrange transactions typical of the activity of a credit institution.

Customer Care Service (SAC)

The Customer Care Service (hereinafter, the SAC) and its head, who is appointed by the Board of Directors, report directly to the Secretary General. Its main function is to handle and resolve complaints and claims brought forward by customers and users of the financial services of Banco de Sabadell, S.A., when these relate to their interests and legally recognised rights arising from contracts, transparency and customer protection regulations or good banking practices, in accordance with Banco Sabadell Regulations for the Protection of Customers and Users of Financial Services.

The SAC, in accordance with its Regulations, handles and resolves complaints and claims from customers and users of Banco de Sabadell, S.A., as well as those deriving from other entities associated with it: Bansabadell Financiación, E.F.C., S.A., Sabadell Asset Management, S.A., S.G.I.I.C. Sociedad Unipersonal, Urquijo Gestión, S.G.I.I.C, S.A. and Sabadell Consumer Finance, S.A.U.

A total of 42,534 complaints and claims were received in 2020, of which 3,048 were complaints (7.17%), and 39,486 were claims (92.83%), to which 778 files pending as at 31 December 2019 must be added.

Of this total volume, 42,169 cases were managed in 2020, with a total of 33,449 files being processed and resolved, 8,720 files being rejected and 1,143 files pending as at 31 December 2020.

The 5 products that received the most complaints are detailed below:

Product	**No. of claims**	**% of total received**
Current accounts	17,216	40.48%
Mortgage loans	10,707	25.17%
Credit/Debit cards	4,909	11.54%
Personal loans	1,869	4.39%
Direct debits	1,169	2.75%
Other	6,664	15.67%
Total	**42,534**	**100.00**

Complaints and claims processed by the SAC at first instance

During 2020, the SAC received 39,516 complaints and claims, of which 31,130 were accepted for processing and resolved, in accordance with the provisions of Finance Ministry Order 734/2004 of 11 March.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 15,540 (49.92%) were resolved in the customer's favour and 15,590 (50.08%) in the Institution's favour.

Of the total number of complaints and claims accepted for processing and resolved, 24,982 (80.25%) were processed within a period of 15 working days, 5,694 (18.3%) within a period of less than 1 month and 454 (1.45%) within a period in excess of 1 month. All were within the 2-month turnaround specified as the maximum response period provided for in the Finance Ministry Order 734/2004, of 11 March.

Complaints and claims managed by the Customer and Stakeholder Ombudsman

At Banco Sabadell, the role of Customer Ombudsman is assumed by Mr José Luis Gómez-Dégano y Ceballos-Zúñiga. The Ombudsman is responsible for resolving the complaints brought forward by the customers and users of Banco de Sabadell, S.A., and of the other aforementioned entities associated with it, both at first and second instance, and for resolving issues that are passed on by the SAC.

In 2020, the Customer Ombudsman received a total of 2,560 complaints and claims, of which 1,862 were accepted for processing and resolved during the year.

Of the claims and complaints accepted for processing and resolved, the Ombudsman decided in favour of the customer in 17 (0.92%) cases, and in favour of the Institution in 412 (22.13%) cases, and in one case, the customer withdrew the complaint (0.05%). Furthermore, the SAC agreed to the claimant's request in 1,080 (58.00%) cases. The other 352 complaints and claims (18.90%) remained pending final resolution by the Ombudsman, following dispatch of arguments by the SAC.

Complaints and claims managed by the Bank of Spain, the Spanish National Securities Market Commission (CNMV) and the Directorate General for Insurance and Pension Plans

Under current legislation, customers or users who are dissatisfied with the response received from the SAC or from the Customer Ombudsman may submit their claims and complaints to the Market Conduct and Complaints Department of the Bank of Spain, to the CNMV or to the Directorate General for Insurance and Pension Plans, subject to the essential prerequisite of having previously addressed their complaint or claim to the Institution.

The SAC received a total of 458 claims referred by the Bank of Spain or the CNMV until 31 December 2020. During the year, 457 claims were accepted for processing and resolved.

Note 39 – Subsequent events

There were no significant events worthy of mention subsequent to 31 December 2020.

Schedule I – Banco Sabadell Group companies

Banco Sabadell Group companies as at 31 December 2020 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L.	Real estate	Alicante - Spain	100.00	-	100	716	(377)	-	437	10,538	(9,722)	(377)
Assegurances Segur Vida, S.A.U.	Other regulated companies	Andorra la Vella - Andorra	-	50.97	602	834	151	-	47,913	802	323	77
Aurica Capital Desarrollo, S.G.E.I.C., S.A.U.	Funds management activities	Barcelona - Spain	100.00	-	3,601	727	926	-	6,208	4,342	(7)	919
Aurica Coinvestments, S.L.	Holding	Barcelona - Spain	-	61.76	50,594	(1,266)	1,909	1,050	51,242	31,247	(1,948)	2,282
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Nassau - Bahamas	99.99	0.01	1,598	604	(72)	-	2,794	2,439	(298)	(80)
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	-	-	703,371	10,299,269	93,781	-	188,909,020	-	12,158,438	213,991
Banco Sabadell, S.A., Institución de Banca Múltiple	Credit institution	Mexico DF - Mexico	99.99	0.01	573,492	(83,163)	459	-	3,427,477	558,017	(48,446)	(12,831)
BancSabadell d'Andorra, S.A.	Credit institution	Andorra la Vella - Andorra	50.97	-	30,069	61,399	9,878	-	991,035	15,326	30,661	5,015
BanSabadell Factura, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	100	(659)	383	-	2,520	299	(857)	383
BanSabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell - Spain	100.00	-	24,040	11,574	765	-	722,649	24,040	5,232	7,107
BanSabadell Inversió Desenvolupament, S.A.U.	Holding	Barcelona - Spain	100.00	-	16,975	99,719	783	-	186,066	108,828	18,216	(906)
Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del Grupo Banco Sabadell, S.A.	Other regulated companies	Alicante - Spain	-	100.00	301	60	7,832	2,748	54,330	524	(164)	5,278
BanSabadell Renting, S.L.U.	Vehicle and equipment leasing	Sant Cugat del Valles - Spain	100.00	-	2,000	2,589	7,180	-	611,805	3,861	728	7,180
Bitarte, S.A.U. (1)	Real estate	Sant Cugat del Valles - Spain	100.00	-	6,506	1,021	(3,137)	-	4,633	9,272	(1,960)	(2,342)
BStartup 10, S.L.U.	Holding	Barcelona - Spain	-	100.00	1,000	2,757	244	-	8,160	1,000	(1,186)	(79)
Business Services for Operational Support, S.A.	Other ancillary activities	Sant Cugat del Valles - Spain	80.00	-	530	547	(8,605)	-	31,722	1,160	396	(6,686)
Caminsa Urbanismo, S.A.U. en Liquidación (2)	Real estate	Alicante - Spain	-	100.00	-	-	-	-	32	-	37	(37)
Compañía de Cogeneración del Caribe Dominicana, S.A.	Power generation	Santo Domingo - Dominican Republic	-	100.00	5,016	(4,638)	-	-	394	-	(312)	-
Crisae Private Debt, S.L.U.	Other ancillary activities	Barcelona - Spain	-	100.00	3	197	-	-	200	200	-	-
Desarrollos y Participaciones Inmobiliarias 2006, S.L.U. en Liquidación (3)	Real estate	Elche - Spain	-	100.00	1,942	(91,065)	130	-	7	1,919	(91,042)	130
Duncan de Inversiones S.I.C.A.V., S.A.	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	87.35	-	7,842	(5,195)	(47)	-	2,607	2,560	(248)	(41)
Duncan Holdings 2015-1 Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	1	-	-
Duncan Holdings 2016 -1 Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	1	-	-
Duncan Holdings 2020-1 Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	-	-	-
Ederra, S.A.	Real estate	San Sebastián - Spain	97.85	-	2,036	34,089	151	-	36,537	36,062	(723)	339
Europea Pall Mall Ltd.	Real estate	London - United Kingdom	100.00	-	20,843	(2,369)	(1,017)	-	20,057	20,843	(3,682)	(1,491)
Subtotal								**3,798**		**833,281**	**12,053,436**	**217,831**

Banco Sabadell Group companies as at 31 December 2020 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Fonomed Gestión Telefónica Mediterráneo, S.A.U.	Other ancillary activities	Alicante - Spain	100.00	-	1,232	1,539	931	-	5,763	2,771	554	1,208
Fuerza Eólica De San Matías, S. de R.L. de C.V.	Power generation	Monterrey - Mexico	-	99.99	8,144	(13,093)	(1,343)	-	50,869	5,951	(2,793)	(2,052)
Galeban 21 Comercial, S.L.U.	Services	A Coruña - Spain	100.00	-	10,000	(4,291)	(1)	-	5,709	14,477	(8,768)	(1)
Gazteluberri, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	53	(20,672)	(68)	-	1,756	23,891	(44,510)	(68)
Gest 21 Inmobiliaria, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	7,810	609	533	-	8,968	80,516	(32,920)	(2,142)
Gestión de Proyectos Urbanísticos del Mediterráneo, S.L.U. en Liquidación (4)	Real estate	Sant Cugat del Valles - Spain	-	100.00	-	-	-	-	314	-	(840)	840
Gestión Financiera del Mediterráneo, S.A.U.	Other financial services	Alicante - Spain	100.00	-	13,000	2,600	2,789	1,531	18,398	66,787	(48,392)	(7)
Guipuzcoano Promoción Empresarial, S.L.	Holding	San Sebastián - Spain	-	100.00	53	(75,438)	(64)	-	6,933	7,160	(81,533)	(1,067)
Guipuzcoano Valores, S.A.	Real estate	Sant Cugat del Valles - Spain	99.99	0.01	4,514	(3,712)	(783)	1,745	34	4,181	(3,379)	(783)
Hobalear, S.A.U.	Real estate	Barcelona - Spain	-	100.00	60	50	11	-	125	414	50	11
Hondarriberri, S.L.	Holding	San Sebastián - Spain	99.99	0.01	41	21,859	(3,314)	-	60,403	120,669	96,534	(955)
Hotel Management 6 Gestión Activa, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	135,730	36,251	(6,475)	-	165,781	136,335	58,741	(8,938)
Hotel Management 6 Holdco, S.L.U.	Real estate	Sant Cugat del Valles - Spain	-	100.00	29,074	(22,282)	414	-	63,859	27,611	(20,726)	321
Interstate Property Holdings, LLC.	Holding	Miami - United States	100.00	-	7,293	(3,250)	34	-	5,868	3,804	6,353	34
Inverán Gestión, S.L.	Real estate	Sant Cugat del Valles - Spain	44.83	55.17	90	(12,055)	12,021	-	117	45,090	(43,456)	(1,579)
Inversiones Cotizadas del Mediterráneo, S.L.	Holding	Alicante - Spain	100.00	-	308,000	196,051	3,635	-	508,905	589,523	(86,868)	3,635
Inversiones en Resorts Mediterráneos, S.L. en liquidación	Real estate	Torre Pacheco - Spain	-	55.06	299,090	(302,367)	-	-	68	175,124	-	-
LSP Finance, S.L.U.	Provision of technology services	Barcelona - Spain	-	100.00	252	(1,124)	(703)	-	2,194	6,484	(1,136)	(2,728)
Manston Invest, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	33,357	(12,809)	(121)	-	20,447	33,357	(12,809)	(121)
Mariñamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	62	(52,688)	(13,102)	-	15,090	55,013	(107,639)	(13,102)
Mediterráneo Sabadell, S.L.	Holding	Alicante - Spain	50.00	50.00	85,000	16,999	9	53	102,012	510,829	(408,829)	9
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real estate	Alicante - Spain	100.00	-	795	(3,000)	(25)	-	5,063	986	(3,192)	(25)
Paycomet, S.L.U. (5)	Payment institution	Torrelodones - Spain	-	100.00	200	430	(199)	-	3,336	8,500	(75)	(200)
Plataforma de Innovación Sabadell, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	3	(1)	-	-	2	3	(1)	-
Puerto Pacific Vallarta, S.A. de C.V.	Real estate	Mexico DF - Mexico	-	100.00	28,947	(17,315)	(58)	-	11,574	29,164	(11,513)	(58)
Ripollet Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	20	(287)	(3)	-	293,417	20	(287)	(3)
Rubí Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	3	(14)	(10)	-	552,295	3	(14)	(10)
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Other financial services	São Paulo - Brazil	99.99	0.01	905	(846)	-	-	75	250	393	-
Sabadell Consumer Finance, S.A.U.	Credit institution	Sabadell - Spain	100.00	-	35,720	45,998	10,938	-	1,672,099	72,232	14,408	10,661
Sabadell Corporate Finance, S.L.U. (6)	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	70	4,271	3,828	-	10,371	9,373	2,827	3,828
Sabadell d'Andorra Inversions, S.G.O.I.C., S.A.U.	Funds management activities	Andorra la Vella - Andorra	-	50.97	300	1,155	98	-	2,217	300	623	51
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	100.00	-	12,036	20,943	(508)	-	70,664	41,296	1,216	(482)
Sabadell Information Systems, S.A.U.	Provision of technology services	Sabadell - Spain	100.00	-	40,243	33,268	18,025	-	1,804,100	143,695	(87,632)	21,841
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	-	100.00	1,000	646	(3,270)	-	37,792	1,000	(1,062)	(1,145)
Sabadell Innovation Cells, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	3	(3,582)	541	-	2,607	3	(3,708)	667
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	30,116	819,109	(5,199)	-	911,472	863,895	(13,663)	(6,206)
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	100,060	232,843	2,483	-	338,208	500,622	(167,718)	2,483
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	15,807	(2,336,904)	(67,382)	-	1,273,692	2,147,442	(4,452,738)	(62,120)
Subtotal								**3,329**		**5,728,771**	**(5,464,502)**	**(58,203)**

Banco Sabadell Group companies as at 31 December 2020 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	2,073	553	(170)	-	29,170	14,292	(11,666)	(170)
Sabadell Securities USA, Inc.	Other financial services	Miami - United States	100.00	-	551	3,862	923	-	5,677	551	3,945	928
Sabadell Strategic Consulting, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	3	139	136	-	896	3	139	136
Sabadell Venture Capital, S. L.U.	Holding	Barcelona - Spain	-	100.00	3	7,597	1,764	-	49,408	3	1,327	529
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico DF - Mexico	49.00	51.00	164,828	4,813	17,026	-	1,261,679	150,351	50,317	17,027
Sinia Capital, S.A. de C.V.	Holding	Mexico DF - Mexico	-	100.00	20,830	4,665	2,275	-	78,652	17,204	5,694	844
Sinia Renovables, S.A.U.	UCITS, funds and similar financial corporations	Barcelona - Spain	100.00	-	15,000	(9,682)	11,020	-	42,278	15,000	(15,217)	15,871
Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.	Real estate	Alicante - Spain	100.00	-	3	9,718	308	-	12,891	3	9,681	344
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	60,729	(10,471)	(621)	-	49,809	60,729	(10,471)	(621)
Tasaciones de Bienes Mediterráneo, S.A. en Liquidación	Other ancillary activities	Alicante - Spain	99.88	0.12	1,000	1,389	1	-	2,395	5,266	(2,878)	2
Tenedora de Inversiones y Participaciones, S.L.	Holding	Alicante - Spain	100.00	-	296,092	(522,554)	(3,138)	-	375,783	2,564,914	(2,721,195)	(4,181)
Tierras Vega Alta del Segura, S.L. en Liquidación (7)	Real estate	Sant Cugat del Valles - Spain	-	100.00	-	-	-	-	59	-	3,155	(3,155)
TSB Bank PLC	Credit institution	Edinburgh - United Kingdom	-	100.00	90,710	2,003,814	(175,893)	-	47,138,659	1,814,636	370,653	(177,437)
TSB Banking Group PLC	Holding	London - United Kingdom	100.00	-	7,028	1,745,350	(3,406)	-	2,705,089	2,196,583	(146,786)	(42,688)
TSB Banking Group plc Employee Share Trust	Other ancillary activities	Saint Helier - Jersey	-	100.00	1	(10,438)	(414)	-	580	-	(10,571)	(6)
TSB Covered Bonds (Holdings) Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	-	-	-
TSB Covered Bonds (LM) Limited	Other ancillary activities	London - United Kingdom	-	100.00	1	-	-	-	1	-	-	-
TSB Covered Bonds LLP	UCITS, funds and similar financial corporations	London - United Kingdom	-	100.00	1	9	3	-	47	-	10	3
Urquijo Gestión, S.A.U., S.G.I.I.C.	Funds management activities	Madrid - Spain	-	100.00	3,606	4,858	2,717	-	16,119	3,084	5,082	3,015
Urumea Gestión, S.L. en Liquidación	Other ancillary activities	San Sebastián - Spain	-	100.00	9	(11)	(1)	-	-	9	(11)	(1)
VeA Rental Homes , S.A.U.(8)	Real estate	Sant Cugat del Valles - Spain	100.00	-	5,000	(18,678)	1,655	-	47,621	5,000	(18,677)	1,655
Verum Inmobiliaria Urbanismo y Promoción, S.A.	Real estate	Sant Cugat del Valles - Spain	-	97.20	12,000	(44,495)	32,501	-	62	11,662	(9,711)	(1,944)
Subtotal								**-**		**6,859,290**	**(2,497,180)**	**(189,849)**
TOTAL								**7,127**		**13,421,342**	**4,091,754**	**(30,221)**

(1) Formerly, Bitarte, S.A.
(2) Formerly, Caminsa Urbanismo, S.A.U.
(3) Formerly, Desarrollo y Participaciones Inmobiliarias 2006 S.L (in liquidation)
(4) Formerly, Gestión de Proyectos Urbanísticos del Mediterráneo, S.L (in liquidation)
(5) Formerly, PayTPV On Line Entidad de Pago, S.L.
(6) Formerly, Sabadell Corporate Finance, S.L.
(7) Formerly, Tierras Vega Alta del Segura, S.L.
(8) Formerly, VeA Rental Homes , S.A

Banco Sabadell Group companies as at 31 December 2020 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Atrian Bakers, S.L.	Manufacturing	Castellgali - Spain	-	22.41	26,249	(7,536)	(2,591)	-	33,082	2,000	225	(1,079)
Aurica III, Fondo de Capital Riesgo	UCITS, funds and similar financial corporations	Barcelona - Spain	-	48.15	75,497	(2,651)	(2,081)	-	70,965	36,933	(1,274)	3,266
Aurica IIIB, S.C.R., S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	-	43.43	41,524	(1,825)	(1,411)	-	47,345	22,528	(803)	2,010
BanSabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	-	7,813	35,935	(656)	-	45,882	40,378	(18,585)	(328)
BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	10,000	70,333	18,307	5,000	273,370	34,000	5,159	9,154
BanSabadell Vida, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	43,858	567,012	89,346	37,500	10,866,241	27,106	241,319	48,139
Energíes Renovables Terra Ferma, S.L.	Power generation	Barcelona - Spain	-	50.00	6	(3)	(68)	-	1,136	3	(2)	(1)
ESUS Energía Renovable, S.L.	Power generation	Vigo - Spain	-	45.00	50	(701)	(34)	-	2,938	23	(23)	-
Financiera Iberoamericana, S.A.	Credit institution	Havana - Cuba	50.00	-	38,288	7,137	3,090	2,931	71,854	19,144	2,725	1,744
Flex Equipos de Descanso, S.A.	Manufacturing	Getafe - Spain	-	19.16	66,071	21,081	3,439	-	242,481	50,930	8,892	(5,980)
Gestora de Aparcamientos del Mediterráneo, S.L. en Liquidación	Services	Alicante - Spain	-	40.00	1,000	(10,072)	(495)	-	2,080	7,675	(7,675)	-
Murcia Emprende, S.C.R. de R.S., S.A.	Other financial services	Murcia - Spain	28.70	-	5,399	(2,838)	(160)	-	2,435	2,026	(1,629)	292
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	-	45.01	3	(15,260)	(3)	-	31,984	3,004	(3,004)	-
Promontoria Challenger I, S.A.	Holding	Madrid - Spain	20.00	-	60	1,127,382	(139,813)	-	3,203,880	224,019	-	(18,059)
SBD Creixent, S.A.	Real estate	Sabadell - Spain	23.05	-	5,965	(1,227)	75	-	5,337	3,524	(2,447)	33
Serveis i Mitjans de Pagament XXI, S.A.	Other ancillary activities	Andorra la Vella - Andorra	-	20.00	60	129	77	-	1,467	12	-	21
Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	UCITS, funds and similar financial corporations	Sabadell - Spain	48.46	-	4,818	(175)	(333)	-	4,345	397	1,853	(161)
Solvia Servicios Inmobiliarios, S.L.	Real estate	Alicante - Spain	20.00	-	660	132,300	2,015	-	177,269	16,517	39,753	(6,828)
Termosolar Borges, S.L.	Power generation	Barcelona - Spain	47.50	-	14,700	(37,468)	(12)	-	134,054	11,800	-	-
Villoldo Solar, S.L.	Power generation	Barcelona - Spain	50.00	-	3	36	63	24	178	-	-	-
Total								**45,455**		**502,019**	**264,484**	**32,223**

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.

(a) Figures for foreign companies were translated to euro at the historical exchange rate, and amounts in the consolidated income statement were translated at the average exchange rate.

(b) Results pending approval at Annual General Meeting.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method and individually considered to be non-material amounted to 560,797 thousand euros as at 31 December 2020. The liabilities balance as at the end of 2020 totalled 636,908 thousand euros.

Changes in the scope of consolidation in 2020

Additions to the scope of consolidation:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Cost of combination		% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
			Cost of acquisition	Fair value of equity instruments issued for the acquisition					
Same Age Wallets, S.L.	Associate	01/01/2020	1,011	-	20.00%	20.00%	Indirect	Equity method	b
Serveis i Mitjans de Pagament XXI, S.A.	Associate	01/01/2020	12	-	20.00%	20.00%	Indirect	Equity method	b
Torenia Solar, S.L.	Subsidiary	21/02/2020	193	-	100.00%	100.00%	Indirect	Full consolidation	a
Gate Solar 21, S.L.	Subsidiary	21/02/2020	213	-	100.00%	100.00%	Indirect	Full consolidation	a
Crisae Private Debts, S.L.U.	Subsidiary	02/12/2020	200	-	100.00%	100.00%	Indirect	Full consolidation	d
Total newly consolidated subsidiaries			**606**						
Total newly consolidated associates			**1,023**						

(a) Acquisition of subsidiaries.

(b) Acquisition or incorporation of associates

(c) Change in consolidation method.

(d) Incorporation of subsidiaries.

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Gate Huerta Solar 44, S.L	Subsidiary	5/29/2020	100.00%	-	133	Indirect	Full consolidation	a
Gate Solar 21 S.L.	Subsidiary	5/29/2020	100.00%	-	32	Indirect	Full consolidation	a
Inversiones Samiac 14 S.L.	Subsidiary	5/29/2020	100.00%	-	25	Indirect	Full consolidation	a
Nueva Pescanova, S.L.	Associate	4/3/2020	25.00%	-	25,272	Direct	Equity method	a
Sabadell Asset Management Luxembourg, S.A.	Subsidiary	6/30/2020	100.00%	-	-	Indirect	Full consolidation	a
Sabadell Asset Management, S.A., S.G.I.I.C.	Subsidiary	6/30/2020	100.00%	-	292,507	Direct	Full consolidation	a
Torenia Solar, S.L.	Subsidiary	5/29/2020	100.00%	-	118	Indirect	Full consolidation	a
Gate Solar Gestión, S.L.	Associate	11/27/2020	50.00%	-	516	Direct	Equity method	a
Hydrophytic, S.L.	Associate	12/23/2020	50.00%	-	77	Indirect	Equity method	a
Sdin Residencial, S.L.U.	Subsidiary	9/21/2020	100.00%	-	28,947	Direct	Full consolidation	a
Promontoria Challenger Industrial Assets, S.L.U. en liquidacion	Subsidiary	8/26/2020	100.00%	-	(3)	Direct	Full consolidation	b
Promontoria Challenger Land, S.L.U. en liquidacion	Subsidiary	8/26/2020	100.00%	-	(3)	Direct	Full consolidation	b
Promontoria Challenger Real Estate, S.L.U. en liquidacion	Subsidiary	8/26/2020	100.00%	-	(3)	Direct	Full consolidation	b
Promontoria Challenger Residential, S.L.U. en liquidacion	Subsidiary	8/26/2020	100.00%	-	(3)	Direct	Full consolidation	b
Grecoholdco, S.A.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 1, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 2, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 3, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 4, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 5, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 6, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 7, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 8, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 9, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 10, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 11, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 12, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 13, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 14, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 15, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Hotel Value Added Primera, S.L.U. en liquidacion	Subsidiary	8/27/2020	100.00%	-	(115)	Indirect	Full consolidation	b
Redes 2 Promotora Unica, S.L.	Associate	9/21/2020	20.00%	-	412	Indirect	Equity method	a
Same Age Wallets, S.L.	Associate	7/16/2020	20.37%	-	(935)	Indirect	Equity method	a
Sabadell BS Select Fund of Hedge Funds SICAV (Luxembourg) in Liquidation	Subsidiary	2/22/2020	100.00%	-	(276)	Direct	Full consolidation	b
Xunqueira Eólica, S.L.U.	Subsidiary	12/22/2020	100.00%	-	366	Indirect	Full consolidation	a
Vitigudina FV, S.L.U.	Subsidiary	12/22/2020	100.00%	-	7,896	Indirect	Full consolidation	a
Orión Energía 1, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 2, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 3, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Subtotal					**354,963**			

Direct

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Orión Energía 4, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 5, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 6, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 7, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 8, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 9, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 10, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 11, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 12, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 13, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 14, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 15, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 16, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 17, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 18, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 19, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 20, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 21, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 22, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 23, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 24, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 25, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 26, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 27, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 28, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 29, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 30, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Sabadell Asabys Health Innovation Investments, S.C.R., S.A.	Associate	10/30/2020	-	-	309	Indirect	Equity method	c
Parque Eólico Lecrín, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Direct	Full consolidation	a
Parque Eólico Las Lomas de Lecrín, S.L.U.	Subsidiary	12/22/2020	100.00%	-	123	Direct	Full consolidation	a
Parque Eólico Lomas de Manteca, S.L.U.	Subsidiary	12/22/2020	100.00%	-	373	Direct	Full consolidation	a
Parque Eólico Jaufil, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Direct	Full consolidation	a
Parque Eólico Zorreras, S.L.U.	Subsidiary	12/22/2020	100.00%	-	1,763	Direct	Full consolidation	a
Parque Eólico Tahuna, S.L.U.	Subsidiary	12/22/2020	100.00%	-	1,106	Direct	Full consolidation	a
Otros (*)					(15,049)			
TOTAL					**343,588**			

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Exclusions due to reclassification into “Financial assets at fair value through other comprehensive income”

(*) Corresponds, mainly, to a negative adjustment of 17,001 thousand euros of the sale price of Solvia Servicios Inmobiliarios, S.L. (Solvia), a company 80% of whose share capital was sold in 2019 (see Note 2).

Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Company data (a) Capital	Company data (a) Other equity	Company data (a) Profit/(loss) (b)	Company data (a) Dividends paid (c)	Company data (a) Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L.	Real estate	Alicante - Spain	100.00	-	100	10,237	(21)	-	10,341	20,038	(9,644)	326
Assegurances Segur Vida, S.A.U.	Other regulated companies	Andorra la Vella - Andorra	-	50.97	602	419	215	-	45,786	602	214	110
Aurica Capital Desarrollo, S.G.E.I.C., S.A.Unipersonal	Funds management activities	Barcelona - Spain	100.00	-	3,601	(435)	1,169	3,450	5,158	4,342	(226)	1,169
Aurica Coinvestments S.L.	Holding	Barcelona - Spain	-	61.76	50,594	(1,475)	1,910	2,083	51,032	31,247	(911)	(3,112)
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Nassau - Bahamas	99.99	0.01	1,598	849	(39)	-	3,134	2,439	(243)	(54)
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	-	-	703,371	9,559,869	1,053,267	-	178,398,801	-	11,239,253	701,793
Banco Sabadell, S.A., Institución De Banca Múltiple	Credit institution	Mexico DF - Mexico	99.99	0.01	554,267	(22,998)	9,744	-	3,718,149	598,718	(45,015)	(3,431)
Bancsabadell d'Andorra, S.A.	Credit institution	Andorra la Vella - Andorra	50.97	-	30,069	49,929	10,092	1,594	863,158	15,326	24,997	5,242
Bansabadell Factura, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	100	(1,264)	605	-	2,229	299	(1,462)	605
Bansabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell - Spain	100.00	-	24,040	4,895	337	24,300	781,267	24,040	4,895	337
Bansabadell Inversió Desenvolupament, S.A.U	Holding	Barcelona - Spain	100.00	-	16,975	73,457	26,585	53,000	161,805	108,828	41,004	4,412
Bansabadell Mediación, Operador de Banca-Seguros Vinculado del	Other regulated companies	Alicante - Spain	-	100.00	301	(3,940)	6,748	8,306	48,472	524	(164)	6,748
Bansabadell Renting, S.L.U.	Vehicle and equipment leasing	Sant Cugat del Valles - Spain	100.00	-	2,000	(5,214)	7,181	57,500	693,670	3,861	(7,075)	7,803
Bitarte, S.A.	Real estate	Sant Cugat del Valles - Spain	100.00	-	6,506	1,464	(440)	-	34,660	9,272	(1,187)	(465)
Bstartup 10, S.L.U.	Holding	Barcelona - Spain	-	100.00	1,000	702	1,268	-	7,102	1,000	(1,395)	(289)
Business Services for Operational Support, S.A.	Other ancillary activities	Sant Cugat del Valles - Spain	80.00	-	530	(2,647)	3,194	2,720	31,350	1,160	(2,357)	2,754
Caminsa Urbanismo, S.A.U.	Real estate	Alicante - Spain	-	100.00	2,000	(1,712)	(3)	-	1,304	800	(417)	(4)
Compañía de Cogeneración del Caribe Dominicana, S.A.	Power generation	Santo Domingo - Dominican Republic	-	100.00	5,016	(4,272)	(330)	-	431	-	18	(330)
Desarrollos y Participaciones Inmobiliarias 2006, S.L. en	Real estate	Elche - Spain	-	100.00	1,942	(90,851)	(215)	-	9	1,919	(79,142)	(215)
Duncan 2016 -1 Holdings Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	1	-	-
Duncan de Inversiones SICAV, S.A.	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	87.35	-	7,842	(5,148)	(47)	-	2,652	2,560	(208)	(41)
Duncan Holdings 2015-1 Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	1	21	-
Duncan Holdings 2020-1-Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	-	-	-
Ederra, S.A.	Real estate	San Sebastián - Spain	97.85	-	2,036	31,253	2,826	-	35,198	36,062	(3,240)	2,508
Sabadell Asset Management Luxembourg, S.A.	Other regulated companies	Luxembourg - Luxembourg	-	100.00	125	649	(191)	-	907	437	438	(191)
Europea Pall Mall Ltd.	Real estate	London - United Kingdom	100.00	-	20,843	(1,013)	(314)	-	22,254	20,843	(3,305)	(377)
Fonomed Gestión Telefónica Mediterráneo, S.A.U.	Other ancillary activities	Alicante - Spain	100.00	-	1,232	630	909	2,201	5,990	2,771	(632)	1,186
Subtotal								**155,154**		**887,090**	**11,154,217**	**726,484**

Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Fuerza Eólica de San Matias, S. de R.L. de C.V.	Other power generation	Monterrey - Mexico	-	99.99	7,115	(7,089)	(3,429)	-	60,684	6,036	-	(2,792)
Galeban 21 Comercial, S.L.U.	Services	A Coruña - Spain	100.00	-	10,000	(4,289)	(2)	-	5,709	14,477	(8,766)	(2)
Gate Huerta Solar 44, S.L	Other power generation	Vitoria-Gasteiz - Spain	-	100.00	87	165	19	-	694	205	-	83
Gazteluberri, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	53	(20,442)	(230)	-	5,735	23,891	(44,280)	(228)
Gest 21 Inmobiliaria, S.L.U	Real estate	Sant Cugat del Valles - Spain	100.00	-	7,810	17	591	-	8,430	80,516	(35,626)	2,706
Gestión de Proyectos Urbanísticos	Real estate	Sant Cugat del Valles - Spain	-	100.00	33,850	(31,448)	(13)	-	10,341	32,832	(17,588)	(13)
Gestión Financiera del Mediterráneo, S.A.U.	Other financial services	Alicante - Spain	100.00	-	13,000	2,604	13,715	-	29,343	78,971	(58,961)	5,305
Grecoholdco, S.A.U.	Holding company	Madrid - Spain	100.00	-	60	-	-	-	60	60	-	-
Grecopropco 1, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 2, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 3, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 4, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 5, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 6, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 7, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 8, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 9, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 10, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 11, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 12, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 13, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 14, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 15, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Guipuzcoano Promoción Empresarial, S.L.	Holding	San Sebastián - Spain	-	100.00	53	(76,040)	(288)	-	7,127	7,160	(78,008)	(278)
Guipuzcoano Valores, S.A.	Real estate	Sant Cugat del Valles - Spain	99.99	0.01	4,514	2,946	(6)	-	7,518	10,833	(3,376)	12
Hotel Management 6 Holdco, S.L.U.	Real estate	Sant Cugat del Valles - Spain	-	100.00	29,074	(29,204)	4,034	-	60,569	27,611	(17,984)	977
Hobalear, S.A.U.	Real estate	Barcelona - Spain	-	100.00	60	46	5	650	111	414	46	5
Hondarriberri, S.L.	Holding	San Sebastián - Spain	99.99	0.01	41	(11,553)	(1,748)	-	64,709	120,669	122,491	225
Hotel Management 6 Gestión Activa,	Real estate	Sant Cugat del Valles - Spain	100.00	-	135,730	31,977	(1,081)	-	166,756	136,335	54,847	3,319
Hotel Value Added Primera, S.L.U.	Real estate development	Sant Cugat del Valles - Spain	-	100.00	3	20,823	3,555	-	25,810	27,527	(6,701)	3,540
Interstate Property Holdings, Llc.	Holding	Miami - United States	100.00	-	7,293	(2,938)	64	-	6,364	3,804	6,289	64
Inverán Gestión, S.L.	Real estate	Sant Cugat del Valles - Spain	44.83	55.17	90	(11,894)	(162)	-	22,670	45,090	(56,894)	(168)
Inversiones Cotizadas del Mediterráneo, S.L.	Holding	Alicante - Spain	100.00	-	308,000	194,349	1,719	-	505,243	589,523	(88,586)	1,719
Inversiones en Resorts	Real estate	Torre Pacheco - Murcia	-	55.06	299,089	(301,160)	(1,206)	-	68	175,124	-	-
Inversiones Samiac 14, S.L.	Wind power generation	Vitoria-Gasteiz - Spain	-	100.00	-	-	-	-	-	178	16	(37)
LSP Finance, S.L.U.	Provision of technology services	Barcelona - Spain	-	100.00	252	(555)	(569)	-	1,955	6,484	(565)	(572)
Manston Invest, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	33,357	(12,760)	(49)	-	20,513	33,357	(15,430)	3,412
Mariñamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	62	(51,299)	(1,389)	-	39,106	55,013	(106,225)	(1,389)
Mediterráneo Sabadell, S.L.	Holding	Alicante - Spain	50.00	50.00	85,000	17,028	106	120	102,201	510,882	(408,882)	106
Subtotal								**770**		**1,987,037**	**(764,183)**	**15,994**

Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real estate	Alicante - Spain	100.00	-	795	(3,048)	48	-	5,162	986	(3,239)	48
Orión Energía 1, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	98	(136)	5	-	94	36	(72)	4
Orión Energía 10, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	8	-	95	36	(79)	7
Orión Energía 11, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	99	36	(80)	4
Orión Energía 12, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	4	-	98	36	(79)	3
Orión Energía 13, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(145)	5	-	97	36	(82)	4
Orión Energía 14, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(141)	5	-	96	36	(78)	4
Orión Energía 15, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	96	36	(79)	4
Orión Energía 16, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(145)	5	-	97	36	(81)	4
Orión Energía 17, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	97	36	(79)	4
Orión Energía 18, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	97	36	(79)	4
Orión Energía 19, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	96	36	(79)	4
Orión Energía 2, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(138)	5	-	94	36	(75)	4
Orión Energía 20, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	97	36	(79)	4
Orión Energía 21, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	98	36	(80)	4
Orión Energía 22, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	97	36	(79)	4
Orión Energía 23, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	100	36	(80)	5
Orión Energía 24, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	97	36	(79)	5
Orión Energía 25, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	97	36	(80)	4
Orión Energía 26, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(139)	2	-	97	36	(76)	1
Orión Energía 27, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(139)	2	-	99	36	(76)	1
Orión Energía 28, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(141)	2	-	103	36	(77)	1
Orión Energía 29, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(139)	1	-	97	36	(76)	1
Orión Energía 3, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	89	36	(80)	4
Orión Energía 30, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(141)	2	-	99	36	(78)	1
Orión Energía 4, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	95	36	(79)	4
Orión Energía 5, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	4	-	97	36	(79)	3
Orión Energía 6, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	99	36	(79)	4
Orión Energía 7, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	95	36	(79)	4
Orión Energía 8, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(144)	4	-	94	36	(81)	3
Orión Energía 9, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	97	36	(79)	5
Parque Eólico Jaufil, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	163	(2,717)	125	-	5,183	163	(2,699)	107
Parque Eólico Las Lomas de Lecrín, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	83	(1,241)	136	-	2,497	83	(1,236)	131
Parque Eólico Lecrín, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	4,003	(8,466)	397	-	14,498	4,003	(8,430)	361
Parque Eólico Lomas De Manteca, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	163	(2,160)	194	-	5,363	163	(2,152)	186
Parque Eólico Tahuna, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	3	(10,371)	285	-	12,240	-	(10,151)	68
Parque Eólico Zorreras, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	3	(9,290)	306	-	10,646	-	(9,089)	108
PayTPV On Line Entidad de Pago, S.L.	Payment institution	Bilbao - Spain	-	100.00	150	5	(1)	-	2,436	7,500	-	(75)
Subtotal								**-**		**13,978**	**(39,354)**	**1,042**

Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Plataforma de Innovación Sabadell, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	3	-	(1)	-	3	3	-	(1)
Promontoria Challenger Industrial Assets, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	4	-	-	-	4	4	-	-
Promontoria Challenger Land, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	4	-	-	-	4	4	-	-
Promontoria Challenger Real Estate, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	4	-	-	-	4	4	-	-
Promontoria Challenger Residential S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	4	-	-	-	4	4	-	-
Puerto Pacific Vallarta, S.A. de C.V.	Real estate	Mexico DF - Mexico	-	100.00	28,947	(15,551)	(11)	-	13,384	29,164	(11,502)	(11)
Ripollet Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	20	(2)	(285)	-	194,457	20	(2)	(285)
Rubí Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	3	(11)	(3)	-	556,255	3	(11)	(3)
Sabadell Asset Management, S.A., S.G.I.I.C.	Other regulated companies	Madrid - Spain	100.00	-	601	(17,509)	36,027	135,000	96,149	607	14,485	35,113
Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg)	Other investees	Luxembourg - Luxembourg	100.00	-	12,316	(80)	-	-	12,386	4,926	-	(124)
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Other financial services	São Paulo - Brazil	99.99	0.01	905	(821)	-	-	106	250	393	-
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico DF - Mexico	49.00	51.00	154,915	4,271	24,153	13,595	1,076,508	144,158	25,880	24,437
Sabadell Consumer Finance, S.A.U	Credit institution	Sabadell - Spain	100.00	-	35,720	29,902	16,095	63,000	1,586,516	72,232	13,022	15,386
Sabadell Corporate Finance, S.L.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	70	2,062	2,209	-	6,131	9,373	567	2,259
Sabadell d'Andorra Inversions Sgoic, S.A.U.	Funds management activities	Andorra la Vella - Andorra	-	50.97	300	1,090	132	100	2,131	300	607	67
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	100.00	-	12,036	22,072	558	-	78,564	41,296	(8,342)	558
Sabadell Information Systems, S.A.	Provision of technology services	Sabadell - Spain	100.00	-	40,243	50,475	(4,013)	-	1,614,303	143,695	43,567	(143,971)
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	-	100.00	1,000	6,977	(681)	-	41,455	1,000	(382)	(681)
Sabadell Innovation Cells, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	3	(1,852)	(1,857)	-	2,184	3	(2,123)	(1,586)
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	30,116	825,897	(6,788)	-	924,793	863,895	5,914	(20,584)
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	100,060	234,750	(1,907)	-	333,298	500,622	(161,120)	(1,706)
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	15,807	(2,234,020)	(102,884)	-	2,528,948	2,147,442	(3,996,919)	(98,215)
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	2,073	1,084	(531)	-	29,547	14,292	(11,135)	(531)
Sabadell Securities Usa, Inc.	Other financial services	Miami - United States	100.00	-	551	3,488	849	-	5,104	551	3,096	849
Sabadell Strategic Consulting, S.L.U.	Other ancillary investees	Sant Cugat del Valles - Spain	100.00	-	3	7	133	650	737	3	7	133
Sabadell Venture Capital, S. L.U.	Holding	Barcelona - Spain	-	100.00	3	7,490	(929)	-	45,499	3	(623)	336
Sinia Capital S.A. de C.V.	Holding	Mexico DF - Mexico	-	100.00	20,830	(3,257)	(294)	-	60,933	19,795	1,869	3,825
Sinia Renovables, S.A.U.	UCITS, funds and similar financial corporations	Barcelona - Spain	100.00	-	15,000	(9,279)	(403)	-	33,765	15,000	(8,488)	(804)
Sdin Residencial S.L.U.	Real estate development	Madrid - Spain	100.00	-	25	1,798	791	-	10,317	15	1,809	8,303
Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.	Real estate	Alicante - Spain	100.00	-	3	7,968	1,713	-	13,502	7,980	7,968	1,713
Subtotal								**212,345**		**4,016,644**	**(4,081,463)**	**(175,523)**

Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Company data (a) Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	60,729	(9,726)	(744)	-	50,269	60,729	(15,370)	7,654
Tasaciones de Bienes Mediterráneo, S.A. (En Liquidación)	Other ancillary activities	Alicante - Spain	99.88	0.12	1,000	1,388	-	-	2,394	5,266	(2,879)	1
Tenedora de Inversiones y Participaciones, S.L.	Holding	Alicante - Spain	100.00	-	296,092	(515,434)	(7,120)	-	629,958	2,564,914	(2,605,545)	(6,330)
Tierras Vega Alta del Segura, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	4,550	(13,949)	(52)	-	6,099	16,823	(26,222)	(53)
TSB Bank Plc	Credit institution	Edinburgh - United Kingdom	-	100.00	90,710	2,115,492	75,173	-	45,979,210	1,814,636	208,655	158,340
TSB Banking Group Plc	Holding	London - United Kingdom	100.00	-	7,028	1,844,280	368	-	2,326,053	2,231,817	(107,401)	(39,385)
TSB Banking Group plc Employee Share Trust	Other ancillary activities	Saint Helier - Jersey	-	100.00	1	(9,904)	(1)	-	3,070	-	(9,089)	-
TSB Coverd Bonds Holdings Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	1	-	-
TSB Covered Bonds (LM) Limited	Other ancillary activities	London - United Kingdom	-	100.00	1	-	-	-	1	1	-	-
TSB Covered Bonds LLP	UCITS, funds and similar financial corporations	London - United Kingdom	-	100.00	1	7	3	-	46	1	7	3
Urquijo Gestión, S.A.U., S.G.I.I.C.	Funds management activities	Madrid - Spain	-	100.00	3,606	3,022	3,309	2,000	16,654	3,084	3,544	1,538
Urumea Gestión, S.L. (en liquidación)	Other ancillary activities	San Sebastián - Spain	-	100.00	9	(9)	(2)	-	1	9	(9)	(2)
VeA Rental Homes , S.A	Real estate	Sant Cugat del Valles - Spain	100.00	-	5,000	(10,031)	(8,647)	-	50,500	5,000	(10,030)	(8,647)
Verum Inmobiliaria Urbanismo y Promoción, S.A.	Real estate	Sant Cugat del Valles - Spain	-	97.20	12,000	(44,302)	(193)	-	14,782	11,664	(43,966)	(211)
Vitigudina Fv, S.L.	Engineering	Barcelona - Spain	-	100.00	1,629	(977)	17	-	17,300	-	1,549	194
Xunqueira Eolica, S.L.	Other power generation	Barcelona - Spain	-	100.00	3	(5,180)	2	-	11,373	400	(5,442)	(133)
Subtotal								**2,000**		**6,714,345**	**(2,612,198)**	**112,969**
Total								**370,269**		**13,619,094**	**3,657,019**	**680,966**

Banco Sabadell Group companies as at 31 December 2019 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding: Direct	% Shareholding: Indirect	Company data (a): Capital	Company data (a): Other equity	Company data (a): Profit/(loss) (b)	Company data (a): Dividends paid (c)	Company data (a): Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
Aurica III, Fondo de Capital Riesgo	UCITS, funds and similar financial corporations	Barcelona - Spain	-	48.15	48,855	(3,037)	387	-	46,211	23,525	(1,463)	186
Aurica IIIB, Soc. de Capital Riesgo, S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	-	43.43	33,020	(2,076)	255	-	31,206	14,354	(914)	111
Atrian Bakers, S.L.	Manufacturing	Castellgali - Spain	-	22.41	26,249	(6,243)	(1,030)	-	38,734	2,000	140	85
Bansabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	-	7,813	35,200	597	-	49,105	40,378	(18,883)	298
Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	UCITS, funds and similar financial corporations	Sabadell - Spain	48.46	-	4,818	(535)	273	-	4,586	397	1,679	132
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	10,000	61,706	17,587	-	258,002	34,000	1,375	8,793
Bansabadell Vida, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	43,858	548,242	78,732	48,500	11,202,448	27,106	231,844	46,207
Energia Renovables Terra Ferma, S.L.	Power generation	Barcelona - Spain	-	50.00	6	-	-	-	-	3	-	-
Esus Energía Renovable, S.L.	Power generation	Vigo - Spain	-	45.00	50	(678)	(22)	-	2,625	23	(23)	-
Financiera Iberoamericana, S.A.	Credit institution	Havana - Cuba	50.00	-	38,288	13,862	2,987	-	84,368	19,144	4,162	1,493
Flex Equipos de Descanso, S.A.	Manufacturing	Getafe - Spain	-	19.16	66,071	22,396	9,166	-	252,946	50,930	3,756	8,127
Gate Solar Gestión, S.L.	Services	Vitoria-Gasteiz - Spain	50.00	-	300	2,612	(9)	-	3,684	1,860	(626)	(7)
Gestora de Aparcamientos Del Mediterráneo, S.L.	Services	Alicante - Spain	-	40.00	1,000	(9,600)	(472)	-	2,457	7,675	(7,486)	(189)
Hydrophytic, S.L.	Real estate	Vitoria-Gasteiz - Spain	-	50.00	186	142	21	-	451	93	71	10
Murcia Emprende, S.C.R. de R.S., S.A.	Other financial services	Murcia - Spain	28.70	-	5,399	(1,351)	(892)	-	3,202	2,026	(1,566)	(63)
Nueva Pescanova, S.L.	Wholesale trade	Redondela - Spain	24.53	-	147,614	(32,743)	(33,689)	-	962,481	1,641	210	(1,851)
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	-	45.01	3	(15,266)	(4)	-	31,986	2,951	(2,951)	-
Promontoria Challenger I, S.A.	Holding	Madrid - Spain	20.00	-	60	869,142	(17,784)	-	2,496,996	161,958	-	-
Redes 2 Promotoro Única S.L.	Holding	Madrid - Spain	-	20.00	8,481	96,602	(1,175)	-	110,098	21,091	(74)	(235)
Sabadell Asabys Health Innovation Investment, S.A.	Holding	Barcelona - Spain	-	37.39	9,370	(172)	(1,155)	-	8,237	3,500	(61)	(432)
Sbd Creixent, S.A.	Real estate	Sabadell - Spain	23.05	-	5,965	411	(1,707)	-	5,299	3,524	(2,054)	(393)
Solvia Servicios Inmobiliarios, S.L.U.	Real estate	Alicante - Spain	20.00	-	660	173,726	(22,270)	-	196,175	16,517	16,839	24,583
Termosolar Borges S.L.	Power generation	Barcelona - Spain	47.50	-	14,700	(37,021)	3,213	-	144,113	11,800	-	-
Villoldo Solar S.L.	Power generation	Barcelona - Spain	50.00	-	3	44	38	-	207	-	-	-
Total								**48,500**		**446,496**	**223,975**	**86,855**

"Balance sheet date" lists the date of the latest available figures.

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.

(a) Figures for foreign companies were translated to euro at the historical exchange rate, and amounts in the consolidated income statement were translated at the average exchange rate.

(b) Results pending approval at Annual General Meeting.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method and individually considered to be non-material amounted to 1,368,317 thousand euros as at 31 December 2019. The liabilities balance as at the end of 2019 totalled 1,536,005 thousand euros. See the key figures as at 2019 year-end for BanSabadell Vida, S.A. and for Promontoria Challenger I, S.A. in Note 13.

Changes in the scope of consolidation in 2019

Additions to the scope of consolidation:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Cost of combination: Cost of acquisition	Cost of combination: Fair value of equity instruments issued for the acquisition	% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
Duncan Holdings 2020-1 Limited	Subsidiary	08/04/2019	-	-	100.00%	100.00%	Indirect	Full consolidation	a
Solvia Servicios Inmobiliarios, S.L.U.	Associate	23/04/2019	57,930	-	20.00%	20.00%	Direct	Equity method	d
Plataforma de Innovación Sabadell, S.L.U.	Subsidiary	26/02/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Challenger Industrial Assets, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Challenger Land, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Challenger Real Estate, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Challenger Residential, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Coliseum Real Estate, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Coliseum Industrial Assets, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Coliseum Land, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Coliseum Residential, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Gate Huerta Solar 44, S.L	Subsidiary	30/07/2019	205	-	100.00%	100.00%	Indirect	Full consolidation	b
Inversiones Samiac 14, S.L.	Subsidiary	31/10/2019	178	-	100.00%	100.00%	Indirect	Full consolidation	b
Promontoria Challenger I, S.A.	Associate	20/12/2019	161,958	-	20.00%	20.00%	Direct	Equity method	c
Energíes Renovables Terra Ferma, S.L.	Associate	11/11/2019	3	-	50.00%	50.00%	Indirect	Equity method	c
Sabadell BS Select Fund of Hedge Funds Sicav (Luxembourg)	Subsidiary	29/11/2019	4,926	-	55.44%	55.44%	Direct	Full consolidation	d
Grecoholdco, S.A.U.	Subsidiary	19/12/2019	60	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 1, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 2, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 3, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 4, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 5, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 6, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 7, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 8, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 9, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 10, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 11, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 12, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 13, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 14, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 15, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Total newly consolidated subsidiaries			**5,449**						
Total newly consolidated associates			**219,891**						

(a) Incorporation of subsidiaries.

(b) Acquisition of subsidiaries.

(c) Acquisition or incorporation of associates

(d) Change in consolidation method.

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
CAM Global Finance, S.A. en liquidación	Subsidiary	14/01/2019	100.00%	-	-	Direct	Full consolidation	b
Grupo Luxiona, S.L.	Associate	29/03/2019	20.00%	-	(141)	Indirect	Equity method	a
Malbrouck, S.I.C.A.V.	Subsidiary	13/06/2019	100.00%	-	(10)	Direct	Full consolidation	b
Placements Immobiliers France, S.A.S.	Subsidiary	01/01/2019	100.00%	-	811	Indirect	Full consolidation	b
Societat d'Inversió dels Enginyers, S.L.	Associate	27/05/2019	47.00%	-	766	Indirect	Equity method	b
Ac Dos Lerida, S.L.U. en liquidación	Subsidiary	27/06/2019	100.00%	-	(142)	Indirect	Full consolidation	b
Hotel Calle de los Molinos 10, S.L.U. en liquidación	Subsidiary	27/06/2019	100.00%	-	19	Indirect	Full consolidation	b
Hotel Calle Mayor 34, S.L.U. en liquidación	Subsidiary	27/06/2019	100.00%	-	43	Indirect	Full consolidation	b
Hotel Mirador del Valle, S.L.U. en liquidación	Subsidiary	27/06/2019	100.00%	-	25	Indirect	Full consolidation	b
Ribera Salud, S.A.	Associate	28/06/2019	40.00%	10.00%	5,255	Indirect	Equity method	a
Tratamientos y Aplicaciones, S.L.U. en liquidación	Subsidiary	27/05/2019	100.00%	-	(22)	Direct	Full consolidation	b
Solvia Servicios Inmobiliarios, S.L.U.	Subsidiary	23/04/2019	80.00%	20.00%	132,776	Direct	Full consolidation	a
Emte Renovables, S.L.	Associate	05/08/2019	62.11%	-	(9)	Indirect	Equity method	b
Bansabadell Securities Services, S.L.U.	Subsidiary	21/11/2019	100.00%	-	(47)	Direct	Full consolidation	b
Aurica XXI, S.C.R. de R.S., S.A.U.	Subsidiary	20/11/2019	100.00%	-	(1,218)	Direct	Full consolidation	b
Promontoria Coliseum Real Estate, S.L.U.	Subsidiary	20/12/2019	100.00%	-	-	Direct	Full consolidation	a
Promontoria Coliseum Industrial Assets, S.L.U.	Subsidiary	20/12/2019	100.00%	-	-	Direct	Full consolidation	a
Promontoria Coliseum Land, S.L.U.	Subsidiary	20/12/2019	100.00%	-	-	Direct	Full consolidation	a
Promontoria Coliseum Residential, S.L.U.	Subsidiary	20/12/2019	100.00%	-	-	Direct	Full consolidation	a
Sabadell BS Select Fund of Hedge Funds Sicav (Luxembourg)	Associate	29/11/2019	44.56%	-	-	Direct	Equity method	c
Other					11,585			
Subtotal					**149,691**			

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Derecognised due to reclassification to dependent companies.

Schedule II – Structured entities - Securitisation funds

Thousand euro

Year	Securitisation funds fully retained on the balance sheet	Entity	Total securitised assets as at 31/12/2020
2005	TDA 23, F.T.A	Banco Guipuzcoano	22,136
2005	TDA CAM 4 F.T.A	Banco CAM	184,595
2005	TDA CAM 5 F.T.A	Banco CAM	373,608
2006	TDA 26-MIXTO, F.T.A	Banco Guipuzcoano	63,621
2006	TDA CAM 6 F.T.A	Banco CAM	263,954
2006	FTPYME TDA CAM 4 F.T.A	Banco CAM	85,851
2006	TDA CAM 7 F.T.A	Banco CAM	405,461
2006	CAIXA PENEDES 1 TDA, FTA	BMN- Penedés	167,433
2007	TDA 29, F.T.A	Banco Guipuzcoano	84,785
2007	TDA CAM 8 F.T.A	Banco CAM	382,501
2007	TDA CAM 9 F.T.A	Banco CAM	379,355
2007	CAIXA PENEDES PYMES 1 TDA, FTA	BMN- Penedés	33,731
2007	CAIXA PENEDES 2 TDA, FTA	BMN- Penedés	131,092
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA	BMN- Penedés	50,856
2009	GAT-ICO-FTVPO 1, F.T.H (CP)	BMN- Penedés	4,248
2016	IM SABADELL PYME 10	Banc Sabadell	300,220
2017	TDA SABADELL RMBS 4, FT	Banc Sabadell	4,685,184
2017	IM SABADELL PYME 11, FT	Banc Sabadell	557,897
Total			8,176,528

Thousand euro

Year	Securitisation funds fully derecognised from the balance sheet	Entity	Total securitised assets as at 31/12/2020
2001	TDA 14-MIXTO, F.T.A	Banco Guipuzcoano	1,455
2001	TDA 14-MIXTO, F.T.A	BMN- Penedés	8,436
2006	TDA 25, FTA (*)	Banco Gallego	4,188
2010	FPT PYMES 1 LIMITED	Banco CAM	148,661
2019	SABADELL CONSUMO 1, FT	Banc Sabadell	583,228
Total			745,968

(*) Securitisation fund in process of early liquidation.

Schedule III – Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register

Information concerning the data kept in the special accounting register of the issuer Banco Sabadell referred to in Article 21 of Royal Decree 716/2009, as required by Bank of Spain Circular 5/2011 is as follows, without taking account of the guarantee provided by the DGF.

A) Asset-side transactions

Details of the aggregate nominal values of mortgage loans and credit as at 31 December 2020 and 2019 used as collateral for issues, their eligibility and the extent to which they qualify as such for mortgage market purposes, are presented in the following table:

Thousand euro

Analysis of overall mortgage loan & credit portfolio; eligibility and qualifying amounts (nominal values)

	2020	2019
Total mortgage loan and credit portfolio	**50,756,669**	**51,704,089**
Participation mortgages issued	**1,918,951**	**2,333,714**
Of which: Loans held on balance sheet	*1,875,011*	*2,267,172*
Mortgage transfer certificates	**6,087,432**	**6,505,016**
Of which: Loans held on balance sheet	*5,855,389*	*6,405,988*
Mortgage loans pledged as security for financing received	-	-
Loans backing issues of mortgage bonds and covered bonds	**42,750,286**	**42,865,358**
Ineligible loans	10,169,340	11,478,524
Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009	9,603,831	10,838,235
Rest	565,509	640,289
Eligible loans	32,580,946	31,386,834
Non-qualifying portions	91,307	68,264
Qualifying portions	32,489,639	31,318,570
Loans covering mortgage bond issues	-	-
Loans eligible as coverage for covered bond issues	32,489,639	31,318,570
Substitution assets for covered bond issues	-	-

A breakdown of these nominal values according to different classifications is given below:

Thousand euro

Analysis of total mortgage loan and credit portfolio backing mortgage market issues

	2020		2019	
	Total	*Of which: Eligible loans*	Total	*Of which: Eligible loans*
Total mortgage loan and credit portfolio	42,750,286	*32,580,946*	42,865,358	*31,386,834*
Origin of operations	42,750,286	*32,580,946*	42,865,358	*31,386,834*
Originated by the institution	42,183,959	*32,174,163*	42,270,777	*30,974,128*
Subrogated from other entities	269,499	*233,253*	278,494	*233,425*
Rest	296,828	*173,530*	316,087	*179,281*
Currency	42,750,286	*32,580,946*	42,865,358	*31,386,834*
Euro	42,695,243	*32,535,432*	42,797,267	*31,349,794*
Other currencies	55,043	*45,514*	68,091	*37,040*
Payment status	42,750,286	*32,580,946*	42,865,358	*31,386,834*
Satisfactory payment	38,634,588	*30,360,821*	37,958,995	*28,923,510*
Other situations	4,115,698	*2,220,125*	4,906,363	*2,463,324*
Average residual maturity	42,750,286	*32,580,946*	42,865,358	*31,386,834*
Up to 10 years	9,951,936	*8,286,771*	10,530,752	*8,364,734*
10 to 20 years	16,848,912	*13,429,613*	16,913,750	*13,114,430*
20 to 30 years	14,764,169	*10,498,681*	13,554,446	*9,372,057*
More than 30 years	1,185,269	*365,881*	1,866,410	*535,613*
Interest rate	42,750,287	*32,580,946*	42,865,358	*31,386,834*
Fixed	17,799,195	*14,337,428*	15,649,048	*12,302,334*
Variable	24,951,092	*18,243,518*	27,216,310	*19,084,500*
Mixed	-	-	-	-
Borrowers	42,750,287	*32,580,946*	42,865,358	*31,386,834*
Legal entities and individual entrepreneurs	12,077,615	*8,481,935*	13,064,592	*8,615,114*
Of which: Real estate developments	*2,426,325*	*1,223,926*	*2,592,657*	*1,168,147*
Other individuals and NPISHs	30,672,672	*24,099,011*	29,800,766	*22,771,720*
Type of guarantee	42,750,287	*32,580,946*	42,865,358	*31,386,834*
Assets /finished buildings	41,869,228	*32,013,323*	41,648,120	*30,766,388*
Residential	*34,365,662*	*26,602,780*	*33,886,692*	*25,263,855*
Of which: Subsidised housing	*1,460,161*	*1,185,576*	*1,595,969*	*1,253,735*
Commercial	*7,300,429*	*5,258,460*	*7,544,133*	*5,341,589*
Other	*203,137*	*152,083*	*217,295*	*160,944*
Assets/ buildings under construction	193,026	*174,259*	197,324	*165,674*
Residential	*153,794*	*138,421*	*154,640*	*127,281*
Of which: Subsidised housing	*137*	*137*	*173*	*173*
Commercial	*38,991*	*35,598*	*41,050*	*36,759*
Other	*241*	*240*	*1,634*	*1,634*
Land	688,033	*393,364*	1,019,914	*454,772*
Developed	*127,609*	*52,908*	*322,786*	*69,652*
Rest	*560,424*	*340,456*	*697,128*	*385,120*

The nominal values of available funds (i.e. undrawn commitments) within the total mortgage loans and credit portfolio were as follows:

Thousand euro

Undrawn balances (nominal value). Total mortgage loans and credit backing the issue of mortgage bonds and covered bonds		
	2020	2019
Potentially eligible	1,067,752	1,099,810
Ineligible	2,040,402	2,824,979

The breakdown of nominal values based on the loan-to-value (LTV) ratio measuring the risk based on the last available valuation of the mortgage loans and credit portfolio eligible for the issuance of mortgage bonds and covered bonds is given hereafter:

Thousand euro

LTV ratio by type of security. Eligible loans for the issue of mortgage bonds and covered bonds		
	2020	2019
Secured on residential property	**26,756,164**	**25,411,025**
Of which LTV <= 40%	*7,774,941*	*7,362,006*
Of which LTV 40%-60%	*9,511,514*	*9,237,433*
Of which LTV 60%-80%	*9,469,709*	*8,811,586*
Of which LTV > 80%	-	-
Secured on other property	**5,824,782**	**5,975,809**
Of which LTV <= 40%	*3,488,807*	*3,510,121*
Of which LTV 40%-60%	*2,335,975*	*2,465,688*
Of which LTV > 60%	-	-

Changes during 2020 and 2019 in the nominal values of mortgage loans that secure issues of mortgage bonds and covered bonds (eligible and non-eligible) are as follows:

Thousand euro

Changes in nominal values of mortgage loans		
	Eligible	Ineligible
Balance as at 31 December 2018	**30,132,631**	**13,712,492**
Derecognised during the year	**(4,405,522)**	**(3,913,259)**
Terminations at maturity	(2,433,595)	(283,965)
Early terminations	(1,032,207)	(285,039)
Subrogations by other entities	(11,474)	(2,836)
Derecognised due to securitisations	-	-
Rest	(928,246)	(3,341,419)
Additions during the year	**5,659,725**	**1,679,291**
Originated by the institution	4,243,046	1,370,201
Subrogations by other entities	13,999	6,849
Rest	1,402,680	302,241
Balance as at 31 December 2019	**31,386,834**	**11,478,524**
Derecognised during the year	**(5,479,375)**	**(3,865,051)**
Terminations at maturity	(2,335,360)	(382,752)
Early terminations	(1,302,776)	(469,732)
Subrogations by other entities	(35,810)	(5,249)
Derecognised due to securitisations	-	-
Rest	(1,805,429)	(3,007,318)
Additions during the year	**6,673,487**	**2,555,867**
Originated by the institution	3,676,398	1,335,728
Subrogations by other entities	24,685	6,543
Rest	2,972,404	1,213,596
Balance as at 31 December 2020	**32,580,946**	**10,169,340**

B) Liability-side transactions

Information on issues carried out and secured with Banco Sabadell's mortgage loans and credit portfolio is provided in the following table, broken down according to whether the sale was by public offering or otherwise and by their residual maturity.

Thousand euro

Nominal value	2020	2019
Covered bonds issued	**16,653,854**	**21,429,687**
Of which: Not reflected under liabilities on the balance sheet	*7,182,000*	*10,927,900*
Debt securities. Issued through public offering	**5,450,000**	**6,200,000**
Time to maturity up to one year	1,350,000	1,750,000
Time to maturity from one to two years	-	1,350,000
Time to maturity from two to three years	1,000,000	-
Time to maturity from three to five years	2,100,000	2,000,000
Time to maturity from five to ten years	1,000,000	1,100,000
Time to maturity more than ten years	-	-
Debt securities. Other issues	**9,773,000**	**13,653,000**
Time to maturity up to one year	3,000,000	5,380,000
Time to maturity from one to two years	1,695,000	3,000,000
Time to maturity from two to three years	338,000	1,695,000
Time to maturity from three to five years	4,350,000	1,938,000
Time to maturity from five to ten years	390,000	1,640,000
Time to maturity more than ten years	-	-
Deposits	**1,430,854**	**1,576,687**
Time to maturity up to one year	300,000	145,833
Time to maturity from one to two years	694,444	300,000
Time to maturity from two to three years	100,000	694,444
Time to maturity from three to five years	336,410	100,000
Time to maturity from five to ten years	-	336,410
Time to maturity more than ten years	-	-

	2020		2019	
	Nominal value (thousand euro)	Average residual maturity (years)	Nominal value (thousand euro)	Average residual maturity (years)
Mortgage transfer certificates	**6,087,432**	**21**	**6,505,016**	**22**
Issued through public offering	-	-	-	-
Other issues	6,087,432	21	6,505,016	22
Participation mortgages	**1,918,951**	**12**	**2,333,714**	**12**
Issued through public offering	-	-	-	-
Other issues	1,918,951	12	2,333,714	12

Banco de Sabadell, S.A.'s overcollateralisation ratio (the nominal value of the full mortgage lending portfolio backing the issuance of covered bonds, divided by the nominal value of issued covered bonds) stood at 257% as at 31 December 2020 (200% as at 31 December 2019).

As required by Royal Decree 716/2009, implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market and other matters relating to mortgage lending, the Board of Directors represents that it is responsible for ensuring that the Institution has a set of policies and procedures in place to assure compliance with mortgage market regulations.

In line with these policies and procedures related to the Group's mortgage market activities, the Board of Directors is responsible for ensuring compliance with mortgage market regulations and for implementing the Group's risk management and control procedures (see Note 3.3 "General Principles of Risk Management"). In terms of credit risk, in particular, the Board of Directors confers powers and discretions to the Delegated Committee, which then sub-delegates authority to the various decision-making levels. The internal procedures set up to handle the origination and monitoring of assets that make up the Group's lending and particularly those secured by mortgages, which back the Group's covered bond issues, are described in detail below for each type of loan applicant.

Retail customers

Loans to retail customers are approved and decided on using the credit scoring tools described in Note 3.4.2.2 "Risk management models". Where necessary, these tools are complemented with the work of a risk analyst, who carries out more in-depth studies of supplementary materials and reports. Furthermore, a series of other information and parameters are considered, such as the consistency of customers' applications and how well their requested products match their repayment possibilities; customers' ability to pay based on their current and future circumstances; the value of the property provided as security for the loan (as determined by an appraisal carried out by a valuation firm authorised by Bank of Spain and which the Institution's own internal approval processes will, additionally, have shown to be free of any association with the Group); the availability of any additional guarantees; examinations of internal and external databases of defaulters, etc.

One aspect of the decision-making process involves establishing the maximum amount of the loan, based on the appraisal value of the assets pledged as guarantees, as well as the purchase value if that is the purpose of the loan. As a general rule, under internal Group policies, the maximum amount of the loan relative to the appraisal value or the purchase value, whichever is lower, is applicable to purchases by individuals of properties for use as their primary residence and is fixed at 80%. This provides an upper limit below which a range of other maximum ratios of less than 80% are set, having regard to the purpose of the loan.

A further step that must be taken before an application can be decided upon is to review all charges and liens associated with the property on which the loan is to be secured and also any insurance taken out to cover the security. Once a loan application has been approved, the mortgage must be registered with the Property Registry as part of the formalities for arranging the loan.

Concerning approval discretions, the credit scoring tools are the main reference for determining the feasibility of the transaction. Where the loan being sought is above a certain amount, or where factors are present that are not readily captured by a credit scoring procedure, a risk analyst will be involved. The limit for each discretion is based on credit scores and the amount of the transaction/risk of the customer, with additional conditions being specified at each level to determine when special intervention is required. A list of exceptions has been drawn up, based on the particular circumstances of the borrower and the transaction, and these exceptions are covered in the Group's internal rules and procedures.

As mentioned in Note 3.4.2.2 "Risk management models", the Group has a comprehensive monitoring system in place which uses early warning tools that enable the early detection of borrowers that could be predisposed to compliance issues. A key part of this process consists of well-established procedures to review and validate the guarantees given.

Corporates unrelated to construction and/or real estate development

Analyses and decisions concerning the approval of risks (lending and guarantees) are based on rating tools and "basic risk management teams", formed by one person from the business side and one from the risks side at different decision-making levels, both described in Note 3.4.2.2 "Risk management models". A range of other data and parameters are also taken into account, such as the consistency of the application, ability to pay and the nature of the security provided (as determined by an appraisal carried out by a Bank of Spain-authorised valuation firm which Banco Sabadell's own approval processes will, additionally, have shown to be free of any association with the Group) and considering any supplementary guarantees, the "fit" between the company's working capital and its total sales; the appropriateness of the total amount borrowed from the Group based on the business's capital strength, examinations of internal and external databases of defaulters, etc.

Reviews of charges and liens associated with the security provided and the registration of mortgages with the Property Registry are also applicable in this case.

Discretion figures are assigned based on the expected loss on the transaction/customer/risk group and the total risk of the customer or risk group. There are several levels in the approval process. In each such level there is a "basic management team", one member of which will be on the business side and one on the risk management side. All loan approvals must be the result of a joint decision. As with retail customers, a set of exceptional circumstances has been specified for borrowers and sectors, and these are provided for in the Group's internal procedures.

As in the case of retail customers, transactions are monitored using early warning tools. There are also procedures to ensure that the securities and guarantees provided are constantly being reviewed and validated.

Corporates engaging in construction and/or real estate development

The Bank includes the management of real estate developer loans in the Real Estate Business Division. This unit has its own organisational structure geared towards a specialised management of these assets based on knowledge of the situation and development of the real estate market. Managing the risks in this portfolio is the responsibility of the Bank's Specialised Lending Risk Division, part of the Risk Management Division.

Risk assessments are carried out by teams of specialised analysts who operate in conjunction with the Real Estate Business Division to ensure that a risk management perspective is combined with a view based on direct contact with customers.

Factors influencing the decision include an assessment of both the developer and the project together with a series of other supplementary considerations such as the financial position and net worth of the developer, revenue and cash flow projections, any business plans relating to the project and, most particularly, an in-depth analysis of the current risk situation, which may cover the finished development, plots or land or other developments.

There is a scale of maximum LTV ratios defined internally by the Group based on the purpose of the financing, quality of the developer and an internal appraisal of the development.

Decision-making powers and discretions are assigned according to the specific types of portfolios handled within this business segment, which may be related to new projects, sales, purchases or action plans. All these different circumstances are provided for in internal rules and procedures.

Loans are subject to the kind of continuous monitoring that asset management necessarily implies. For completed developments, monitoring will focus on sales or rental figures; for developments under construction, the progress of the work. A system of continuous control is established to check that commitments are being adhered to and, as with non-real estate businesses, procedures are in place for the continuous review and validation of the guarantees provided.

Other matters

Banco Sabadell Group is an active participant in capital markets and has a number of funding programmes in operation (see section on "Funding strategy and evolution of liquidity in 2020" in Note 3). As one element of the Group's funding strategy, Banco de Sabadell, S.A. is an issuer of covered bonds. Covered bond issues are backed by the Bank's portfolio of mortgage loans granted by the issuer that meet the eligibility criteria defined in Royal Decree 716/2009 regulating the mortgage market and other standards of the financial mortgages system in Spain. The Group has control procedures in place to monitor its entire portfolio of mortgage loans and credit (one of which involves keeping special accounting records of all mortgage loans and credit – and any assets that replace them – used to back issues of covered bonds and mortgage bonds, as well as records of any associated financial derivatives). There are also procedures in place to verify that all loans meet the eligibility criteria for use as collateral in issues of covered bonds, and to ensure that bond issues are kept within their maximum limits at all times. These procedures are all regulated by current mortgage market regulations.

Schedule IV – Information on issuers of public sector covered bonds and on the special accounting register of public sector covered bonds

Details of the data from the special accounting register of public sector covered bonds of the issuing entity Banco Sabadell, referred to in the sole additional provision of Royal Decree 579/2014, required by Bank of Spain Circular 4/2015, are given below:

A) Asset-side transactions

Details of the aggregate nominal values of loans and credit with general governments as at 31 December 2020 and 2019 which are used as collateral for issuances, their eligibility and the extent to which they qualify as eligible collateral for public sector covered bonds are presented in the following table:

Thousand euro

	2020		
	Total	**Residents in Spain**	**Residents in other countries of the European Economic Area**
Central governments	219,036	219,036	-
Regional governments or governments in autonomous communities	3,108,232	3,108,232	-
Local governments	1,162,742	1,162,742	-
Social Security Trust Funds	-	-	-
Total loans and credit portfolio	**4,490,010**	**4,490,010**	**-**

Thousand euro

	2019		
	Total	**Residents in Spain**	**Residents in other countries of the European Economic Area**
Central governments	217,896	217,896	-
Regional governments or governments in autonomous communities	2,396,736	2,396,736	-
Local governments	1,120,276	1,120,276	-
Social Security Trust Funds	-	-	-
Total loans and credit portfolio	**3,734,908**	**3,734,908**	**-**

B) Liability-side transactions

Information on issuances carried out and collateralised using the Bank's portfolio of loans and credit with general governments is provided in the following table, disclosed by residual maturity and according to whether the sale was by public offering or otherwise:

Thousand euro

Nominal value	2020	2019
Public sector covered bonds issued	**1,600,000**	**1,600,000**
Of which: Not reflected under liabilities on the balance sheet	*1,600,000*	*1,600,000*
Issued through public offering	**-**	**-**
Time to maturity up to one year	-	-
Time to maturity from one to two years	-	-
Time to maturity from two to three years	-	-
Time to maturity from three to five years	-	-
Time to maturity from five to ten years	-	-
Time to maturity more than ten years	-	-
Other issues	**1,600,000**	**1,600,000**
Time to maturity up to one year	-	-
Time to maturity from one to two years	400,000	-
Time to maturity from two to three years	-	400,000
Time to maturity from three to five years	1,200,000	800,000
Time to maturity from five to ten years	-	400,000
Time to maturity more than ten years	-	-

The overcollateralisation ratio (the aggregate nominal value of the portfolio of loans and credit to general governments backing the issue of public sector covered bonds divided by the nominal value of issued public sector covered bonds) for Banco de Sabadell, S.A. stood at 280% as at 31 December 2020 (233% as at 31 December 2019).

As required by Royal Decree 579/2014, the Board of Directors represents that it is responsible for ensuring that the Institution has a set of policies and procedures in place relating to the activities for the financing of public entities to assure compliance with regulations governing the issuance of these securities (see Note 3 "Risk management").

In terms of credit risk, in particular, the Board of Directors confers powers and discretions to the Delegated Committee, which then sub-delegates authority to the various decision-making levels. Internal procedures are in place to handle the origination and monitoring of the assets that make up the Group's loans and receivables and particularly assets with public entities, which back the Group's issues of public sector covered bonds.

Schedule V – Details of outstanding issues and subordinate liabilities

Debt securities issued

The breakdown of the Bank's issues as at 31 December 2020 and 2019 is as follows:

Thousand euro

Issuer	Date of issue	Amount 31/12/2020	Amount 31/12/2019	Interest rate ruling as at 31/12/2020	Maturity/call date	Issue currency	Target of offering
Banco de Sabadell, S.A.	10/03/2014	-	324	EURIBOR 6M + 3,50%	10/03/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2014	-	461	4.42%	10/05/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2014	-	609	EURIBOR 6M + 3,50%	10/05/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2014	-	261	EURIBOR 6M + 2,75%	10/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2014	-	284	EURIBOR 6M + 3,00%	10/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/07/2014	-	401	EURIBOR 6M + 2,75%	10/07/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/08/2014	-	766	EURIBOR 6M + 2,75%	10/08/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/10/2014	-	462	EURIBOR 6M + 2,35%	10/10/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/11/2014	-	842	EURIBOR 6M + 2,35%	10/11/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/12/2014	-	789	EURIBOR 6M + 2,35%	10/12/2020	Euros	Institutional
Banco de Sabadell, S.A.	05/12/2016	-	500,000	0.65%	05/03/2020	Euros	Retail
Banco de Sabadell, S.A.	03/07/2017	10,000	10,000	MAX(EURIBOR 3M + 0,30; 0,3%)	04/07/2022	Euros	Retail
Banco de Sabadell, S.A.	28/07/2017	26,800	26,800	MAX(EURIBOR 3M; 0,60%)	28/07/2022	Euros	Retail
Banco de Sabadell, S.A.	28/09/2017	10,000	10,000	MAX(EURIBOR 3M + 0,30; 0,3%)	28/09/2022	Euros	Retail
Banco de Sabadell, S.A.	05/12/2017	1,000,000	1,000,000	0.88%	05/03/2023	Euros	Institutional
Banco de Sabadell, S.A.	26/02/2018	4,000	4,000	MAX(EURIBOR 3M; 0,4%)	27/02/2023	Euros	Retail
Banco de Sabadell, S.A.	16/03/2018	6,000	6,000	MAX(EURIBOR 3M; 0,67%)	17/03/2025	Euros	Retail
Banco de Sabadell, S.A.	03/04/2018	6,000	6,000	MAX(EURIBOR 3M; 0,4%)	03/04/2023	Euros	Retail
Banco de Sabadell, S.A.	31/05/2018	3,000	3,000	MAX(EURIBOR 3M; 0,3%)	31/05/2023	Euros	Retail
Banco de Sabadell, S.A.	07/09/2018	750,000	750,000	1.63%	07/03/2024	Euros	Institutional
Banco de Sabadell, S.A.	14/11/2018	1,000	1,000	MAX(EURIBOR 3M; 1,1%)	14/11/2023	Euros	Retail
Banco de Sabadell, S.A.	14/11/2018	2,500	2,500	MAX(EURIBOR 3M; 1,5%)	14/11/2025	Euros	Retail
Banco de Sabadell, S.A.	28/03/2019	601,415	601,415	0.70%	28/03/2022	Euros	Retail
Banco de Sabadell, S.A.	08/04/2019	300,000	300,000	0.45%	08/04/2021	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2019	1,000,000	1,000,000	1.75%	10/05/2024	Euros	Institutional
Banco de Sabadell, S.A.	22/07/2019	1,000,000	1,000,000	0.88%	22/07/2025	Euros	Institutional
Banco de Sabadell, S.A.	27/09/2019	500,000	500,000	1.13%	27/03/2025	Euros	Institutional
Banco de Sabadell, S.A. (*)	07/11/2019	500,000	500,000	0.63%	07/11/2024	Euros	Institutional
Banco de Sabadell, S.A.	15/11/2019	-	120,000	MAX(0%; EURIBOR 3M+0,6%)	15/05/2024	Euros	Institutional
Banco de Sabadell, S.A. (*)	29/06/2020	500,000	-	1.75%	29/06/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	11/09/2020	500,000	-	1.13%	11/03/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	15/10/2020	120,000	-	EURIBOR 3M + 0,646%	15/05/2024	Euros	Institutional
Subscribed by Group companies		(30,300)	(34,202)				
Total straight bonds		**6,810,415**	**6,311,712**				

(*) "Maturity/call date" refers to the first call date.

Thousand euro

Issuer	Date of issue	Amount 31/12/2020	Amount 31/12/2019	Interest rate ruling as at 31/12/2020	Maturity date	Issue currency	Target of offering
Banco Guipuzcoano, S.A. (*)	18/04/2007	25,000	25,000	1.70%	18/04/2022	Euros	Institutional
Banco de Sabadell, S.A.	25/07/2012	3,000	3,000	ref . underlying assets	25/07/2022	Euros	Retail
Banco de Sabadell, S.A.	14/07/2014	10,000	10,000	ref . underlying assets	15/07/2024	Euros	Retail
Banco de Sabadell, S.A.	14/07/2014	3,000	3,000	ref . underlying assets	14/07/2021	Euros	Retail
Banco de Sabadell, S.A.	15/04/2015	-	4,000	ref . underlying assets	15/04/2020	Euros	Retail
Banco de Sabadell, S.A.	06/07/2015	-	1,300	ref . underlying assets	06/07/2020	Euros	Retail
Banco de Sabadell, S.A.	30/11/2016	45,000	45,000	ref . underlying assets	30/11/2021	Euros	Retail
Banco de Sabadell, S.A.	05/11/2018	10,000	10,000	ref . underlying assets	01/04/2025	Euros	Retail
Banco de Sabadell, S.A.	12/11/2018	3,200	3,200	ref . underlying assets	01/04/2025	Euros	Retail
Banco de Sabadell, S.A.	18/02/2019	3,000	3,000	ref . underlying assets	18/02/2022	Euros	Retail
Banco de Sabadell, S.A.	04/04/2019	3,000	3,000	ref . underlying assets	04/10/2022	Euros	Retail
Subscribed by Group companies		-	(100)				
Total structured bonds		**105,200**	**110,400**				

(*) Company merged with Banco Sabadell.

Thousand euro

Issuer	Date of issue	Amount		Average interest rate		Maturity date	Issue currency	Target of offering
		31/12/2020	31/12/2019	31/12/2020	31/12/2019			
Banco de Sabadell, S.A. (ofic. Londres) (*)	18/12/2015	-	293,333	-	-0.16%	Varios	Euros	Institutional
Banco de Sabadell, S.A. (**)	14/05/2020	782,221	1,612,490	0.00%	-0.10%	Varios	Euros	Institutional
Subscribed by Group companies		-	-					
Total commercial paper		**782,221**	**1,905,823**					

(*) Commercial paper (ECP).

(**) Prospectus for 7,000,000 thousand euros, eligible for extension up to 9,000,000 thousand euros, filed with the National Securities Market Commission (CNMV).

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2020	Maturity date	Issue currency	Target of offering
		31/12/2020	31/12/2019				
Banco de Sabadell, S.A.	08/05/2009	100,000	100,000	EURIBOR 3M + 1	08/05/2021	Euros	Institutional
Banco CAM, S.A. (*)	27/04/2010	-	30,000	4.60%	31/07/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/12/2010	-	150,000	EURIBOR 3M + 2,35	10/12/2020	Euros	Institutional
Banco de Sabadell, S.A.	13/07/2011	50,000	50,000	EURIBOR 3M + 2,60	13/07/2021	Euros	Institutional
Banco de Sabadell, S.A.	12/12/2011	150,000	150,000	EURIBOR 3M + 3,10	12/12/2021	Euros	Institutional
Banco de Sabadell, S.A.	05/10/2012	95,000	95,000	EURIBOR 3M + 4,80	05/10/2022	Euros	Institutional
Banco de Sabadell, S.A.	28/12/2012	-	200,000	EURIBOR 3M + 4,15	28/12/2020	Euros	Institutional
Banco de Sabadell, S.A.	09/12/2013	200,000	200,000	EURIBOR 3M+ 1,60	09/12/2021	Euros	Institutional
Banco de Sabadell, S.A.	26/09/2014	250,000	250,000	EURIBOR 3M + 0,70	26/09/2022	Euros	Institutional
Banco de Sabadell, S.A.	03/10/2014	38,000	38,000	EURIBOR 3M + 0,68	03/10/2023	Euros	Institutional
Banco de Sabadell, S.A.	12/11/2014	1,350,000	1,350,000	0.88%	12/11/2021	Euros	Institutional
Banco de Sabadell, S.A.	05/12/2014	100,000	100,000	EURIBOR 3 M + 0,40	05/12/2022	Euros	Institutional
Banco de Sabadell, S.A.	04/05/2015	250,000	250,000	EURIBOR 3 M + 0,13	04/05/2023	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2015	-	750,000	0.38%	10/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	18/06/2015	-	1,500,000	EURIBOR 12 M + 0,05	18/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	03/07/2015	50,000	50,000	EURIBOR 3 M + 0,20	03/07/2023	Euros	Institutional
Banco de Sabadell, S.A.	20/07/2015	-	1,500,000	EURIBOR 12 M + 0,05	20/07/2020	Euros	Institutional
Banco de Sabadell, S.A.	16/09/2015	-	1,000,000	EURIBOR 12 M + 0,07	16/09/2020	Euros	Institutional
Banco de Sabadell, S.A.	03/11/2015	-	1,000,000	0.63%	03/11/2020	Euros	Institutional
Banco de Sabadell, S.A.	26/01/2016	550,000	550,000	EURIBOR 3M + 0,80	26/01/2024	Euros	Institutional
Banco de Sabadell, S.A.	24/05/2016	50,000	50,000	EURIBOR 3M + 0,535	24/05/2024	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2016	1,000,000	1,000,000	0.63%	10/06/2024	Euros	Institutional
Banco de Sabadell, S.A.	20/10/2016	1,000,000	1,000,000	0.13%	20/10/2023	Euros	Institutional
Banco de Sabadell, S.A.	21/12/2016	500,000	500,000	EURIBOR 12M + 0,27	21/12/2021	Euros	Institutional
Banco de Sabadell, S.A.	29/12/2016	250,000	250,000	0.97%	27/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	26/04/2017	1,100,000	1,100,000	1.00%	26/04/2027	Euros	Institutional
Banco de Sabadell, S.A.	21/07/2017	500,000	500,000	0.89%	21/07/2025	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	-	1,000,000	EURIBOR 12M + 0,027	18/09/2020	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	1,000,000	1,000,000	EURIBOR 12M + 0,085	18/06/2021	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	1,000,000	1,000,000	EURIBOR 12M + 0,086	18/07/2021	Euros	Institutional
Banco de Sabadell, S.A.	21/12/2018	390,000	390,000	1.09%	21/12/2026	Euros	Institutional
Banco de Sabadell, S.A.	30/01/2019	1,250,000	1,250,000	EURIBOR 12M + 0,130	30/01/2022	Euros	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	750,000	EURIBOR 12M + 0,074	20/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	750,000	EURIBOR 12M + 0,104	22/12/2025	Euros	Institutional
Banco de Sabadell, S.A.	20/01/2020	1,000,000	-	0.13%	10/02/2028	Euros	Institutional
Banco de Sabadell, S.A.	23/06/2020	1,500,000	-	EURIBOR 12M + 0,08	23/06/2025	Euros	Institutional
Subscribed by Group companies		(7,182,000)	(10,927,900)				
Total covered bonds		**8,041,000**	**8,925,100**				

(*) Company merged with Banco Sabadell.

Thousand euro

Issuer	Date of issue	Amount 31/12/2020	Amount 31/12/2019	Interest rate ruling as at 31/12/2020	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	18/12/2018	800,000	800,000	EURIBOR 12M + 0.242	18/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	16/12/2019	400,000	400,000	EURIBOR 12M + 0.007	16/12/2022	Euros	Institutional
Banco de Sabadell, S.A.	16/12/2019	400,000	400,000	EURIBOR 12M + 0.104	16/12/2025	Euros	Institutional
Subscribed by Group companies		(1,600,000)	(1,600,000)				
Total public sector covered bonds		-	-				

Subordinated liabilities

Subordinated liabilities issued by the Bank as at 31 December 2020 and 2019 are as follows:

Thousand euro

Issuer	Date of issue	Amount 31/12/2020	Amount 31/12/2019	Interest rate ruling as at 31/12/2020	Maturity/call date	Issue currency	Target of offering
Banco de Sabadell, S.A.	26/04/2010	-	424,600	6.250%	26/04/2020	Euros	Institutional
Banco de Sabadell, S.A.	06/05/2016	500,000	500,000	5.625%	06/05/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	12/12/2018	500,000	500,000	5.375%	12/12/2023	Euros	Institutional
Banco de Sabadell, S.A. (*)	17/01/2020	300,000	-	2.000%	17/01/2025	Euros	Institutional
Total subordinated bonds		**1,300,000**	**1,424,600**				

(*) Subordinated 10-year issue. "Maturity/call date" refers to the first call date.

Thousand euro

Issuer	Date of issue	Amount 31/12/2020	Amount 31/12/2019	Interest rate ruling as at 31/12/2020	Maturity/call date	Issue currency	Target of offering
Banco de Sabadell, S.A. (*)	18/05/2017	750,000	750,000	6.500%	18/5/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	23/11/2017	400,000	400,000	6.125%	23/11/2022	Euros	Institutional
Total preference shares		**1,150,000**	**1,150,000**				

(*) Perpetual issue. "Maturity/call date" refers to the first call date.

Schedule VI – Other risk information

Credit risk exposure

Loans and advances to customers broken down by activity and type of guarantee

The breakdown of the balance of the heading "*Loans and advances – Customers*" by activity and type of guarantee, excluding advances not classed as loans, as at 31 December 2020 and 2019, respectively, is as follows:

Thousand euro

	2020							
				Collateralised loans. Carrying amount based on last available valuation. Loan to value				
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**10,101,625**	**36,257**	**1,195**	**15,681**	**13,547**	**449**	**-**	**7,775**
Other financial corporations and individual entrepreneurs (financial business activity)	**3,698,557**	**199,962**	**341,045**	**389,048**	**147,037**	**2,354**	**922**	**1,646**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**58,477,954**	**13,814,575**	**4,731,751**	**6,441,420**	**5,134,469**	**2,716,709**	**2,105,873**	**2,147,855**
Construction and real estate development (including	4,316,800	2,061,104	223,619	630,275	741,644	477,568	242,424	192,812
Civil engineering construction	859,001	34,430	42,933	22,029	14,647	2,734	3,400	34,553
Other purposes	**53,302,153**	**11,719,041**	**4,465,199**	**5,789,116**	**4,378,178**	**2,236,407**	**1,860,049**	**1,920,490**
Large enterprises	23,935,581	1,884,602	1,366,780	1,781,734	476,718	319,362	305,030	368,538
SMES and individual entrepreneurs	29,366,572	9,834,439	3,098,419	4,007,382	3,901,460	1,917,045	1,555,019	1,551,952
Rest of households	**39,362,378**	**35,206,179**	**548,129**	**7,414,676**	**9,347,779**	**11,001,935**	**4,394,821**	**3,595,097**
Home loans	34,377,599	33,916,060	27,147	6,651,047	8,919,186	10,707,738	4,261,291	3,403,945
For consumption	1,890,546	55,282	159,698	36,564	39,175	38,683	29,217	71,341
Other purposes	3,094,233	1,234,837	361,284	727,065	389,418	255,514	104,313	119,811
TOTAL	**111,640,514**	**49,256,973**	**5,622,120**	**14,260,825**	**14,642,832**	**13,721,447**	**6,501,616**	**5,752,373**
MEMORANDUM ITEM **Forbearance (refinanced and restructured loans)**	3,587,546	2,189,004	190,865	505,724	613,008	465,149	354,959	441,029

Thousand euro

	2019							
				Collateralised loans. Carrying amount based on last available valuation. Loan to value				
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**10,506,959**	**44,388**	**6,425**	**14,233**	**22,478**	**2,709**	**2,078**	**9,315**
Other financial corporations and individual entrepreneurs (financial business activity)	**3,664,564**	**344,807**	**78,294**	**108,691**	**229,186**	**43,595**	**38,885**	**2,744**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**57,697,277**	**14,025,651**	**6,483,102**	**5,893,052**	**5,818,632**	**3,349,505**	**2,611,993**	**2,835,571**
Construction and real estate development (including	5,824,878	2,179,030	488,858	644,585	948,304	501,271	218,030	355,698
Civil engineering construction	802,154	40,038	62,699	21,440	24,486	10,919	7,419	38,473
Other purposes	51,070,245	11,806,583	5,931,545	5,227,027	4,845,842	2,837,315	2,386,544	2,441,400
Large enterprises	22,718,957	1,051,555	1,325,857	442,348	569,925	447,028	527,682	390,429
SMES and individual entrepreneurs	28,351,288	10,755,028	4,605,688	4,784,679	4,275,917	2,390,287	1,858,862	2,050,971
Rest of households	**39,307,733**	**35,148,531**	**400,652**	**6,986,195**	**9,040,235**	**10,474,969**	**4,623,554**	**4,424,230**
Home loans	34,337,672	33,788,899	38,639	6,486,329	8,621,543	10,129,656	4,429,255	4,160,755
For consumption	1,957,424	69,021	237,199	49,663	47,006	60,144	48,829	100,578
Other purposes	3,012,637	1,290,611	124,814	450,203	371,686	285,169	145,470	162,897
TOTAL	**111,176,533**	**49,563,377**	**6,968,473**	**13,002,171**	**15,110,531**	**13,870,778**	**7,276,510**	**7,271,860**
MEMORANDUM ITEM **Forbearance (refinanced and restructured loans)**	3,222,089	2,012,663	334,952	413,740	427,617	456,565	363,070	686,623

In terms of risks with LTV >80%, these mainly correspond to transactions from acquired institutions or business operations in which, as a supplement to the valuation of the operation, a mortgage guarantee is available to cover that operation. Similarly, there are other additional reasons for approval, which mainly correspond to solvent borrowers with a proven payment capacity, as well as customers with a good profile who contribute guarantees (personal guarantees and/or pledges) which are additional to the mortgage guarantees already considered in the LTV ratio.

The outstanding balance of refinanced and restructured loans as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020							
	Credit institutions	General governments	Other financial corporations and individual entrepreneurs (financial business activity)	Non-financial corporations and individual entrepreneurs (non-financial business activity)	*Of which: lending for construction and real estate development (including land)*	Rest of households	Total	Additional information: lending included under non-current assets and disposal groups classified as held for sale
TOTAL								
Not secured with collateral								
Number of transactions	-	14	153	27,272	*519*	32,667	**60,106**	-
Gross carrying amount	-	13,615	5,527	1,489,573	*82,212*	310,921	**1,819,636**	-
Secured with collateral								
Number of transactions	-	4	21	9,351	*1,430*	12,617	**21,993**	-
Gross carrying amount	-	1,188	13,854	1,720,011	*136,982*	1,123,656	**2,858,709**	-
Impairment allowances	-	1,104	11,939	852,468	*79,794*	225,288	**1,090,799**	-
Of which, non-performing loans								
Not secured with collateral								
Number of transactions	-	12	42	13,380	*286*	16,190	**29,624**	-
Gross carrying amount	-	8,593	699	931,460	*71,754*	166,169	**1,106,921**	-
Secured with collateral								
Number of transactions	-	3	13	4,485	*265*	6,745	**11,246**	-
Gross carrying amount	-	271	13,647	768,212	*63,498*	617,872	**1,400,002**	-
Impairment allowances	-	1,104	11,756	726,096	*70,752*	184,646	**923,602**	-
TOTAL								
Number of transactions	-	18	174	36,623	*1,949*	45,284	**82,099**	-
Gross amount	-	14,803	19,381	3,209,584	*219,194*	1,434,577	**4,678,345**	-
Impairment allowances	-	1,104	11,939	852,468	*79,794*	225,288	**1,090,799**	-

Thousand euro

	2019							
	Credit institutions	General governments	Other financial corporations and individual entrepreneurs (financial business activity)	Non-financial corporations and individual entrepreneurs (non-financial business activity)	*Of which: lending for construction and real estate development (including land)*	Rest of households	Total	Additional information: lending included under non-current assets and disposal groups classified as held for sale
TOTAL								
Not secured with collateral								
Number of transactions	-	12	148	17,697	*432*	28,123	**45,980**	-
Gross carrying amount	-	9,468	7,405	1,232,016	*126,152*	311,190	**1,560,079**	-
Secured with collateral								
Number of transactions	-	3	20	8,567	*609*	11,687	**20,277**	-
Gross carrying amount	-	914	21,732	1,419,407	*235,982*	1,212,694	**2,654,747**	-
Impairment allowances	-	1,306	10,407	732,821	*118,765*	248,203	**992,737**	-
Of which, non-performing loans								-
Not secured with collateral								
Number of transactions	-	12	40	10,650	*321*	14,028	**24,730**	-
Gross carrying amount	-	9,468	761	835,345	*118,037*	178,000	**1,023,574**	-
Secured with collateral								
Number of transactions	-	3	15	6,104	*452*	7,939	**14,061**	-
Gross carrying amount	-	914	13,821	871,909	*135,262*	822,923	**1,709,567**	-
Impairment allowances	-	1,306	10,335	645,764	*113,549*	226,364	**883,769**	-
		-	-	-	-	-		
TOTAL								
Number of transactions	-	15	168	26,264	*1,041*	39,810	**66,257**	-
Gross amount	-	10,382	29,137	2,651,423	362,134	1,523,884	**4,214,826**	-
Impairment allowances	-	1,306	10,407	732,821	*118,765*	248,203	**992,737**	-

The value of the guarantees received to ensure collection associated with refinanced and restructured transactions, broken down into collateral and other guarantees, as at 31 December 2020 and 2019, is as follows:

Thousand euro

Guarantees received	2020	2019
Value of collateral	2,417,419	2,254,070
Of which: securing Stage 3 loans	*1,066,291*	*1,360,675*
Value of other guarantees	700,869	439,979
Of which: securing Stage 3 loans	*282,571*	*225,382*
Total value of guarantees received	**3,118,288**	**2,694,049**

Detailed movements of the balance of refinanced and restructured loans during 2020 and 2019 are as follows:

Thousand euro

	2020	2019
Opening balance	4,214,826	4,945,622
(+) Forbearance (refinancing and restructuring) in the period	2,039,288	917,744
Memorandum item: impact recognised on the income statement for the period	*218,408*	*105,176*
(-) Debt amortisations	(908,972)	(821,830)
(-) Foreclosures	(41,267)	(76,111)
(-) Derecognised from the balance sheet (reclassified as write-offs)	(153,706)	(141,439)
(+)/(-) Other changes (*)	(471,824)	(609,160)
Year-end balance	**4,678,345**	**4,214,826**

(*) Includes transactions no longer classified as forborne (refinanced or restructured) loans, as they meet the requirements for their reclassification as performing (Stage 1) as they have completed the cure period.

The table below shows the value of transactions which, after forbearance or restructuring, have been classified as Stage 3 exposures during 2020 and 2019:

Thousand euro

	2020	2019
General governments	-	-
Other legal entities and individual entrepreneurs	**179,053**	**139,292**
Of which: Lending for construction and real estate development	16,900	*8,777*
Other natural persons	**56,296**	**162,700**
Total	**235,349**	**301,992**

The average probability of default on current refinanced and restructured loans broken down by activity as at 31 December 2020 and 2019 is as follows:

%

	2020	2019
General governments (*)	-	-
Other legal entities and individual entrepreneurs	**8**	**8**
Of which: Lending for construction and real estate development	*9*	*7*
Other natural persons	**10**	**9**

(*) Authorisation has not been granted for the use of internal models in the calculation of capital requirements.
Average probability of default calculated as at 30 September 2020.

The probability of default (PD) of forborne exposures remains stable compared to 31 December 2019.

Concentration risk

Geographical exposure

Global

The breakdown of risk concentration by activity and at global level as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**39,213,253**	**30,963,120**	**5,254,504**	**1,186,137**	**1,809,492**
General governments	**30,125,862**	**25,265,290**	**3,834,943**	**979,816**	**45,813**
Central governments	23,341,822	18,481,459	3,834,904	979,657	45,802
Rest	6,784,040	6,783,831	39	159	11
Other financial corporations and individual entrepreneurs	**8,929,509**	**3,363,175**	**1,312,112**	**1,534,286**	**2,719,936**
Non-financial corporations and individual entrepreneurs	**63,467,246**	**52,987,495**	**4,221,042**	**4,594,051**	**1,664,658**
Construction and real estate	4,391,277	4,379,226	6,884	4,727	440
Civil engineering construction	943,759	888,407	21,662	10,042	23,648
Other purposes	58,132,210	47,719,862	4,192,496	4,579,282	1,640,570
Large enterprises	28,135,893	18,907,795	3,548,438	4,259,448	1,420,212
SMEs and individual entrepreneurs	29,996,317	28,812,067	644,058	319,834	220,358
Rest of households	**39,590,162**	**36,151,738**	**930,936**	**555,562**	**1,951,926**
Home loans	34,377,599	31,444,744	818,841	205,666	1,908,348
For consumption	1,890,546	1,861,629	8,062	4,805	16,050
Other purposes	3,322,017	2,845,365	104,033	345,091	27,528
TOTAL	**181,326,032**	**148,730,818**	**15,553,537**	**8,849,852**	**8,191,825**

Thousand euro

	2019				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**26,774,951**	**10,846,665**	**12,919,959**	**2,793,176**	**215,151**
General governments	**33,487,341**	**24,184,450**	**8,336,970**	**895,550**	**70,371**
Central governments	27,555,123	18,252,315	8,336,891	895,550	70,367
Rest	5,932,218	5,932,135	79	-	4
Other financial corporations and individual entrepreneurs	**8,440,519**	**3,699,800**	**3,127,380**	**1,599,437**	**13,902**
Non-financial corporations and individual entrepreneurs	**63,366,962**	**52,804,405**	**5,201,757**	**4,860,151**	**500,649**
Construction and real estate	5,961,862	5,951,075	5,208	5,403	176
Civil engineering construction	901,209	864,327	27,025	9,157	700
Other purposes	56,503,891	45,989,003	5,169,524	4,845,591	499,773
Large enterprises	27,485,574	18,582,036	4,099,027	4,467,572	336,939
SMEs and individual entrepreneurs	29,018,317	27,406,967	1,070,497	378,019	162,834
Rest of households	**39,457,447**	**36,141,747**	**1,915,400**	**513,656**	**886,644**
Home loans	34,337,672	31,432,481	1,852,355	184,669	868,167
For consumption	1,957,424	1,923,700	23,158	5,534	5,032
Other purposes	3,162,351	2,785,566	39,887	323,453	13,445
TOTAL	**171,527,220**	**127,677,067**	**31,501,466**	**10,661,970**	**1,686,717**

By autonomous communities

The risk concentration broken down by activity and at the level of Spanish autonomous communities as at 31 December 2020 and 2019, respectively, is as follows:

Thousand euro

	TOTAL	2020 AUTONOMOUS COMMUNITIES								
		Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**30,963,120**	**4,598**	**993**	**1**	**-**	**2**	**588,667**	**2**	**3**	**1,975,171**
General governments	**25,265,290**	**380,489**	**21,587**	**280,111**	**248,961**	**150,713**	**33,214**	**9,717**	**553,752**	**1,051,829**
Central governments	18,481,459	-	-	-	-	-	-	-	-	-
Rest	6,783,831	380,489	21,587	280,111	248,961	150,713	33,214	9,717	553,752	1,051,829
Other financial corporations and individual entrepreneurs	**3,363,175**	**4,510**	**2,404**	**1,996**	**1,399**	**661**	**330**	**510**	**11,888**	**1,030,598**
Non-financial corporations and individual entrepreneurs	**52,987,495**	**2,315,665**	**923,422**	**1,417,868**	**2,333,537**	**1,318,725**	**222,622**	**586,972**	**1,055,751**	**19,039,911**
Construction and real estate	4,379,226	123,878	40,251	60,485	90,950	29,146	12,387	18,611	28,242	2,205,498
Civil engineering construction	888,407	29,629	9,548	16,756	8,876	2,476	4,427	4,927	13,931	186,171
Other purposes	47,719,862	2,162,158	873,623	1,340,627	2,233,711	1,287,103	205,808	563,434	1,013,578	16,648,242
Large enterprises	18,907,795	507,700	266,773	209,114	1,064,179	317,406	85,331	153,249	225,761	7,405,671
SMEs and individual entrepreneurs	28,812,067	1,654,458	606,850	1,131,513	1,169,532	969,697	120,477	410,185	787,817	9,242,571
Rest of households	**36,151,738**	**2,412,982**	**481,743**	**1,139,224**	**1,340,347**	**459,440**	**98,991**	**453,632**	**702,796**	**13,997,671**
Home loans	31,444,744	2,158,369	422,589	908,394	1,210,937	406,965	86,302	396,808	584,806	12,215,767
For consumption	1,861,629	107,662	23,457	81,905	53,405	28,549	3,889	22,258	38,003	671,931
Other purposes	2,845,365	146,951	35,697	148,925	76,005	23,926	8,800	34,566	79,987	1,109,973
TOTAL	**148,730,818**	**5,118,244**	**1,430,149**	**2,839,200**	**3,924,244**	**1,929,541**	**943,824**	**1,050,833**	**2,324,190**	**37,095,180**

Thousand euro

	2020 AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**-**	**2,822**	**27,898,631**	**3**	**180**	**133,939**	**358,108**	**-**	**-**
General governments	**94,267**	**323,727**	**1,804,149**	**42,329**	**291,466**	**692,996**	**691,704**	**78,151**	**34,669**
Central governments	-	-	-	-	-	-	-	-	-
Rest	94,267	323,727	1,804,149	42,329	291,466	692,996	691,704	78,151	34,669
Other financial corporations and individual entrepreneurs	**105**	**4,413**	**2,152,868**	**2,901**	**633**	**131,723**	**16,137**	**99**	**-**
Non-financial corporations and individual entrepreneurs	**120,285**	**2,192,239**	**11,909,279**	**1,073,332**	**547,385**	**5,423,918**	**2,292,343**	**196,586**	**17,655**
Construction and real estate	1,838	60,846	1,393,191	38,284	21,568	159,664	81,824	12,207	356
Civil engineering construction	2,325	60,171	427,546	10,155	2,468	48,827	58,863	1,254	57
Other purposes	116,122	2,071,222	10,088,542	1,024,893	523,349	5,215,427	2,151,656	183,125	17,242
Large enterprises	17,071	640,107	4,434,967	207,982	195,211	2,121,590	999,709	55,693	281
SMEs and individual entrepreneurs	99,051	1,431,115	5,653,575	816,911	328,138	3,093,837	1,151,947	127,432	16,961
Rest of households	**111,162**	**734,754**	**4,660,581**	**1,982,468**	**161,415**	**6,121,511**	**1,139,842**	**81,047**	**72,132**
Home loans	97,914	595,437	4,048,938	1,720,476	126,133	5,324,033	1,015,529	57,383	67,964
For consumption	6,364	50,225	251,088	114,348	11,422	337,833	42,868	14,295	2,127
Other purposes	6,884	89,092	360,555	147,644	23,860	459,645	81,445	9,369	2,041
TOTAL	**325,819**	**3,257,955**	**48,425,508**	**3,101,033**	**1,001,079**	**12,504,087**	**4,498,134**	**355,883**	**124,456**

Thousand euro

	TOTAL	Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
		2019								
		AUTONOMOUS COMMUNITIES								
Central banks and Credit institutions	**10,846,665**	**7,867**	**1**	**37**	**23**	**3**	**583,924**	**2**	**35**	**1,992,879**
General governments	**24,184,450**	**132,854**	**25,109**	**250,550**	**250,242**	**32,135**	**34,779**	**74,523**	**501,109**	**1,167,624**
Central governments	18,252,315	-	-	-	-	-	-	-	-	-
Rest	5,932,135	132,854	25,109	250,550	250,242	32,135	34,779	74,523	501,109	1,167,624
Other financial corporations and individual entrepreneurs	**3,699,800**	**3,787**	**2,355**	**2,421**	**1,428**	**637**	**341**	**440**	**11,940**	**1,061,275**
Non-financial corporations and individual entrepreneurs	**52,804,405**	**2,331,893**	**931,227**	**1,373,448**	**2,100,640**	**1,355,936**	**239,798**	**596,381**	**1,091,154**	**20,263,663**
Construction and real estate	5,951,075	171,660	48,722	75,378	108,053	34,809	10,878	23,736	26,938	3,722,312
Civil engineering construction	864,327	27,954	27,086	20,447	4,646	3,605	2,961	3,822	15,623	120,549
Other purposes	45,989,003	2,132,279	855,419	1,277,623	1,987,941	1,317,522	225,959	568,823	1,048,593	16,420,802
Large enterprises	18,582,036	604,054	260,131	273,764	878,190	319,493	101,668	160,061	285,894	8,275,759
SMEs and individual entrepreneurs	27,406,967	1,528,225	595,288	1,003,859	1,109,751	998,029	124,291	408,762	762,699	8,145,043
Rest of households	**36,141,747**	**2,401,567**	**467,731**	**1,143,237**	**1,337,628**	**458,748**	**101,100**	**471,042**	**701,640**	**13,768,860**
Home loans	31,432,481	2,138,918	408,029	910,906	1,209,170	408,467	88,012	414,746	590,642	11,911,275
For consumption	1,923,700	108,272	23,365	83,011	51,897	26,681	3,730	21,505	37,821	758,373
Other purposes	2,785,566	154,377	36,337	149,320	76,561	23,600	9,358	34,791	73,177	1,099,212
TOTAL	**127,677,067**	**4,877,968**	**1,426,423**	**2,769,693**	**3,689,961**	**1,847,459**	**959,942**	**1,142,388**	**2,305,878**	**38,254,301**

Thousand euro

	Extremadura	Galicia	Madrid	Murcia	Navarra	Valencia	Basque Country	La Rioja	Ceuta and Melilla
	2019								
	AUTONOMOUS COMMUNITIES								
Central banks and Credit institutions	**-**	**3,968**	**7,595,631**	**16**	**180**	**147,804**	**514,295**	**-**	**-**
General governments	**69,491**	**200,394**	**1,471,969**	**40,956**	**241,551**	**658,006**	**664,432**	**78,261**	**38,150**
Rest	69,491	200,394	1,471,969	40,956	241,551	658,006	664,432	78,261	38,150
Other financial corporations and individual entrepreneurs	**99**	**5,140**	**2,441,874**	**2,960**	**392**	**146,623**	**18,005**	**83**	**-**
Non-financial corporations and individual entrepreneurs	**131,737**	**1,982,346**	**10,762,823**	**1,083,501**	**446,937**	**5,632,528**	**2,278,091**	**185,991**	**16,311**
Construction and real estate	2,291	59,926	1,288,659	50,249	19,957	199,447	98,668	8,889	503
Civil engineering construction	2,917	59,799	415,277	6,887	4,580	35,871	111,784	519	-
Other purposes	126,529	1,862,621	9,058,887	1,026,365	422,400	5,397,210	2,067,639	176,583	15,808
Large enterprises	33,783	582,626	3,841,865	190,226	131,421	1,665,924	926,718	50,190	269
SMEs and individual entrepreneurs	92,746	1,279,995	5,217,022	836,139	290,979	3,731,286	1,140,921	126,393	15,539
Rest of households	**113,412**	**704,369**	**4,617,786**	**2,045,833**	**151,428**	**6,399,271**	**1,114,092**	**76,396**	**67,607**
Home loans	99,010	567,777	4,057,700	1,795,629	124,869	5,600,083	987,011	56,269	63,968
For consumption	7,320	52,513	262,783	101,978	11,199	314,554	45,004	11,811	1,883
Other purposes	7,082	84,079	297,303	148,226	15,360	484,634	82,077	8,316	1,756
TOTAL	**314,739**	**2,896,217**	**26,890,083**	**3,173,266**	**840,488**	**12,984,232**	**4,588,915**	**340,731**	**122,068**

Sovereign risk exposure

The breakdown of exposure to sovereign risk, as at 31 December 2020 and 2019, is as follows:

Thousand euro

	2020										
	Sovereign debt securities						Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	61,870	(186,527)	-	3,367,233	11,704,090	11,577,316	-	23,390	26,547,372	26,702,845	79.3%
Italy	5,013	-	-	-	2,792,307	-	-	-	2,797,320	5,835,896	12.9%
United States	-	-	-	492,838	300,555	159	-	-	793,552	337,529	1.7%
United Kingdom	-	-	-	-	-	16	-	-	16	26	0.0%
Portugal	-	-	-	-	925,500	-	-	-	925,500	2,022,522	4.4%
Mexico	-	-	-	186,102	-	-	-	-	186,102	535,032	1.1%
Rest of the world	3,944	-	-	109,594	-	44,709	-	-	158,247	304,943	0.7%
Total	**70,827**	**(186,527)**	**-**	**4,155,767**	**15,722,452**	**11,622,200**	**-**	**23,390**	**31,408,109**	**35,738,793**	**100.0%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (1,477million euros as at 31 December 2020).

(***) Relates to commitments for cash purchases and sales of financial assets.

Thousand euro

	2019										
	Sovereign debt securities						Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	339,969	(788,822)	-	2,908,132	10,411,250	11,880,452	19,679	(54)	24,770,607	-	72.8%
Italy	20,150	(54,598)	-	-	5,712,700	-	-	-	5,678,253	-	16.7%
United States	-	-	-	465,155	218,095	1	-	-	683,251	-	2.0%
United Kingdom	-	-	-	-	-	3	-	-	3	-	0.0%
Portugal	-	-	-	616,724	1,621,113	-	-	-	2,237,836	-	6.6%
Mexico	-	-	-	179,339	-	-	-	-	179,339	-	0.5%
Rest of the world	11,397	-	-	388,418	-	69,802	-	-	469,617	-	1.4%
Total	**371,516**	**(843,419)**	**-**	**4,557,767**	**17,963,157**	**11,950,258**	**19,679**	**(54)**	**34,018,905**	**-**	**100.0%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks.

(***) Relates to commitments for cash purchases and sales of financial assets.

Exposure to construction and real estate development sector

Details of lending for construction and real estate development and the relevant allowances are as follows: The loans and credits shown have been classified in terms of their intended purpose, and not by the debtor's statistical classification of economic activities in the European Community (NACE). This implies, for example, that if a debtor is: (a) a real estate company, but uses the financing for a purpose other than construction or real estate development, it is not included in this table; or (b) a company whose primary activity is not construction or real estate development, but where the loan is used for the financing of properties intended for real estate development, it is included in the table:

Million euro

	2020		
	Gross carrying amount	Excess value of the collateral	Adjustments due to impairment (*)
Lending for construction and real estate development (including land) (business in Spain)	2,937	766	161
Of which: non-performing	*228*	*107*	*117*

Million euro

	2019		
	Gross carrying amount	Excess value of the collateral	Adjustments due to impairment (*)
Lending for construction and real estate development (including land) (business in Spain)	3,105	747	221
Of which: non-performing	*437*	*161*	*197*

(*) Allowances for the exposure for which the bank retains the credit risk. Does not include allowances for exposures with transferred risk.

Million euro

Memorandum item	Gross carrying amount 2020	2019
Write-offs (*)	44	145

Million euro

Memorandum item	Amount 2020	Amount 2019
Loans to customers, excluding General Governments (business in Spain) (carrying amount)	92,499	92,838
Total assets (total business) (carrying amount)	188,909	178,399
Allowances and provisions for exposures classed as Stage 2 or Stage 1 (total operations)	3,064	2,667

(*) Refers to lending for construction and real estate development reclassified as write-offs during the year.

The breakdown of lending for construction and real estate development for transactions registered by credit institutions (business in Spain) is as follows:

Million euro

	Gross carrying amount 2020	Gross carrying amount 2019
Not secured with real estate	**557**	**519**
Secured with real estate	**2,380**	**2,585**
Buildings and other finished constructions	883	1,176
Housing	630	815
Rest	253	361
Buildings and other construction in progress	1,234	1,003
Housing	1,165	950
Rest	69	52
Land	262	407
Consolidated urban land	225	361
Other land	37	46
Total	**2,937**	**3,105**

The figures shown do not show the total value of guarantees received, but rather the net carrying value of the associated exposure.

Guarantees received associated with lending for construction and real estate development are shown hereafter, for both periods:

Million euro

Guarantees received	2020	2019
Value of collateral	2,425	2,415
Of which: securing Stage 3 loans	*94*	*204*
Value of other guarantees	328	202
Of which: securing Stage 3 loans	*10*	*22*
Total value of guarantees received	**2,753**	**2,617**

The breakdown of lending to households for house purchase for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

	2020	
	Gross carrying amount	*Of which: securing Stage 3 loans*
Lending for house purchase	**33,259**	**817**
Not secured with real estate	469	*41*
Secured with real estate	32,791	*777*

Million euro

	2019	
	Gross carrying amount	*Of which: securing Stage 3 loans*
Lending for house purchase	**33,261**	**1,303**
Not secured with real estate	531	*102*
Secured with real estate	32,730	*1,201*

The tables below show mortgage-secured lending to households for house purchase broken down by the loan-to-value of transactions recorded by credit institutions (business in Spain):

Million euro

	2020	
	Gross amount	*Of which: non-performing*
LTV ranges	**32,791**	**777**
LTV <= 40%	6,013	*87*
40% < LTV <= 60%	8,576	*131*
60% < LTV <= 80%	10,512	*160*
80% < LTV <= 100%	4,267	*165*
LTV > 100%	3,423	*235*

Million euro

	2019	
	Gross amount	*Of which: non-performing*
LTV ranges	**32,730**	**1,201**
LTV <= 40%	5,917	*120*
40% < LTV <= 60%	8,272	*169*
60% < LTV <= 80%	9,948	*244*
80% < LTV <= 100%	4,425	*231*
LTV > 100%	4,168	*437*

Lastly, the table below gives details of assets foreclosed in favour of the Bank for transactions recorded by credit institutions in Spain:

Million euro

	2020	
	Gross carrying amount	Allowances
Real estate assets acquired through lending for construction and real estate development	**297**	**76**
Finished buildings	266	62
Housing	167	38
Rest	99	24
Buildings under construction	8	4
Housing	8	4
Rest	-	-
Land	23	10
Building land	13	5
Other land	10	5
Real estate assets acquired through mortgage lending to households for house purchase	**614**	**173**
Rest of real estate assets foreclosed or received in lieu of debt	**28**	**7**
Capital instruments foreclosed or received in lieu of debt	**14**	**-**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**5,772**	**5,158**
Financing to institutions holding assets foreclosed or received in lieu of debt	**4,355**	**2,416**
TOTAL	**11,080**	**7,830**

Million euro

	2019	
	Gross carrying amount	Allowances
Real estate assets acquired through lending for construction and real estate development	**368**	**65**
Finished buildings	264	30
Housing	179	19
Rest	85	11
Buildings under construction	11	3
Housing	10	3
Rest	1	-
Land	93	32
Building land	25	7
Other land	68	25
Real estate assets acquired through mortgage lending to households for house purchase	**436**	**84**
Rest of real estate assets foreclosed or received in lieu of debt	**-**	**-**
Capital instruments foreclosed or received in lieu of debt	**25**	**9**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**5,710**	**5,142**
Financing to institutions holding assets foreclosed or received in lieu of debt	**5,768**	**2,127**
TOTAL	**12,307**	**7,427**

Loans and advances subject to statutory and sector moratoria and financing granted subject to government guarantee schemes

Below is certain information as at 31 December 2020 on the loans and credits granted by the Group that are subject to statutory or sector moratoria, as well as the financing granted that has benefited from the government guarantee schemes established to enable the Group's customers to cope with the impact of COVID-19:

Thousand euro

	31/12/2020						
	Gross carrying amount	**Performing**	***Of which: exposures with forbearance measures***	***Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)***	**Non performing**	***Of which: exposures with forbearance measures***	***Of which: Unlikely to pay that are not past-due or past-due <= 90 days***
Loans and advances subject to moratorium	**2,577,708**	**2,310,705**	***178,376***	***896,968***	**267,003 (*)**	***244,271***	***262,683***
Of which: Households	*2,386,878*	*2,120,511*	*176,112*	*854,715*	*266,367*	*243,635*	*262,047*
Of which: Collateralised by residential immovable property	*2,165,844*	*1,937,909*	*156,083*	*783,530*	*227,935*	*208,082*	*224,940*
Of which: Non-financial corporations	*190,830*	*190,194*	*2,264*	*42,253*	*636*	*636*	*636*
Of which: Small and Medium-sized Enterprises	*146,724*	*146,088*	*2,264*	*20,387*	*636*	*636*	*636*
Of which: Collateralised by commercial immovable property	*166,361*	*165,786*	*1,495*	*40,780*	*574*	*574*	*574*

(*) Of which 224 million correspond to stage 3 transactions.

Thousand euro

	31/12/2020						
	Accumulated impairment, accumulated negative changes in fair value due to credit risk	**Performing**	***Of which: exposures with forbearance measures***	***Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)***	**Non performing**	***Of which: exposures with forbearance measures***	***Of which: Unlikely to pay that are not past-due or past-due <= 90 days***
Loans and advances subject to moratorium	**(63,154)**	**(32,247)**	**(11,280)**	**(28,395)**	**(30,908)**	***(29,315)***	***(30,170)***
Of which: Households	*(61,311)*	*(30,453)*	*(11,121)*	*(27,076)*	*(30,858)*	*(29,266)*	*(30,121)*
Of which: Collateralised by residential immovable property	*(51,233)*	*(25,370)*	*(9,217)*	*(22,644)*	*(25,863)*	*(24,578)*	*(25,380)*
Of which: Non-financial corporations	*(1,843)*	*(1,794)*	*(160)*	*(1,319)*	*(49)*	*(49)*	*(49)*
Of which: Small and Medium-sized Enterprises	*(1,563)*	*(1,513)*	*(160)*	*(1,093)*	*(49)*	*(49)*	*(49)*
Of which: Collateralised by commercial immovable property	*(1,612)*	*(1,579)*	*(90)*	*(1,188)*	*(33)*	*(33)*	*(33)*

	31/12/2020							
				Residual maturity of moratoria				
	Gross carrying amount	**Of which: legislative moratoria**	**Of which: expired**	**<= 3 months**	**> 3 months <= 6 months**	**> 6 months <= 9 months**	**> 9 months <= 12 months**	**> 1 year**
Loans and advances for which moratorium was offered	3,244,503	556,783	666,794	1,089,592	1,152,682	326,571	8,862	-
Loans and advances subject to moratorium (granted)	3,042,311	355,109	655,433	1,059,303	1,125,935	196,489	5,151	-
Of which: Households	2,616,593	303,222	450,749	944,925	1,037,566	178,893	4,462	-
Of which: Collateralised by residential immovable property	*202,192*	*201,674*	*11,362*	*30,290*	*26,747*	*130,081*	*3,714*	-
Of which: Non-financial corporations	158,085	157,568	11,362	30,290	24,420	88,302	3,713	-
Of which: Small and Medium-sized Enterprises	*177,550*	*177,224*	*11,190*	*26,648*	*24,080*	*115,516*	*117*	-
Of which: Collateralised by commercial immovable property	-	-	-	-	-	-	-	-

Thousand euro

	31/12/2020		
			Maximum amount of the guarantee that can be considered
	Gross carrying amount	***Of which: forborne***	**Public guarantees received**
Newly originated loans and advances subject to public guarantee schemes	**8,024,115**	**216,875**	**5,508,573**
Of which: Households	735,549	-	-
Of which: Collateralised by residential immovable property	-	-	-
Of which: Non-financial corporations	7,288,566	193,912	5,508,573
Of which: Small and Medium-sized Enterprises	5,242,123	-	-
Of which: Collateralised by commercial immovable property	7,921	-	-

The credit exposure of large companies and SMEs to the sectors most sensitive to COVID-19 in the Banking Business Spain as at 31 December 2020 is detailed below:

Million euro and %

	31/12/2020		
	Gross performing loans to customers	Maximum risk exposure	ICO loans
Tourism, hospitality and leisure	5,878	6,732	19%
Transport	3,257	3,660	14%
Of which: airlines	*379*	*400*	*9%*
Automotive	1,356	1,528	25%
Non-essential retail	1,186	1,386	30%
Oil	240	341	-
Total sectors most sensitive to COVID-19	**11,917**	**13,647**	**19%**
% of total	**8%**	**7%**	

Schedule VII – Detailed individual income statement - Business in Spain for the 2020 and 2019 financial years (Statement FI 2.E)

Thousand euro

	2020	2019
Profit or (-) loss for the year	**65,561**	**953,003**
Profit or (-) loss after tax from continuing operations	**65,561**	**953,003**
Profit or (-) loss before tax from continuing operations	**(29,444)**	**1,180,540**
Total operating income, net	**3,969,271**	**3,710,673**
Interest income	2,807,301	3,269,289
Financial assets held for trading	92	174
Non-trading financial assets mandatorily at fair value through profit or loss	502	596
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	27,204	64,673
Financial assets at amortised cost	2,396,922	2,769,759
Derivatives - Hedge accounting, interest rate risk	162,577	324,076
Other assets	7,178	656
Interest income on liabilities	212,826	109,355
(Interest expenses)	(725,077)	(1,041,607)
(Financial liabilities held for trading)	-	(840)
(Financial liabilities designated at fair value through profit or loss)	-	-
(Financial liabilities measured at amortised cost)	(492,387)	(656,980)
(Derivatives - Hedge accounting, interest rate risk)	(159,098)	(314,838)
(Other liabilities)	-	(67)
(Interest expense on assets)	(73,592)	(68,882)
(Expenses on share capital repayable on demand)	-	-
Dividend income	59,205	464,061
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	984	3,653
Investments in subsidiaries, joint ventures and associates accounted for using the equity method and others	58,221	460,408
Fee and commission income	1,227,552	1,257,864
(Fee and commission expenses)	(134,503)	(140,831)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	757,923	127,436
Financial assets at fair value through other comprehensive income	33,011	58,988
Financial assets at amortised cost	725,013	68,511
Financial liabilities measured at amortised cost	(101)	(63)
Other	-	-
Gains or (-) losses on financial assets and liabilities held for trading, net	460,392	(68,343)
Gains or (-) losses on trading financial assets and liabilities, net	-	-
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(8,999)	(3,227)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or (-) losses on non-trading financial assets and liabilities, net	-	-
Gains or (-) losses from hedge accounting, net	2,826	(3,651)
Exchange differences [gain or (-) loss], net	(425,039)	69,794
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net	-	-
Gains or (-) losses on derecognition of non-financial assets, net	5,430	33,476
Other operating income	72,931	73,204
(Other operating expenses)	(130,671)	(326,792)

	2020	2019
(Administrative expenses)	(2,030,583)	(1,764,367)
(Staff expenses)	(1,295,141)	(1,042,607)
(Other administrative expenses)	(735,442)	(552,547)
(Cash contributions to resolution funds and deposit guarantee schemes) (*)	(188,607)	(169,213)
(Depreciation and amortisation)	(238,645)	(237,233)
(Property, plant and equipment)	(172,184)	(166,944)
(Investment properties)	(2,771)	(2,870)
(Goodwill)	(53,169)	(53,169)
(Other intangible assets)	(10,521)	(14,250)
Modification gains or (-) losses, net	(4,849)	-
Financial assets at fair value through other comprehensive income	-	-
Financial assets at amortised cost	(4,849)	-
(Provisions or (-) reversal of provisions)	35,004	(207,036)
(Payment commitments to resolution funds and deposit guarantee schemes)	-	-
(Commitments and guarantees given)	156,262	(184,177)
(Other provisions)	(121,258)	(22,859)
(Increases or (-) decreases of the fund for general banking risks, net)	-	-
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	(1,697,267)	(354,285)
(Financial assets at fair value through other comprehensive income)	281	3,764
(Financial assets at amortised cost)	(1,697,548)	(358,049)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	(48,513)	6,575
(Impairment or (-) reversal of impairment on non-financial assets)	(170)	9,260
(Property, plant and equipment)	-	-
(Investment properties)	(170)	9,260
(Goodwill)	-	-
(Other intangible assets)	-	-
(Other)	-	-
Negative goodwill recognised in profit or loss	-	-
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	174,915	16,953
(Tax expense or (-) income related to profit or loss from continuing operations)	95,005	(227,537)
Extraordinary profit or (-) loss, after tax	-	-
Extraordinary profit or loss, before tax	-	-
(Tax expense or (-) income related to extraordinary profit or loss)	-	-
Profit or (-) loss after tax from discontinued operations	-	-
Profit or (-) loss before tax from discontinued operations	-	-
(Tax expense or (-) income related to discontinued operations)	-	-
Attributable to minority interest [non-controlling interests]	-	-
Attributable to owners of the parent	65,561	953,003

(*) The balance corresponding to the year 2019 was recognised under the “Other administrative expenses” heading, therefore the information for 2019 has been modified, solely and exclusively for comparison purposes.

2020 DIRECTORS' REPORT

This directors' report was drafted in line with the recommendations contained in the *Guide for the preparation of directors' reports by listed companies*, published by the Spanish National Securities Commission (CNMV) in July 2013.

Contents

1 – BANCO SABADELL GROUP

1.1 Organisational structure

Banco de Sabadell, S.A. ("Banco Sabadell", the "Bank" or the "company") with registered office at Avenida Óscar Esplá, 37, in Alicante, has as its object to engage in banking and it is subject to the standards and regulations governing banking institutions operating in Spain. It has been subject to prudential supervision on a consolidated basis by the European Central Bank (ECB) since November 2014.

The Bank is the parent company of a group of institutions which it controls directly or indirectly and which, with it, comprise Banco Sabadell Group. Banco Sabadell offers a full range of financial services through its financial institutions, brands, subsidiaries and affiliates, which cover all areas of the finance business and operate basically in Spain, the United Kingdom and Mexico.
The Group was organised into the following businesses in 2020:

- Banking Spain groups the following customer-facing business units:
  - Commercial Banking: the Group's largest single line of business, focused on offering financial products and services to large and medium enterprises, SMEs, shops and self-employed workers, private individuals and professionals, as well as providing consumer finance, asset management and bancassurance. Private Banking offers value-added products and services to its customers.

    Sabadell is the main brand used in most of the Spanish market. The Group also operates under the following brands:

    - SabadellHerrero, in Asturias and León.
    - SabadellGuipuzcoano, in the Basque Country, Navarra and La Rioja.
    - SabadellGallego, in Galicia.
    - SabadellSolbank, in the Canary Islands, the Balearic Islands and in the southern and eastern coastal areas of mainland Spain.
    - ActivoBank serves customers who prefer to do their banking exclusively by telephone or online.
  - Corporate banking: offers specialised financing services together with a broad range of solutions, from transactional banking services to very complex custom solutions, in finance, treasury, and import/export, among others. It includes the overseas branches and representative offices since their main customers are Spanish.
  - Asset Transformation engages in horizontal management of non-performing and real estate exposures. It implements the asset transformation strategy and adopts a comprehensive vision of the Group's property portfolio with a view to maximising its value.
- Banking UK: the TSB franchise covers retail banking in the United Kingdom (current and savings accounts, personal loans, cards and mortgages).
- Banking Mexico: offers the full range of banking and financial services via Corporate Banking and Commercial Banking.

Banco Sabadell is the parent company of a group which, at 31 December 2020, comprised 106 companies, of which, apart from the parent company, 85 were classified as Group companies and 20 as associated companies (174 at 31 December 2018, of which 149 were Group companies and 24 were associated companies).

Corporate governance structure

Banco Sabadell has a sound corporate governance structure that guarantees effective, prudent management. The internal governance framework which sets out, among other aspects, the shareholder structure, the governing bodies, the Group's structure, the composition and operation of corporate governance, the internal control functions, key governance matters, the risk management framework and the Group's policies, is published on the website (*See the "Corporate governance and Remuneration policy - Internal Governance Framework" section of the corporate website).*

General Meeting of Shareholders

The Bank's main governing body is the General Meeting of Shareholders, in which the shareholders decide on matters attributed to the Meeting by law, the Articles of Association (*available on the corporate website under "Corporate governance and remuneration policy - Articles of Association"*) and its own Regulation, and those business decisions that the Board of Directors considers to be of vital importance for the bank's future and for the company's interests.

The General Meeting of Shareholders has adopted its own Regulation, which sets out the principles and basic rules of action (*available on the corporate website under "Shareholder and Investor information – GM Regulations"*) and safeguards shareholder rights and transparency.

In the General Meeting of Shareholders, shareholders may cast one vote for every thousand shares they own or represent.

The Policy on communication and contacts with shareholders, institutional investors and proxy advisors approved by the Board of Directors, in conformity with the June 2020 revision of the Good Governance Code of Listed Companies, aims to promote transparency vis-à-vis the markets and build trust while safeguarding, at all times, the legitimate interests of institutional investors, shareholders and proxy advisors and of Banco Sabadell's other stakeholders.

Board of Directors

With the exception of matters reserved for the General Meeting of Shareholders, the Board of Directors is the highest decision-making body in the company and its consolidated group, as it is responsible, under the law and the Articles of Association, for the management and representation of the bank. The Board of Directors acts mainly as an instrument of supervision and oversight, and delegates the management of ordinary business matters to the CEO.

The Board of Directors is subject to well-defined, transparent rules of governance, particularly the Articles of Association and its own terms of reference (*available on the corporate website under "Corporate governance and remuneration policy - Regulations of the Board of Directors"*), and it conforms to best practices in the area of corporate governance.

The members of the Board of Directors at 31 December 2020 were as follows:

Board composition

	Position
Josep Oliu Creus	Chairman
José Javier Echenique Landiribar	Vice Chairman
Jaime Guardiola Romojaro	Chief Executive Officer
Anthony Frank Elliott Ball	Director
Aurora Catá Sala	Director
Pedro Fontana García	Director
María José García Beato	Director Secretary General
Mireya Giné Torrens	Director
George Donald Johnston III	Director
David Martínez Guzmán	Director
José Manuel Martínez Martínez	Director
José Ramón Martínez Sufrategui	Director
Alicia Reyes Revuelta	Director
Manuel Valls Morató	Director
David Vegara Figueras	Director General Manager
Miquel Roca i Junyent	Non–Director Secretary

The members of the Board of Directors at 31 December 2020 were as follows: four executive directors and eleven non-executive directors (ten of them independent and one proprietary). The composition of the Board of Directors has an appropriate balance between the various categories of director.

The composition of the Board of Directors is diverse and efficient. It is of the appropriate size to perform its functions effectively by drawing on a depth and diversity of opinions, enabling it to operate with a level of quality and efficacy and in a participatory way. It combines a suitable diversity in terms of competency, professional background, origin and gender, as its members have extensive experience in banking, finance, insurance, risk and auditing, regulatory affairs and the law, as well as the academy, human resources and consulting, business and the international arena. The Board's Matrix of Competencies can be consulted on the website under "*Corporate governance and remuneration policy – Internal Governance Framework"*).

The Director Candidate Selection Policy, which was approved by the Board of Directors in 2016, establishes the procedure for selecting candidates and it seeks to ensure an appropriate balance in the composition of the Board of Directors, facilitate the selection of women directors and, generally, guarantee that it is free of inherent bias that might entail discrimination.

The last two independent directors who were appointed are women, which increases the diversity of the Board of Directors in terms of age, gender, training, knowledge and experience. Ms. Mireya Giné Torrens, whose appointment was approved by the General Meeting of Shareholders on 26 March 2020, provides experience and knowledge of finance, the academy, digital and IT (digital transformation). Ms. Alicia Reyes Revuelta, appointed by co-optation by the Board of Directors on 24 September 2020, provides experience and knowledge of banking, both retail and corporate, as well as finance. Both of them have international experience.

At 2020 year-end, there were four female directors: three independent directors (out of a total of ten independent directors) and one executive director.

On 17 December 2020, the Board of Directors appointed Mr. César González-Bueno Mayer as an executive director and as CEO, succeeding Mr. Jaime Guardiola Romojaro, once the pertinent regulatory authorisations had been obtained.

Chosen after a diligent, in-depth selection process, Mr. César González-Bueno has the requisite knowledge, skills and experience as set out in the Succession Plan for the Chairman and CEO. He has an excellent commercial and professional reputation, possesses the appropriate knowledge and experience to discharge his duties and is in a position to exercise good governance of the Bank. His appointment was found to increase the diversity of the Board of Directors, having regard to the Banco Sabadell Matrix of Competencies. It was therefore concluded that he is the right person for the job, and he is eminently qualified to hold the positions to which he has been appointed and to lead the Bank into the future, since he represents values and experience that fit the direction and strategy of Banco Sabadell.

The Board has a Lead Independent Director, who is empowered, under the Articles of Association, to give notice of meetings of the Board of Directors, add items to the meeting agenda, coordinate and meet with the non-executive directors, reflect the opinion of the external directors, and direct the regular assessment of the Chairman of the Board of Directors. The Lead Independent Director also coordinates the Succession Plan for the Chairman and CEO that was adopted in 2016 and, in practice, chairs any meetings with investors or proxy advisors.

To ensure better and more diligent performance of its general supervisory duties, the Board undertakes to directly discharge the responsibilities provided by law, including:

a) those deriving from the generally-applicable corporate governance standards;

b) approving the Company's general strategies;

c) appointing and, as necessary, removing directors of the Company's subsidiaries;

d) identifying the Company's main risks and implementing and monitoring suitable internal control and reporting systems;

e) setting policy on the reporting and disclosure of information to shareholders, the markets and the general public;

f) setting policy on own shares in accordance with any guidelines laid down by the Shareholders' Meeting;

g) approving the Annual Corporate Governance Report.

h) authorising transactions between the Company and directors or significant shareholders which may lead to conflicts of interest; and

i) generally deciding on business or financial transactions that are of particular importance for the Company.

Committees of the Board of Directors

In accordance with the Articles of Association, the Board of Directors has established the following committees:

- Delegated Committee.
- Audit and Control Committee.
- Appointments Committee.
- Remuneration Committee.
- Board Risk Committee.

The organisation and structure of the Board committees is set out in the Articles of Association and in their respective terms of reference, which give the rules governing their composition, operation and responsibilities (*See the "Corporate governance and remuneration policy - Regulations of the Board of Directors"*), and elaborate upon the terms of reference and basic functions envisaged in the Articles of Association and the Regulations of the Board of Directors.

The Committees have sufficient resources to perform their functions, can draw on external advice and are entitled to obtain information about any aspect of the institution, with unrestricted access to senior management and group executives and to any type of information or documentation at the Bank's disposal in connection with the matters within their competency.

The composition of these committees at 31 December 2020, and the number of meetings held in 2020, is shown in the table below:

Committee composition

Position	Delegated	Audit and Control	Appointments	Remuneration	Risks
Chairman	Josep Oliu Creus	Manuel Valls Morató	José Manuel Martínez Martínez	Aurora Catá Sala	George Donald Johnston III
Member	José Javier Echenique Landiribar	Pedro Fontana García	Anthony Frank Elliott Ball	Anthony Frank Elliott Ball	Aurora Catá Sala
Member	Jaime Guardiola Romojaro	Mireya Giné Torrens	Aurora Catá Sala	George Donald Johnston III	Manuel Valls Morató
Member	Pedro Fontana García	José Ramón Martínez Sufrategui	-	José Ramón Martínez Sufrategui	-
Secretary (not a member)	María José García Beato	Miquel Roca i Junyent	Miquel Roca i Junyent	María José García Beato	María José García Beato
Number of meetings in 2020	35	12	16	12	14

Delegated Committee

The Delegated Committee is composed of four directors (two executive and two independent) and is chaired by the Chairman of the Board; it has the functions and powers delegated to it expressly by the Board of Directors which the law and the Articles allow it to delegate. It exercises oversight over the Bank's day-to-day business and must report any decisions it makes to the Board of Directors.

Audit and Control Committee

The Audit and Control Committee comprises four independent directors and is chaired by an expert in auditing. It meets at least once per quarter. Its main function is to oversee the efficacy of the Bank's internal control, internal audit and risk management systems, supervise the process of drafting and presenting regulated financial disclosures, advise on the Bank's annual and mid-year financial statements, liaise with the external auditor, and ensure that suitable measures are taken to address any conduct or methods that might be inappropriate. It also ensures that the measures, policies and strategies defined by the Board are duly implemented.

Appointments Committee

The main functions of the Appointments Committee, which comprises three independent directors, are to ensure that the qualitative composition of the Board of Directors fulfils the requirements, assess whether directors meet the suitability, competency and experience requirements for the position, make proposals as to the appointment of independent directors and advise on the appointment of other directors. It must also set a representation target for the minority gender on the Board of Directors and draw up guidelines on how the target should be achieved; it advises on proposals for the appointment and removal of senior executives and identified staff, as well as on the basic contractual conditions for executive directors and senior executives.

Remuneration Committee

The main functions of the Remuneration Committee, which comprises four independent directors, are to make proposals to the Board of Directors on policy for the remuneration of directors and general managers and on remuneration and other contractual conditions for individual executive directors, and to ensure compliance with existing policies. It also advises on the Annual Report on Director Remuneration and reviews the general principles governing remuneration and the arrangements for the remuneration of all employees, ensuring that transparency is maintained.

Board Risk Committee

The main functions of the Board Risk Committee, which comprises three independent directors, are to supervise and exercise oversight to ensure that all the risks of the Bank and its consolidated group are accepted, controlled and managed appropriately, and to report to the Board on the performance of its duties, in accordance with the law, the Articles of Association and the Board of Directors Regulation, and the Committee's own terms of reference.

Bank Chairman

Under Article 54 of the Articles of Association, the Chairman of the Board of Directors is the Bank's chief representative and, in performing his functions, he is the person with primary responsibility for the effectiveness of the Board of Directors, representing the Bank in any event, and signing on behalf of the company; he convenes and chairs meetings of the Board of Directors, setting the agenda, directing the debates and deliberations within the Board of Directors, and, in the event, the General Meeting, and is responsible for executing the decisions adopted by the Board of Directors and the General Meeting of Shareholders without the need for this to be expressly mentioned. He also holds any powers delegated to him by the Board of Directors.

Chief Executive Officer

Under article 54 of the Articles of Association, the CEO is the person with primary responsibility for managing and directing the business, and for representing the Bank in the Chairman's absence. The Board may attribute to the CEO any powers that it sees fit from among those that it is allowed by law to delegate.

Control units

The Internal Audit Division and the Risk Division have access to and report directly to the Board of Directors and its committees — the Audit and Control Committee and Board Risk Committee, respectively.

The Bank publishes an Annual Report on Corporate Governance, which contains detailed information on corporate governance, and the Non-Financial Disclosures Report, both of which are part of the 2020 financial statements, together with an Annual Report on Director Remuneration, all of which are available on the on the CNMV website and the Banco Sabadell corporate website www.grupobancosabadell.com.

1.2 Business model, main objectives achieved and actions implemented

The Bank's business model is focused on profitable growth with the goal of creating shareholder value. This is achieved through a business diversification strategy based on profitability, sustainability, efficiency and service quality, with a conservative risk profile and within a framework of ethical and professional codes, taking into account the interests of the various stakeholders.

The Bank's business model pursues long-term relationships with customers through constant efforts to promote customer loyalty through an initiative-based, proactive approach. The Bank has a comprehensive range of products and services, competent, highly qualified personnel, an IT platform with ample capacity to support future growth, and a relentless focus on quality.

Since the financial crisis in 2008, Spain's banking sector has been engaged in an unprecedented concentration process. Higher levels of capital, stricter provisioning requirements, the economic recession and pressure from the capital markets are some of the factors that have driven Spanish banks to merge and gain in scale, maximise efficiency and strengthen their balance sheets.

During the last ten years, Banco Sabadell has expanded its geographic footprint and increased its market share in Spain through acquisitions, most notably that of Banco CAM in 2012. Banco Sabadell was able to engage in additional M&A transactions in 2013 in appropriate economic conditions within the framework of the restructuring of the banking industry, and in 2015 it acquired Penedès, Banco Gallego y Lloyds España.

The acquisitions and organic growth in recent years have enabled Banco Sabadell to reinforce its position in some of Spain's most prosperous regions (e.g. Catalonia, Valencia and the Balearic Islands) and to increase market share in other key areas. According to the most recent information, Banco Sabadell has a market share of 8% in lending and 7% in deposits at national level. Banco Sabadell also has a strong position in other products: 9% in commercial credit; 10% in lending to companies; 6% in mutual funds; 10% in securities trading; and 17% in POS turnover.

Banco Sabadell also maintains its quality differential with respect to the rest of the industry and ranks in the top 3 among its peers in terms of customer experience (Net Promoter Score) in the areas of Personal Banking, SMEs and Large Corporations.

Banco Sabadell has always been a trailblazer on the international front. This continued to be the case in 2020, as Sabadell retained its position in the leading financial hubs and supported businesses in their international activities, having achieved a 15% share of Swift transfers. Banco Sabadell has expanded its international presence in recent years, including notably the acquisition of UK bank TSB in 2015, and the incorporation of a bank in Mexico in 2016.

As a result, Sabadell is one of the largest players in the Spanish financial system, having diversified geographically (72% in Spain, 26% in the UK and 2% in Mexico) and expanded its customer base six-fold since 2008, all while safeguarding its capital adequacy and liquidity.

The year 2020 was marked by the COVID-19 pandemic, which triggered an unprecedented crisis for the global economy. Social distancing measures implemented as a result of the pandemic produced simultaneous supply and demand shocks worldwide. The year was also affected, once again, by the persisting adverse interest rate situation, which continues to weigh on the industry's profitability. Despite this, Banco Sabadell has been able to generate net profit while strengthening its capital position and balance sheet.

The Bank's results in 2020 were impacted primarily by banking revenues, because of the decline in commercial activity, and by an increase in defaults as a result of the worsening economic situation caused by COVID-19. These impacts were offset by capital gains on the sale of 100% of Sabadell Asset Management, S.A., S.G.I.I.C, Sociedad Unipersonal, better performance by recurring costs, and higher trading income. Additionally, in order to increase the Group's profitability, Banco Sabadell implemented an efficiency plan in Spain and accelerated the restructuring plan in the UK. In line with its strategy of focusing on its core business, during the year Banco Sabadell announced a sale of its institutional depository business for 115 million euros, and it completed the sale of SDIN Residencial, S.L., Sociedad Unipersonal.

Banco Sabadell does business in an ethical and responsible way and shows its commitment to society by ensuring that its actions have a positive impact on people and the environment. Each and every person in the organisation has a part to play in observing and applying the principles and policies that underlie corporate social responsibility, as well as in assuring quality and transparency in customer service.

In the area of compliance, in addition to observing the law, Banco Sabadell has put in place a set of policies, procedures and codes of conduct to provide a guarantee of ethical and responsible conduct at all levels of the organisation and in all Group operations. In 2020, Banco Sabadell issued its first green bond, raising 500 million euros and reflecting the bank's commitment to sustainability.

1.3. 2021

Banco Sabadell adopts strategic plans in which it sets targets for the coming years in accordance with the macroeconomic, business and regulatory context.

The year 2021 will be shaped by the current adverse macroeconomic situation, driven by the COVID-19 pandemic and the negative interest rate situation. In this scenario, Banco Sabadell will unveil a Business Plan in 2021 focused on enhancing its strengths, increasing profitability and maximising value creation. This new plan will prioritise the domestic market as a means of enhancing efficiency in the use of capital and the group's resources, thereby increasing profitability and shareholder value creation.

Banco Sabadell's ambitions in Spain focus on improving profitability based on the programme to enhance efficiency and transform the retail market, commencing with a restructuring plan that has been agreed with the unions and will entail shedding approximately 1,800 workers in 2021, while reinforcing its value proposition in its core segments (particularly SMEs, where it leads in customer satisfaction and which offers the greatest added value and profitability; in this segment, it will implement its new plan to enhance the cost-to-income ratio and organic capital generation) and will expand spreads while working to control its risk profile. This is to be accompanied by measures to enhance the business's sustainability by transforming the distribution and digitalisation model to offer a broad range of distinctive products and services to each customer while retaining the lead in quality of service.

Additionally, late last year it launched a new plan in the United Kingdom to improve business efficiency and increase volume and revenues organically. The TSB restructuring plan was accelerated in 2020.

The strategy defined for the Mexican market is based essentially on customers and products that enable us to maximise profitability based on an innovative digital model.

Banco Sabadell's business model pursues value creation for all its stakeholders while offering a wide range of products and excellent quality of service to its customers and developing its human capital. All this while maintaining its commitment to society and the environment, through ethical and responsible development of its business.

1.4 Share performance and share ownership

The year 2020 was shaped by the events surrounding the COVID-19 pandemic and the economic crisis that resulted from the virus's spread and the measures imposed by governments to contain it. The resulting economic instability and uncertainty had a significant impact on stock market performance in 2020.

The stimulus packages announced by governments and international institutions in order to palliate the effect of the pandemic on the real economy helped to boost investor confidence to an extent. However, as the year progressed, growing fears of a second wave of the virus again undermined investor confidence and hurt share prices globally.

With the second wave of COVID-19 and multiplying containment measures, the markets discounted an increasingly complex scenario and a growing likelihood of another recession. For this reason, hope for an economic recovery lay mainly in progress with developing vaccines against the virus.

Other factors that have produced uncertainty in the stock markets in 2020 were the trade tensions between China and the United States, uncertainty about Brexit, and the US presidential elections.

Towards year-end, progress with vaccines, the election of Joe Biden to the White House, and the Brexit agreement on 24 December had a very positive impact on share prices on both sides of the Atlantic.

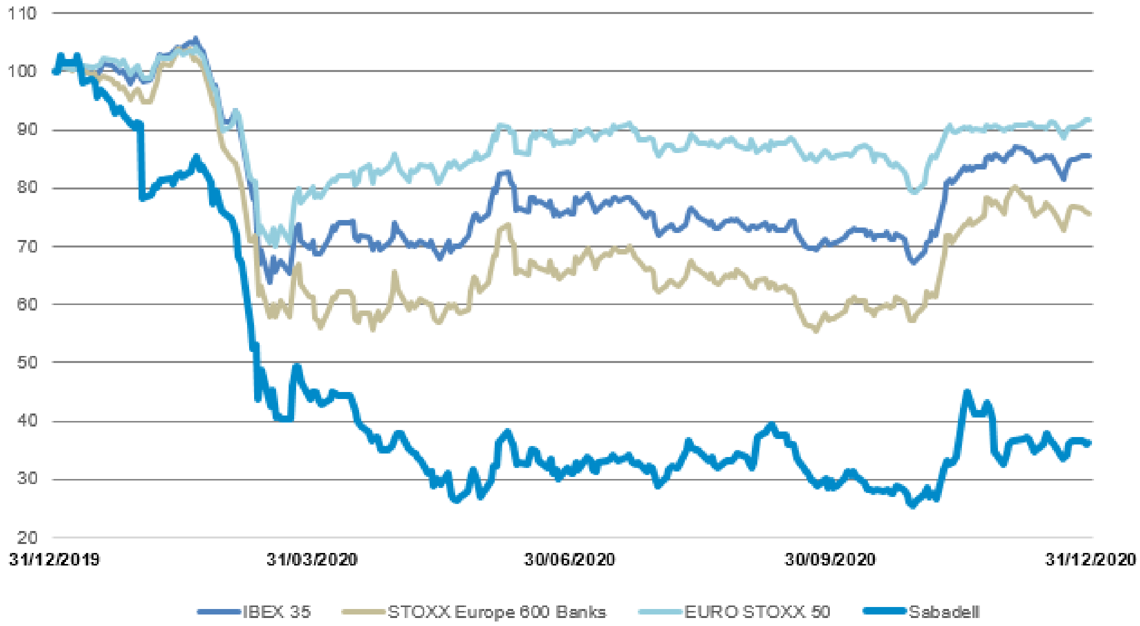
Banco Sabadell's share was significantly affected by the factors mentioned above. As for endogenous factors, it shed non-performing assets, maintained a robust level of capital, launched an efficiency plan in Spain, and accelerated the TSB restructuring plan, all of which were welcomed by analysts and the broad market. The announcement of M&A transactions in the Spanish banking industry also had a positive impact on the stock.

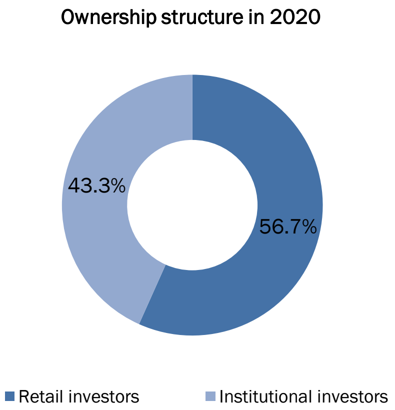
At the end of 2020, 65% of equity analysts covering Banco Sabadell had a Buy or Hold recommendation on the stock.

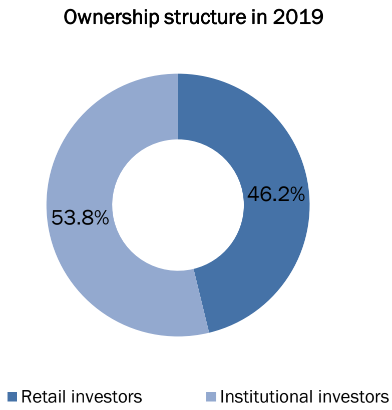
During 2020, institutional investors owned 43% of the stock, while retail investors owned 57%.

Banco Sabadell's market capitalisation stood at 1,976 million euros at year-end, with a price-to-book ratio of 0.15.

The next figure shows the share's performance during the year:







Analysis of shareholdings at 31 December 2020			
No. of shares	Shareholders	Shares in tranche	% of capital
From 1 to 12,000	190,901	611,045,364	10.86%
From 12,001 to 120,000	49,841	1,554,814,439	27.63%
From 120,001 to 240,000	2,085	341,433,296	6.07%
From 240,001 to 1,200,000	1,198	526,131,754	9.35%
From 1,200,001 to 15,000,000	167	477,402,590	8.48%
More than 15,000,000	33	2,116,137,258	37.61%
TOTAL	244,225	5,626,964,701	100.00%

Analysis of shareholdings at 31 December 2019			
No. of shares	Shareholders	Shares in tranche	% of capital
From 1 to 12,000	189,863	563,139,756	10.01%
From 12,001 to 120,000	42,426	1,284,276,683	22.82%
From 120,001 to 240,000	1,620	264,631,530	4.70%
From 240,001 to 1,200,000	921	393,813,970	7.00%
From 1,200,001 to 15,000,000	167	465,296,435	8.27%
More than 15,000,000	37	2,655,806,327	47.20%
TOTAL	235,034	5,626,964,701	100%

	Million	Million Euro	Euros	Million	Euros
	Average number of shares	Profit attributable to the Group	Profit attributable to the Group, per share	Own funds	Book value per share
2017	5,570	802	0.144	13,426	2.41
2018	5,565	328	0.050	12,545	2.25
2019	5,538	768	0.125	13,172	2.38
2020	5.582	2	-	12.944	2.32

Share performance

Below are a number of indicators of the Bank's share performance:

	2020	2019	Year-on-year change (%)
Shareholders and trading			
Number of shareholders	244,225	235,034	3.9
Average number of shares (million)	5,582	5,538	0.8
Average daily trading (million shares)	59	30	95.6
Share price (euro)			
Initial	1.040	1.001	-
High	1.080	1.130	-
Low	0.250	0.714	-
Closing	0.354	1.040	-
Market capitalisation (million euro)	1,976	5,760	-
Market ratios			
Earnings per share (EPS) (euro)	(0.01)	0.13	-
Book value per share (euro)	2.32	2.38	-
Price/Book value	0.15	0.44	-
Price/earnings ratio (P/E)	(27.75)	8.29	-

Dividend policy

The Bank's shareholder remuneration policy conforms to the provisions of the Articles of Association and is submitted for approval each year by the General Meeting.

On 8 April 2020, in line with the European Central Bank's recommendation to banks not to pay or make irrevocable undertakings to pay dividends out of 2019 and 2020 earnings, the Bank's Board of Directors resolved not to pay a dividend in 2020 as a prudent response to the crisis created by COVID-19. The Bank intends to resume paying dividends when the European Central Bank lifts its recommendation not to pay or make irrevocable undertakings to pay dividends.

Credit rating

The rating agencies that assessed Banco Sabadell’s credit quality in 2020 were S&P Global Ratings, Moody’s, DBRS and Fitch Ratings. Below are details of the current ratings and the last date on which they were affirmed.

	Long-term	Short-term	Outlook	Last updated
DBRS	A (low)	R-1 (low)	Negative	30.06.2020
S&P Global Rating	BBB	A-2	Negative	26.11.2020
Moody´s Investors Service	Baa3	P-2	Stable	10.11.2020
Fitch Ratings	BBB-	F3	Stable	26.11.2020

On 30 June 2020, DBRS Ratings GmbH affirmed the credit rating of Banco Sabadell with a negative outlook, reflecting their view that the disruption to the economy and the market resulting from the COVID-19 pandemic will have an adverse effect on the bank's operating environment in Spain and the UK.

On 26 November 2020, S&P Global Ratings affirmed its credit rating for Banco Sabadell with a negative outlook to reflect the challenging economic environment caused by the COVID-19 pandemic and the possibility of asset quality impairment in this situation.

On 10 November 2020, Moody's affirmed Banco Sabadell's credit rating, with a stable outlook, to reflect the significant balance sheet de-risking, strong liquidity and improved capital position, which might be affected depending on how the pandemic evolved.

On 26 November 2020, Fitch Ratings confirmed Banco Sabadell's credit rating, with a stable outlook, supported by the capital's ability to absorb the deterioration in asset quality caused by the pandemic and the likely reduction in profitability. The rating is also supported by the strong domestic franchise, particularly in the SME segment.

1.5 Customers

Brand

"At Banco Sabadell we want to help people and companies bring their projects to life, anticipating their needs and taking care to ensure that they make the best economic decisions. We do this through responsible stewardship that is committed to the environment and to society. Our values: Commitment, Non-conformism, Professionalism, Effectiveness, Empathy and Openness."

That is the promise of the Banco Sabadell brand, the bank we want to be. The brand is committed to our customers, employees and society because "we are distinguished not only by what we do, but also by how we do it".

In 2020, Banco Sabadell showed that, despite the circumstances, its vision remains as valid as ever, and it continued to support its customers to help them make the best economic decisions. Because, in times of uncertainty, decisions need to be made but one decision takes precedence: To support our customers.

Response to COVID-19

The COVID-19 crisis was an unprecedented disruption that forced society to adapt, in a short period of time, to a new complex reality in both social and economic terms.

Many customers are in a delicate situation due to the impact of the crisis on their health, their businesses, and their jobs, among others. Banco Sabadell is aware of this and, from the outset, it chose to address the situation in a customer-centric way, through a commitment to and empathy with its customers.

Early in the crisis, Banco Sabadell Spain implemented a Support Plan in order to be there for its customers and help them manage the effects. The first phase of the plan involved mobilising all its branch staff to contact customers proactively in order to ascertain their situation and offer them help and support in coping with the difficulties. Additionally, new channels for regular communication were created, such as a newsletter and a website dealing specifically with COVID-19 so as to ensure that customers have access, at all times, to all the information they need about the bank and the support available to them.

Banco Sabadell also centralised its efforts to ensure business and service continuity, and sought at all times to protect customers and employees by adopting the necessary sanitary measures and ensuring that its customer care maintains the high quality of service that has always defined the Bank. In this regard, the Bank encouraged the use of online tools and increased the number of transactions that offer the option of remote signature.

To drive resilience in the face of the COVID-19 crisis, the Bank also adopted specific measures and support plans for customer segments, including companies and individuals.

<u>Private individuals</u>

- Moratorium: Banco Sabadell expanded the benefits of this measure adopted by the government by implementing more flexible selection criteria and expanding the period of validity.

- Loans: the range of personal loans was expanded for customers who were having difficulties with the moratorium or experiencing delays with the paperwork.

- Pensions and unemployment: In Spain, Banco Sabadell offered advances on customers' unemployment benefits and pension payments. It focused particularly on the elderly, contacting customers in this category to minimise their need to visit the branch, and provided them with information on how to check their accounts and perform transactions without having to visit a branch.

- Social rental: families living in a home assigned to the Social Housing Fund (FSV) who had been affected by COVID-19 were able to defer rent payments for up to three months.

- Insurance: Banco Sabadell implemented a feature enabling individual customers to pay insurance premium instalments (life, home and automobile) and offered distinctive coverage and services in its property and casualty insurance.

Corporations, businesses and SMEs

- Financing: In Spain, Banco Sabadell earmarked 15 billion euros for revolving credit lines to enable its customers to meet liquidity needs in their businesses, large or small. Other measures included:

  - Encouraging customers to renew credit lines early in order to avoid overdrafts.

  - Working to help customers extend factoring, reverse factoring and discounting lines and import/export credit.

  - Promoting a capital holiday of up to six months in certain loans.

- ICO support plan: the Bank processed applications for credit backed by the Spanish State via the Official Credit Institute (ICO) in order to extend support for businesses and self-employed workers affected by COVID-19.

- Point-of-sale: the Bank promoted solutions for businesses with physical stores to make sales by phone or via the web or, where home deliveries were possible, to collect payment on the customer's doorstep.

- Insurance: Banco Sabadell added facilities to enable companies to pay insurance premiums and offered distinctive coverage and services in property and casualty insurance for self-employed workers, shops and companies.

Other initiatives

- We expedited payments to our suppliers by implementing a one-week payment cycle in order to reduce liquidity stress.

- Customer service options were enhanced.

- The limit on contactless card payments was raised and the expiration date was extended on cards expiring in March or April.

- Facilities for cash withdrawals were added to the App.

- A total of 59 webinars were held on current issues such as financing, the digital transformation, international business, startups and leadership.

- *Pulso*, a new digital services for shops, was introduced to help customers in this segment remain up to date on trends in consumer spending and commercial activity in their country, region and local area.

Driving digitalisation

The situation created by COVID-19 has favoured a new form of relationship where digitalisation is vital in order to be able to maintain the quality of service that is the Bank's hallmark while also avoiding unnecessary trips to branches so as to protect the health of customers and employees alike.

Since the pandemic began, Banco Sabadell Spain has implemented a digitalisation plan aimed at ensuring a customer experience that is as comprehensive and satisfactory as possible. This plan involves expanding new digital features and services and assisting customers in the transition to digitalisation. The improvements include raising the limit on ATM cash withdrawals, enabling customers to withdraw cash at ATMs using NFC technology, and new digital services for shops and self-employed workers to enable them to get their businesses online and accept alternative means of payment (the *Phone&Sell* service).

It is essential to support customers in the transition to digital so as to ensure that they are aware of the distance banking and self-service options that the Bank offers and are able to use them. To inform customers and support them in this process, Banco Sabadell designed a personalised communication plan to help customers familiarise themselves with the use of remote channels and perform self-service transactions conveniently, quickly and safely. This plan is being maintained over time, so that customers can see we are working with them round the clock, and we encourage them to transition towards digital.

This plan includes:

- Working with customers from the outset, promoting the use of remote channels.
- Communicating with customers on the basis of their degree of digitalisation, and a monthly newsletter to inform them of new digital features and highlight existing ones.
- Video tutorials on the main remote transactions so that customers can view a simple, visual explanation of how features work; instruction cards were produced for delivery to customers to assist them in using ATMs, the App and BS Online.

Moreover, to ensure that customer are able to use all the digital capabilities, the Bank offered the necessary services, such as distance banking, digital signature and a warning and alerts service.

As a result of all these initiatives, 58% of Banco Sabadell customers are now digital, 3% more than the previous year.

Enhancing the customer experience

Moments of truth

At Banco Sabadell Spain, we know that there are watershed moments in life; these are moments of interaction with the Bank to which customers bring a high level of expectation and where the impressions they gain will shape their future perception of, and relationship with, the Bank.

For this reason, the Bank conducts in-depth customer surveys in connection with these moments in order to gain insights into how customers experience these events. The customer journey, focus groups and customer surveys are among the tools used by a multidisciplinary team to identify ten Moments of Truth for private customers and business customers.

Research has made it possible to transform and improve these processes by making them much more customer-centric so as to ensure that customers' experience is much more satisfactory.

BSIdea: pooling ideas for the Transformation of Banco Sabadell

BSIdea is a co-creation platform enabling Banco Sabadell employees to make suggestions for improvement in any area of the organisation. During 2020, the model evolved to adapt to Banco Sabadell's strategy and to ensure that participants' talent is leveraged to help the Bank achieve its goals.

BSIdea now operates on the basis of Challenges, which focus on what the Bank designates as priority projects. In 2020, it launched 11 different thematic challenges in key areas such as sustainability, reducing window and desk transactions in branches, and expanding our digital channels. The contests were successful, which will help solidify this new approach.

The BSIdea committee, composed of bank executives, rewards the ideas that are most in line with the Bank's strategy, with enhancing the customer experience and with the transformation process. It is also an excellent channel for innovation and communication between teams, enabling them to share opinions and experiences.

Measuring the customer experience

Measuring the Banco Sabadell customer experience focuses on obtaining insights that help with decision-making and drive an increasingly customer-centric culture.

The experience is measured by understanding the market, consumers and customers, using a range of qualitative and quantitative research methodologies.

The new reality created by the pandemic made it more necessary then ever to gain first-hand knowledge on how customers feel, their concerns, trends and lifestyle changes. The Bank conducted regular research to ascertain the impact of COVID-19 and how it will evolve.

Society's main concerns as a result of the pandemic include the short- and long-term impact on the economy, and sustainability. The main support that consumers wanted from their bank consisted of expanding the scope for transacting remotely, helping them to manage their savings, and a mortgage moratorium.

Monitoring the customer experience enabled us to understand the problems and needs of the various customer segments and to ascertain if they felt sufficiently supported in the crisis, as well as making improvements.

Satisfaction surveys placed Banco Sabadell at or near the head of the major Spanish financial institutions in terms of satisfaction with the information or advice to customers during the COVID-19 crisis.

Qualitative research

A range of qualitative research approaches are used in order to gain a better understanding of the environment and customers. The goals of this process include:

- Understanding consumers' concerns, worries and attitudes and their current and future needs.
- Identifying the most emotional and least explicit part of consumer decision-making.
- Listening in depth, actively and constantly to the customer's voice, which enables us to ascertain how they experience their relationship with the bank at a range of touch points.

The methodologies we use range from conventional in-depth interviews and focus groups to more innovative approaches based on neuroscience and emotion detection.

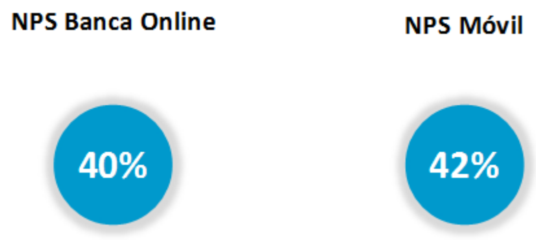
Quantitative research

Banco Sabadell Spain also analyses its customers' experience through quantitative surveys. Some are more akin to conventional satisfaction surveys, while others incorporate an emotional component: to make the organisation aware of the importance of considering customers in our decisions, so as to make meaningful improvements.

1. *Net Promoter Score (NPS)*

The Net Promoter Score (NPS) is a key market benchmark for measuring the customer experience, enabling Banco Sabadell to compare its performance to that of its competitors and companies in other industries, at domestic and international level.

The NPS is measured in the main customer segments, products and relationship channels. In recent years, as a result of the digital transformation, measurements in digital channels have become more important:



Source: Benchmark Accenture (cumulative data 2020). NPS Banca Online refers to the SME segment, while NPS Móvil refers to retail banking.

2. Satisfaction surveys

Banco Sabadell conducts regular surveys to gather in-depth knowledge of customer satisfaction and to identify areas for improvement for specific processes and contact channels. For each of these surveys, the Bank sets itself quality targets and keeps the results under constant scrutiny.

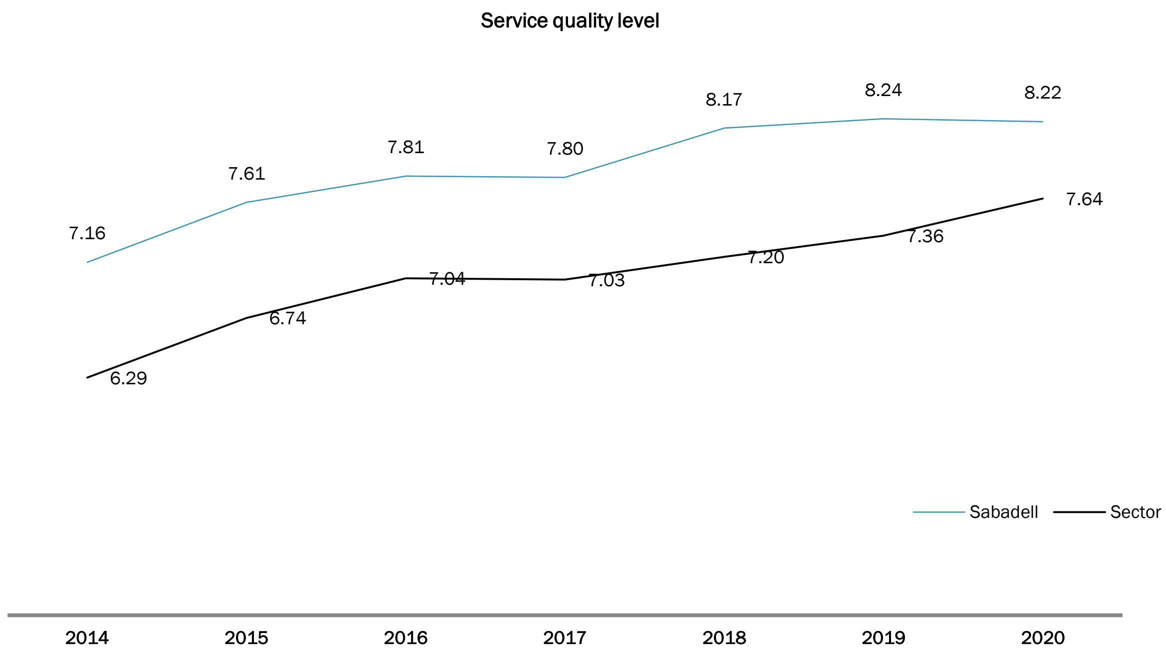
Banco Sabadell listens to its customers by conducting over 300,000 surveys per year and analysing more than 20 touch points.

In the current context, marked by the pandemic and digitalisation, surveys in the digital dimension are growing in importance. Banco Sabadell sees the use of digital channels as a Moment of Truth and, consequently, has focused on measuring customer satisfaction and improving the customer experience through BS Online Particulares, BS Online empresas, the mobile app, etc.

3. Branch quality surveys

In addition to analysing customer perceptions, Banco Sabadell carries out objective studies using techniques such as the mystery shopper, under which an independent consultant performs a pseudo-purchase to gauge the quality of service and the commercial approach applied by the sales team.

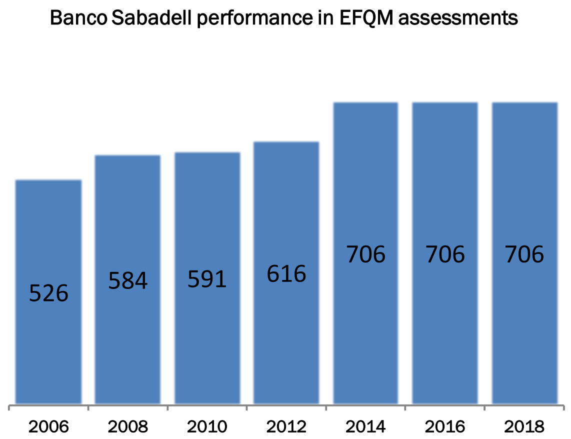
EQUOS RCB (Stiga), the benchmark survey of bank service quality, is conducted using the mystery shopper technique. Banco Sabadell maintains its quality lead over its peers.



Accolades

With an established track record in managing quality and its excellent management model, Banco Sabadell is an example to all organisations in Spain.

It is the only financial institution in Spain to score over 700 in the European Foundation for Quality Management (EFQM) Seal of Excellence in three consecutive evaluations (2014-2016-2018), as a result of which it obtained the highest level of the EFQM Seal of Excellence, confirming the robustness and excellence of its management model.



Banco Sabadell also holds the title of Ambassador of European Excellence, with a special mention, because it is one of just two Spanish organisations with more than 700 EFQM points.

On a regional basis, the Bank has held the "Madrid Excelente" distinction since 2009. This enables it to stand out from its competitors and is a sign of prestige in society as it accredits fulfilment of the quality and excellence standards established by the "Madrid Excelente" quality assurance programme.

Banco Sabadell also believes it is vital to recognise excellence inside the organisation. More than 15 years ago, it created awards for excellence at branches (customer satisfaction surveys), corporate centres and projects to serve as an inspiration for the rest of the institution.

Accordingly, as a result of the Bank's strong commitment to sustainability, one of the cornerstones of its strategy for the coming years, in 2020 it created a new internal award for the best sustainability projects implemented in the organisation with an impact on the Bank's contribution to Sustainable Development Goals and ESG (Environmental, Social & Governance).

Competitive strategy: Superior relationship model

The world is evolving at a rapid pace and our customers' habits are changing, particularly as a result of COVID-19. In this context, Banco Sabadell continues to transform in order to continue delivering the best possible experience to an increasingly more informed and demanding customer base, without losing sight of productivity and efficiency.

At Banco Sabadell we have always sought to build long-term relationships of trust with our customers, so our transformation is focused on providing customers with a superior relationship model and a value proposition tailored to each segment based on specialisation and industrialisation.

A superior relationship that seeks to improve relations with customers who have more sophisticated needs (specialisation) and, now more than ever, to simplify and facilitate the basic transactional relationship with all our customers (industrialisation), while expanding the range of products, services and features via self-service and digital and remote channels.

- The specialised approach is based on personalised expert advice channelled through a key figure: the account manager. In banking for companies, two new features were added to the conversation:

    - The 360 Vision, a distinctive element offering an all-round vision of the customer, oriented towards supporting them in achieving their business goals.

    - Sustainability, by assuming our role as a key agent for helping and supporting our customers in the transition towards a more sustainable economy.

- In retail banking, we are evolving towards a planned, multichannel customer vision that enables us to enhance efficiency, productivity and the customer experience.

This model is totally focused on the customer and their needs, and it is tightly driven by data, business intelligence, digitalisation, the distribution model and people.

Continuous improvement in digital capabilities enables us to redefine and expand the range of products and services and the features available on a self-service basis, enabling customers to interact through the channel that is most convenient for them; this has a clear impact on the customer experience and efficiency. Data and the application of business intelligence enable us to get to know the customer in more depth and, consequently, offer a range that is much more personalised and adapted to their needs. We continue to develop tools for our account managers and constantly enhance their training; we also have a team of data scientists who build and fine-tune analytical models to enable us to best respond to emerging challenges.

This superior relationship model give us better insights into customer needs and enables us to offer them a personalised value proposition that is both timely and meaningful. It also helps us to be there for customers in the way that best meets their needs.

Banco Sabadell encourages digitalisation and the use of data to transform the customer experience by redefining products and services, expanding their availability via digital channels, and enabling customers to interact across multiple channels, at their convenience.

Customer Care Service (SAC)

The Customer Care Service of Banco de Sabadell, S.A. conforms to the provisions of Ministry of the Economy Order 734/2004, of 11 March, the guidelines issued by the European Banking Authority (EBA) and the European Securities Market Authority (ESMA), and the Banco Sabadell Rules for the defence of customers and users of financial services. The most recent amendment to those Rules was approved by the Bank of Spain in October 2019.

In accordance with its terms of reference, the Banco Sabadell Customer Care Service (SAC) handles complaints from customers and users of the financial services of Banco Sabadell and a number of other institutions: Bansabadell Financiación, E.F.C., S.A., Sabadell Asset Management, S.A., S.G.I.I.C. Sociedad Unipersonal, Urquijo Gestión, S.G.I.I.C, S.A. and Sabadell Consumer Finance, S.A.U.

The SAC is independent of the bank's operations and business in order to ensure its autonomy, and it has the necessary resources to deal appropriately with complaints and claims, guided by the principles of transparency, independence, effectiveness, coordination, speed and security. The SAC also has sufficient authority to access all the necessary information and documentation in order to analyse each case, and the operational and business units are obliged to cooperate diligently in this connection.

In 2020, a total of 42,534 complaints and claims were received, 22.26% less than in 2019, in addition to 778 issues that remained unresolved at 31 December 2019. A total of 42,169 cases were processed in 2020.

For more details, see note 42 to the consolidated financial statements for 2020.

Multi-channel strategy

Banco Sabadell has developed new propensity models with which to anticipate customers' needs, either through their relationship with the branch network or through the other channels that the bank places at their disposal.

The arrival of the coronavirus greatly accelerated the process of digitalisation, which enables customers to interact with the bank in a simpler way through digital media (mobile app, Online Banking, BS Wallet, Instant Money).

New technologies enhance customer management, as customers are empowered to choose the most convenient channel for interacting with the bank, when, how and where they want.

Branch network

Banco Sabadell ended 2020 with a network of 2,083 branches (454 TSB branches), i.e. a net reduction of 315 branches with respect to 31 December 2019 (a reduction of 233 branches excluding TSB).

Of the total Banco Sabadell and Group branch network, 1,163 branches operate under the Sabadell brand (including 26 business banking branches and 2 corporate banking branches); 96 as SabadellGallego (including 3 business branches); 123 under the SabadellHerrero brand in Asturias and León (3 business branches); 102 as SabadellGuipuzcoano (5 business banking branches); 11 as SabadellUrquijo; 94 branches under the Solbank brand; and 494 offices that make up the international network, of which 7 are in BancSabadell d'Andorra, 454 in TSB and 15 in Mexico.

Region	Branches	Region	Branches
Andalusia	128	Valencia	267
Aragon	29	Extremadura	6
Asturias	95	Galicia	96
Balearic Islands	44	La Rioja	8
Canary Islands	31	Madrid	152
Cantabria	5	Murcia	106
Castilla-La Mancha	21	Navarra	15
Castilla y León	55	Basque Country	82
Catalonia	447	Ceuta and Melilla	2

Country	Branches	Representative Offices	Subsidiaries & Investees
Europe			
Andorra			•
France	•		
Poland		•	
Portugal	•		
United Kingdom	•		•
Turkey		•	
Americas			
Brazil		•	
Colombia		•	
United States	•	•	
Mexico			•
Peru		•	
Dominican Republic		•	
Asia			
China		•	
United Arab Emirates		•	
India		•	
Singapore		•	
Africa			
Algeria		•	
Morocco	•		

ATM network

At the end of 2020, the Bank had 2,817 ATMs in Spain, 2,243 of them in branches and 574 in other locations. That is 79 less than at 2019 year-end. That decline was in line with the process of branch closures during the year.

The project to update the fleet of ATMs that commenced in 2019 was completed in the first quarter of 2020. With a budget of 45.5 million euros, this important project took eight months and consisted of installing 699 new ATMs and upgrading the entire fleet by installing online deposits, barcode readers, and contactless and NFC features in the vast majority of them. These features enhance security for users and enable them to complete their transactions faster.

Work continued on ATM development in 2020. A first group of branches was outfitted with new ATMs with enhanced features, including accepting deposits and providing withdrawals in coin, as well as giving change.

The COVID-19 pandemic had a major impact on ATM operations in March and April. From the outset, Banco Sabadell gave priority to cleaning and disinfecting ATMs to ensure they were safe spaces. This was appreciated by the Bank's ATM users, who returned to the pre-pandemic level of utilisation.

BSOnline and Sabadell Móvil

In 2020, 58% of our customers were classified as digital, 3% more than in 2019. Focusing on customers who have interacted with the bank in the last six months, that percentage rises to 70%.

During the year, customers contacted us more frequently, increased branch visits, and stepped up their use of and interaction with digital channels, particularly solutions involving the mobile app: Sabadell Móvil (BSM) and BS Wallet, which registered steady growth year-on-year.

During the early stages of the COVID-19 pandemic, the Bank created useful content to support users in connecting and transacting online, as well as information of interest about the moratorium and ICO loans. The landing pages with this information received over 4.5 million visits.

BSOnline

Despite positive figures growth in mobile usage, BSOnline traffic and frequency remain high, and this service received an average of around 10 million visits per month in 2020, primarily for operational and transactional purposes, particularly from business customers.

The number of transactions performed via BSOnline continues to grow. Servicing transactions for corporate customers increased with respect to the previous year.

Sabadell Móvil

The number of users of Sabadell Móvil (BSM) continued to rise, from 2.7 million to 2.8 million. The app is the sole digital relationship channel with the Bank for 40% of digital customers.

In addition to growing volumes of downloads, app usage increased by 11% year-on-year, while visits to BSWallet increased by 142%, to over 3 million visits per month.

Servicing and transaction volumes in this channel increased steadily, particularly in the area of recurring transactions.

Securities trading performed particularly well, with trades via digital channels doubling during the year, particularly via BSMóvil, where trades tripled with respect to the previous year.

Remote subscriptions to mutual funds increased by 58% with respect to 2019.

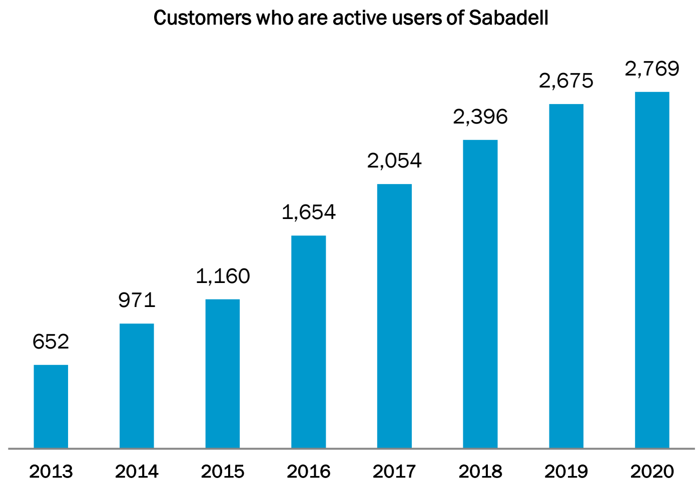
In 2020, the Bank rolled out a 100% digital process for opening an Ahorro Expansión account (CALP), which can now be performed end-to-end online. This product is proving to be very popular, having registered 37,000 new accounts in the first six months of 2020, exceeding the projections for the full year.

Bizum doubled the number of active users in 2020, and tripled the number of money transfers, while monthly user-to-user interactions increased by 15% with respect to 2019. Mobile payments doubled year-on-year in 2020, and Instant Money transactions increased by 20%.

The Sabadell Wallet app continues to improve the enrolment process and usability, and is logging overall growth in the rates of adoption, use and repeat use by customers.

The Bank also continued working to enhance the customer experience, having improved the account statement in the app for private individuals and adapting contractual information so that the raised limits are reflected in the contracts.

Improvements to the BSO interface were also considered as part of the "My Profile" initiative, which seeks to centralise private customer information in a single, readily accessible place and provide a standard view of transfers that is clearer, more efficient and more intuitive.



Direct Branch

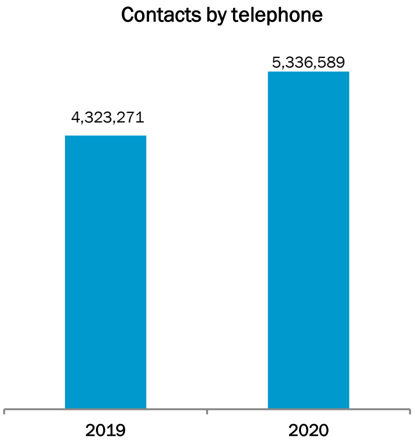
Contacts with Direct Branch increased by over 23% year-on-year, to 6.4 million.

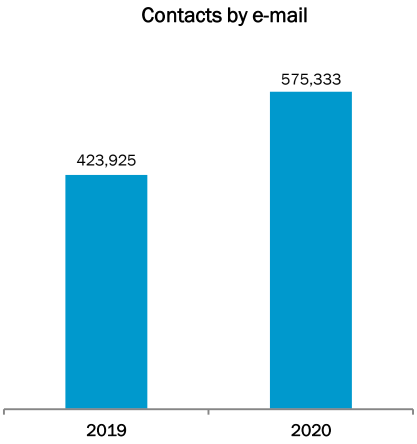
The contact channels that experienced fastest growth in 2020 were telephone, e-mail and social media. Telephone consultations accounted for 83% of the total, followed by e-mail, chat and social media. The following figure shows growth, by channel.

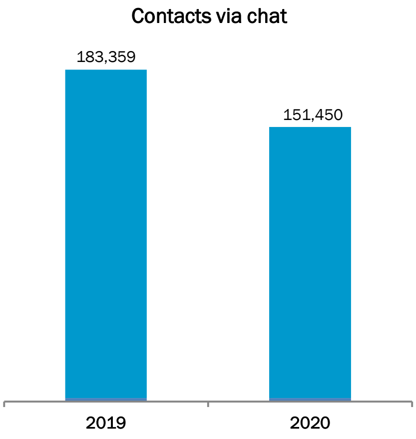
The SLA (Service Level Agreement) ratio for telephone enquiries exceeded 90.49%, followed by chat (90.00%) and e-mail (80%). Banco Sabadell received 427,894 mentions in social media (SLA: 92.00%).

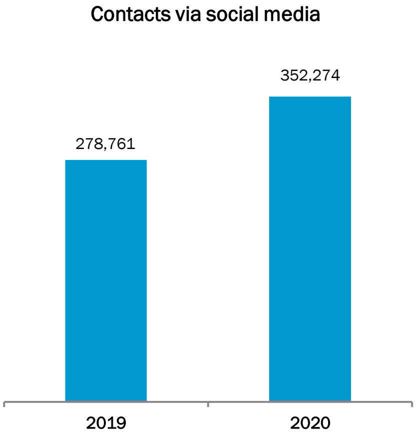
Growth in volume in 2020 was driven by:

- The COVID-19 situation and branch closures increased the use of remote channels.
- The e-Commerce Directive's impact on shopping with cards.









<u>Social media</u>

Banco Sabadell has been active in social media since 2007. The objective was to get to know digital customers and their needs, obtain suggestions from them, and analyse how best to serve them. Three years later, in 2010, Banco Sabadell was an active participant in the most popular social platforms: Facebook and Twitter. Banco Sabadell currently has a presence in five social media: Twitter, Facebook, LinkedIn, YouTube and Instagram, with 20 different profiles at national level, and it has one of the best digital reputations in the financial sector.

Social media are among the main channels for engaging with our customers, both for handling queries and for broadcasting institutional and business messages, marketing campaigns and general interest messages.

Their use is growing exponentially and the Bank sets a high priority on raising its social media profile. Based on demand and the need to serve all customers anywhere in the world, a 24x7 service was implemented at the end of 2011.

Banco Sabadell currently has approximately 600,000 followers. Nearly 350,000 mentions of the brand were monitored or dealt with in 2020.

A key success factor is continuous tracking of interactions with followers and customers. One of the KPIs in social media positioning is the response rate, in which Banco Sabadell has a high score. Additionally, social media served as an important channel for conveying corporate and institutional content and as a channel for opinion-makers, particularly during the lockdown and generally during the COVID-19 pandemic. Social media are used to announce and webcast many sponsored events and other educational initiatives in which we play an active role, and this became particularly important in 2020. They include earnings presentations, the General Meeting of Shareholders, the Barcelona Open Banc Sabadell Conde de Godó tennis tournament, a superb example of digital coverage, as well as the South Summit and the Banco Sabadell Foundation Research Awards. The year 2020 also marked a watershed in the Bank's commitment to sustainability and the creation of a solid digital community under the #SomosSabadell and #EstarDondeEstés hashtags.

In line with the initial objectives, Banco Sabadell closely tracks trends, social conversations associated with the Bank, and audiences, and it uses the results to develop a strategy to expand and strengthen our presence, impact and engagement. This growth is evidenced by follower numbers in new channels such as Instagram, market opinions gathered via mobile devices, opinions expressed in industry forums and, this year, analysis and interaction of our branch offices in Google Maps.

The Bank continues to expand its digital presence in fast-growing channels such as Instagram and LinkedIn, and maintains a policy of segment-based specialisation through profiles related to such areas as the press (@SabadellPrensa, @SabadellPremsa and @SabadellPress), the Banco Sabadell Foundation (@FBSabadell), @BStartup aimed at entrepreneurs, @InnoCells in support of new business and the digital transformation, and @Sabadell_Help, which is specifically for customer service.

Digital transformation and customer experience

Banco Sabadell's digital transformation approach and priorities

The COVID-19 pandemic and the widespread adoption of technology by customers have driven efforts to offer processes that are 100% digital and improve self-service capabilities. In response to this situation and with the objective of strengthening the digital relationship with its customers, Banco Sabadell accelerated its ability to deliver new features on digital channels. To do this, the Bank expanded its organisational, methodological and technological capabilities to enhance productivity and the user experience and entered into agreements with third parties on a large scale.

As part of its commitment to putting digital transformation at the heart of its strategy and operations, Banco Sabadell strengthened the mandate of InnoCells by making this subsidiary the Bank's digital hub. This platform adds digital capabilities to generate synergies, enabling the Bank to achieve challenging goals through a hybrid innovation model (internal and external) with project execution capabilities and digital expertise.

InnoCells

InnoCells has a multidisciplinary team capable of addressing challenges and projects end-to-end, through reflection and execution, enabling it to maximise the impact for the Banco Sabadell Group and enhance the customer experience.

InnoCells' capabilities include:

- Digital leadership: coordinating the Bank's digital innovation capabilities and providing a strategic vision from the ecosystem on key business aspects by identifying leading practices in the market.

- Strategic design and customer vision evolving the value proposition towards the delivery of customer-centric digital experiences. Addressing the challenges holistically and incorporating customers' voices throughout the process: understanding users and their problems, proposing new products and services or amending existing current processes, and validating solutions with users.

- Agile technology development: scaling the Bank's organisational capabilities by adopting new agile work methodologies that enhance delivery capacity and continuous learning in projects.

- Access to the fintech ecosystem: seeking investment opportunities in the market based on corporate priorities, managing and extracting value from a proprietary portfolio of investments, and having a foothold in the Fintech ecosystem.

- Strategic alliances: combining internal innovation with external capabilities, actively participating in the innovation ecosystem. Collaborating on a large scale with startups that complement the Banco Sabadell value proposition and enable it to reduce time-to-market and offer new services or features to customers

- Driving technology architecture capabilities: developing new technology capabilities to improve productivity and connecting with third parties on a large scale.

- Capacity multiplier: design, implement and deliver key business projects for the Group.

Main deliveries in 2020

InnoCells contributed to Banco Sabadell's digital offer and to improving the customer experience by both developing projects from scratch and adapting existing processes or exploring new environments.

Recent examples with a significant impact on the customer experience:

- Digital signature: implementation of digital signature processes for mobile and e-mail channels, even for customers not equipped for remote banking (e.g. applying for ICO loans or a moratorium). The volume of transactions using digital signatures expanded 70% in 2020 due to the addition of more transactions that can be performed remotely.

- Digital onboarding using facial recognition: through a partnership with the company Onfido, Banco Sabadell implemented the possibility of opening an account via distance banking. New remote identification and authentication capabilities offer customers a faster, all-digital registration process. The Digital Banker awarded the prize for Best eKYC to this new solution from Banco Sabadell.

- Launch of payments from BS Online for companies: business customers can use BSOnline to launch payments from their accounts at other banks using the Open Banking PISP feature; we were one of the first banks in Europe to offer this functionality.

- Sabadell Broker: launch of a new equities trading platform in BSOnline and BSMobile, which provides an up-to-date picture of the customer's portfolio with clear, concise information to facilitate trading in stocks.

- Cuenta Ahorro Expansión: a new savings product aimed at helping customers to develop the saving habit by automatically transferring their chosen amount out of their main account and helping them to improve their ability to save through routines (regular transfers, payment rounding, rainy day plan).

- Homeowners' insurance service via WhatsApp: a pioneering service that responds to customer reports and also sends messages proactively on key insurance issues and useful safety tips. This was pilot tested on a selection of customers with homeowner's insurance and is now being rolled out to all holders of this policy at Bansabadell Seguros Generales.

- Improved card transactions: improvements to remote transactions with cards, providing customers with new self-service capabilities: immediate disbursement of pre-approved loans, management of credit and debit limits, queries regarding CVVs and PANs, expiry dates, etc.

- Merchant logos: display of shop logos alongside account movements, providing greater clarity about expenditures via the mobile app.

- New corporate website: the Banco Sabadell website was upgraded to give it a more modern image and improve interaction and usability.

- Branch search engine: improvements to the branch search feature to enable customers to find their nearest branch more easily; this was very important in a situation in which branch hours and transactions were curtailed, and given the importance of enhancing self-service options to ensure customer satisfaction.

2 BANCO SABADELL'S RESPONSE TO THE COVID-19 HEALTH CRISIS

The sudden arrival of the COVID-19 crisis triggered a paradigm shift in the way we work and the way the Group relates to its customers on a day-to-day basis. The Group responded effectively, maintaining operational continuity at all times without impairing customer service and while safeguarding the health of customers and employees alike.

2.1 Steps taken by Banco Sabadell

Contingency Measures and Business Continuity

At the height of the health crisis, 70% of all branches remained open to the public, and the Bank continued to meet customers' needs while enhancing its digital channels. At year-end, practically all branches were open to the public.

Employees at the corporate centres switched to teleworking and the vast majority continued in this situation at year-end. The Group's systems performed superbly, as the IT systems handled the large number of employees who were working remotely, evidencing the capacity and resilience of the Group's IT platform.

While utilisation of customer-facing digital channels doubled, the systems continued to operate nominally, in line with expectations. New all-digital processes were implemented (such as digital signatures for ICO loans) in order to avoid the need for customers to visit their branch.

It should be noted that the Bank's actions to mitigate the impact of the COVID-19 crisis were taken under the Internal Crisis Management Framework (MIGC). This framework was set in motion to ensure effective, coordinated management of the operational response in order to mitigate all the impacts of the pandemic and of situations of financial risk and/or business interruption.

The Internal Crisis Management Committee met on Wednesday, 26 February (two-and-a-half weeks before the state of alarm was declared nationwide) to coordinate actions being taken as a result of triggering Phase 1 of the Bank's Pandemic Plan. This plan, consisting of 20 specific protocols, seeks to mitigate the potential impact of this or any other virus that might impact the organisation's normal processes and significantly affect people and the service.

Thereafter, daily and weekly meetings were held with a selection of members of the various departments — Branch network, Operations, Technology, Cybersecurity, HR, Sabadell Spain and Business Continuity — in order to report to Senior Management on a timely basis.

Steps to manage the crisis were tracked horizontally and comprehensively, including reporting to supervisors about the situation of Banco Sabadell in Spain and other geographies (the United Kingdom and Mexico).

In view of the identified risks, and in line with the MIGC, the Bank took a number of measures in several areas to address the effects of the pandemic.

From the outset, the Bank ensured that all critical processes were fully covered by taking steps in a number of areas under an exhaustive control and oversight framework:

Infection control measures in the workplace

This included actions in the sphere of workplace health and safety and labour relations. These actions were taken in line with protocols developed by HR, including notably:

- Changes to Group policy on travel, including a ban on work trips to/from risk areas, and the recommendation to avoid personal trips to risk areas.
- Postponing major employee and training events that involved bringing together staff from different regions.
- Workplace access restrictions for specific groups (e.g. employees who tested positive were restricted until they received a medical discharge).
- Stepping up cleaning and ventilation in the highest risk areas.
- Measures to enable telework while safeguarding critical functions and ensuring business continuity. Team locations were tracked constantly and coverage of critical processes was monitored at all times.

Cybersecurity measures

These include steps to strengthen existing IT infrastructure and mitigate the risk of fraud in this situation.

Cybersecurity is handled by IT Risk & Security, and the main actions taken are summarised below:

- Reinforcement of existing security measures to protect remote access and telework, ensuring security and performance in a situation of many more external connections. Widespread use of telework requires additional controls and safeguards.

- Expansion of cybersecurity (CyberSOC) teams to analyse and respond to alerts about external attacks (e.g. remote access, incoming e-mail).

IT infrastructure resilience

Banco Sabadell's IT infrastructure is designed to provide redundancy with two separate datacentres and a high level of availability to overcome local failures. There are redundant communication lines between locations.

IT incident management procedures are linked to business continuity processes, including crisis management and relationship model arrangements. These procedures are simulated and tested at least once per year.

New digital workplace

In recent months, a new digital workplace has been defined based on the use of corporate laptops with state-of-the-art security measures in place: modern management, advanced end-to-end protection, data leakage prevention, secure web browsing and secure communications with Banco Sabadell systems, etc.

By the end of November 2020, corporate laptops had been delivered to all head office employees, and delivery to branch employees is planned for the following weeks.

Measures adopted in connection with critical suppliers

These measures take account of the supplier's criticality so as to focus (every two weeks or more often) on the elements that might jeopardise continuity of the service. Measures included developing a scorecard to assess supplier criticality and assess: (i) the degree to which services would be affected, (ii) fulfilment of SLAs, and (iii) capacity to respond.

Measures in connection with essential staff

In this case, the Business Continuity Department, which is in charge of critical processes, keeps track of the employees who are designated as essential for such processes, identifying both critical staff and potential back-up staff.

In particular, critical teams were decentralised in order to mitigate the risk that a critical team member might become infected, resulting in all their close contacts being quarantined.

Media

Communication actions were undertaken both internally and externally:

- Employees received e-mails, calls and an FAQ with details of the action plan and answers to the most common queries.

- External communications, particularly with customers. In particular, Direct Branch significantly increased the number of account managers and extended its working hours in order to cater for growth in the demand for information.

Changing commercial approach

To respond to this unprecedented crisis, the Group implemented exceptional measures such as channelling government aid to companies and providing loan repayment holidays for private individuals, to help them cope with this period of economic instability.

Given the situation created by COVID-19 and the state of alarm declared in Spain, Banco Sabadell created specific governance mechanisms to address the new situation and react quickly and in an exemplary fashion. The overarching aim was to support both employees and customers by providing solutions that are coherent with the Banco Sabadell brand and its way of doing business; this led to the BE THERE, SUPPORT, ACT plan.

- BE THERE: proactively e-mailing customers and employees as well as reactive measures to ensure that the Bank is there when customers need it and that they find what they are looking for. Assisted remote channels were reinforced, as was the website and the mobile app, and *ad hoc* protocols were established for the branch network.

- SUPPORT: empathise with customers to ascertain how they are by calling them, and provide them with finance and savings/investment products to meet their needs.

- ACT: implement teleworking capabilities, provide commercial organisation instructions to the branches, and emphasise end-to-end products and new digital capabilities.

For more information on the measures adopted to support customers, see the "Customers" section of this directors' report.

<u>Measures adopted from a business standpoint</u>

Banco Sabadell achieved a number of milestones, enabling it to retain its position as a leading bank:

- Branch action plan to close and reopen branches on a rotating basis, as employees switch between telework and commuting to the branch.

- Implementation of the Direct Branch Contingency Plan, taking steps to withstand the higher workload through dynamic management of the capabilities to ensure compliance with established service levels.

- Adaptation of channels for communication with employees, with a single daily communiqué (*Novedades Flash COVID-19*) that is circulated to more than 16,900 recipients and has open rates exceeding 82%.

- Over 2 million pro-active communications focused on alleviating customers' concerns and on BEING THERE.

- Deployment of solutions to meet the needs of all customer segments, in both finance and savings/investment. These solutions were accompanied by Support Plans, expanded back-office teams and new digital capabilities (e.g. digital signature).

- Proactive steps to incentivise customers to go digital and avoid branch visits.

- Providing financial support to customers, e.g. advancing payment of pensions and unemployment benefits, refunding fees, postponing products that were due to expire imminently, and expanding the limits on contactless payments.

- Development of new capabilities for selling products on a remote basis.

Measures adopted vis-à-vis employees

From the outset, protecting our employees' health, both physical and emotional, was one of the Bank's top priorities in addressing the COVID-19 crisis.

To this end, a comprehensive plan of action and support was implemented, geared both to adapting working conditions and to constant, transparent, two-way communication, which is very important as a factor for cohesiveness and protection.

All these measures were taken under the supervision and direction firstly of the internal crisis management committee and, ultimately, of the De-escalation/Smartwork Committee.

<u>Organisational measures</u>

- Branch network:

    - During the State of Alarm: workers alternated between on-site work and telework every two weeks to ensure the safety of both employees and customers.

    - During the de-escalation and the second wave: flexible staff management depending on the status of the pandemic (from branch closures to opening with full staff).

- Corporate headquarters:
  - During the State of Alarm, 100% telework (except critical services).
  - During the de-escalation: implementation of a hybrid system of shifts at one third of the capacity (1 week on-site, 2 weeks teleworking).
  - During the second wave: preferentially teleworking.
- Immediate suspension of face-to-face events and training sessions as well as business trips, while promoting the use of digital channels.
- Adaptation of space at branches and corporate headquarters to maintain a safe distance, and a policy of clean desks.
- Adaptation of meeting rooms to enable hybrid meetings.
- Adaptation of technology infrastructure:
  - Massive scalability of remote infrastructure to cover the high levels of telework.
  - Distribution of laptop computers and mobile phones to all employees and migration to Office365 to promote efficient digital collaboration.
- Strengthening contingency plans to ensure business continuity in all areas and business units.

Health and safety measures

- Establishment of a COVID-19 protocol for tracking cases and close contacts in the workforce, following the guidelines established by the health authorities.
- Distribution of the necessary PPE to the entire workforce: masks, hand sanitiser, disposables, and plastic screens in branches.
- Doubling the number of flu vaccine doses for employees at some corporate headquarters.
- Intensified cleaning in all facilities.
- Emotional support on an anonymous basis via a free, unlimited hotline staffed by specialised professionals, available to any employee on demand.
- Limits on the number of people who can be in a branch simultaneously.
- Limits on the number of people who can be in a meeting room simultaneously in the corporate headquarters.
- Installation of signage and posters with safety tips in the branch network and in corporate headquarters.
- Appointment of a person in each location with responsibility for exhaustive enforcement of these measures.

Work/life balance and flexibility

- Accelerated process for employee applications for vacation or unpaid leave.
- Facilities for shorter working hours.
- Promotion of the Spanish government's "MeCuida" plan for caregivers.
- The summer timetable was implemented early, in March, eliminating the split Thursday timetable for the remainder of the month.
- Branch network: implementation of flexitime.
- Corporate headquarters: flexitime (requirement that all staff be working from 09.30 to 14.00), and disconnection from 18.00 to 08.00.

Support measures:

- The SmartWork project concentrated all the measures that were adopted.

- Intensive, clear communication from the outset of the pandemic:

  - Daily e-mail to all employees.

  - Special messages for overseas branches and representative offices.

  - "Eres Manager" newsletter.

  - SmartSite portal: carries the latest news, instructions and protocols in connection with COVID-19.

    - SmartWork for branches and corporate headquarters.
    - SmartWork manifesto.
    - Smartwork news.
    - Specific content on health and safety, work-life balance and flexibility, and technology to help employees organise their work efficiently.

  - IN news.

  - Townhall meetings with the CEO, and communiqués from senior management.

  - Guides and infographics to communicate all the measures that were adopted.

- Informative, educational and inspirational support sessions for the entire workforce with a focus on teamwork and efficiency and on providing context and horizontal skills for working in the face of the crisis.

- Employee satisfaction and well-being surveys in the form of regular questionnaires.

- A subsidy of 150 euros to each employee to purchase a computer, chair or screen. Over 8,000 subsidies were paid out.

Reporting and relations with the supervisor

In the wake of the COVID-19 pandemic, since 9 March 2020 the supervisor has focused more intensely on continuously monitoring containment measures, actions and solutions put in place, and the potential impact of the crisis on Banco Sabadell.

- The Bank complied with requests from the ECB, the Bank of Spain and the Spanish Banking Association (AEB) for regular reports on liquidity, business continuity, market performance, government moratorium on debt, new loan production, support programmes, operational framework, sectoral moratorium (AEB), etc. The information was submitted on a daily (or, in some cases, weekly) basis. The reporting requirements were standardised and the information was presented at Group level on a monthly basis.

  The Bank also responded to queries on specific aspects arising from the current situation, such as trends in lending, ICO loans, impacts on capital and liquidity, financial projections, etc.

- The Single Supervisory Mechanism (SSM) arranged regular conference calls to discuss issues of interest (e.g. pandemic trends, business continuity planning, liquidity, treasury, payment systems, lending trends) and to track reporting dates.

2.3 Steps taken by TSB

Incident management response to the COVID-19 pandemic

COVID-19 was first confirmed in the UK on 31 January 2020 and TSB's strategy has been to mirror government advice and response to the evolving crisis. During the last week of February, cases in the UK started to increase and the Silver response team was stood up to make sure TSB's operational response remained appropriate. At the beginning of March, TSB outlined the support it would offer to customers affected by the virus, including repayment holidays and access to savings.

The following measures were taken by TSB via the Incident Management Framework to support TSB's business, customers and employees during the pandemic:

- Workplace infection control measures, at a workplace and team management level, following UK Government Public Health England (PHE) advice and guidance in this area: distancing rules, hygiene rules, plastic screens, telework, etc.

- Measures to enable work from home, keeping critical functions and ensuring operational continuity, with new services and features developed to provide additional functionality for customers and employees.

- Cybersecurity measures in order to strengthen current IT infrastructure and address higher fraud risk arising from this situation.

- Measures to ensure IT systems' capacity to withstand customers' higher digitalisation, with increases in capacity implemented as required.

- Enhanced review and monitoring for all critical suppliers.

- Measures regarding critical or essential employees, separating and/or moving the critical employees to provide enhanced social distancing measures.

- Communication measures, both externally and internally.

- Reinforcement of call centres to deliver customer assistance.

- Provision of new services to customers via remote channels. At year-end, nearly all TSB branches were fully operational.

Business information and commercial adaptation

<u>Measures to ensure proper channelling of credit, retain customers and acquire new customers.</u>

TSB implemented measures to allow for the initiatives outlined by the UK government to be met, allowing TSB customers to defer loan repayments or interest payments, and for business customers to apply for government-backed loans. These new/updated products were monitored via reports to the internal crisis management committee, which were relayed to the Group and the regulator.

<u>Measures implemented to adapt to the new competitive environment</u>

TSB implemented new products in response to the new competitive environment, with a particular focus on business banking. These new business banking products (BBL and CBIL) were introduced with digital forms and web chat to allow customers to transact with the bank digitally.

In addition, TSB introduced enhancements to its current product suite that allow customers to perform more actions digitally, with online forms and web chats available, bringing TSB into line with its peers.

Customer digitalisation was increased in order to provide more services in the event of further COVID-19 outbreaks

TSB closely monitored customer use of all channels and observed that, while more customers are registered with digital banking and using the new digital tools, the overall level of digitalisation remains broadly in line with TSB's experience prior to the pandemic. TSB found that the use of digital channels had changed, as more widespread usage throughout the day had flattened the peaks.

TSB continues to encourage its customers to register for digital banking and to make more use of the digital channels to engage with the bank.

Risk, liquidity and capital management and control

<u>Measures provided for proper management and oversight of the risk situation (particularly credit risk):</u>

- Risk management examples: early management of growth in non-performing loans, other actions in the face of the possible shift of customer's profile, etc.

- Examples of risk control measures: more frequent oversight, analysis of current and potential risks, etc.

Reports by internal crisis management committees contained detailed disclosures of arrears collection and recovery.

The impact of collection and recovery processes was also assessed.

As for mortgages, in March, TSB adopted a policy of rejecting applications with LTV > 60%, but has gradually relaxed this position.

In terms of the government-guaranteed BBLS (out of which 450 million pounds were paid in July), TSB implemented processes to assess credit quality for the purposes of identifying the scale of resource that may be required to attend to customers.

Measures to enhance the financial position in terms of both liquidity and capital adequacy

TSB has a strong capital and liquidity position and its current and forecast capital and liquidity metrics remain above risk appetite and regulatory requirements at all times. TSB recently presented a COVID-19 outlook revision of its business plan to the Board. In addition, TSB recently completed a full review of its capital and liquidity recovery options, which demonstrates the material levels of capital and liquidity recovery capacity available for use in the event of the bank being impacted more than forecast.

TSB had prepositioned 6.8 billion pounds with the Bank of England at the end of May for use in a liquidity stress, with the option to preposition more as required.

TSB also took advantage of regulatory relief measures to support its capital and liquidity position. These measures include:

- Elimination of the countercyclical buffer.
- Planned use of TFSME facility so as to avoid reliance on wholesale markets.
- Excluding BBL exposures from the leverage exposure calculation.
- The UK's Prudential Regulation Authority (PRA) reminded banks to look through the COVID-19 period as it is expected to be a temporary stress and, therefore, to manage provisions accordingly under IFRS 9. This is expected to keep provisions lower than they would otherwise be if a purely modelled approach were taken at the height of the crisis.

Reporting and relations with the supervisor

Steady increase in reporting requirements and frequency

TSB stood up its internal crisis management committees, with enhanced monitoring tools to support weekly and monthly reporting to the regulator. However, at the height of the pandemic the reports were being submitted to the regulator daily for review. The reporting requirements included:

- Operational status of IT service, operations, business banking, branches, 3rd parties and products.
- Cyber security and fraud incident reporting
- Channel availability and performance.
- Collections and recoveries.
- TSB liquidity adequacy.
- Impact and performance of government initiatives (BBLS, etc)

2.3 Financial metrics and steps taken in connection with the Group's business

With regard to the group's financial metrics, although 2020 was shaped by the COVID-19 pandemic, Banco Sabadell was able to generate net profit while strengthening its capital position and balance sheet. Therefore, the group has comfortable capital and liquidity positions and a healthy balance sheet with which to address adversities arising from the current context.

The phase-in CET1 is 12.6%. This ratio increased year-on-year, evidencing the group's commitment to maintaining a comfortable capital position. The Group also has an ample surplus over regulatory capital requirements, with 313 basis points of surplus total capital, i.e. an increase of 57 basis points year-on-year.

The Group has a strong liquidity position, with 47,808 million euros in liquid assets, i.e. over 21% of its balance sheet, and a Liquidity Coverage Ratio (LCR) of 198%. It's balance sheet shows a healthy equilibrium between loans and deposits (loan-to-deposits ratio: 98%).

The Group also has a sound balance sheet. As a result of selling portfolios of non-performing assets in recent years and the ongoing organic elimination of non-performing assets, the Group's risk profile has improved significantly, so that net non-performing assets now account for 1.4% of total assets, with an NPL ratio of 3.6%.

The Group also has a diversified loan book: 46% of outstanding loans are mortgages to individuals in Spain and the UK, 40% are loans to large companies and SMEs, 6% are loans to the public sector, 3% are consumer loans and the remaining 5% are other loan categories. Within large corporations and SMEs, there are a number of segments that are more sensitive to the health crisis, such as tourism, hotels and leisure, transport, the automobile industry, retailing of non-essential goods, and petroleum. The Group's total exposure to these segments is limited, amounting to 11,920 million euros, i.e. 8% of outstanding loans.

In the wake of the unprecedented shock to the economy as a result of the COVID-19 pandemic, governments adopted a series of measures to support the economy. Those measures include fiscal policies to provide liquidity support to economic agents, families and companies.

The main measures adopted in Spain are as follows: (i) a moratorium on payments, which may be: legal (implemented in Royal Decree-Laws 8/2020, 11/2020, 25/2020 and 26/2020) or sectoral (implemented in Royal Decree-Law 19/2020), and (ii) Royal Decree-Law 8/2020 which approved a government-backed guarantee line amounting to up to 100,000 million euros for companies and self-employed workers. On 3 July 2020, the Spanish government announced a new package of measures including the creation of a new line of ICO guarantees amounting to 40,000 million euros. This new line is aimed at encouraging capital expenditure and promoting it in areas that generate the greatest added value, focusing on two main areas: environmental sustainability and digitalisation. In addition, Royal Decree Law 34/2020 extends the term of the two ICO guarantee lines until 30 June 2021 and offers customers the possibility of extending both the maturity (up to at most 8 years, from 5 years) and the grace period (up to at most 24 months, from 12 months).

The legal moratorium consists of a 3-month grace period (principal and interest) on mortgages and consumer loans for customers who meet certain vulnerability criteria. However, the legal moratorium offers a grace period on principal repayments of up to 12 months for mortgage loans financing real estate used for tourist activities, and a grace period on principal repayments of up to six months for loans, leases and hire purchase of vehicles used for public transport of passengers or goods. The sectoral moratorium consists of grace periods of up to 12 months for mortgages and 6 months for consumer loans to people affected by COVID-19. In this case the grace period is only for principal repayments, and the customer must continue to pay interest. This moratorium is also applicable to persons who have benefited from a legal moratorium and who, upon expiration of that moratorium, meet the conditions established for the sectoral moratorium.

Grace periods granted by Banco Sabadell during the year under the legal and sectoral moratoria covered loans amounting to 3,244 million euros. At 31 December 2020, the total amount under moratorium was 2,578 million euros: 197 million euros under legal moratorium and 2,381 million euros under sectoral moratorium. Of the total loans under moratorium, 86% are mortgages.

Of the loans whose grace period has already expired, only about 68 million euros are non-performing.

The ICO COVID-19 guarantee facility, which amounts to 140,000 million euros, was allocated to banks broadly on the basis of their market share (although the 40,000 million euros line switched to demand-based allocation on 1 November 2020). Under this approach, the ICO grants a government guarantee for between 60% and 80% of the loans, depending on whether the customer is self-employed, an SME or a large company (exceptionally, by a decision of the Cabinet on 22 December 2020, the government guarantee can reach 90% in the case of SMEs and self-employed workers in the tourist, hospitality and related sectors), for at most eight years (extended from five years by Royal Decree Law 34/2020, if the customer requests). During the year, Banco Sabadell granted more than 11,000 million euros in such loans, with the guarantee averaging more than 75%.

The crisis had an undeniable effect on the Group's financial statements, particularly in the first half of the year. Banking revenues (including net interest income and fees) were reduced because of the lockdown. Net interest income was affected by lower overdraft fees and by changes in the credit mix. Fees and commissions also declined because of a reduction in transactionality. The group was also forced to make additional provisions to reflect the new macroeconomic scenario.

With the onset of the pandemic and the ensuing economic crisis, the Group expanded its strategic priorities to include specific management measures for COVID-19, which include ensuring operational and service continuity, protecting customers and employees, providing a rapid response to customers' needs, contributing to society through various social measures, and continuing to invest in and promote digitalisation while ensuring the resilience of our IT systems. The Group also established additional strategic priorities such as cost containment in both Spain and the UK, a focus on risk management, as well as the consolidation of the commercial recovery after the hiatus in activity. The Group had fulfilled those priorities by year-end.

In relation to the priority of containing costs, the new context following the pandemic highlighted the need to adapt the bank's structure. Accordingly, in order to enhance the Group's profitability, Banco Sabadell implemented an efficiency plan in Spain and accelerated the restructuring plan in the UK.

The plan in Spain has two main axes: (i) further digitalisation of customer service, and (ii) simplification of the corporate structure. The first axis focuses primarily on increasing self-service in transactional activities, automating activities in operation centres, and enabling self-service for certain call centre activities. The second axis focuses on: centralisation of competencies, simplification of regional commercial support structures, and organisational restructuring to reduce verticality.

In the UK, the TSB restructuring plan was accelerated and is expected to be completed one year ahead of schedule.

The strategic plan in the UK was also accelerated with a focus on improving the cost-to-income ratio. In October 2020, TSB announced that branch closures and cost savings would be achieved one year ahead of schedule.

With regard to non-performing assets, recovery capabilities were enhanced and a horizontal risk programme was implemented which, through analytics, provides early warning of potential COVID-19 impacts on customers, enabling the bank to pro-actively offer them the most appropriate financial solutions and, at the same time, take advantage of growth opportunities.

3 - ECONOMIC, BUSINESS AND REGULATORY ENVIRONMENT

Economic and financial background

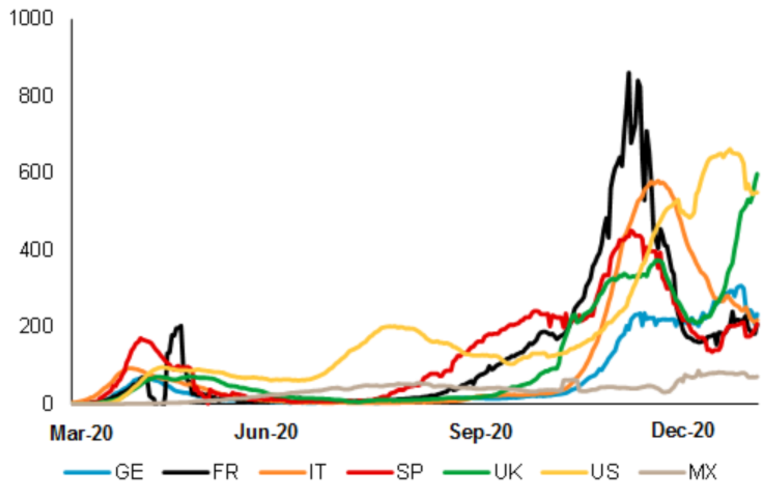
The COVID-19 health crisis was the main factor shaping the performance of the global economy and financial markets during the year. The economy experienced an unprecedented slump in 2020. Moreover, Brexit-related uncertainty persisted, but was finally resolved with an agreement on future relations between the United Kingdom and the EU. Tensions persisted between the United States and China, and Donald Trump was defeated by Joe Biden in the US presidential elections.

COVID-19 and scientific research

The pandemic spread rapidly and widely across the globe early in the year, overwhelming hospitals and putting most of the world economy into lockdown between March and April. The gradual improvement in the situation made it possible to re-open the economy gradually as the summer approached. However, the situation in the major developed economies deteriorated again in the autumn. Daily infection rates peaked, and in some areas hospitalisation rates for COVID-19 exceeded the record levels seen in the spring.

As a result, governments reintroduced containment measures, albeit less aggressively than during the first wave. The response to the second phase was supported by hospital protocols already in place, distancing and hygiene measures, and the greater availability of information about how the virus spreads. Moreover, unlike the first wave, the virus had little impact in China or some developed Asian countries due to mass testing and strict control of disease spread, the contact chain and international borders.

COVID-19 cases Source: *Our World in Data.*



The scientific community engaged fully from the outset in the search for a vaccine or an effective treatment for COVID-19, as well as investigating the virus in depth in order to enhance control and prevention. This effort by both the public and private sectors bore fruit, resulting in the production of vaccines (by Pfizer, BioNTech and Moderna, among others) and drugs by year-end — unprecedented speed for a process that normally takes years. Vaccine supplies began to arrive in most developed countries towards the end of the year.

Response by the economic authorities

The authorities generally responded swiftly and forcefully to the crisis in order to mitigate its economic effects and ensure financial stability.

- Central banks engaged in exceptionally accommodative monetary policies, with sizeable injections of liquidity into the financial markets.
- National governments adopted clearly expansionary fiscal policies, with measures to strengthen healthcare systems, guarantee funding for business, and protect jobs and household incomes.
- As for the European Union (EU), in addition to suspending the fiscal rules to which the member states are subject, the Next Generation EU (NGEU) recovery plan represents an important step in terms of European construction and is a new mechanism for economic stabilisation at European level.
- Supervisory authorities introduced flexibility in the use of capital and liquidity buffers and in the interpretation of accounting standards, and temporarily eased supervisory pressure.

Monetary policy in developed countries

In the Eurozone, the ECB adopted a number of measures with the aim of minimising the economic cost of the crisis, boosting inflation, giving countries fiscal leeway, avoiding fragmentation in financial markets and, as far as possible, minimising the impact of negative interest rates on banks. Accordingly, the ECB launched a new asset purchase program (PEPP), which it increased and extended twice, augmented the previous program (QE), improved the characteristics of the TLTROs, created new liquidity operations and relaxed collateral rules.

In the United States, the Fed deployed a wide range of measures aimed at facilitating dollar liquidity, the flow of credit to the economy and the functioning of financial markets. In fact, with those facilities, the Fed positioned itself as a lender of last resort not only to the market, but also directly to households and businesses. The Fed introduced an unlimited asset purchase program, resumed some of the liquidity mechanisms used during the global financial crisis, and took other steps such as purchasing corporate debt in both the primary and secondary markets.

In the UK, the Bank of England (BoE) cut the its base rate by 65 basis points to 0.10% and extended the asset purchase programme by 450 billion pounds. The BoE also extended liquidity facilities to banks and building societies with special incentives for lending to SMEs, bought commercial paper from large companies, and reduced the countercyclical capital buffer to 0%. The BoE is also working on the possibility of letting interest rates go into negative territory, although its Governor does not see this as a tool for immediate implementation. The Bank of England also coordinated its monetary policy measures closely with fiscal policy measures.

The Bank of Japan (BoJ) introduced an unlimited asset purchase programme while increasing the volume of purchases of commercial paper, corporate debt, ETFs and J-REITs, and created a special facility to guarantee funding for companies affected by COVID-19, with a special focus on SMEs. It also introduced an innovative monetary policy tool to encourage bank mergers.

Fiscal policy in developed countries

The scale of the fiscal response in the various Eurozone countries was shaped by their initial budgetary position. Germany was one of the countries with the most forceful measures. In Spain, aid took the form mainly of guaranteed loans to enhance companies' liquidity and of measures to preserve household incomes, such as furloughs.

In addition, the European Council resolved in July to create Next Generation EU (NGEU), a recovery plan amounting to 750 billion euros to address the economic and social consequences of the pandemic and mitigate the asymmetrical effects of the crisis in EU Member States. The decision was formally adopted at the end of the year together with the new EU budget for the period 2021-27. NGEU will provide transfers and loans to countries, based on such factors as per capita income and the economic impact of the pandemic. Countries must submit investment projects and structural reforms aligned with EU priorities. In Spain, the government announced that it will channel 72 billion euros between 2021 and 2023.

The United States adopted a determined fiscal response, resulting in its largest deficit since 1945. In the United Kingdom, the main measures focused on wage subsidies for activities interrupted by COVID-19 and government guarantees for loans to SMEs. The fiscal measures ultimately amounted to over 19% of GDP.

Other issues in 2020

The health crisis reignited tensions between the United States and China. As COVID-19 spread in the United States and its economic impact became clear, President Trump stepped up his criticism of China as the origin of the virus and for its handling of the pandemic in its early stages. This did not lead to an escalation of the trade war, which remained subdued during 2020, but it did result in action against Chinese companies, mainly in technology; for example, the United States prohibited the sale to Huawei of chips by any company, domestic or foreign, that used American technology or equipment to produce them. The dispute also spilled over into the geopolitical realm as a result of China's more aggressive foreign policy in Hong Kong and, to a lesser extent, Taiwan.

Uncertainty about Brexit persisted for most of the year. Shortly after the UK formally left the EU on 31 January, when the transition period commenced, negotiations on the future relationship between the UK and the EU were interrupted by COVID-19. Negotiations resumed later in the year and, at year-end, the UK and the EU had reached a basic agreement that avoided a "hard" Brexit.

The US presidential election in November was a turning point in domestic politics and in multilateral relations at an international level. Democrat Joe Biden won the election, having obtained more votes than any presidential candidate in US history. At the legislative level, the Democratic Party retained control of Congress, while control of the Senate remained in the balance until January. The new Administration aims to restore international multilateral relations in general, although it continues to view China with scepticism. Biden's agenda also focuses on the fight against climate change and includes the US rejoining the Paris Agreement.

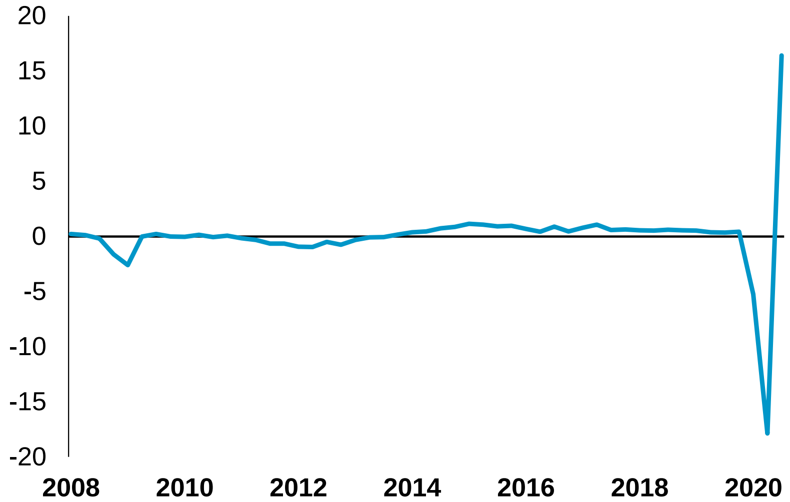
Economic activity and inflation

World GDP registered an unprecedented decline of over 4.0% in 2020. The severity of the recession was due to the confluence of a number of factors: combined supply and demand shocks, together with a large uncertainty shock and substantial financial stress. Moreover, this crisis was highly asymmetric across sectors, agent classes and many other dimensions. Unlike previous crises, industry fared relatively better, while services, especially those involving physical contact (foodservice, leisure, tourism and travel, etc.) were hit hardest. This also explains why international trade shrank by less than GDP as a whole and managed to rebound strongly in the second half of the year. Approaches to managing the crisis also led to differences between countries' economic performance, with most Asian countries standing out in positive terms. The crisis had a greater impact on the most vulnerable and disadvantaged, who were affected more in terms of both finances and health.

In developed economies, the record slump in activity in the first half of the year was followed by a strong rebound in GDP in 3Q20 due to de-escalation and a weak 4Q20 as the pandemic worsened and further containment measures were imposed. GDP in the major developed countries ended the year below pre-COVID-19 levels. Economic performance in the Eurozone differed between countries as a result of such factors as: (i) differing degrees of laxity in the containment measures; (ii) different production structures and industry specialisation; (iii) different scales of fiscal response; etc. In the UK, GDP fell by more than 25% between February and April. In the United States, the economic contraction was less severe than in Europe, supported by strong fiscal stimulus and laxer measures to control COVID-19.

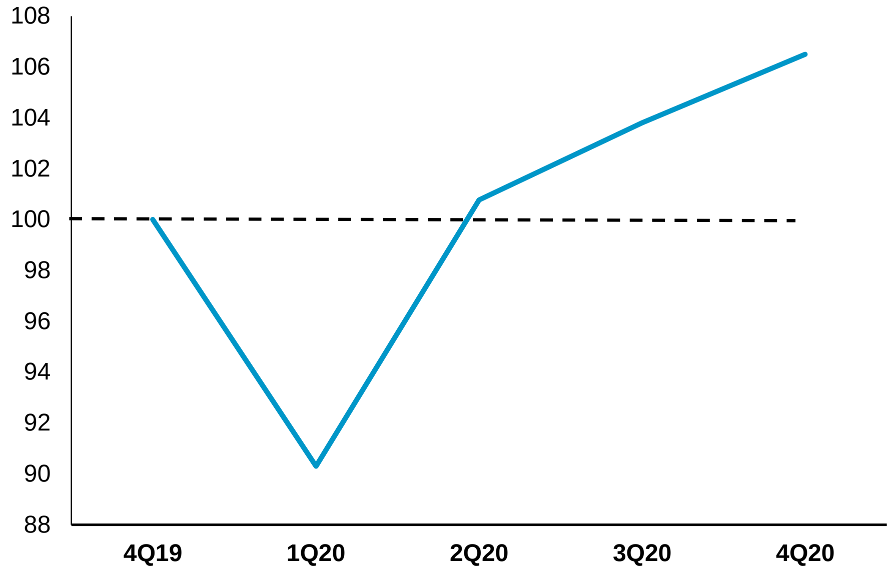
Spain was one of the European economies that was most affected by the crisis due to its high exposure to tourism and small companies, and to the initial severity of the COVID-19 containment measures. In the first half of the year, Spain registered the largest decline in GDP among the large Eurozone economies. GDP fell by more than 10% year-on-year in 2020 as a whole. Furlough programmes limited job destruction and enabled the labour market to perform better than in previous crises. National exchequers were severely affected by the decline in tax revenues and, above all, by the increase in spending aimed at safeguarding household and company incomes.

Spain GDP. (q/q change, %) Source: INE



Emerging economies also experienced an unprecedented decline in economic activity. The negative impact was lowest in the Asian countries thanks to their rapid and effective containment of the virus. As a result, China led the global economic recovery and is one of the few countries that has already regained pre-pandemic GDP levels. Latin America, which had already been experiencing some economic stagnation, has not managed to get the virus under control and the crisis has exacerbated structural problems such as inequality and social discontent. The vast majority of emerging central banks responded by easing monetary policy in line with the measures adopted by the developed countries. The fiscal response, however, was not as coordinated or aggressive. Brazil, for example, with its already weakened public accounts, opted for a strong fiscal stimulus, while Mexico's response has been practically nil.

China GDP. 4Q19 = 100. Source: Bloomberg



In Mexico, the crisis led the three main rating agencies to downgrade the sovereign credit rating, although it managed to retain investment grade. Following the sizeable impact on the economy in the second quarter, the economic recovery was supported mainly by external demand and the automobile industry, in a context in which the new NAFTA agreement finally came into force on 1 July. Aside from COVID-19, López Obrador's nationalist strategy in energy has hurt private investor confidence in this sector. GDP fell by around 9% in the full year. Elsewhere in the emerging countries, Turkey's economic and financial situation is still particularly delicate, although the markets welcomed the change in government's shift to a more orthodox economic policy towards the end of the year.

Although inflation is harder to read because of changes in spending patterns, it has been pressured downward in the developed countries by the impact of COVID-19 on demand. Inflation in the Eurozone moved into negative territory for the first time since mid-2016, while core inflation (excluding energy and food) reached record lows. Inflation was weighed down not only by the deterioration in the economy but also by aspects such as the temporary reduction in VAT in Germany. In the United States, core inflation reached its lowest level since 2011. As the economic recovery in the US advanced, inflation has begun to rise.

The price of crude oil reached its lowest in several years in the early phase of the crisis, with the Brent approaching 19 dollars per barrel in the face of lockdowns and sharp declines in mobility in a large part of the globe. The subsequent economic recovery, the de-escalation and the willingness of major producers to adjust output to avoid a glut enabled the price to recover much of the lost ground and to end the year slightly above 50 dollars per barrel.

Financial markets

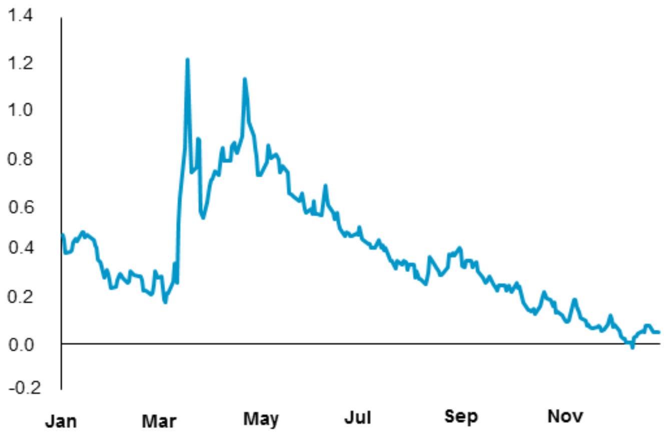
The financial markets were strongly impacted at the beginning of the year by the global COVID-19 effect. The surge in risk aversion was comparable only to what was observed during the global financial crisis, with plummeting sovereign bond yields, sharp corrections in risk assets and a marked increase in tensions in short-term funding markets. In addition, the primary market in corporate bonds closed and there were worrying episodes of illiquidity in several markets, including those that had been considered to be the deepest.

Liquidity measures introduced by central banks led to a normalisation of short-term funding markets and enabled bank credit to continue to flow to the private sector. The economic support measures implemented by the authorities, together with the control of the pandemic in the developed economies before the summer, the revival of economic activity and, later, news of treatments and vaccines against COVID-19, managed to stabilise the markets and allow risk assets to recover (albeit with considerable differences between sectors and countries). The outcome of the US presidential election and the achievement of a Brexit deal in the latter part of 2020 were also supportive. Against this backdrop, corporate spreads performed very well, closing the year very close to pre-crisis levels and with record issue volumes in 2020 as a whole.

Germany's long-term government bond yields fell over the year as a whole to an all-time low (-0.86%), influenced by the crisis and the ECB's asset purchase program. Yields were boosted somewhat by the announcement of fiscal stimulus measures in Germany and the creation of the EU recovery fund, as well as positive news on the development of a COVID-19 vaccine. In the United States, government bond yields trended downwards in the early months of the year to a record low (0.52%), assisted by the Fed's aggressive intervention in this market. Yields were driven upwards at the end of the year by, among other things, expectations of additional fiscal stimuli and positive news regarding vaccine development.

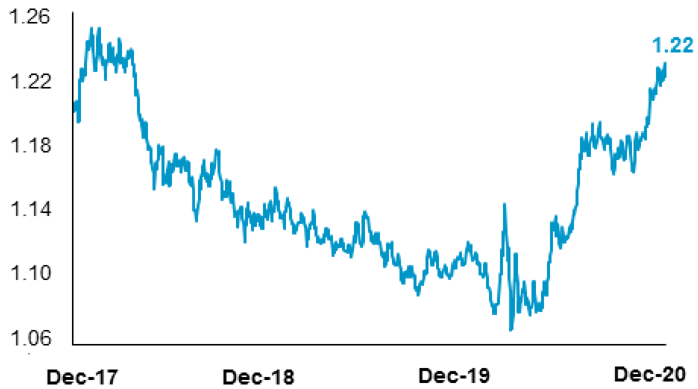
Sovereign risk premia in non-core Europe ended the year at their pre-COVID levels, after surging at the beginning of the pandemic. Risk premia were supported by the increase and extension of the ECB's asset purchase programmes and the agreement reached on the EU recovery fund. The Spanish government 10-year bond yield went into negative territory for the first time ever.

Spanish 10Y government bond yield %. Source: Bloomberg.



The currency market experienced considerable volatility. The global shortage of dollars after the outbreak of the crisis pushed the dollar sharply upwards, a trend that was reversed by the swap lines implemented by the Fed. The euro started to strengthen directionally against the dollar after the announcement of the European recovery plan. This appreciation continued in the context of a generally weak dollar, which was driven by the zero interest rate environment in the United States, Biden's victory in the presidential elections and the prospects of a global economic recovery. As a result, the dollar lost 9% against the euro in the year, closing at 1.22 USD/EUR, its lowest since 2018. Sterling was particularly sensitive to the COVID-19 crisis, in line with its performance in other periods of risk aversion, although it was also reflecting the particularly severe impact of the crisis on the UK economy. Sterling depreciated sharply against the euro in the first half of the year, but this was gradually reversed in the second half. Uncertainty about Brexit also weighed on sterling, as did the Bank of England's debate over the possibility of setting negative interest rates. As Brexit negotiations advanced, sterling recovered somewhat but was still down 5% against the euro at year-end.

USD/EUR. Source: Bloomberg.



Equity markets were hit hard by the outbreak of the crisis. Share prices corrected sharply, particularly in the sectors that were hit hardest by lockdowns and border closures. The adoption of accommodative measures by the authorities enabled equities to rally strongly. Some indices, such as the S&P500 and NASDAQ, even surpassed pre-crisis levels and closed the year at record highs. Asian stock markets also ended 2020 with significant gains. Europe equities were the main laggards, most ending the year in negative territory, given the more cyclical nature of their assets and the poor performance by the banking sector. The FTSE 100 (-14%) and the IBEX 35 (-15.5%) registered their worst performance since 2008. Meanwhile, the DAX only managed to gain 3.5%.

Financial markets in emerging economies also felt the impact of the strong monetary and fiscal expansion worldwide. A new supportive feature was the implementation of asset purchase programmes by some emerging countries' central banks. Moratoria on debt repayments also provided a respite for some of the poorer countries. Meanwhile, Biden's victory in the United States and the news regarding the development and distribution of vaccines supported capital flows towards emerging economies. As a result, although underlying financial vulnerabilities persisted, sovereign and corporate risk premia returned to very close to pre-COVID-19 levels.

Banking sector

The banking sector took on a key role in the solution to the economic problems caused by the exogenous shock of COVID-19, by mobilising all its resources to ensure that those affected by the crisis, especially the most vulnerable, could benefit without delay from the guarantees, sureties and moratoria approved by governments and by the industry itself.

European banks entered this crisis with fundamentals that were undeniably stronger than in 2008, in terms of the quantity and quality of capital as well as liquidity and leverage. The NPL ratio continued to trend downward, reaching its lowest level since the European Banking Authority (EBA) began publishing figures (June 20: 2.8%), confirming the asset quality improvement and balance sheet repair.

In its autumn Financial Stability Report, the Bank of Spain concluded that the Spanish banking sector is capable of withstanding the sizeable economic impact of the health crisis. In both the baseline and adverse scenarios of its analysis, all banks would have CET1 ratios above the regulatory minimum of 8 percentage points.

However, the macroeconomic consequences of the pandemic — such as the prolongation of the period of low interest rates and the expected rebound in credit risk — will persist over time, posing an additional challenge to bank profitability, which remains depressed. As a result, in a context of economic deterioration and high uncertainty, the banking sector has significantly increased the level of provisions.

Regulatory environment

Banking Union

In 2020, Bulgaria and Croatia joined the Banking Union (BU) and, consequently, became part of the Single Supervisory Mechanism (SSM) through the close cooperation mechanism, and those countries' systemically important banks came under the direct supervision of the ECB.

At an institutional level, the Eurogroup confirmed that progress is being made on technical issues with regard to liquidity in resolution, and the role of the European Stability Mechanism (ESM) as a back-up to the Single Resolution Fund (SRF) was formalised. The European authorities' work plan for 2021 prioritises advancing towards completion of BU. A number of European authorities, including the SSM and the Bank of Spain, have reiterated the urgency of completing Banking Union in the current institutional cycle (i.e. before 2024) and have considered the creation of a European Deposit Guarantee Scheme (EDIS) as a priority.

The agreement on the European recovery fund is expected to provide considerable impetus to the completion of BU, insofar as it limits the strengthening of the sovereign-bank link and creates, de facto, a European common safe asset that should foster financial integration.

Capital Markets Union

In the autumn, the European Commission presented the Capital markets union new action plan, with which it intends to make a decisive contribution to the post-COVID economic recovery. The Plan has three main goals: (i) support a green, inclusive and resilient economic recovery by making financing more accessible to European companies; (ii) improve the EU's capacity for long-term saving and investment; and (iii) integrate national capital markets into a genuine single market.

Macroprudential framework

Macroprudential policy has gained in importance in the current context of rising risks to financial stability. The COVID-19 crisis was, in fact, the first major test to the global financial banking system after the Basel reforms that followed the financial crisis and the introduction of the macroprudential approach to regulation. The consensus is that, overall, the framework has proved to be resilient and has enabled banks to perform their vital function of providing credit to the real economy.

The benefits of unwinding some macroprudential capital buffers in Europe have reignited the global debate on the actual usability of bank capital buffers in times of crisis. The ECB considers it necessary to reconfigure the current composition of capital requirements and advocates increasing the level of countercyclical capital buffers (CCyBs), while decreasing the level of other buffers (e.g. bank-specific or Pillar 2 buffers). Moreover, it believes that the accumulation of releasable capital buffers can effectively complement monetary policy actions during a crisis, especially in the current context of prolonged low interest rates.

With regard to rebuilding buffers, the process of capital accumulation to pre-COVID levels is expected to be very gradual. In this regard, the Bank of Spain has decided to keep the CCyB in abeyance until the economic and financial effects of the pandemic have dissipated.

The non-bank financial intermediation sector has continued to grow overall, especially in the provision of credit in the Eurozone. Moreover, there is a persisting high level of interconnections between this sector and the banking sector, which may entail risks even under normal market conditions. Globally, this sector generated several episodes of stress in the financial markets in the early stages of the COVID-19 crisis. Consequently, the ECB and other bodies, such as the Financial Stability Board (FSB), advocate complementing and expanding the macroprudential framework so that national authorities have the necessary tools to limit that sector's effect of amplifying volatility and liquidity risks that was observed during the crisis.

Regulatory and supervisory framework

In the face of the COVID-19 outbreak, international, European and domestic authorities in the financial sector adapted their work plans, took measures and issued recommendations to ensure institutions' operational continuity as well as financial stability as a whole. At global level, both the Basel Committee on Banking Supervision and the FSB postponed their schedule of main regulatory reforms by one year.

In Europe, banking supervisory policy made use of some of the flexibility provided for in the rules, with the ultimate aim of not restricting credit and of allowing banks to enable households and businesses to benefit fully from the guarantees, sureties and moratoria approved by government authorities and banking associations. The SSM decided to allow banks to fully utilise some capital and liquidity buffers and introduced supervisory flexibility in relation to the prudential treatment of COVID-19 related lending. It also adjusted the calendar of supervisory activity, postponing resource-intensive exercises (such as stress tests and the implementation of some pending regulatory measures), temporarily reducing on-site inspections at institutions and relaxing the deadlines for the delivery of supervisory data or disclosures to markets and the publication of financial information. The SSM also recommended that banks should not distribute dividends or buy back shares until 30 September 2021. Starting in the third quarter of 2020, the SSM shifted its supervisory approach to focus on assessing the risks, vulnerabilities and potential impact of the pandemic on the credit risk in bank balance sheets.

Given the impending disappearance of LIBOR and EONIA at the end of 2021, the authorities have stepped up pressure to ensure a smooth transition. With a view to the discontinuation of LIBOR in 2022, the European Commission presented a proposal to amend the Benchmark Regulation (BMR) to ensure that the disappearance of such a critical benchmark does not disrupt the economy or the financial system.

With regard to Brexit, the European and UK authorities expect to sign a Memorandum of Understanding (MoU) on financial regulation in the first quarter of 2021. This new relationship in the financial area will be based on specific equivalences, which will continue to be negotiated beyond 2020. In any event, the measures adopted during the transition period ensure the continuity of the provision of financial services between the two jurisdictions after Brexit.

Central banks, regulators and supervisors have increased pressure on financial institutions to assess and disclose the threat of climate risks to their business models so that these risks can be optimally managed. The SSM published its supervisory expectations on climate-related and environmental risks and is working to incorporate these risks into its stress tests, while the EBA is conducting a climate risk sensitivity exercise on banks' holdings in large corporations. The EU has made progress in developing the regulatory framework for sustainability and the European Commission has revised its sustainable finance strategy. In Spain, the Climate Change and Energy Transition Law, which is currently going through Parliament, will impose climate reporting requirements on the financial sector.

Outlook for 2021

Concerns about COVID-19 can be expected to fade in 2021 as the population is vaccinated.

Economies are expected to perform well generally, especially from the second quarter onwards.

The ECB is expected to maintain a clearly accommodative monetary policy with no change in official interest rates.

With regard to financial markets, government bond yields may trend upwards, although they should remain contained in a context of financial repression.

Risk premia on peripheral government debt are expected to be supported by ECB policy and the presence of the Recovery Fund.

The US dollar could depreciate against the euro in the face of progress in European construction, the context of zero interest rates and the change of government in the United States, among other factors.

4 – FINANCIAL INFORMATION

4.1 Key figures in 2020

The Group's main figures, including include key financial and non-financial indicators, are presented below:

		2020	2019	Year-on-year change (%)
Income statement (million euro)	**(A)**			
Net interest income		3,399	3,622	(6.2)
Gross income		5,302	4,932	7.5
Pre-provisions income		1,841	1,719	7.1
Profit attributable to the Group		2	768	(99.7)
Balance sheet (million euro)	**(B)**			
Total assets		235,763	223,754	5.4
Outstanding gross loans and advances		146,878	144,572	1.6
Loans and advances to customers, gross, excluding repos		152,265	150,749	1.0
On-balance sheet customer funds		150,778	146,309	3.1
Mutual funds		21,366	26,003	(17.8)
Pension funds and insurance brokerage		13,401	13,797	(2.9)
Funds under management and third-party funds		209,748	213,095	(1.6)
Off-balance sheet funds		38,064	43,163	(11.8)
Total customer funds		188,843	189,472	(0.3)
Equity		12,492	12,974	(3.7)
Shareholders' equity		12,944	13,172	(1.7)
Ratios (%)	**(C)**			
ROA		0.00	0.35	
RORWA		0.00	0.95	
ROE		0.02	5.94	
ROTE		0.02	7.37	
Cost-to-income		55.41	55.63	
Risk management	**(D)**			
Stage 3 exposures (million euro)		5,808	6,141	
Total NPA exposures (million euro)		7,182	7,326	
NPL ratio (%)		3.60	3.83	
NPL coverage ratio of Stage 3 (excl. floor clauses)		56.5	49.6	
NPA coverage ratio (%) (excl. floor clauses)		52.6	46.9	
Capital management	**(E)**			
Risk-weighted assets (RWA) (million euro)		78,779	81,231	
Common Equity Tier 1 (phase-in) (%)	(1)	12.6	12.4	
Tier 1 (phase-in) (%)	(2)	14.0	13.9	
Total capital ratio (phase-in) (%)	(3)	16.1	15.7	
Leverage ratio (phase-in) (%)		5.23	5.01	
Liquidity management	**(F)**			
Loan-to-deposit ratio (%)		97.6	98.6	
Shareholders and shares (as at reporting date)	**(G)**			
Number of shareholders		244,225	235,034	
Average number of shares (million)		5,582	5,538	
Share price (euro)		0.354	1.040	
Market capitalisation (million euro)		1,976	5,760	
Earnings (or loss) per share (EPS) (euros)		(0.01)	0.13	
Book value per share (euro)		2.32	2.38	
Price/Book value		0.15	0.44	
Price/earnings ratio (P/E)		(27.75)	8.29	
Other information				
Branches		2,083	2,398	
Employees		23,458	24,454	

(A) This section sets out key margins from the income statement for the last two years.
(B) This table of key figures provides an overview of year-on-year changes in the main items in the Group's consolidated balance sheet, focusing particularly on loans and advances and customer funds.
(C) The ratios in this section of the table have been included to give a meaningful picture of profitability and the cost-to-income ratio in the last two years.

(D) This section gives some key balances and ratios related to the Group's risk management.
(E) The ratios in this section of the table have been included to give a meaningful picture of the capital position in the last two years.
(F) This section gives a meaningful picture of liquidity performance in the last two years.
(G) This section provides data on the share price and other stock market ratios and indicators.

(1) Core capital / Risk-weighted assets (RWA).
(2) Tier 1 capital / Risk-weighted assets (RWA).
(3) Total capital / Risk-weighted assets (RWA).

4.2 Profit/(loss) for the year

Million euro

	2020	2019	Year-on-year change (%)
Interest and similar income	4,324	4,985	(13.3)
Interest and similar charges	(925)	(1,362)	(32.1)
Net interest income	**3,399**	**3,622**	**(6.2)**
Fees and commissions (net)	1,350	1,439	(6.1)
Net banking revenues	**4,749**	**5,061**	**(6.2)**
Net trading income and exchange differences	800	126	--
Equity-accounted affiliates and dividends	37	61	(39.4)
Other operating income/expense	(284)	(317)	(10.3)
Gross income	**5,302**	**4,932**	**7.5**
Operating expenses	(2,938)	(2,743)	7.1
Staff expenses	(1,885)	(1,649)	14.3
Other general administrative expenses	(1,054)	(1,095)	(3.8)
Depreciation and amortisation	(523)	(470)	11.4
Total costs	(3,461)	(3,213)	7.7
Memorandum item:			
Recurrent costs	(3,035)	(3,109)	(2.4)
Non-recurrent costs	(426)	(105)	307.4
Pre-provisions income	**1,841**	**1,719**	**7.1**
Provisions for loan losses	(1,832)	(672)	172.7
Provisions for other financial assets	(188)	(22)	--
Other provisions and impairments	(254)	(244)	4.3
Capital gains on asset sales and other revenue	313	170	84.2
Profit/(loss) before tax	**(121)**	**951**	**–**
Corporation tax	124	(174)	--
Profit or loss attributed to minority interests	1	9	(88.9)
Profit attributable to the Group	**2**	**768**	**(99.7)**
Memorandum item:			
Average total assets	227,639	223,470	1.9
Earnings per share (euro)	(0.01)	0.13	

The average exchange rate used for TSB's income statement is 0.8888 (0.8782 in 2019).

Net interest income

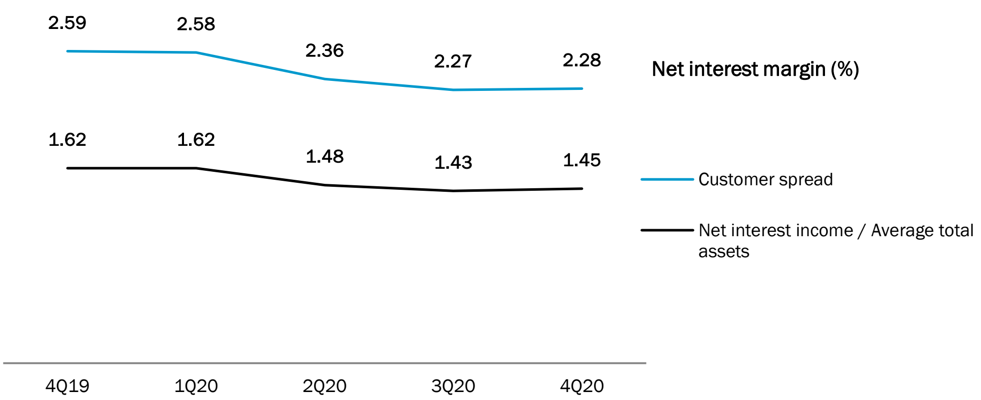
Net interest income totalled 3,399 million euro in 2020, 6.2% lower than in the previous year, mainly due to lower interest rates, a lower contribution from the ALCO portfolio following the divestments made during the year, lower overdraft fees following the measures related to COVID-19, and the reduction in revenues following the securitisation of consumer loans in the third quarter of the previous year.

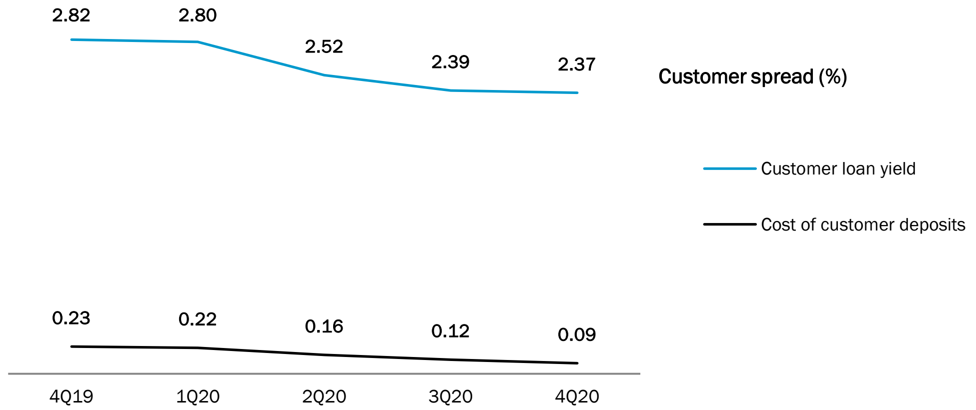
As a result, the return on average total assets was 1.45% in 2020 (1.62% in 2019).

Thousand euro

	2020			2019			Change		Effect		
	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Volume	Days
Cash, central banks and credit institutions	32,280,072	(3,770)	(0.01)	29,674,435	63,482	0.21	2,605,637	(67,252)	(61,431)	(6,006)	185
Loans and advances to customers	144,206,662	3,627,861	2.52	139,674,387	4,058,039	2.91	4,532,275	(430,178)	(464,619)	26,919	7,522
Fixed-income portfolio	27,820,630	257,321	0.92	26,937,403	342,243	1.27	883,227	(84,922)	(93,241)	7,404	915
Subtotal	**204,307,364**	**3,881,412**	**1.90**	**196,286,225**	**4,463,764**	**2.27**	**8,021,139**	**(582,352)**	**(619,291)**	**28,317**	**8,622**
Equity portfolio	1,009,488	-	-	879,843	-	-	129,645	-	-	-	-
Property, plant and equipment and intangible assets	5,406,276	-	-	5,398,789	-	-	7,487	-	-	-	-
Other assets	16,915,746	159,052	0.94	20,905,143	340,452	1.63	(3,989,397)	(181,400)	-	(181,400)	-
Total capital employed	**227,638,874**	**4,040,464**	**1.77**	**223,470,000**	**4,804,216**	**2.15**	**4,168,874**	**(763,752)**	**(619,291)**	**(153,083)**	**8,622**
Credit institutions	28,776,209	116,074	0.40	28,634,214	(43,933)	(0.15)	141,995	160,007	155,318	4,813	(124)
Customer deposits	152,494,537	(223,310)	(0.15)	147,550,925	(391,969)	(0.27)	4,943,612	168,659	173,009	(3,462)	(888)
Capital markets	23,928,673	(310,324)	(1.30)	24,738,681	(357,263)	(1.44)	(810,008)	46,939	16,953	31,017	(1,031)
Subtotal	**205,199,419**	**(417,560)**	**(0.20)**	**200,923,820**	**(793,165)**	**(0.39)**	**4,275,599**	**375,605**	**345,280**	**32,368**	**(2,043)**
Other liabilities	9,621,529	(223,788)	(2.33)	9,816,263	(388,655)	(3.96)	(194,734)	164,867	-	164,867	-
Own funds	12,817,926	-	-	12,729,917	-	-	88,009	-	-	-	-
Total funds	**227,638,874**	**(641,348)**	**(0.28)**	**223,470,000**	**(1,181,820)**	**(0.53)**	**4,168,874**	**540,472**	**345,280**	**197,235**	**(2,043)**
Average total assets	**227,638,874**	**3,399,116**	**1.49**	**223,470,000**	**3,622,396**	**1.62**	**4,168,874**	**(223,280)**	**(274,011)**	**44,152**	**6,579**

Financial income or expenses deriving from the application of negative interest rates are recorded in line with the nature of the associated asset or liability. The credit institutions heading under liabilities includes negative interest on liability balances with credit institutions, most notably revenues in connection with TLTRO II and TLTRO III.





Gross income

Dividends received and equity-accounted profits amounted to 37 million euros, compared with 61 million euros in 2019 (which included one-off effects). Those revenues are due mainly to the insurance and pension fund business.

Net fees and commissions amounted to 1,350 million euros, down 6.1% year-on-year, affected by the reduction in activity caused by the lockdowns triggered by the pandemic, as well as the lower contribution from asset management fees in the second half of the year following the sale of Sabadell Asset Management.

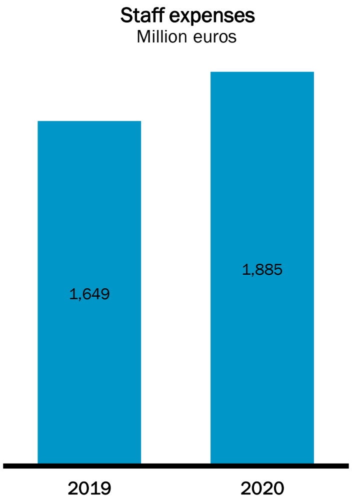
Gains on financial transactions and exchange differences totalled 800 million euros and include mainly the sale of bonds in the portfolio at amortised cost in order to manage credit risk and safeguard the Group's capital position as part of a set of actions taken to improve future profitability and balance sheet quality, as well as the impairment of the

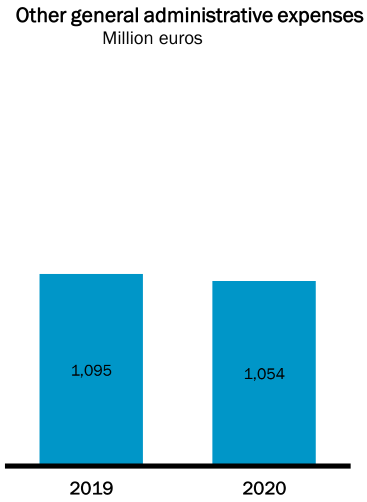
SAREB stake by -27 million euros, as a result of which that stake is fully provisioned. In 2019, this item amounted to 126 million euros and included mainly the positive impact of the capital gain on securitising consumer loans in the third quarter of that year.

Other operating revenues and expenses amounted to -284 million euros, compared with -317 million euros in 2019. Notable components of this item include the -123 million euros contribution to the Spanish Deposit Guarantee Fund (-121 million euros in 2019), the -78 million euros contribution to the Single Resolution Fund (-59 million euros the previous year), -48 million euros of the levy on conversion of deferred tax assets into debt claims against the Spanish tax authorities (the same as in 2019), and the -32 million euros tax on deposits at credit institutions (IDEC) (-31 million euros in 2019).

Pre-provisions income

Expenses in 2020 totalled -3,461 million euros, of which -426 million euros related to non-recurring items, mainly -314 million euros related to the Spanish cost restructuring plan and -101 million euros of restructuring costs at TSB. Expenses in 2019 amounted to -3,213 million euros, including -105 million euros of non-recurring items. Recurring expenses fell by 2.4% due to lower personnel and general expenses.





The cost-to-income ratio improved in 2020 to 55.4%, from 55.6% in 2019.

As a result, pre-provisions income amounted to 1,841 million euros in 2020, compared with 1,719 million euros in 2019, i.e. a 7.1% improvement, mainly as a result of the increase in trading income from the sale of bonds in the portfolio at amortised cost.

Provisions and impairments totalled -2,275 million euros, compared with -938 million euros in 2019. That increase was due mainly to higher provisions in the COVID-19 environment, with a direct impact of around -650 million euros, and higher provisions linked to the sale of portfolios of non-performing assets in the fourth quarter.

Capital gains on asset sales amounted to 313 million euros, mainly from booking the sale of Sabadell Asset Management, and the capital gain on the sale of SDIn and a number of real estate assets; the 2019 figure of 170 million euro was due to the disposal of Solvia Servicios Inmobiliarios and to booking the earnout on the insurance business.

Group net profit

After deducting income tax and the share of profit attributed to non-controlling interests, Group net profit in 2019 amounted to 2 million euros, i.e. less than in 2019 mainly as a result of the higher provisions in the context of COVID-19 and lower revenues, attributable to the decline in activity because of the pandemic. The efficiency plan for Spain and TSB and part of the increase in provisions due to portfolio sales were neutralised by the sale of bonds in the portfolio at amortised cost.

4.3 Balance sheet

Million euro

	2020	2019	Year-on-year change (%)
Cash, cash balances at central banks and other demand deposits	35,185	15,169	131.9
Financial assets held for trading	2,679	2,441	9.7
Non-trading financial assets mandatorily at fair value through profit or loss	114	171	(33.2)
Financial assets designated at fair value through profit or loss	-	-	--
Financial assets at fair value through other comprehensive income	6,677	7,802	(14.4)
Financial assets at amortised cost	174,488	181,423	(3.8)
Debt securities	18,091	19,219	(5.9)
Loans and advances	156,397	162,204	(3.6)
Investments in joint ventures and associates	780	734	6.3
Tangible assets	3,200	3,462	(7.6)
Intangible assets	2,596	2,565	1.2
Other assets	10,044	9,987	0.6
Total assets	**235,763**	**223,754**	**5.4**
Financial liabilities held for trading	2,654	2,714	(2.2)
Financial liabilities designated at fair value through profit or loss	-	-	--
Financial liabilities measured at amortised cost	217,391	205,636	5.7
Deposits	193,234	178,898	8.0
Central banks	31,881	20,065	58.9
Credit institutions	10,083	11,471	(12.1)
Customers	151,270	147,362	2.7
Debt securities issued	20,413	22,570	(9.6)
Other financial liabilities	3,743	4,168	(10.2)
Provisions	984	430	128.5
Other liabilities	2,244	1,998	12.3
Total liabilities	**223,272**	**210,779**	**5.9**
Shareholders’ equity	12,944	13,172	(1.7)
Accumulated other comprehensive income	(524)	(267)	96.3
Non-controlling interests	72	69	3.3
Equity	**12,492**	**12,974**	**(3.7)**
Total equity and total liabilities	**235,763**	**223,754**	**5.4**
Loan commitments provided	29,295	27,564	6.3
Financial guarantees provided	2,036	2,107	(3.4)
Other commitments provided	7,595	10,399	(27.0)
Total memorandum accounts	**38,926**	**40,070**	**(2.9)**

The EUR/GBP exchange rate used for the balance sheet is 0.8990 at 31 December 2020.

At the end of 2020, assets at Banco Sabadell and its Group totalled 235,763 million euros, compared with 223,754 million euros at the end of 2019.

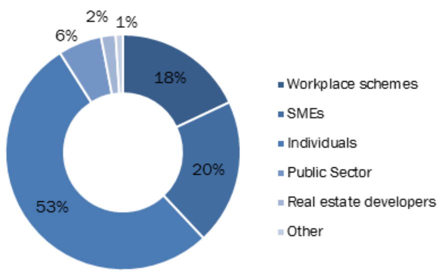
Outstanding gross loans and advances amounted to 146,878 million at 2020 year-end, a 1.6% year-on-year increase. The largest component of gross loans and receivables was mortgage loans, which amounted to 83,573 million euros as at 31 December 2020 and accounted for 57% of total outstanding gross loans and advances.

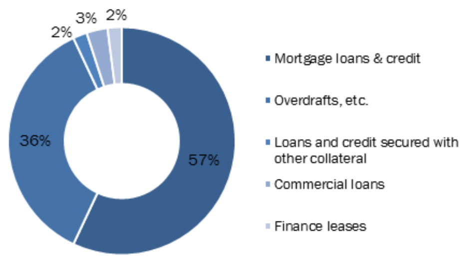
Million euro

	2020	2019	Year-on-year change (%)
Mortgage loans & credit	83,573	83,720	(0.2)
Loans and credit secured with other collateral	3,698	3,330	11.0
Commercial loans	4,991	6,443	(22.5)
Finance leases	2,231	2,558	(12.8)
Overdrafts, etc.	52,386	48,521	8.0
Outstanding gross loans and advances	**146,878**	**144,572**	**1.6**
Assets classified as stage 3 (customers)	5,320	5,923	(10.2)
Accruals	3	18	(82.9)
Loans and advances to customers, gross, excluding repos	**152,201**	**150,513**	**1.1**
Repos	63	236	(73.1)
Loans and advances to customers, gross, excluding repos	**152,265**	**150,749**	**1.0**
NPL and country-risk provisions	(3,081)	(2,933)	5.0
Loans and advances to customers	**149,183**	**147,816**	**0.9**

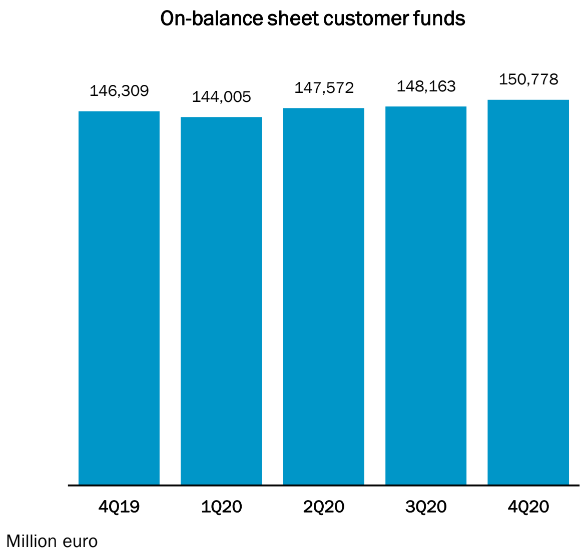
The EUR/GBP exchange rate used for the balance sheet is 0.8990 at 31 December 2020.

The breakdown of customer loans and advances by customer profile and product type, excluding stage 3 assets and accrual adjustments, is shown in the following graphics:





At 2020 year-end, customer funds on the balance sheet amounted to 150,778 million euros, a 3.1% increase on the figure of 146,309 million euros registered at the end of 2019.

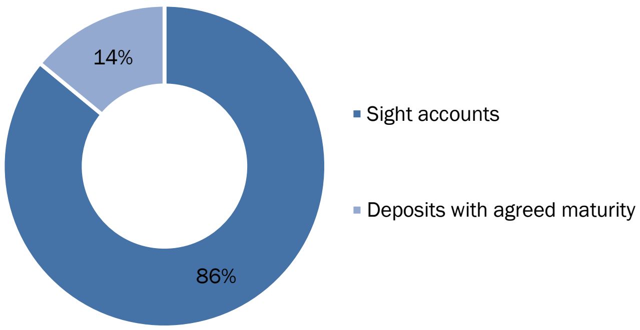


Total off-balance sheet customer funds amounted to 38,064 million euros, down 11.8% on the previous year due to the reduction in mutual funds following the sale of Sabadell Asset Management, which amounted to 21,366 million euros, representing a year-on-year decrease of 17.8%.

The balance of demand accounts amounted to 130,295 million euros, 9.6% higher than the previous year.

The breakdown of customer deposits at 2020 year-end is as follows:

Customer deposits % (*)



(*) Excluding accrual adjustments and hedging derivatives.

-Total funds under management amounted to 209,748 million euros as at 31 December 2020, i.e. 1.6% less than in 2019 (213,095 million euros), due to the aforementioned reduction in off-balance sheet customer funds.

Million euro

	2020	2019	Year-on-year change (%)
On-balance sheet customer funds (*)	**150,778**	**146,309**	**3.1**
Customer deposits	151,270	147,362	2.7
Current and savings accounts	130,295	118,868	9.6
Deposits with agreed maturity	20,805	27,339	(23.9)
Repos	13	951	(98.6)
Accrual adjustments and hedging derivatives	157	204	(22.6)
Bonds and other marketable securities	17,510	19,514	(10.3)
Subordinated liabilities (**)	2,903	3,056	(5.0)
On-balance sheet funds	**171,683**	**169,932**	**1.0**
Mutual funds	21,366	26,003	(17.8)
Equity funds	55	1,606	(96.6)
Balanced funds	192	6,823	(97.2)
Fixed-income funds	73	5,037	(98.6)
Guaranteed return funds	54	3,008	(98.2)
Real estate funds	69	76	(9.9)
Venture capital funds	-	101	(100.0)
Investment companies	1,295	1,667	(22.3)
UCITS sold but not managed	19,627	7,685	155.4
Asset management	3,298	3,363	(1.9)
Pension funds	3,349	3,367	(0.5)
Personal schemes	2,173	2,216	(1.9)
Workplace schemes	1,165	1,140	2.2
Collective schemes	11	11	(1.5)
Insurance products sold	10,051	10,430	(3.6)
Off-balance sheet funds	**38,064**	**43,163**	**(11.8)**
Funds under management and third-party funds	**209,748**	**213,095**	**(1.6)**

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: non-convertible bonds issued by Banco Sabadell, commercial paper and others.

(**) Outstanding subordinated bonds.

The EUR/GBP exchange rate used for the balance sheet is 0.8990 as at 31 December 2020.

The volume of non-performing assets declined in 2020. The quarter-on-quarter performance of these assets in 2019 and 2020 is shown below:

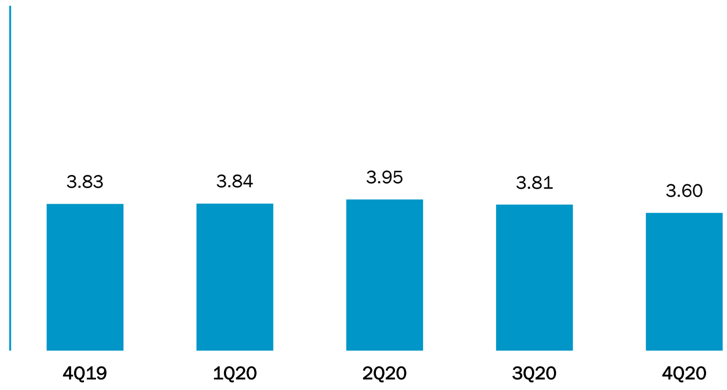
Million euro

	2020				2019			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net ordinary increase in balance of stage 3 assets	71	361	(27)	(213)	50	94	109	(62)
Change in real estate assets	125	150	60	(147)	77	70	(841)	152
Ordinary net increase in NPAs + real estate	**196**	**511**	**33**	**(360)**	**127**	**164**	**(732)**	**90**
Write-offs	100	114	205	106	220	97	97	189
Ordinary quarter-on-quarter change in balance of stage 3 assets and real estate	**96**	**397**	**(172)**	**(466)**	**(93)**	**67**	**(829)**	**(99)**

Because of the reduction in stage 3 risks, the NPL ratio reached 3.60% at 2020 year-end, down from 3.83% a year earlier (a 23-basis point decline). The stage 3 asset coverage ratio was 56.5% as at 31 December 2020, compared with 49.6% a year earlier, and coverage of foreclosed assets stood at 36.5% at 2020 year-end (from 33.3% a year earlier).

As at 31 December 2020, the balance of Banco Sabadell Group's exposures classified as stage 3 amounted to 5,808 million euros, having decreased by 333 million euros during the year.

NPL ratio (*) (%)



* Includes contingent exposures.

The trend in the Group's coverage ratios is shown in the next table:

Group coverage ratios

Million euro

	2019				2020			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Stage 3 exposures	6,383	6,380	6,391	6,141	6,112	6,359	6,127	5,808
Provisions for loans losses	3,360	3,301	3,263	3,045	3,228	3,537	3,460	3,279
NPL coverage ratio of Stage 3 (with total provisions) (%)	**52.6**	**51.7**	**51.1**	**49.6**	**52.8**	**55.6**	**56.5**	**56.5**
Provisions for Stage 3 loan losses	2,600	2,558	2,546	2,316	2,359	2,578	2,451	2,272
NPL coverage ratio of Stage 3 (%)	**40.7**	**40.1**	**39.8**	**37.7**	**38.6**	**40.5**	**40.0**	**39.1**
Non-performing real estate assets	1,803	1,873	1,032	1,185	1,310	1,460	1,520	1,373
Provisions for non-performing real estate assets	790	831	380	394	451	514	541	502
Non-performing real estate assets coverage ratio (%)	**43.8**	**44.4**	**36.8**	**33.3**	**34.4**	**35.2**	**35.6**	**36.6**
NPA exposures	8,186	8,253	7,424	7,326	7,422	7,820	7,647	7,182
Provisions for non-performing assets	4,150	4,132	3,643	3,439	3,680	4,051	4,001	3,781
NPA coverage ratio (%)	**50.7**	**50.1**	**49.1**	**46.9**	**49.6**	**51.8**	**52.3**	**52.6**

Includes contingent exposures.

4.4 Liquidity management

- During 2020, the funding gap trended positively due to an increase in lending offset by faster growth in funds. The volume of funding in capital markets was maintained because of the need to fulfil the MREL (Minimum Requirement for Own Funds and Eligible Liabilities), which, because of the Bank's credit rating, focused on products with a lower cost for a given term. The Group's loan-to-deposit (LTD) ratio ended 2020 at 97.6%.

- The Bank took advantage of the various issuance windows to access the capital markets at different times of the year, in a market subject to volatility and spread widenings following the market closure experienced early in the second quarter due to the impact of the coronavirus. Capital market deals amounting to 2,548 million euros matured or were redeemed early in 2020. Banco Sabadell issued mortgage covered bonds under its Fixed-Income Programme for a total of 1,000 million euros. Additionally, under the EMTN Programme, on 11 September 2020 Banco Sabadell placed four issues totalling 1,420 million euros, including an inaugural 6-year green senior preferred debt issue callable in the fifth year (500 million euros) and, on 17 January 2020, a 10-year Tier2 subordinated debt issue callable in year 5 (300 million euros). The other two issues were also senior preferred debt.

- Banco Sabadell redeemed the GC Sabadell 2, FTH fund on its clean-up call date in March. It also retired the multi-donor TDA 15 mixto, FTA fund on its clean-up call date in December. TSB also exercised early cancellation of its two asset-backed funds: Duncan Funding 2016 in July, since no outstanding bonds remained in the market, and Duncan Funding 2015 in September, on the date of its step-up call. Following these redemptions, TSB has no outstanding asset-backed securities.

- The institution maintained a liquidity buffer in the form of liquid assets to meet any liquidity needs.

- Since 1 January 2018, the minimum Liquidity Coverage Ratio (LCR) required by the regulator is 100%.All the Group's liquidity management units (LMUs) amply exceed that requirement. At Group level, the LCR remained well above 100% on a stable basis at all times. As at 31 December 2020, the LCR was 219% excluding TSB and 201% at TSB. As for the Net Stable Funding Ratio (NSFR), which is due to come into force in June 2021, the Bank has maintained a stable ratio in excess of 100%.

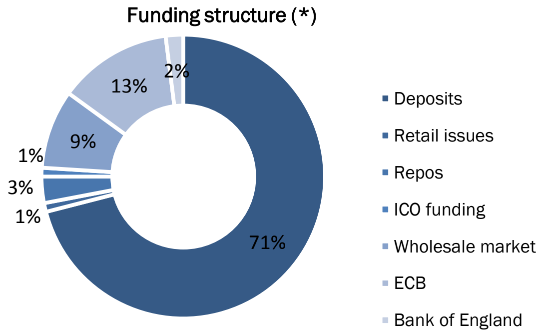
Key figures and basic liquidity ratios at year-end:

Million euro

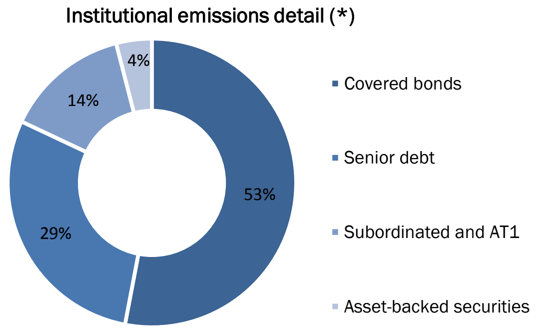
	2020	2019
Loans and advances to customers, gross, excluding repos	152,201	150,513
Impairment allowances	(3,081)	(2,933)
Brokered loans	(1,977)	(3,334)
Net loans and advances excluding ATAs, adjusted for brokered loans	**147,143**	**144,246**
On-balance sheet customer funds	150,778	146,309
Loan-to-deposit ratio (%)	**97.6**	**98.6**

The EUR/GBP exchange rate used for the balance sheet is 0.8990 as at 31 December 2020 and 0.8508 as at 31 December 2019.

The breakdown of the main sources of funding by instrument and counterparty as at 2020 year-end is as follows (%):



(*) Excluding accrual adjustments and hedging derivatives.



(*) Excluding accrual adjustments and hedging derivatives.

For further details of the Group's liquidity management, liquidity strategy and liquidity performance during the year, see note 4 to the consolidated annual financial statements for 2020.

4.5 Capital management

Key capital figures and ratios

Thousand euro

	Fully-loaded		Phase-in	
	31/12/2020	12/31/2019	31/12/2020	12/31/2019
Common Equity Tier 1 (CET1) capital	9,471,764	9,528,713	9,887,909	10,104,845
Tier 1 (T1) capital	10,625,178	10,682,395	11,041,323	11,257,878
Tier 1 (T2) capital	1,900,977	1,506,445	1,666,928	1,492,357
Total Tier (Tier 1 + Tier 2) capital	12,526,154	12,188,839	12,708,251	12,750,235
Risk weighted assets	78,782,342	81,256,775	78,778,773	81,180,752
CET1 (%)	12.02%	11.73%	12.55%	12.45%
Tier 1 (%)	13.49%	13.15%	14.02%	13.87%
Tier 2 (%)	2.41%	1.85%	2.12%	1.84%
Ratio de capital total (%)	15.90%	15.00%	16.13%	15.71%
Leverage ratio	5.04%	4.75%	5.23%	5.01%

As of 31 December 2020, the main difference between the phase-in and fully-loaded ratios was due to transition to IFRS 9.
In 2018, after the entry into force of IFRS 9, the group chose to apply the transitional provisions established in Regulation (EU) 2017/2395.

During 2020, the Group increased its capital base by over 337 million euros in fully-loaded terms.

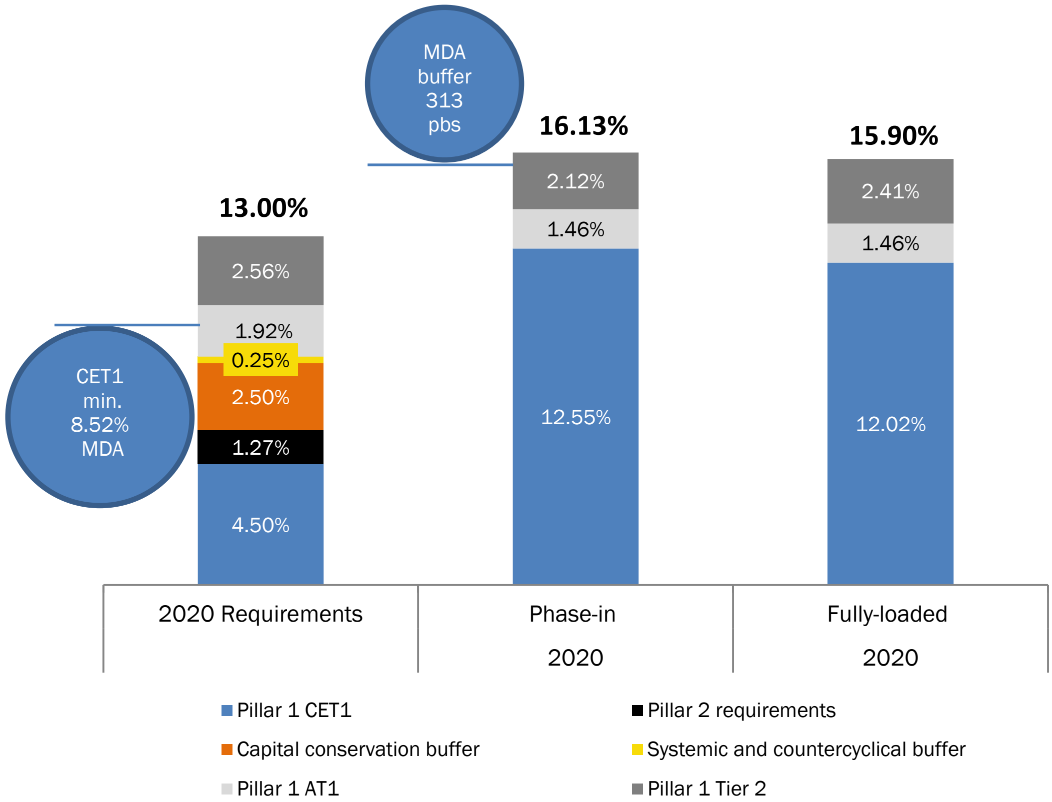
Capital in 2020 was affected by regulatory and supervisory changes, which had significant impacts, as well as by the effects of the COVID-19 health crisis.

Additionally, the 300 million euros issue of Subordinated Debentures I/2020 began to compute as Tier 2 in February. Notable events in the second half of the year were the entry into force and application of the EBA's RTS (Regulatory Technical Standards on the prudential treatment of software assets under Article 36 of Regulation (EU) No 575/2013 (Capital Requirements Regulation - CRR) amending Delegated Regulation (EU) 241/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the council with regard to regulatory technical standards for own funds requirements for institutions) under which certain software assets with a recoverable value in case of a resolution are not deductible from CET1. As they are not deducted from CET1, a parallel effect must be considered, for a different amount in the denominator of the ratio, as they are computed in terms of risk-weighted assets with a 100% weighting.

As for risk-weighted assets, it is worth highlighting the impact of the synthetic securitisation originated during the first half of the year. Other significant impacts arose in the regulatory sphere: the application of the new definition of default; the measures resulting from the application of Regulation 2020/873, such as the new SME supporting factor and the infrastructure supporting factor (project finance) and the application of the new definition of the high risk category; and the aforementioned effect of the entry into force of Commission Delegated Regulation (EU) 2020/2176 of 12 November 2020 amending Delegated Regulation (EU) No 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items. Moreover, the Asset Protection Scheme (APS) concluded and, as regards models, the results of the TRIM (Targeted Review of Internal Models) for Banco Sabadell's Large Corporate portfolio had an impact, as did the approval of the models for the mortgage portfolio and the supervisory add-on for subsidiary TSB's unsecured portfolio. The various loan moratoria and government-guaranteed funding systems had an impact on the balance sheet.

As a result, the fully-loaded Common Equity Tier 1 (CET1) ratio was 12.02% at year-end.

As at 31 December 2020, the Group had a CET1 capital ratio of 12.55%, well above the requirements established in the Supervisory Review and Evaluation Process (SREP), which are defined in phase-in terms, with a surplus of 305 bp (403 bp if it is considered that, since 12 March 2020, part of the Pillar 2R requirements can be met with AT1 (18.75%) and Tier 2 (25%) instruments, so that, at consolidated level, the minimum CET1 Tier I (CET1 phase-in) requirement that Banco Sabadell has had to meet under the new framework is 8.52%, instead of 9.50%).



Banco Sabadell has been notified by the Bank of Spain of the decision adopted by the Single Resolution Board (SRB) on the determination of the minimum requirement for own funds and eligible liabilities (MREL) and the subordination requirement on a consolidated basis applicable to it.

The requirements that must be met from 1 January 2024 are as follows:

- The minimum MREL is 21.75% of the total risk exposure amount (TREA) and 6.22% of leverage ratio exposure (LRE).
- The subordination requirement is 14.45% of the TREA and 6.22% of the LRE.

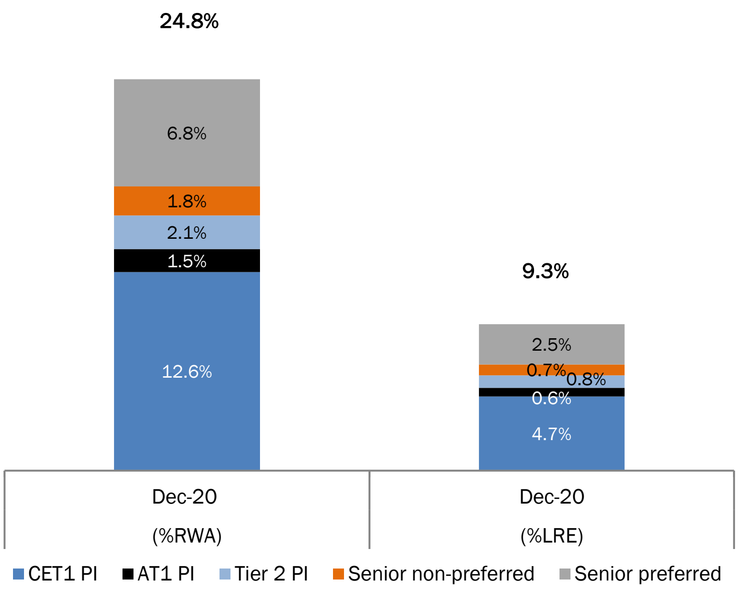
The decision set out the following intermediate requirements to be met from 1 January 2022:

- The MREL requirement is 21.05% of the TREA and 6.22% of the LRE.
- The subordination requirement is 14.45% of the TREA and 6.06% of the LRE.

The own funds that the institution uses to meet the combined buffer requirements (CBR, comprising the capital conservation buffer, the systemic buffer and the countercyclical buffer) will not be eligible for the MREL or subordination requirements expressed in TREA.

Banco Sabadell already meets the requirements that apply from 1 January 2024, which are in line with Banco Sabadell's expectations and with its funding plans.

Group MREL



5 - BUSINESSES

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 2020 consolidated financial statements.

5.1 Banking business Spain

Key figures

Net profit amounted to 218 million euros in 2020, a year-on-year decrease due mainly to higher NPL provisions to tackle the impact of COVID-19 and to lower revenues from more sluggish activity as a result of the pandemic. The restructuring plan and a portion of the higher NPA provisions were funded by selling bonds from the portfolio at amortised cost.

Net interest income amounted to 2,400 million euros, down 5.0% on 2019, due mainly to lower revenues from the ALCO portfolio, reduced overdraft fees in the wake of COVID-19 measures, and lower revenues following the consumer loan securitisations in 2019, which were partly offset by higher volumes, lower wholesale funding costs and TLTRO III.

Net fees and commissions totalled 1,246 million euros, 4.4% lower than the previous year as a result of the decrease in activity caused by the pandemic lockdown and the sale of Sabadell Asset Management.

Income from financial transactions and exchange differences amounted to 770 million euros and include mainly the sale of bonds at amortised cost in the fourth quarter to finance the restructuring plans and disposals of non-performing asset portfolios.

Operating expenses totalled -1,991 million euros, a year-on-year increase of 14.0% due to the restructuring costs booked in the fourth quarter. Recurring expenses fell by 4.0% in the year as a result of improvements in both staff expenses and general expenses.

Provisions and impairments amounted to -2,007 million euros, i.e. higher than the previous year due mainly to increased provisions in the context of COVID-19, and as a result of the disposal of NPA portfolios in the fourth quarter of the year.

Capital gains from the sale of assets and other income rose year-on-year as a result of booking the sale of Sabadell Asset Management and completion of the sale of SDIn. The previous year's figure includes the sale of an 80% interest in Solvia Servicios Inmobiliarios and the earn-out of the insurance business.

Million euro

	2020	2019	Year-on-year change (%)
Net interest income	**2,400**	**2,527**	**(5.0)**
Fees and commissions (net)	1,246	1,304	(4.4)
Net banking revenues	**3,646**	**3,831**	**(4.8)**
Net trading income and exchange differences	770	110	599.9
Equity-accounted affiliates and dividends	37	61	(39.4)
Other operating income/expense	(271)	(288)	(5.8)
Gross income	**4,182**	**3,714**	**12.6**
Operating expenses and depreciation and amortisation	(2,344)	(2,070)	13.2
Pre-provisions income	**1,838**	**1,644**	**11.8**
Provisions and impairments	(2,007)	(850)	136.2
Capital gains on asset sales and other revenue	317	174	82.3
Profit/(loss) before tax	**147**	**968**	**(84.8)**
Corporation tax	71	(165)	(143.3)
Profit or loss attributed to minority interests	1	9	(88.8)
Profit attributable to the Group	**218**	**794**	**(72.6)**
Cumulative ratios			
ROE (profit / average shareholders' equity)	2.0%	7.3%	
Cost-to-income (general administrative expenses / gross income)	47.6%	47.0%	
NPL ratio	4.4%	4.7%	
NPL coverage ratio of Stage 3	55.7%	50.5%	

Outstanding loans and advances amounted to 106,327 million euros, a 1.8% increase year-on-year, due mainly to granting ICO funding to enterprises, SMEs and self-employed persons. Isolating the impact of the APS, growth would have been 3.2%.

Customer funds on the balance sheet rose by 1.5% year-on-year, buoyed by demand accounts stemming from lower consumer spending and a reduction in payments during the lockdown by both individuals and enterprises. Off-balance sheet funds decreased by 11.8% year-on-year in the wake of the sale of Sabadell Asset Management.

Million euro

	2020	2019	Year-on-year change (%)
Assets	**183,896**	**172,610**	**6.5**
Outstanding gross loans and advances	106,327	104,436	1.8
Non-performing real estate assets (net)	871	791	10.2
Liabilities	**173,664**	**161,695**	**7.4**
On-balance sheet customer funds	110,572	108,890	1.5
Wholesale funding in the capital markets	18,332	19,912	(7.9)
Allocated capital	**10,204**	**10,915**	**(6.5)**
Off-balance sheet customer funds	**38,064**	**43,163**	**(11.8)**
Other indicators			
Employees	16,260	16,610	(2.1)
Branches	1,614	1,847	(12.6)

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

Commercial Banking

Business overview

Commercial Banking encompasses 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 it to provide a personalised and quality service to meet the specific needs of all its customers, through specialist staff working in its sizeable multibrand branch network or through digital channels. This ensures a good working relationship and operating standards regardless of which channel customers choose. It also includes the Bancassurance and Sabadell Consumer Finance businesses.

Management priorities in 2020

In 2020, efforts focused on helping our customers to manage the impact of the health crisis, maximising revenues against a backdrop of negative interest rates, and striving to secure customer loyalty on the basis of the relationship models defined for each segment.

New technological capacities were rolled out with the ultimate aim of ensuring an excellent customer experience.

Key figures

Net profit amounted to 123 million euros in 2020, a year-on-year decrease due mainly to higher NPL provisions to tackle the impact of COVID-19, and lower revenues from more sluggish activity as a result of the pandemic.

Gross income amounted to 3,012 million euros, less than in the previous year, and net banking revenues amounted to 3,164 million euros, a 4.5% decrease.

Net interest income amounted to 2,061 million euros, a 4.8% decline on the previous year, due mainly to lower interest rates, reduced revenues following consumer loan securitisations in 2019 and lower overdraft fees in the wake of measures to tackle the impact of COVID-19.

Equity-accounted profit and dividends amounted to 57 million euros, up 3.6% year-on-year due to good performance in Insurance and Pensions.

Net fees and commissions totalled 1,103 million euros, down 4.0% on the previous year as a result of the decrease in activity caused by the pandemic lockdown and the sale of Sabadell Asset Management.

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

Operating expenses and depreciation and amortisation charges totalled 1,611 million euros, i.e. 3.7% lower than in 2019.

Provisions and impairments amounted to 1,247 million euros, i.e. higher than the previous year due mainly to higher non-performing asset provisions in the context of COVID-19, and also as a result of the disposal of NPA portfolios.

Million euro

	2020	2019	Year-on-year change (%)
Net interest income	**2,061**	**2,164**	**(4.8)**
Fees and commissions (net)	1,103	1,149	(4.0)
Net banking revenues	**3,164**	**3,313**	**(4.5)**
Net trading income and exchange differences	9	(17)	(152.9)
Equity-accounted affiliates and dividends	57	55	3.6
Other operating income/expense	(218)	(203)	7.4
Gross income	**3,012**	**3,148**	**(4.3)**
Operating expenses and depreciation and amortisation	(1,611)	(1,673)	(3.7)
Pre-provisions income	**1,401**	**1,475**	**(5.0)**
Provisions and impairments	(1,247)	(455)	174.1
Capital gains on asset sales and other revenue	4	-	-
Profit/(loss) before tax	**158**	**1,020**	**(84.5)**
Corporation tax	(35)	(178)	(80.3)
Profit or loss attributed to minority interests	-	-	-
Profit attributable to the Group	**123**	**842**	**(85.4)**
Cumulative ratios			
ROE (profit / average shareholders' equity)	2.1%	14.0%	
Cost-to-income (general administrative expenses / gross income)	48.1%	48.1%	
NPL ratio	4.5%	5.4%	
NPL coverage ratio of Stage 3	51.5%	46.7%	

Gross loans and advances increased by 7.7%, while on-balance sheet customer funds rose by 4.8% and off-balance sheet customer funds fell by 12.0%, mainly in mutual funds after the sale of Sabadell Asset Management.

Million euro

	2020	2019	Year-on-year change (%)
Assets	**195,836**	**187,710**	**4.3**
Outstanding gross loans and advances	86,280	80,078	7.7
Liabilities	**190,322**	**181,556**	**4.8**
On-balance sheet customer funds	101,273	96,589	4.8
Allocated capital	**5,514**	**6,154**	**(10.4)**
Off-balance sheet customer funds	**37,052**	**42,127**	**(12.0)**
Other indicators			
Employees	11,722	11,642	-
Branches	1,589	1,822	-

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

<u>Customer segments</u>

Large corporates and SMEs

Banco Sabadell has stood shoulder-to-shoulder with its corporate customers, anticipating their needs through specialist advisers to help them make the best financial decisions.

In the first quarter of the year, the Bank launched Proposal 360, a new and different way of relating to customers, in which we offer them: Anticipation, Advice and Support. Proposal 360 gives us a deeper understanding of our customers, enabling us to approach strategic topics and pinpoint opportunities, adapting to each customer's specific circumstances and supporting them in achieving their business goals.

In the second quarter, activity was hampered by COVID-19 and, as a result, some companies had trouble meeting payments. To help businesses, Banco Sabadell launched the Support Plan, making ICO credit facilities available to customers who needed finance. As part of the plan, more than 3,000 advisers contacted customers to assess their circumstances and offer them solutions tailored to their specific needs. Fast-tracked circuits were set up to simplify the decision-making processes and shorten response times. Moreover, an application was developed to enable customers to sign transactions online without having to visit a branch. As a result of these efforts, Banco Sabadell was one of the main players in this market, having channelled 7,690 million euros in ICO liquidity to SMEs and large corporations.

Banco Sabadell is also committed to sustainability as a means of transformation that drives business competitiveness and at the same generates a more positive social and environmental impact for people and for the planet. This year, stepping into its role as a key player in driving the transition towards a more sustainable economy, the Bank included sustainability in the content of its Proposal 360 initiative and the conversation between customers and advisers. An indicator was developed that uses a questionnaire to gauge the degree of awareness of SMEs and Large Corporates concerning sustainability and matters relating to ESG: environment, social and governance. Moreover, all branch network advisers and staff in this segment have received training in this area through the Group's online platform.

The challenge for this segment in 2021 is to continue scaling our Relationship Model, further strengthening our differentiation and specialisation. All this by providing more training to specialists, improving commercial processes, emphasising sustainability and the digital transition and being a major player in the European Recovery Fund as it is rolled out.

Businesses

2020 was generally a tough year for the self-employed, shops and other businesses and, although the impact has varied between segments, Banco Sabadell has supported all its customers. In addition, there has been a change in the way financial services are consumed, with less in-person activity and accelerating demand for digital services and capabilities.

Banco Sabadell began the year by continuing the process of specialisation which commenced in 2019, increasing the range of vertical proposals to 31 sectors of activity, and also launching Proposal 360 for this segment.

In the second quarter, at the outset of the economic crisis unleashed by the COVID-19 pandemic, Banco Sabadell launched a specialist support plan for business customers, with a dual goal in mind: to support our customers and to afford them the liquidity they needed to address this situation, enhancing our historical commitment to business.

In this context, and in response to consumer habits, the Bank intensified its focus on digitalising services, creating new online services and capabilities for businesses and accompanying our customers as they strive to set up alternative sales channels for their traditional business. These new services include:

- a broad portfolio of point-of-sale terminals to meet all sales needs (in person, home delivery, by telephone, social media or e-commerce);

- Pulso, the new tool for real-time tracking of the economic recovery in specific sectors and territories;

- Nomo, the digital tool to help our customers in their day-to-day accounting, available as an app and on the web.

Looking ahead to 2021, and given the challenges facing the segment, the Bank will continue to focus on increasing specialisation in management and digitalisation, with solutions tailored to the needs of the various sectors, guaranteeing the excellence of the operating model and ensuring a superior management model.

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 provide a comprehensive value proposal to public administrations, financial institutions, insurers, religious bodies and the tertiary sector.

2020 was a special year due to the impact of the pandemic, which increased the credit requirements of all institutional customers. In response, Banco Sabadell strengthened its positioning in these segments through greater commercial activity, proximity and proposed solutions, resulting in increases in customer acquisition, business volume and margins through a range of products offering higher value for customers and for the Bank.

The relationship with professional and business associations, chambers of commerce and trade guilds, allowing access to professionals, self-employed individuals, businesses and SMEs, continues to be a relationship model through which solutions can be delivered to mitigate the effects of COVID-19, offer the best range of products and services tailored to the needs of each group, and act as a priority channel for customer onboarding.

Relations with official bodies at European, national and regional level were also enhanced. New facilities created at the start of the pandemic by the various bodies (ICO, Mutual Guarantee Societies, and so on) shaped the year's activity, requiring considerable development and commercial efforts to reach 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 activity of public institutions in 2020 was hit by the circumstances created by the health and economic crises sparked by the COVID-19 virus. Every level of government (State, regional and local) was very active, with tenders for public funding up 100% compared to 2019.

The result was an increase in assets as institutions strove to obtain liquidity to tackle short-term needs amid the uncertainty triggered at the outset of the pandemic.

During this period, some Spanish regions were authorised to refinance loan operations they had arranged with the State, thereby lowering their funding costs as Spanish government debt yields fell. As a result, banks have been granting these refinanced loans.

Banco Sabadell's market shares in lending and deposits were 10.8% and 7.5%, respectively (figures at end of October 2020). There was a substantial, 44 basis-point year-on-year increase in lending, outpacing lending growth in the system. Deposits were down 97 basis points, a sharper decline than in the system as a whole.

Financial Institutions and Insurers

In 2020, the value proposal for these institutions was further strengthened through products in the categories of treasury, capital markets, mutual funds, research, equity and alternative investment services, consolidating the commercial relationship through a specialised approach that meets customers' needs in the immediate and longer term. Against a backdrop of negative interest rates in the financial markets, deposit taking fell sharply, giving way to a range of value products in 2020, most notably the broader spectrum of mutual funds as a result of the acquisition of Sabadell Asset Management SGIIC by Amundi Asset Management.

The pandemic sparked a clear preference for liquidity on the part of institutional investors and the Division focused on supporting customers through broad-reaching information and investment research.

Religious Institutions

The Religious Institutions Division provides customers with a range of products and services tailored to their specific needs, spanning from transactionality to specialist wealth management.

During the year, the university-level qualification of Adviser to Religious Institutions and entities belonging to the Tertiary Sector was launched for employees and customers belonging to these groups. At year-end, Banco Sabadell was the only financial institution with employees holding this qualification.

During the pandemic, customers were helped to obtain donations securely by means of the “Done” (Donate) system of electronic lecterns specially designed for that purpose. Banco Sabadell currently has 685 devices in the Done ecosystem, including donation lecterns, digital collection boxes and candle holders.

Professional Associations and Associate Banking

Banco Sabadell leads the way in serving professional associations throughout the country. Its services for this segment are based on a close relationship with associations, meeting the needs of their members through a range of specifically tailored financial products and services.

This year, Banco Sabadell supported professional and business associations, informing them regarding the measures implemented by the government (ICO facilities to address the effects of COVID-19, moratoria provided by law, etc.), as well as sector-specific aid, such as the solutions launched by Banco Sabadell to mitigate the virus's impact on economic activity.

The pandemic drove innovation and it is now possible to use digital signatures to sign collaboration agreements with professional and business associations and chambers of commerce.

Associated Banking continues to strengthen the link with corporate and business customers, based on a differentiated range of products and services for their executives and employees, as a significant channel for acquiring individual customers at Banco Sabadell.

This Division's contribution to the acquisition of new individual customers, retailers, SMEs, self-employed individuals and businesses materialised in the form of 3,459 collaboration agreements with active professional associations, enabling us to reach 3,200,000 association members, of whom 772,900 are customers of the Bank and benefit from our customised services.

Official Agreements and Guarantees

The Agreements and Guarantees 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 2020, we highlight the two ICO COVID-19 guarantee facilities: ICO Liquidez (Liquidity) and ICO Inversión (Investment), which helped mitigate the financial impact of the COVID-19 crisis on self-employed individuals, SMEs and companies by providing them with liquidity.

In addition, the various Mutual Guarantee Societies were active in granting new guarantees to customers to palliate the impact of the pandemic.

The Bank continued to market EIB facilities: EIB Agro, EIB Fleet Renewal and the newly-launched EIB Investment and Climate Change.

Private Banking

Through SabadellUrquijo Private Banking, Banco Sabadell offers integrated solutions to customers requiring specialised services and advice tailored to their particular requirements.

The Division comprises 170 private bankers certified by the European Financial Planning Association, distributed over 32 branches and customer care centres to meet the needs of customers throughout Spain who have assets in excess of 500 thousand euros.

2020 was shaped by the impact of COVID-19 on markets and on the day-today relationship with customers; in this regard, SabadellUrquijo Private Banking took a three-phased approach. The first phase involved identifying the damage caused by the impact on global financial markets. Phase two focused on seeking solutions in connection with credit facilities and enhancing digital banking services; and, last but by no means least, the third phase was devoted to seeking investment opportunities through various initiatives in both fixed-income and equity markets, with an ad-hoc offering encompassing a range of the Bank's open-architecture products.

The unit continued its efforts to design and deliver the best range of products to customers. Mutual funds, discretionary portfolio management and alternative investments remain popular in the current context of negative interest rates. Notable here was the sound performance of discretionary portfolio management in 2020, in both absolute terms and compared with their benchmark indices and competitors.

In 2020, Banco Sabadell launched a new Relationship Model which, in addition to providing advice in wealth management, enables us to anticipate other financial requirements, offering customers a specific, appropriate solution in each case.

This model continues to focus on a close relationship of trust between our customers and the 170 private bankers, a relationship that is very highly rated and allows us to continue enhancing customer experience and setting Banco Sabadell apart from its competitors.

At the end of the year, the Bank had advised 27,324 customers, accounting for a total of 27,832 million euros, of which 25,151 million euros were in customer funds, 38% of which was invested in mutual funds and SICAVs.

The challenges for Private Banking in 2021 are to gain efficiency, continue to improve customer experience and build on the commitment to add new digital capacities to the relationship between customers and private bankers.

Personal Banking

Banco Sabadell Personal Banking caters for individual customers with more sophisticated financial requirements. This segment represents 8.38% of all individual customers, and accounts for 22.57% of net interest income and 48.45% of customer funds.

In 2020, Banco Sabadell strengthened the value proposition in this segment, offering greater exclusivity by means of a range of products and services tailored to each customer type. Banco Sabadell has also evolved the way it relates to its customers, adapting to the new context created by COVID-19, offering comprehensive advice in remote format, focusing on both convenience and customers' safety.

Especially notable was the Bank's commitment to expanding the range of savings products for customers through its partnership with Amundi, as a result of which Banco Sabadell has the most comprehensive range in this segment nationwide.

The Personal Banking segment had an active media presence throughout the year through the “Empresarios Optimistas” (Upbeat Entrepreneurs) advertising campaign, in which Banco Sabadell emphasised its position as one of the main players, helping Personal Banking customers to make the best financial decisions.

The strategy for Personal Banking in 2021 focuses on executing the Branch Network Specialisation Plan, through the rollout of the Multilocation Personal Banking Manager, offering specialist services to all customers who do not yet have access to them. This, along with the consolidation of the Amundi partnership, will boost the savings-investment business and increase the share in mutual funds, building on Personal Banking's position as a trendsetter in the Spanish market.

Retail Banking

The retail banking model was implemented throughout the Bank in 2020, enabling almost 400 operating processes to be industrialised and strengthening multi-channel customer management, with the resulting cost savings and productivity boost. Remote customer management and digitalisation were also strengthened, enabling all dealings with the Bank to be performed by self-service channels or using convenient distance means.

The outbreak of COVID-19 also strengthened the retail management model, since customers have opted for remote channels, such as digital or telephone, for their dealings with the Bank. Accordingly, operations at the branch network decreased by 58% overall, and the number of digital retail customers now exceeds 50% of total retail customers.

To boost remote customer management and digitalisation, a broad and intensive communication and support drive was implemented, offering safety advice to minimise the health risks, posting videos showing how to perform common bank transactions and targeting specific actions at more vulnerable groups. Pension payments and unemployment benefits were advanced and customers were informed of this, so as to stagger visits to branches. This far-reaching support programme helped more than 2.5 million customers.

Having implemented and strengthened the retail banking model, initiatives and assistance for customers to operate with the Bank through self-service or remotely will continue to be rolled out, and more customer sub-segments will be added to this model, so as to continue to maximise efficiency and productivity and enhance customers' experience in all their dealings with the Bank.

Sabadell Colaboradores

Sabadell Colaboradores is a lever for acquiring customers and business for the branch network via cooperation agreements with referrers.

This channel's contribution to the Commercial Banking business is highly significant, most notably in terms of:

- Commercial margin (€mn): 221 (8% of the total).
- Mortgages (new contracts): 7,475 (28% of the total).
- Customer acquisition: 29,962 (12% of the total).
- AutoRenting vehicle lease (new contracts): 654 (10% of the total).
- Mutual funds (average balance in €mn): 1,267 (6% of the total).

Five new branches were set up this year for top mortgage partners, aimed at providing a nimbler and more specialised service to collaborators and referred customers. This initiative is part of the programme to centralise the mortgage business which is necessary to adapt the distribution model to new trends in this business.

<u>Corporate segment specialists</u>

Tourist Hotel Business

Banco Sabadell is the first financial institution to receive the “Q" seal of tourism quality, granted by the Institute for Spanish Tourism Quality, underpinning its position as a leader and trendsetter in this sector, offering expert advice coupled with the very highest quality standards.

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

The Tourism Business Division also received institutional recognition from leading entities in the industry, 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.

From the first quarter onwards, when hotels were closed due to COVID-19, the Bank launched a “Support Plan” for the sector, offering a comprehensive range of solutions to meet all needs, including grace periods and payment moratoria on credit lines and loans, credit facilities and lines, as well as ICO and ICO Inversión facilities.

The Division has a portfolio of 12,267 customers and a business volume of more than 4,266 million euros, a year-on-year increase of 7.7%.

Agriculture

In 2020, Banco Sabadell's Agriculture segment (encompassing farming, livestock, fishing and forestry), which has more than 380 branches and 500 specialised account managers, increased its customer base and broadened the range of specific financial products aimed at meeting the needs of customers in this sector.

Banco Sabadell's firm commitment to this sector, in particular through its personalised support for customers, led to a 3.9% increase in business volume compared to 2019. We continue to earn the trust of our customers, whose numbers increased by 4% compared to the previous year.

The agro-food sector, with the exception of certain specific sub-sectors (such as cut flowers) or those directly affected by the temporary closure of the Horeca channel (such as wineries), evidenced its strength and proved to be essential during the COVID-19 pandemic. For this reason, it was less affected than other economic sectors.

The usual trade fairs, however, evidently were affected in 2020, and had to be held online. This constituted another step in the process of digitalising the sector.

Employer Providential Schemes

By means of its Providential Schemes Division, Banco Sabadell offers solutions and responses to our customers to help them better implement, manage and develop their providential schemes through pension plans and group insurance policies.

In 2020, further progress was made in implementing the life-cycle model among the Bank's customers, a model which adapts customers' investment profile to their age and circumstances, optimising the return on the investment and the protection of accumulated wealth.

For 2021, group providential schemes are expected to be further developed, underpinned by legislative changes proposed by the government, as well as by agreements under the Toledo Agreement. Banco Sabadell stands ready to help its customers with simple, fast custom solutions in pension plans and group insurance as well as flexible remuneration savings solutions.

Real Estate

The Real Estate area focuses on integrated services to the residential development business by means of a mature specialised business model.

Banco Sabadell's commitment to this sector has led to a year-on-year increase in developer mortgage loans, guarantees and reverse factoring, with a growing associated margin.

2020 was shaped by the situation unleashed by COVID-19, but the Real Estate area nevertheless arranged deals worth a total of 1,490 million euros (down 23% on the previous year), with a margin above 49.3 million euros (down 2% on the previous year).

The Real Estate Division focuses on boosting home deliveries so as to minimise the potential negative impact, as well as monitoring sales in progress.

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 soundest customers, with the aim of minimising risk and maximising profit for Banco Sabadell.

Franchising

Banco Sabadell is a leader in the Franchising segment, where it has more than 25 years of experience reaching agreements with the foremost franchising brands, which refer potential customers wishing to open new franchises in Spain.

Banco Sabadell offers specific customised financing, transactionality and protection solutions via the branch network with the support of the team of specialised Franchise Managers.

Banco Sabadell works closely with the Spanish Franchisors' Association, and was the first bank to secure its partnership and support in this business model.

The franchise market is a growing sector with considerable capacity to absorb the impact of the health crisis due to the backing of major franchising brands. Franchise customers are more valuable (x2 in terms of margin, x3 in loyalty and with very low delinquency: 0.8%) and it is key segment in the corporate business's growth strategy. We have more than 900 brands with referral agreements and more than 7,300 franchise customers who contribute more than 20 million euros to the annual margin.

BStartup

Banco Sabadell's BStartup is the leading banking service in Spain for newly-created innovative and technology enterprises. It bolsters the banking business by means of a relationship model based on concentration and specialisation, boosting productivity and increasing the margin contributed by these young companies that sometimes attain exponential growth and can have very exacting transactional demands. Despite their youth, the average margin in this customer category in 2020 was 2.84 higher than the overall average among business customers. This segment also scores higher according to other yardsticks, including internationalisation (49.2%. vs. 14.3%) and loyalty (an average of 12.27 products, vs. 6.96), based on figures for November 2020.

The figures are starting to confirm the idea with which this service was launched 7 years ago: the large corporations of the future will emerge from among these companies with alternative development models and activities. In fact, this year 85 of them have already contributed a margin that exceeds the average for business banking customers. We take a distinctive approach to these customers, based on a holistic proposal that takes into account everything a startup might need from a bank:

- Banking products and services specialising in startups, scaleups and the entrepreneurial ecosystem in general. A new distribution model implemented in 2019 was further strengthened in 2020. This model involved 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). These managers deal only with startups. In 2020, work continued on the concentration of all Catalonia in Barcelona, creating two new portfolios in that city. Additionally, specific powers of attorney were granted to certain staff members in BStartup. Hence, at the end of the year, there will be 10 DPyme BStartups branches. Moreover, in the rest of territories, we have 29 BStartup branches where staff received specialist training during the year. As a result of the COVID-19 situation, there has been a considerable focus on supporting this specialised network and numerous ICO-backed financing deals have been arranged. The total amount arranged in the first half of 2020 matched the figure for 2019 as a whole.

- Investment in equity. This is the traditional method of financing startups in their early phases, and, thanks to the BStartup10 programme, the Bank is present in all forums for newly-created innovation and technology companies. This vehicle, which every year invests a total of 1 million euros among 10 startups in the seed phase, is already obtaining very positive returns, and has a portfolio of 54 investees. Despite the health crisis, its investment activity has continued in areas of technology and innovation that have actually been strengthened since the pandemic, such as cybersecurity or healthcare. Accordingly, in 2020 it held round three of the BStartup Health programme for investing in medical device manufacturers and biotechnology companies, receiving applications from a total of 146 candidate projects from all Spain's regions. Eleven new investments were made in various sectors by the end of the year.

- . BStartup works as an innovation radar due to its presence in forums for innovative enterprises in Spain and its agreements with numerous partners. As a result, it filters and channels potential opportunities to *InnoCells* and other Divisions. For example, during the year a proof-of-concept was conducted with the Advanced Customer Marketing & Analytics unit and a project was implemented involving the Sabadell Go Export platform as a partner.

During the year, BStartup organised or actively participated in 135 entrepreneurial events, most of which were online because of the pandemic, but we stayed connected to the entrepreneurial ecosystem and we even managed to reach more entrepreneurs than before.

Consequently, in 2020 BStartup strengthened its impact and positioning among newly-created, innovative businesses, as evidenced by its 1,606 mentions in offline and online media, its 13,209 Twitter followers, and its presence in trending topics in the Bank's social media in most months, always with positive coverage.

Business volume increased by 46% to 797 million euros (207 million euros in assets and 591 million euros in liabilities) and there was a 7.6% rise in customer numbers, to 3,467.

Companies Hub

Banco Sabadell's Companies Hub helps to position Sabadell in the companies segment (especially SMEs) 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. It is also an instrument for creating valuable relationships.

The initiative was launched in May 2019, when the first Companies Hub space was opened in Valencia. This is a special space focusing on business growth, a meeting place in the city centre for all kinds of companies, which receive:

- 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, as well as to learn from others' experience.

- It is a quality workspace at the disposal of business customers, equipped with: meeting rooms, individual workspaces, flexible workspaces for organising meetings with employees or customers, lounge and coffee corner in which to network with other companies and with Sabadell professionals and identify new opportunities.

From 1 January 2020 and until the space was closed due to the health crisis on 12 March, 26 activities were held by the Bank and the space had been booked by 5 businesses, 72 companies had received advice, and meeting rooms had been booked by customers on 100 occasions. A total of 2,552 people had taken part in activities at the Valencia Companies Hub in just over 8 weeks, evidencing the traction the space had already gained in the city as a centre for business.

Digital Companies Hub (Webinars)

To continue supporting our customers precisely during these times of maximum uncertainty, and adapting to the restrictions and new circumstances, on 3 April we held the first webinar entitled “Reinventing yourself in times of lockdown. Best practices for your e-commerce business.” In the first few weeks we targeted these actions towards customers from the Eastern Region, which was already familiar with and involved in Companies Hub initiatives. However, in view of the excellent response in terms of participation and rating, the Companies Hub concept was taken online to benefit businesses and self-employed individuals located throughout Spain.

Accordingly, the Digital Companies Hub is an online programme for synchronous training sessions aimed at all kinds of companies, led by experts in the sector and by Sabadell specialists, with valuable practical content linked to current hot topics, in which participants may ask questions and experts respond.

It currently sets a monthly calendar with at least two sessions per week. Since 3 April, a total of 63 webinars have been held, attended by 17,652 online participants. Participants rate these sessions very highly: they have scored an average of 8.5 out of 10 in topic and content, and of 8.7 out of 10 in the quality of the instructors, with 30% of those surveyed granting a score of 10 out of 10.

Hence, the pandemic has accelerated the virtual migration of Banco Sabadell's Companies Hub, which now offers two different kinds of service, with the same goal:

- online services for companies and professionals throughout Spain.
- in-person services in Valencia (to be resumed as soon as the health situation allows).

<u>Commercial Products</u>

Financial services

The year 2020 proved to be very challenging, in which the process of digital transformation continued to be crucial to help customers manage their payments and receipts.

Payment

The POS terminals business was hampered by the crisis unleashed by COVID-19, especially due to the temporary closure of retail establishments and the decline in foreign tourism. Consequently, turnover fell by 10.2% year-on-year. This new scenario drove solutions such as PHONE&SELL to facilitate distance selling for traditional brick-and-mortar retailers. Through subsidiary PAYCOMET, which specialises in digital payments, a process commenced to gradually furnish Banco Sabadell with innovative products for payment at retailers.

With the exception of the March-May period, turnover in the credit card business was similar to the previous year, with a total cumulative decline of 2.6%, although the impact of COVID-19 was very significant due to the restrictions on our individual and business customers' usual shopping activity. During this period, e-commerce purchases increased by around 8.6% and security in this kind of transaction has been enhanced, adding reinforced customer authentication (a requirement of PSD2) over the course of the second half of the year.

The high uptake of services associated with mobile payments, which have grown by more than 80%, evidence the steady increase in the digitalisation of our customers' payments.

Cash Management Service

This year, work continued on the optimisation and digitalisation of cash, focusing efforts on providing a service that meets the needs of retailers, companies and public administrations in managing both coins and bills.

In 2020, we continued to add solutions that are increasingly suited to the needs of these establishments, with the firm aim of helping Banco Sabadell customers to improve the cash flow efficiency of their businesses.

The idea is to offer integration between the customer's management systems and the Bank's payment systems, as well as to provide a cash collection service where necessary, offering competitive financing for the overall solution whenever customers need it.

Savings and Investment

With regard to savings and investment products, the most significant event was the signing of a strategic agreement between Banco Sabadell and Amundi Asset Management aimed at placing savings and investment in a central position in the Bank's relationship with customers.

Amundi is Europe's largest investment manager and is among the world's ten largest in terms of assets under management. Amundi has outstanding capacities and experience in its relationship with bank distribution networks and this, along with the advisory services of Banco Sabadell's branch network, will help provide customers with the best investment solutions.

During the first few months of the agreement, new products were added to the range, notably including services for customers with more conservative profiles, various liquidity management alternatives for companies, and diversification opportunities for customers with larger balances, all in a very difficult context.

The main roll-outs included:

- Amundi Funds Protect 90, FI, a new generation of investments capable of adapting to various market scenarios with the dual aim of obtaining returns and partially protecting savings.

- The idea is to build on the market opportunities offered by products like Sabadell Horizonte 2026, FI and Amundi Buy & Watch High Income Bond 08/2025, FI, which are aimed at customers in the Private Banking and Personal Banking segments. These funds tapped the investment opportunity offered by private fixed-income after the market corrections in April.

- The first set of Sustainable funds was launched in July: Sabadell Acumula Sostenible, FI and Sabadell Crece Sostenible, FI. These were the first mutual funds in the range to invest on the basis of ESG (environment, social and good governance) factors. Close to 7,500 account managers received training in responsible investing.

- Moreover, the crisis unleashed by COVID-19 exacerbated the context of negative interest rates in Europe. Central banks held interest rates close to zero or even in negative territory so as to avoid an even deeper crisis and to foster a fast recovery. As a result, any wealth that is kept liquid has a cost. This especially affects business customers, who require an alternative to meet their liquidity and risk limitation needs.

  Accordingly, business liquidity solutions were developed. A selection was made of four money-market and fixed-income funds with time horizons ranging from 1 day to 2 years. Two new mutual funds — Amundi Cash Institutions, SRI and Amundi 6M — were added to the range, which includes Sabadell Rendimiento, FI and Sabadell Interés Euro, FI.

Moreover, investment continued during the year to develop and strengthen the technology solutions required to offer the advisory model in savings and investment products. Developments focused on improving the usability of managers' applications and on adapting systems to offer services remotely, enabling digital signatures on most operations.

Support for the branch network played a vital role, and was reinforced, where necessary, in a segmented fashion by commercial functions and territories.

Furthermore, customer support was greatly enhanced, especially by means of new content sent to customers by e-mail and/or posted on the *estardondeestes* website, social media, digital newspapers and audiovisual platforms.

There were two major new and improved solutions for Personal Banking customers. One was access to the portfolio advice model based on model portfolios classified by risk profile. And the other was Conversations, a new financial planning guide that we use to engage in valuable conversations with our customers with a clear goal: to help them make the best financial decisions.

The Ahorro Expansión service is being offered to customers in the Retail Banking segment, in view of the current context dominated by the pandemic which has evidenced the need for households to reconsider their economic priorities and set aside some savings. Ahorro Expansión is a new, smart, simple digital savings method to help customers get into the habit of periodically setting aside an amount of their choosing from their usual account. The solution is aimed at making saving easier for customers by automating the routine. The idea is to build savings week by week from small contributions to an amount — especially helpful to people who are not in the habit of saving.

Funding Solutions

Trends in financing for individual customers, both consumer loans and mortgages, were shaped by the pandemic and by a change in customers' spending habits. The increase in digital customers and in the use of tools that allow loans to be arranged online or remotely has simplified processes for consumers, especially in consumer lending.

Production in the first quarter of 2020 was in line with the year-ago quarter, but demand at branches declined in the second quarter as a result of the pandemic. In order to continue supporting our customers, an array of solutions were launched to help customers affected by the COVID-19 situation through the loan holiday implemented by the Spanish government and the moratorium adopted by the Spanish Banking Association (AEB).

Demand began to pick up in the second half of the year, with the increased use of digital tools to enable consumer loans to be arranged digitally end-to-end.

In mortgage production, we continued to boost the fixed rate range, which provides customers with greater security amid the uncertainty of financial markets (80% of new mortgages are now fixed rate).

Financing aimed at acquiring sustainable assets remains a priority for the Bank, and it now offers two new products in this connection, namely the ECO loan for refurbishments and the Green Mortgage, with which the Bank reiterates its commitment to achieving a more sustainable economy.

With regard to short-term financing solutions, Línea Expansión continued to offer individuals a fast flexible way of accessing financing entirely online.

Working capital financing for businesses was directly impacted by the low business activity deriving from the COVID-19 crisis. In any event, companies have continued to make active use of specialist financing products to fund their receipts and payments, such as factoring and reverse factoring, as well as more traditional products such as discounting and credit lines.

The difficult circumstances of 2020 led to a 20.8% decrease in factoring activity. Reverse factoring performed better, declining by 10.9%.

In any case, in 2020 a considerable effort was made to adapt the range of credit and reverse factoring policies to companies' needs, developing solutions for these products linked to ICO guarantee facilities.

Note also the financing solutions for companies and self-employed individuals to meet the needs of their businesses and overcome the economic effects of COVID-19, including financing linked to ICO facilities.

Leases (finance or operating)

In 2020, Sabadell Renting focused activities in its vehicle lease business on sustainability as a driver of change. Because of the pandemic, we made our product more flexible to adapt it to market needs, including a grace period, asymmetrical instalments and per-kilometre leases, in a bid to respond to customers' demands, for example in essential sectors and for private individuals. At the same time, the digital product range was reinforced in order to increase the uptake of online leads and sales through this channel.

Sabadell Renting has built upon the capital goods business's focus on sustainability, with a range that includes sustainable products such as solar panels, electric vehicle charging stations, LED lighting, etc. It has also adapted its range of products and services to the current situation, marketing products such as Trabajo Seguro (for a Covid-free working environment at companies and retail establishments), Trabajo Activo (technology leasing for teleworking and in-person working) and Learning Renting (an initiative to modernise the IT capabilities of schools, teachers and students). It also strengthened specific value proposals for customer segments—such as agriculture or religious institutions—where it is a strong market player.

In 2020, Banco Sabadell adapted its range of leasing products to the Covid situation and our customers' new requirements. Accordingly, the "leasing delivery" product was launched to finance delivery vehicles, and protective equipment leasing was introduced to finance the necessary investments to adapt to new healthcare regulations. Furthermore, to support projects, real estate ECO leasing was introduced, to provide favourable terms for acquisitions of industrial warehouses and commercial premises certified with energy ratings A or B.

Bancassurance

At 31 December 2020, the Banco Sabadell Group's pensions and insurance business was based on 50%-owned insurers and the pension manager under the agreement with the Zurich Group (BanSabadell Vida, BanSabadell Seguros Generales and BanSabadell Pensiones) and the revenues from the bancassurance broker (BanSabadell Mediación).

The contribution of net profit and marketing fees to the Banco Sabadell Group's consolidated figures amounted to 53.3 million euros and 176.5 million euros, respectively, at year-end. The lead company in the strategic alliance, BanSabadell Vida, reported business volumes that ranked it among the leaders of the sector in terms of savings managed and premiums issued. Bansabadell Seguros Generales logged significant growth in premium volume (8.2%) buoyed by subscriptions to its Blink policies (Household and Autos) and the co-insurance agreement with Sanitas, a leading health insurer.

The future strategy for the Bancassurance business is based on further digitalisation of solutions and processes in order to enhance the customer experience whenever they interact with the company, and also on adapting the range to the requirements of each customer profile, in property and casualty, personal or business solutions, as well as in savings and providential products. This line also encompasses plans to develop the health business, through an agreement with Sanitas and the ongoing development of providential solutions to adapt to market demands. The situation triggered by COVID-19 in 2020 posed a major challenge in responding adequately to the situation of each of customer and, at the same time, it changed the forward-looking strategy to adapt to the significant challenges facing the sector in the short term.

International solutions

In the International Business, COVID-19 had a significant impact from March 2020 onwards. Imports and exports registered growth in the first quarter of the year, but stagnated from the second half of March until the end of June as a result of lockdowns. Activity returned to a semblance of normality from June and July, as evidenced by the positioning in export documentary credit, where 1 in every 3 transactions (30%) involved Banco Sabadell, and in import documentary credit, where the figure is 1 in every 5 (15%).

This stagnation in activity triggered a change in the trade trends, with International Business Managers focusing mainly on supporting companies as they faced new scenarios in documentary operations and goods transport in Spain. Efforts were aimed at supporting the continuity of operations hampered by the restrictions on international mobility and their effects on the distribution of goods, and ensuring a successful outcome.

At the same time, work was ongoing to improve financing products and remote operations with companies, primarily in documentary products.

In terms of products: the ICO Comex facility was launched to finance Spanish companies' main export and import activities, covering export pre-financing and import financing, invoice replacement and commercial discounting, providing comprehensive support to the working capital requirements of Spanish companies focusing on international business.

A direct pay letter of credit (Direct L/C) service was launched through online banking in order to generate digital documentary credit operations 24/7. In this way, we are supporting customers by issuing letters of credit digitally, facilitating the entire digital process.

As a differentiating element, this year a series of sessions on international business was launched, targeting a group of more than 5,000 Spanish companies interested in entering or developing their presence in international markets.

As part of the Export to Grow programme, various technical sessions provided information on logistics and customs in the main markets for Spanish companies.

Early in the year, due to the introduction of Incoterms 2020, a number of training sessions were held throughout Spain to keep companies informed regarding these requirements.

Building on the success of past editions, another training cycle was implemented for companies in the Sabadell International Business Programme, aimed at helping companies to draft a plan to foster international business.

Also during the year, due to the increase in digital foreign trade operations and cyber fraud, we launched two initiatives. The first was to create a specific cyber fraud factsheet for international operations and to set up specific training sessions for companies in order to raise awareness regarding the increase in this kind of fraud and how to prevent it.

The second was to publish an international business newsletter with articles of interest for Spanish companies interested in internationalisation and in expanding foreign trade, offering a technical perspective concerning the most salient current issues for internationalised companies.

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 partnerships with retailers.

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

In 2020, activity was hampered by the March-May lockdown triggered by the pandemic, in which production fell to just 37% of the previous year's figure. However, once activity resumed, the sharp decline was largely offset, to a total and production reached 85% of the previous year's level.

This recovery, which was a direct result of the company's swift commercial coverage and rapid response to immediate operating needs, boosted Sabadell Consumer Finance's market share.

The delinquency rate was 5.8%. The loan-loss coverage ratio was 95.57%.

Sabadell Consumer Finance drew up a successful plan to tackle the impact of Covid, providing an efficient response to both referrers and end customers, adapting to the consumer protection policies indicated by regulators and in accordance with the principles of the company's agreements and those of the group.

For the next year, the plan is to continue boosting links to current referrers and financing mobility in buildings and improvements for ownership associations and energy efficiency, implementing actions in the company's systems and processes aimed at digitalising the business, with a view to both internal efficiency and enhancing the experience of our customers and retail establishments.

Overall, the company performed 202,946 new transactions through more than eleven thousand points of sale distributed throughout Spanish territory, resulting in 897.2 million euros of new loan production in 2020, bringing the company's total outstanding exposure to above 1,690 million euros.

These improvements helped the company to keep its cost-to-income ratio to 32.98%.

Corporate & Investment Banking

Business overview

Corporate & Investment Banking offers financial solutions and advisory services to large companies and financial institutions, both Spanish and foreign, 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 2020

Corporate & Investment Banking continued to evolve in 2020 to improve the value contribution to our customers and thereby help enhance their growth and future results. To this end, we 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 exceptional circumstances of 2020 as a result of the health crisis led the CIB team to work especially hard, particularly from the second quarter onwards, to support our customers, either by providing liquidity solutions or offering the necessary advice to strengthen their financial situation.

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

- Know-how through specialisation. The Corporate Banking teams located in the various geographies where we operate have not only specialised knowledge of the large corporates segment but also 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, in transactions and even in how we coordinate among ourselves.

As in previous years, the key figures that best define Corporate & Investment Banking's performance will continue to be total revenues, risk-adjusted return on capital (RAROC), strict risk monitoring and advance warning of potential impairments, as well as the net promoter score (NPS), which is the best measure of how our customers perceive the service.

Key figures

Net profit amounted to 93 million euros in 2020, a year-on-year decrease of 48.0%, due to higher NPL provisions and lower revenues from more sluggish activity as a result of the pandemic.

Gross income totalled 472 million euros, a 7.5% increase on the back of the positive contributions from the sale of loans as compared to 2019, and net banking revenues decreased by 3.0% to 458 million euros.

Net interest income amounted to 317 million euros, down 2.8% on the previous year, due mainly to lower interest rates.

Net fees and commissions amounted to 141 million euros, a 3.4% drop on the previous year.

Net trading income and exchange differences increased as a result of extraordinary sales of loan portfolios in 2020.

Operating expenses and depreciation and amortisation charges totalled 144 million euros, down 4.6% year-on-year.

Provisions and impairments amounted to -230 million euros, a significant increase compared with the previous year due to higher insolvency provisions.

Million euro

	2020	2019	Year-on-year change (%)
Net interest income	**317**	**326**	**(2.8)**
Fees and commissions (net)	141	146	(3.4)
Net banking revenues	**458**	**472**	**(3.0)**
Net trading income and exchange differences	19	(19)	(200.0)
Equity-accounted affiliates and dividends	1	(4)	(125.0)
Other operating income/expense	(6)	(10)	-
Gross income	**472**	**439**	**7.5**
Operating expenses and depreciation and amortisation	(144)	(151)	(4.6)
Pre-provisions income	**328**	**288**	**13.9**
Provisions and impairments	(230)	(39)	489.7
Capital gains on asset sales and other revenue	35	7	400.0
Profit/(loss) before tax	**133**	**256**	**(48.0)**
Corporation tax	(38)	(80)	(52.5)
Profit or loss attributed to minority interests	2	(3)	-
Profit attributable to the Group	**93**	**179**	**(48.0)**
Cumulative ratios			
ROE (profit / average shareholders' equity)	7.0%	13.9%	
Cost-to-income (general administrative expenses / gross income)	27.8%	31.7%	
NPL ratio	3.2%	1.2%	
NPL coverage ratio of Stage 3	61.6%	109.6%	

Outstanding gross loans and advances increased by 3.0% and customer funds on the balance sheet declined by 7.8% as a result of demand deposit performance, while off-balance sheet funds decreased by 4.1%.

Million euro

	2020	2019	Year-on-year change (%)
Assets	**22,315**	**24,669**	**(9.5)**
Outstanding gross loans and advances	15,376	14,934	3.0
Liabilities	**20,941**	**23,350**	**(10.3)**
On-balance sheet customer funds	7,348	7,968	(7.8)
Allocated capital	**1,374**	**1,319**	**4.2**
Off-balance sheet customer funds	**605**	**631**	**(4.1)**
Other indicators			
Employees	746	709	-
Branches	20	20	-

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 2020

The year 2020 was shaped by the outbreak of a health crisis that affected both households and business, although, in the latter case, unevenly from one sector to the next. Crucially, authorities and the banking sector joined forces to roll out aid and implement measures to mitigate the crisis for companies, with banks taking a very active role by providing either the necessary liquidity or the support and advice needed to find a range of solutions to help businesses strengthen their financial position.

Against this backdrop, net lending increased by 8.64% in 2020, to 18,388 million euros, of which 62.36% were loans outside Spain (lending abroad increased by 10.65%). 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 shrank by 0.36% in 2020, concentrated mainly in countries under the influence of the euro, in response to a policy of not actively pursuing deposits given the Banco Sabadell Group's ample liquidity position.

The results, expressed as net revenue, were very favourable, increasing by 9.60% in 2020. RAROC, specifically in the EMEA region where its performance is closely monitored, was 13.7% at year end, slightly lower than in the previous year (14.00%), due mainly to lower revenues from customer deposits and an increase in the cost of risk, both of which were partly offset by the larger contribution from fees and commissions and, in particular, those associated with value products (M&A, DCM, ECM, structured finance, derivatives, etc.), which rose 32.99% year-on-year.

Priorities in 2021

In 2021, we will continue to focus on contributing value to the large corporations segment in the various markets where they operate, with a range of services aimed at covering 100% of their current and non-current financing needs and as well as providing direct on-balance sheet funding or even financing through investors with DCM / ECM products. Contributing value to the large corporations segment and ensuring value for our shareholders in the form of profitability will remain crucial in our approach to this capital-intensive segment.

<u>Treasury and Markets</u>

Business overview

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

In addition, it manages the Bank’s short-term liquidity position and handles and oversees compliance with regulatory coefficients and ratios. It also manages the risk in the proprietary trading book and interest rate and exchange rate risk, basically due to operational flows with both internal and external customers originating from the activity of the Distribution units.

Management priorities in 2020

The Treasury and Markets Division responded swiftly to the impact of COVID-19, implementing teleworking and adapting systems without compromising the high quality and security standards. COVID-19 strengthened the Division's commitment to increasing the digitalisation of its operations with customers, improving the Sabadell Forex application, increasing the electronic delivery of documentation and establishing new communication channels with customers. Projects focusing on broadening the range of foreign currency products and savings and investment products were implemented to adapt to the new market situation, which has placed new demands on our customers. Trading capacity was enhanced to undertake and control currency risk generated by our customers.

Priorities in 2021

In 2021, activity linked to foreign currency products will continue to be a core pillar of the strategy, and projects will be rolled out in connection with the Sabadell Forex platform that offer added value services to our customers. With regard to institutional customers, capacities will be enhanced so as to offer a broader range of products tailored to this segment, also on the back of the forecast growth in the Capital Markets Division. In trading, the aim is to boost the capacity to manage risk on our own books, reducing hedges with other entities, and continuing to develop collateral management in order to take the fullest advantage of it.

<u>Trading, Custody and Research</u>

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 revitalises the offering of brokerage and custodian services for retail and private banking customers and Group companies

The COVID-19 pandemic affected the way our equity investors connect with our brokerage service. We now receive 95% of equity purchase and sale orders from our branch customers through the digital platform, whereas prior to the pandemic the figure was closer to 85%. At present, the channel most used by retail customers to send sale and purchase orders is the Bank's mobile app.

The makeover of our online platform, which involved a significant improvement in the quality of the research service and access to markets compared with the previous version, has paved the way for a natural transition in the way our investing customers operate.

Management priorities in 2021

To grow the equities brokerage business, in Spain and other countries, by working along three lines: firstly, improving retail customers' experience by developing and broadening the range of services in our Sabadell Broker digital platform, contributing value with investment ideas and recommendations from our Research service; secondly, building an exclusive service for access to brokerage via our equities trading desk, to cover the liquidity of Spanish companies listed not only in Spanish stock markets but in international bourses; thirdly, enhancing our international agent banking service for listed Spanish companies seeking financing in regulated international equity and fixed-income markets.

Structured finance

Business overview

Structured Finance encompasses the Structured Finance and Global Financial Institutions units. This Division operates globally and has teams in Spain, the US, the UK, Mexico, France, Peru, Colombia and Singapore.

Structure Finance 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 operations in Spain and other countries. The Division is also involved in trading in the primary and secondary markets in syndicated loans.

Line of business	
Specialist Finance	**Advisory/Distribution**
Project Finance and Asset Finance	Syndication
Corporates and Acquisitions	Commercial Real Estate
LBO (Leveraged buyout)	Global Financial Institutions
Trade Finance	

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.

Management priorities in 2020

In 2020, Banco Sabadell maintained its policy of supporting customers and adapting to meet their emerging needs within the Spanish and international 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 3rd among the leaders in project finance in the Spanish market

Syndicated loan MLAs — Spanish market 2020:

Million euro

Ranking	*Mandated Lead Arranger*	Amount	Number
1	Santander	9,334	165
2	BBVA	6,368	127
3	Bankia	4,717	114
4	CaixaBank	5,733	108
5	Banco de Sabadell SA	3,714	82
6	BNP Paribas	3,440	38
7	Credit Agricole CIB	2,264	27
8	SG Corporate & Investment Banking	1,680	24
9	Deutsche Bank	1,738	19
10	Natixis	1,326	12

Project finance MLA — Spanish market 2020:

Million euro

Ranking	*Mandated Lead Arranger*	Amount	Number
1	Santander	911	24
2	Bankia	857	24
3	Banco de Sabadell SA	645	18
4	Bankinter	376	14
5	CaixaBank	545	11
6	BNP Paribas	635	10
7	Abanca Corporacion Bancaria SA	299	10
8	Credit Agricole CIB	348	8
9	BBVA	258	6
10	ING	248	6

The year was shaped by the impact of COVID-19, which also affected Structured Finance. We managed to successfully adapt our teams to remote working in all regions without impacting on the activity, due to the agility afforded by a combination of the latest technology and a highly committed group of people.

That obliged us to provide an organised response to companies' liquidity requirements, maintaining the pace of new project finance contracts (relatively unaffected by COVID-19, such as renewable energy projects).

Strategies and Priorities in 2021

The year 2021 will unquestionably be affected by the ongoing impact of the pandemic, and we must adapt to the "new normal" in business.

The priorities for the next year will focus on:

- Supporting our customers by designing tailored, long-term financing structures for new projects, acquisitions, internationalisation, etc.
- Helping our customers to restructure their debt in the wake of COVID-19 through syndicated loans that ensure stable debt positions, evaluating potential solutions in combination with capital markets.
- Continuing to lead deals, underwriting and subsequently syndicating when circumstances allow, in order to offer our customers the most comprehensive solution.
- Forging an even closer relationship with our entire network of correspondent banks to optimise the entire foreign trade service.
- Making further progress in incorporating ESG and sustainability criteria into structured deals.
- Studying new sectors of activity (fibre, logistics, etc.) so as to secure the broadest and most specialised offering possible in all the countries where we operate.

Capital markets

Capital Markets is the CIB Division that coordinates the channelling of institutional investors' liquidity to the Bank's business customers, in both debt products and capital instruments.

Furthermore, via its M&A areas, SCF provides advice on company acquisitions and disposals, mergers and the incorporation of new shareholders.

2020 was a year of consolidation for Banco Sabadell's Capital Markets franchise, with a 68% increase in earnings despite the difficult circumstances.

The team was again one of the most active in the origination of public issues, taking part in 48 in total, most notably by Spanish regions, acting as Joint Lead Manager for the Madrid, Galicia and Basque regions. 2020 was another record year in terms of the Capital Markets Division's participation in commercial paper programmes, attaining a market share of over 15%.

The team strengthened its involvement in niche operations such as project bonds, securitisations and direct lending. With regard to renewable energy project bonds, two public deals were arranged amounting to 645 million euros, with a monoline guarantee, rated AA by S&P.

This year the Division made a strong commitment to the domestic middle-market segment. Capital Markets structured the first receivables securitisation trust, financed via commercial paper underwritten by CESCE and rated A-. Capital Markets also remained focused on tailored financing solutions, in bond or loan format, in a variety of sectors, from real estate to infrastructure.

The Equity Capital Markets team strengthened its position by means of various operations, notably as joint bookrunner in the Cellnex follow-on issue, and co-bookrunner in the same company's convertible bond issue.

It was an exceptional year for mergers and acquisitions, with the merger of two leading manufacturers of fluid conductors in Israel and the following sale transactions: a container terminal in Turkey, an elderly home care services firm to Urbaser, vocational training company MasterD to KKR, a portfolio of wind and solar farms with an installed capacity of 74 MW and a baby food company to an Italian mutual fund.

The Capital Markets Division's strategy in 2021 involves building the business to make extraordinary earnings recurrent as part of the process to channel investment to our business customers.

2021 must be the year of consolidation of the SME financing project, as well as projects such as the Senior Debt Fund, the factoring initiative with institutional investors and a fund focusing on the hotel sector.

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 2020

Banco Sabadell Capital managed the portfolio very actively, especially in those companies most affected by the impact of COVID-19. Specifically, action plans were devised for Aurica III investees, coordinating the internal and external communication of this impact on the portfolio.

Notable actions include the push for investment, along with Capital Markets, in a Senior Debt Fund to finance Spanish middle-market companies; work on the REM 2.0 project targeting middle-market companies; and European Investment Fund guarantee for venture debt and mezzanine loans.

In venture capital, Aurica III arranged investments in three new companies.

In renewables, note the restructuring and sale of the Gate Solar project, as well as the entry into operation of a solar plant in Chile, and the commissioning and financial completion of farm in Mexico, both already in the portfolio.

In venture capital, development of the Framework of Action continued, having invested in more than 15 digital or tech startups.

With regard to Banco Sabadell's global strategy in the healthcare sector, the investment in Ysios Biofund III FCRE was formally arranged, and there is a commitment to invest in the Ship2B Impact fund, focused on ESG projects.

In addition, Banco Sabadell divested its position (bankruptcy debt and equity) in Nueva Pescanova, S.L., and sold a portfolio of wind and solar projects after restructuring.

Strategies and Priorities in 2021

Banco Sabadell Capital will work to achieve ready-to-build status in certain renewable projects, and to arrange the sale of other projects in operation.

The aim is also to complete fundraising for the Senior Debt Fund and commence operations in the first quarter, as well as to undertake initial deals in the COR / REM 2.0 project.

The Division plans to apply for and access a new Pan-European Guarantee Fund (EGF) from the EIF, aimed mainly at SMEs and SMCs, for new venture debt and mezzanine operations.

With regard to Private Equity, the Division plans to start fundraising for Aurica IV.

<u>Sabadell Miami Branch</u>

Business overview

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

. 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.

<u>Sabadell Securities USA, Inc.</u>

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 2020

2020 was already expected to be a year of low interest rates, making it very challenging, but the emergence of the COVID-19 pandemic at the end of the first quarter forced the Federal Reserve to aggressively cut rates, pushing the benchmark rate to zero. This deterioration in global economic conditions and low interest rates put pressure on the Branch's performance.

In order to safeguard the Branch's net profit, strategies were implemented and developed to protect net interest income, fees and commissions, cut operating costs and contain delinquency. These goals materialised in the form of a set of initiatives, including:

- Protecting margins:
    - Implementing a system to improve monitoring and performance of customer deposits in order to quickly adapt the cost of deposits to market rates.
    - Tapping price opportunities in the secondary market for syndicated loans generated by the economic uncertainty as a result of the pandemic. The economic shock created the conditions for these instruments pertaining to companies with solid fundamentals to be undervalued. In 2020, this strategy contributed 4.5 million dollars to the net margin.
- Generating fees and commissions:
    - Efforts to standardise fees and commissions and reduce exceptions, as well as to migrate from mutual funds custody, improved the average return from fees generated by the Private Banking business in 2020, despite the corrections in market value in the first half of the year.
- Cutting operating expenses: at the end of the third quarter, an efficiency plan was implemented to adapt the Branch's structure to current market conditions and the new operating dynamic.
- Containing delinquency: definition and launch of processes for early detection and monitoring of loan operations affected by the economic conditions stemming from the pandemic.

In addition, efforts continued in 2020 to achieve greater financial self-sufficiency and operating improvement. Highlights include:

- Updates of the technology platform (Project Aspire) continued, in order to improve the capabilities available to customers and business and support units. In October 2020, the Core banking system update was completed, an important step in Phase II. The project was completed within the established deadlines and under budget. 25% of this phase remains to be completed and Phase III has yet to commence (expected to conclude in 2023).

- Yankee CDs issuance to institutional customers commenced, adding alternative funding sources at an appealing cost.

Key figures

In 2020, the volume under management exceeded 14,000 million dollars, an increase of 8.0% year-on-year. Customer loans and advances increased by 14.0% to almost 6,000 million dollars, while customer deposits fell by 3.0% to around 3,500 million dollars. Off-balance sheet customer assets also increased, by 9.0%.

Net interest income amounted to 130 million dollars, down 9.2% year-on-year as a result of lower interest rates since the end of 2019. Net fees and commissions came to 45 million dollars, a 5% increase on 2019. Gross income amounted to 175 million dollars, a year-on-year increase of 5.7%, while administrative expenses and depreciation and amortisation charges rose by 1.7%, including part of the effect of investment in the technology platform. Net profit in the year amounted to 75.5 million dollars, a year-on-year decrease of 9%.

Asset Transformation

2020 marked a milestone in the Group's strategy to reduce NPAs, which it commenced in 2018 by arranging the sale of significant NPA portfolios and the sale of 100% of SDIN Residencial, S.L. Completion of these sales signified a comprehensive transformation of the Group's risk profile, by normalising the volume of problem exposures, especially real estate assets.

In 2020, due to the COVID-19 crisis, a plan was rolled out to support customers with a view to providing solutions to the financial difficulties resulting from the lack of activity and lockdowns.

Business overview

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

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

The Asset Transformation Division, as part of the Risk Management Division, takes advantage of their accumulated experience and know-how to boost synergies and achieve four fundamental goals:

- 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.

Management milestones in 2020

In 2020, Banco Sabadell tackled the crisis unleashed by COVID-19 by supporting its customers, affording them solutions tailored to their needs. The Division closely monitored customers' situations to anticipate their needs, proactively manage them and head off delinquency.

All these feats helped to maintain the reduction in doubtful exposures and keep non-performing real estate assets stable.

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:

- 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 liquidity of non-performing assets, as it minimises the risk of deterioration in credit quality and preserves collateral quality;

- Segmented management of all non-performing and potentially non-performing exposures (potential delinquency);

- 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;

- Business intelligence and continuous process improvement. In recent years, the Bank has developed capabilities of segmentation and prediction in the recovery process. Business intelligence enables clusters of customers with specific behaviour patterns to be identified in advance, thereby allowing anticipatory actions to be implemented to head off delinquency, while avoiding action on clusters that do not pose delinquency risk. This improves efficiency, by targeting resources where they are most needed, and efficacy, by starting recovery actions sooner;

- 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;

- 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 -365 million euros in 2020, down 38.8% year-on-year.

Gross income was -11 million euros, a reduction on the previous year, due mainly to the lower revenues associated to buildings on the back of the Solvia sale, the negative contribution from investees Promontoría Challenger and Solvia, and the extraordinary results in 2019 linked to the sale of institutional portfolios.

Administrative expenses and depreciation and amortisation charges totalled -66 million euros, a decline of 18%.

Provisions and impairments, including real estate sales, amounted to -345 million euros, 6.2% less than in the previous year.

Million euro

	2020	2019	Year-on-year change (%)
Net interest income	**11**	**26**	**(57.5)**
Fees and commissions (net)	3	27	(89.0)
Net banking revenues	**14**	**54**	**(74.1)**
Net trading income and exchange differences	-	31	(99.9)
Equity-accounted affiliates and dividends	(22)	-	-
Other operating income/expense	(3)	42	-
Gross income	**(11)**	**127**	**-**
Operating expenses and depreciation and amortisation	(66)	(81)	(18.0)
Pre-provisions income	**(78)**	**46**	**-**
Provisions and impairments	(345)	(368)	(6.2)
Of which: profit or loss on sales	*8*	*54*	*(85.2)*
Capital gains on asset sales and other revenue	(3)	27	-
Profit/(loss) before tax	**(426)**	**(296)**	**43.8**
Corporation tax	61	32	89.4
Profit or loss attributed to minority interests	(0)	-	-
Profit attributable to the Group	**(365)**	**(263)**	**38.8**
ROE (profit / average shareholders' equity)	-	-	
Cost-to-income (general administrative expenses / gross income)	-	-	
NPL ratio	41.8%	41.2%	
NPL coverage ratio of Stage 3	48.6%	40.7%	

Outstanding gross loans and advances decreased by 320 million euros year-on-year and net real estate exposure increased by 871 million euros

Intercompany funding amounted to 2,562 million euros, a decline of 24.1% on the previous year.

Million euro

	2020	2019	Year-on-year change (%)
Assets	**3,470**	**3,339**	**3.9**
Outstanding gross loans and advances	865	1,185	(27.0)
Non-performing real estate assets (net)	871	791	10.2
Liabilities	**2,698**	**2,510**	**7.5**
On-balance sheet customer funds	69	263	(73.9)
Intercompany funding	2,562	2,065	24.1
Allocated capital	**772**	**829**	**(6.9)**
Off-balance sheet customer funds	-	-	-
Other indicators			
Employees	127	209	(39.2)
Branches	-	-	-

5.2 Banking business UK

Business overview

TSB (TSB Banking Group plc) offers a range of retail banking services and products to individuals and small business banking customers in the UK. TSB has a multi-channel and nationwide distribution model, including full digital (internet and mobile) and telephony capability and national branch coverage across Great Britain.

TSB 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 2020

Few companies could have imagined the events which were about to unfold during 2020 and it has never been more important to truly focus on what's important to our customers, and adapt to what they genuinely value and need.

TSB's three-year growth strategy, introduced at the end of November 2019, helped TSB navigate the challenges of 2020. The strategy is built on three pillars: customer focus; simplification and efficiency; and operational excellence. All three became even more important as the UK economy was transformed during 2020.

In the most difficult of times, TSB staff continued to support customers and clearly demonstrated TSB's purpose: to provide Money Confidence. For Everyone. Every Day."

Executing Strategy

As changes in consumer behaviour accelerated, particularly the shift to online services and communications, TSB responded by accelerating the delivery of its strategy.

TSB has over two million digitally active customers with over 90% of transactions undertaken through digital or automated channels in 2020.

Operating on a UK-based, modern, multi-cloud platform underpinned by strong data capabilities allows TSB to offer more services and introduce new features faster than banks on legacy systems. This has been facilitated through TSB's partnership with IBM and underpinned by its modern technology platform.

Backed by these capabilities, TSB has been able to offer new services to improve the customer experience. We launched TSB Smart Agent, our automated live chatbot, in March 2020 to extend our opportunities to support customers and, working with Adobe, have provided online alternatives for most of the services traditionally provided in person through branches.

TSB has launched new products such as its 'Spend and Save' current account, mortgages tailored for first-time buyers, as well as 'Fix and Flex' mortgages that give customers a more flexible mortgage option combined with the certainty of fixed rates. Meanwhile further services have been made available to customers through new partnerships with fintechs such as ApTap and Wealthify.

Importantly, in September 2020, TSB announced further changes to the branch network, including the closure of 164 branches. These plans were already within the three year strategy, but were accelerated as the pace of consumer behaviour changed during the pandemic.

<u>Doing what matters during COVID-19</u>

Despite all the challenges faced in 2020, TSB remained open throughout to serve its five million customers through branches, telephone operations and digital channels.

As well as providing day-to-day banking services, TSB responded to what mattered most to customers, colleagues and communities during this crisis. That included special help for vulnerable customers, who received calls to establish what they needed from TSB.

To date, TSB has granted around 114,000 payment holidays, related to £5.1 billion in loans. TSB was an early member of the schemes arranged by the UK Government to support businesses, and has now provided over £0.6 billion in Bounce Back Loans (BBLs).

<u>Building on TSB's brand and contributing to society</u>

TSB continues to improve its reputation with its brand score at a three-year high. Customers are turning to the safety of established providers and this affords opportunities for an established and well-known brand like TSB.

. The plan focuses on areas where people rightly expect TSB to do more. These include helping customers to be more money confident through the market-leading Fraud Refund Guarantee, as well as supporting small businesses, building a diverse and inclusive workplace, and reducing environmental impact. During 2020, TSB became the first major retail bank to join the Good Business Charter – a clear statement of its social and environmental ambitions

Key figures

Net profit amounted to -220 million euros in 2020, hampered by provisions linked to the COVID-19 scenario, accelerated restructuring costs and provisions relating to compensating customers with overdrafts in the fourth quarter.

Net interest income amounted to 885 million euros, down 9.6% year-on-year, mainly because of lower overdraft fees on current accounts due to the measures introduced to tackle the COVID-19 impact, pressure on mortgage margins, and lower interest rates in the UK.

Net fees and commissions fell by 17.2% year-on-year, due primarily to the moderation in activity owing to COVID-19, and lower credit card fees after reducing the volume of foreign revenues (new regulation).

Other products and charges showed an improvement as the 2020 figures included the final payment by Lloyds Banking Group for the migration process and also factored in 20 million euros of insurance indemnities linked to the technology migration. The previous year included the positive impact of renegotiating the services contract with VISA Inc.

Operating expenses amounted to 875 million euros, a 4.5% year-on-year decrease due mainly to lower recurring personnel costs. Total costs in the year included 101 million in non-recurring expenses linked to the efficiency plan (18 million euros in the fourth quarter).

Provisions and impairments came to 240 million euros, a significant increase on the previous year because of the provisions arising from COVID-19 and associated with compensating customers with overdrafts.

Capital gains on asset sales and other income included -3 million euros linked to restructuring costs in 2020.

Million euro	2020	2019	Year-on-year change (%)
Net interest income	**885**	**979**	**(9.6)**
Fees and commissions (net)	96	117	(17.5)
Net banking revenues	**981**	**1,095**	**(10.4)**
Net trading income and exchange differences	25	15	68.7
Equity-accounted affiliates and dividends	-	-	-
Otros productos y cargas de explotación	2	(20)	(108.3)
Gross income	**1,008**	**1,091**	**(7.6)**
Operating expenses and depreciation and amortisation	(1,035)	(1,052)	(1.6)
Pre-provisions income	**(27)**	**39**	**(169.6)**
Provisions and impairments	(240)	(72)	233.3
Capital gains on asset sales and other revenue	(4)	(4)	(1.5)
Profit/(loss) before tax	**(271)**	**(38)**	**613.3**
Corporation tax	51	(8)	(739.0)
Profit or loss attributed to minority interests	-	-	-
Profit attributable to the Group	**(220)**	**(45)**	**388.8**
ROE (profit / average shareholders’ equity)	-	-	
Cost-to-income (general administrative expenses / gross income)	86.8%	84.0%	
NPL ratio	1.3%	1.2%	
NPL coverage ratio of Stage 3	57.4%	43.1%	

Loans and advances amounted to 36,977 million euros as at 31 December 2020, a year-on-year increase of 1.3%. At constant exchange rates, the year-on-year increase was 7.1% due to the increase in the mortgage portfolio and the UK government's Bounce Back Loans.

Customer funds on the balance sheet amounted to 38,213 million euros, up 7.9% in the year. At constant exchange rates, there was a 14.0% year-on-year increase due to the increase in current accounts and deposits, reflecting lower consumer spending and benefiting from the liquidity provided by Bounce Back Loans and growth in customers from the Incentivised Switching Scheme (ISS).

Million euro	2020	2019	Year-on-year change (%)
Assets	**47,284**	**46,449**	**1.8**
Outstanding gross loans and advances	36,977	36,496	1.3
Liabilities	**45,566**	**44,924**	**1.4**
On-balance sheet customer funds	38,213	35,423	7.9
Wholesale funding in the capital markets	2,319	2,423	(4.3)
Allocated capital	**1,736**	**1,525**	**13.9**
Off-balance sheet customer funds	**-**	**-**	**-**
Other indicators			
Employees	6,709	7,394	(9.3)
Branches	454	540	(15.9)

5.3 Banking 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 business was established in Mexico through an organic project with the creation of two financial vehicles, starting with a SOFOM (Mexican multi-purpose financial company), which commenced operations in 2014, followed by 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, recently buoyed by commercial alliances to offer consumer credit.

Management priorities in 2020

The global COVID-19 pandemic defined the year, affecting various economic sectors in Mexico and elsewhere, and leading to business closures and, as a consequence, a deceleration in lending and higher delinquency. This situation led the local regulator to encourage banks to grant support to borrowers affected by the pandemic. In this context, the Mexican subsidiaries (Banco Sabadell, IBM) performed well, despite falling short of their targets for the year.

During 2020, the Mexican subsidiaries continued to focus on growth, financial self-sufficiency, and profitability. The following initiatives were implemented during the year:

- In Corporate Banking, Banco Sabadell's Trusts Division was launched and we obtained authorisation from the Bank of Mexico for proprietary trading in derivative financial instruments. These initiatives will enable us to offer a more comprehensive service in structured financing, strengthening relations with customers.

- In Business Banking, we continued to enhance our transactional capabilities, an initiative that will continue in 2021. 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 transactional products and services such as a 100% digital account, debit card, CoDi mobile payments, instant transfers and bank and non-bank correspondent services, most of which were available in 2020. In addition, commercial partnerships were established towards the end of the year, which will enable us to position ourselves in the Mexican consumer lending market with an all-digital online value proposition.

- The COVID-19 support programme broadly consisted of helping the most vulnerable sectors through loan restructurings, granting a payment holiday of up to 6 months for capital and/or interest, not considering arrears provided the borrowers were classified in a portfolio as of 28 February 2020. This support programme ran from 26 March to 31 July 2020.

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

A financial planning exercise was conducted in 2020 in line with that of Banco Sabadell Group to determine the main lines of strategic action for Banco Sabadell in Mexico with the goal of driving value creation by the Group's Mexican franchise, as summarised below:

- Enhancement of ROE by increasing revenues without capital consumption (through greater fees and commissions and fostering new business lines, such as consumer lending, 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 29 June, HR Ratings confirmed the long- and short-term credit ratings in Mexico, ratifying the upgrade from HR AA to HR AA+ (long-term), maintaining the Stable Outlook and also maintaining the HR1 rating (short-term), which is based on the financial and operating support from the parent company and on continued low NPA levels (evidenced to be adequate despite the increase in the lending portfolio over the last 12 months), as well as suitable capital ratios and lending portfolio diversification, by geography.

Banco Sabadell México ended the year with a consolidated gross loan portfolio of 88,349 million pesos (3,631 million euros), a 12% increase on the previous year's close, ranking it in 10th place in lending to businesses. Customer acquisition at the end of the year amounted to 49,097 million pesos (2,018 million euros), 15% higher than in 2019, and consolidated net profit amounted to 216 million pesos (9 million euros), a 54% decrease on 2019, due mainly to the increase in loan portfolio reserves, lower fee and commission revenues and increased administrative costs.

Key figures

Net profit amounted to 4 million euros in 2020, a year-on-year decrease due mainly to lower fees and commissions and higher provisions, partially offset by lower expenses.

Net interest income amounted to 114 million euros, down 2.1% as a result of the Mexican peso's exchange rate. At constant exchange rates, it increased by 11.3% due to the lower cost of funding.

Net fees and commissions totalled 7 million euros, lower than in the previous year because of the slowdown triggered by COVID-19.

Other operating revenues and expenses increased in the year, mainly as a result of the strong growth in customer funds, resulting in a higher contribution to Instituto para la Protección al Ahorro Bancario (IPAB).
Operating expenses decreased by 10.1% year-on-year, impacted by the exchange rate. At constant exchange rates, the increase was 2.2% due to higher general expenses.

Provisions and impairments amounted to 27 million euros, an increase on the previous year due to higher NPL provisions as a result of COVID-19.

Million euro

	2020	2019	Year-on-year change (%)
Net interest income	**114**	**117**	**(2.2)**
Fees and commissions (net)	7	19	(60.8)
Net banking revenues	**122**	**136**	**(10.4)**
Net trading income and exchange differences	4	1	345.7
Equity-accounted affiliates and dividends	-	-	-
Other operating income/expense	(14)	(9)	-
Gross income	**112**	**127**	**(11.8)**
Operating expenses and depreciation and amortisation	(82)	(91)	(10.3)
Pre-provisions income	**30**	**36**	**(15.5)**
Provisions and impairments	(28)	(16)	72.1
Capital gains on asset sales and other revenue	-	-	-
Profit/(loss) before tax	**3**	**20**	**(85.6)**
Corporation tax	1	(2)	(165.6)
Profit or loss attributed to minority interests	-	-	-
Profit attributable to the Group	**4**	**19**	**(77.9)**
ROE (profit / average shareholders' equity)	0.8%	3.5%	
Cost-to-income (general administrative expenses / gross income)	64.3%	62.9%	
NPL ratio	0.5%	1.2%	
NPL coverage ratio of Stage 3	231.6%	108.9%	

Outstanding loans and advances amounted to 3,574 million euros, a 1.8% decrease year-on-year as a result of the Mexican peso's depreciation. At constant exchange rates, growth was 13.0%.

Customer funds on the balance sheet amounted to 1,994 million euros, a slight 0.1% year-on-year reduction due to the Mexican peso's depreciation. At constant exchange rates, they increased by 14.9%.

Million euro

	2020	2019	Year-on-year change (%)
Assets	**4,584**	**4,695**	**(2.4)**
Outstanding gross loans and advances	3,574	3,640	(1.8)
Real estate exposure (net)	-	-	-
Liabilities	**4,041**	**4,160**	**(2.8)**
On-balance sheet customer funds	1,993	1,996	(0.1)
Allocated capital	**551**	**535**	**3.0**
Off-balance sheet customer funds	**-**	**-**	**-**
Other indicators			
Employees	489	450	8.7
Branches	15	15	-

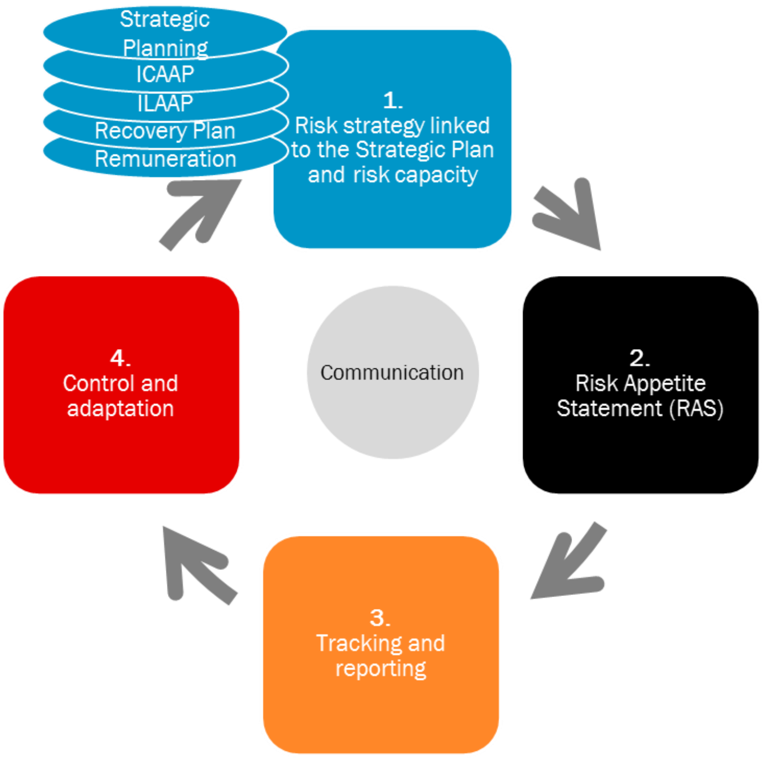
6 - RISKS

In 2020, Banco Sabadell Group continued to strengthen its risk management framework by making improvements in line with best practices in the financial sector.

The Group maintains a medium-low risk profile, in accordance with the risk appetite defined by the Board of Directors.

The Group's risk strategy is fully implemented and linked to the Strategic Plan and the Group's risk capacity, articulated through the Risk Appetite Statement (RAS), under which all material risks are monitored, tracked and reported, and the necessary control and adaptation systems are established to ensure compliance:

Strategic risk management and control processes



Main 2020 milestones in risk management and control

The most salient aspects of managing the first-tier risks identified in the Banco Sabadell Group risk taxonomy, and the steps taken in this connection in 2020, are set out below:

Strategic risk

<u>Definition:</u> Risk of losses (or negative impacts in general) as a result of strategic decisions or their implementation. It also includes the inability to adapt the Group's business model to changes in the environment in which it operates.

Main milestones in 2020:

(i) **Strategy and reputation**

- An outstanding position supporting customers during the health crisis and in the transition towards a more digital model.

(ii) **TSB:**

- Presentation in the fourth quarter of 2020 of the project to accelerate the restructuring process with the aim of improving profitability. The project will provide savings on recurring costs, enabling break-even to be achieved ahead of schedule.

(iii) **Improved capital position:**

- The CET1 ratio improved to 12.0% in fully-loaded terms at 2020 year-end, driven significantly by organic capital creation. The regulatory capital requirements were amply met.
- The total capital ratio was 15.9% at 2020 year-end, while the leverage ratio reached 5.05%, from 4.75% a year ago (in fully-loaded terms).

(iv) **Profitability:**

- Group net profit amounted to 2 million euros in 2020. The Group's banking revenues remain strong and are close to pre-crisis levels.
- Steps were taken during the year to lay the foundations for greater profitability in the future. A new efficiency programme includes initiatives to increase digitalisation of customer service as well as organisational restructuring and simplification projects.

Credit risk

Definition: the possibility that losses may be incurred as a result of borrowers failing to meet their obligations or through losses in value due simply to deterioration in borrower quality.

Main milestones in 2020:

(i) **Reduction in non-performing assets**

- The NPL ratio declined to 3.60%, from 3.83% a year earlier, due to the lower classification of assets as non-performing and to active management of non-performing assets, following a slight upswing in the second quarter, and also to the sale of portfolios in the fourth quarter of 2020.
- The net non-performing assets/total assets ratio ended the year at 1.4% (from 1.7% at 2019 year-end).

(ii) **Concentration**

- The portfolio is well diversified in terms of industries, with rising exposure to sectors with greater credit quality. Real estate exposure was reduced and is now one-third of the level at 2014 year-end.
- Risk metrics relating to concentration of large exposures have also declined, while the credit rating of the main borrowers improved.
- Geographically, the portfolio is positioned in the most dynamic regions, in Spain and overseas.
- International exposure continues to represent almost one-third of the loan book, with year-on-year increases in the main geographies (Mexico and TSB).

(iii) **Lending performance:**

- Outstanding loans continued to grow year-on-year in all geographies: +13.0% in Mexico, +7.1% at TSB and +3.2% in Spain.
- In Spain, ICO loans to large companies, SMEs and self-employed workers catalysed growth in net loans and advances in the second quarter, followed by a gradual recovery and firming of new loan production to individuals in the third quarter. The expiration of a sizeable volume of loan holidays did not have an impact on credit quality.

(iv) **TSB lending performance:**

- At TSB, all loan categories registered solid growth following the first COVID-19 lockdown. Growth in mortgages benefited from increased mortgage market activity as well as TSB's operational resilience to absorb the increase in demand. Consumer credit and personal loans rebounded once the lockdown was lifted. Companies' demand for credit under the Bounce Back Loans programme surged, particularly in the second quarter of 2020.

Finance risk

Definition: The possibility of obtaining insufficient returns or having insufficient liquidity such as to prevent compliance with requirements and future expectations.

Main milestones in 2020:

(i) Sound liquidity position:

- The liquidity position was sound, with a Liquidity Coverage Ratio (LCR) of 198% at Group level at the end of 2020 (218% excluding TSB and 201% at TSB), after optimising funding sources by obtaining 27,000 million euros under the ECB's new long-term facility (TLTRO III).
- The loan-to-deposit ratio was 98% at 2020 year-end, with a balanced retail funding structure. In 2020, Banco Sabadell fulfilled its issuance plan, and strong investor appetite enabled it to optimise the associated costs.
- At year-end, the Bank had exceeded the MREL (Minimum Required Eligible Liabilities).

(ii) Structural interest rate risk:

- The Bank continued to adapt the balance sheet structure to the current and expected environment of negative rates in the Eurozone, showing great resilience to possible future declines. The mortgage book in Spain is exhibiting an increasing preference for fixed rates. On the liabilities side, the customer deposit base makes it possible to pass negative rates on to the wholesale segments.
- The Bank maintained its programme of adaptation to the new benchmark indices following the entry into force of the European Benchmark Regulation (BMR) and it successfully achieved the milestones set for the EUR and other affected currencies (mainly USD and GBP).

Operational risk

Definition: Operational risk is defined as the risk of loss resulting from failures or inadequacies in people, processes, and systems or from unforeseen external events.

Main milestones in 2020:

(i) Technology function:

- A significant increase in the use of digital/self-service channels in terms of both volume and type of transactions, mainly due to the effects of the COVID-19 pandemic. In general, this increase in transactions was not matched by a proportional increase in the losses associated with this type of channel; accordingly, the control environment is considered to have performed appropriately.
- There was also a change in the risk profile associated with the execution of internal processes, as there was a change in the work methods due to the need to implement telework solutions, and specific controls had to be implemented to protect employees and the information they handle from their homes; consequently, corporate laptops were distributed to enable employees to work from home with appropriate security measures.

(ii) COVID-19 protocols:

- The plans in place for pandemics and contingencies were triggered in the various geographies. Those protocols have been reviewed and updated based on experience and the spread of COVID-19 and its effect on the Group. Triggering the protocols enabled the Group to proactively address potential operational risks that might arise from the situation and prepared the Group companies to adapt their systems, processes and activities as well as their range of products and services so as to minimise exposure to risks and develop and implement new opportunities, such as support measures offered by governments and those provided by the banking industry.

For more details of the corporate risk culture, the global risk framework and the overall organisation of the risk function as well as the main financial and non-financial risks, see note 4 "Risk management" in the consolidated annual financial statements for 2020.

7 - OTHER MATERIAL INFORMATION

7.1 R&D and innovation

The bank's activities in the technology area responded to the specific needs of each of the geographies; in Spain, they focused on the search for efficiency, digitalisation and promoting the use and management of data. TSB concentrated on improving communications and transferring management of the technology platform to TSB itself (from technology subsidiary Sabis). In Mexico the focus was on developing the "Banking as a Service" platform.

In the domestic market:

In 2020, the Bank concentrated on increasing operational efficiency, enhancing the offering and managing data, as well as boosting resilience and innovation in the platform to adapt to new technology trends.

In the area of Commercial Banking, the plan to upgrade the ATM fleet was completed, enabling the Bank to serve customers more efficiently. Existing ATMs were replaced with state-of-the-art machines in order to offer more self-service operations and relieve the branches of administrative tasks. At the same time, development continued of the API channel under the PSD2 framework as the basis of the Open Banking platform, focusing on agreements with third parties that market the bank's products through digital channels. Also in this area, T2-T2S consolidation provided synergies in securities settlements and payments.

As for digitalisation, progress was made in the service offer by promoting conversational banking, adding new customer interaction capabilities (through digital onboarding and a chat service). New features were added to increase the number of remote transactions available to customers, including, for example, the possibility of registering with the Bank without having to visit a branch in person.

Development of the Proteo4 initiative commenced with the aim of creating an efficient, standardised application development framework with a clear focus on cloud technology, as well as developing cloud-native applications that will offer greater resilience and scalability when new digital applications are put into production.

Another noteworthy area was the management, governance and use of data with the Data1 program, the first phase of which was rolled out during 2020; its aim is to automate data processing, create self-service models and strengthen and increase the agility of financial and regulatory reporting.

Also important in 2020 was the continuity of the Discovery program, which began in 2019 with the signature of a 10-year technology services outsourcing contract with IBM. The first half of 2020 focused on the handover from Sabis, the former supplier, to IBM (this transition phase was completed successfully on schedule on 1 July). The second half of the year focused more on the construction of the new data processing centres (DPCs) in Alcalá de Henares. Also during the second half, the process of migrating applications and production loads to the new DPCs was designed and planned with a view to implementing the migration in 2021.

WhatsNext is a program that was developed to provide a rapid response to the health crisis by providing new collaboration tools to make it easier for employees to telework, increasing their digital capabilities and transforming their work habits by supporting them in the efficient use of the available technology.

The international context:

Within TSB, much of the effort focused on responding to the situation created by COVID-19, for example by improving communication tools so as to enable remote testing of mobile apps and the integration of webchat systems. In terms of digital channels, the Proteo4UK platform was integrated with its new cloud architecture, and fraud detection systems were enhanced. Other milestones included improvements in operations through, e.g. the automation of mortgage application systems.

In 2020, Sabadell Mexico also focused on the "Banking as a Service" programme and landed new lines of business by marketing banking services to partners. Additionally, in order to continue improving its services for retail customers, the Bank began developing a number of initiatives such as biometric systems. Following the migration of critical infrastructures from Spain to Mexico in previous years, the migration process of the other infrastructures and systems continued in 2020.

7.2 Trading in own shares

See note 23 to the consolidated financial statements.

7.3 Average period of payment to suppliers

The average period of payment to suppliers by consolidated undertakings based in Spain was 30.13 days (15.72 days in the case of the Bank).

7.4 Material post-closing events

No material events meriting disclosure have occurred since 31 December 2020.

Non-Financial Disclosures Report

In accordance with the provisions of Act 11/2018, of 28 December, on non-financial and diversity disclosures, Banco Sabadell Group has drawn up the consolidated Non-Financial Disclosures Report for 2020, which, in accordance with article 44 of the Commercial Code, is attached as a separate document to the 2020 consolidated directors' report. The separate information corresponding to Banco Sabadell, S.A. is contained in that separate document attached to the consolidated directors' report, which will be filed with the Alicante Mercantile Registry.

Corporate Governance

In accordance with the provisions of article 540 of the Capital Companies Law, Banco Sabadell Group has drawn up the Annual Corporate Governance Report for 2020, which, in accordance with article 49 of the Commercial Code, is a part of this Directors' Report and is attached as a separate document; it contains a section setting out the degree to which the Bank adheres to the recommendations on corporate governance in Spain.

The information about corporate governance is available on the Group's corporate website (www.grupobancosabadell.com) directly in the section entitled "Corporate Governance and Remuneration Policy", which is linked to from the Home page.

Glossary of terms in connection with alternative performance metrics

In presenting its results to the market and for tracking its business performance and making decisions, the Group uses performance metrics that conform to generally accepted accounting principles (EU-IFRS) and also other unaudited metrics that are commonly used in the banking industry (alternative performance metrics — APMs) as indicators of asset and liability performance and the Group's financial status, which facilitate comparison with other institutions.

In line with ESMA guidelines on APMs (ESMA/2015/1415en dated October 2015), whose purpose is to promote the usefulness and transparency of information for the protection of investors in the European Union, the Group presents the definition, calculation and reconciliation of the APMs in this section.

Equivalence of headings from the income statement of businesses and management units that appear in the note on "Segment information" and in the Directors' Report with those of the consolidated income statement (*)

Net fees and commissions:

- Fee and commission income.
- (Fee and commission expenses).

Core revenue:

- Net interest income.
- Fee and commission income.
- (Fee and commission expenses).

Other operating income and expenses:

- Other operating income.
- (Other operating expenses).

Operating expenses, depreciation and amortisation:

- (Administrative expenses).
- (Depreciation and amortisation).

Pre-provisions income:

- Gross income.
- (Administrative expenses).
- (Depreciation and amortisation).

Provisions and impairments

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or gains).
- (Provisions or (-) reversal of provisions).
- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excludes gains or (-) losses on the sale of equity holdings).
- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (including only gains or (-) losses on the sale of investment properties).

Provisions for loan losses:

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification gains or (-) losses).
- (Provisions or (-) reversal of provisions) (only includes commitments and guarantees given).

Provisions for other financial assets:

- (Provisions or (-) reversal of provisions) (excludes commitments and guarantees given).

Other provisions and impairments:

- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excludes gains or (-) losses on the sale of equity holdings).
- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (only includes the gain or (-) loss on the sale of investment properties).

Capital gains on asset sales and other revenue:

- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (excludes gains or losses on the sale of investment properties).
- Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (only includes gains or (-) losses on the sale of equity holdings).

(*) Sub-headings in the consolidated income statement expressed in brackets denote negative figures.

Glossary of terms on alternative performance measures

In the presentation of its results to the market, and for the purpose of monitoring the business and decision-making processes, the Group uses performance indicators pursuant to the generally accepted accounting regulations (EU-IFRS), and also uses other non-audited measures commonly used in the banking industry (Alternative Performance Measures, or "APMs") as monitoring indicators for the management of assets and liabilities, and the financial and economic situation of the Group, which facilitates its comparison with other institutions.

Following the ESMA guidelines on APMs (ESMA/2015/1415 of October 2015), the purpose of which is to promote the use and transparency of information for the protection of investors in the European Union, the Group presents below, for each APM, the definition, calculation and use or purpose. Their reconciliation is also shown below.

Performance measure	Definition and calculation	Use or purpose
Gross performing loans to customers	Includes gross customer loans and advances, excluding repos, accrual adjustments and Stage 3 assets.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Gross loans to customers	Includes loans and advances to customers excluding impairment allowances.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
On-balance sheet customer funds	Includes customer deposits (ex-repos) and other liabilities sold by the branch network (Banco Sabadell straight bonds, commercial paper and others).	Key figure in the Group's consolidated balance sheet, the performance of which is monitored.
On-balance sheet funds	Includes the following accounting sub-headings: customer deposits, debt securities in issue (borrowings, other marketable securities and subordinated liabilities).	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Off-balance sheet customer funds	Includes mutual funds, asset management, pension funds and insurance products sold.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Funds under management and third-party funds	The sum of on-balance sheet funds and off-balance sheet customer funds.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.

Customer spread	Difference between yield and costs of customer-related assets and liabilities. Calculated as the difference between the average rate that the Bank charges its customers for loans and the average rate that the Bank pays its customers for deposits. The average rate on customer loans and advances is the annualised ratio, in percentage terms, between financial revenues booked on customer loans and advances and the average daily balance of customer loans and advances. The average rate on customer funds is the annualised ratio, in percentage terms, between the financial cost booked on customer funds and the average daily balance of customer funds.	It reflects the profitability of purely banking activity.
Other assets	Comprises the following accounting items: derivatives - hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax assets, other assets, assets under insurance or reinsurance contracts and non-current assets and disposal groups classified as held for sale.	Key figure among the main indicators of a financial institution's business , the performance of which is monitored.
Other liabilities	Comprises the following accounting items: derivatives - hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax liabilities, other liabilities and liabilities included in disposal groups classified as held for sale.	Key figure among the main indicators of a financial institution's business , the performance of which is monitored.
Other operating income and expenses	Comprises the following accounting items: other operating income and other operating expenses as well as income from assets and expenses from liabilities under insurance or reinsurance contracts.	Grouping of items used to explain part of the performance of the Group's consolidated results.
Pre-provisions income	Comprises the following accounting items: Gross income plus administrative expenses and depreciation and amortisation.	It is one of the key figures that reflects the performance of the Group's consolidated results.
Total provisions and impairments	Comprises the following accounting items: (i) impairment or reversal of impairment of financial assets not measured at fair value through profit or loss and net modification losses or gains; (ii) provisions or reversal of provisions; (iii) impairment or reversal of impairment of investments in joint ventures or associates; (iv) impairment or reversal of impairment of non-financial assets; (v) gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excludes gains or (-) losses on the sale of equity holdings).; and (vi) gains or losses on derecognition of non-financial assets and equity holdings, net (including only gains or losses on the sale of investment properties).	Grouping of items used to explain part of the performance of the Group's consolidated results.
Capital gains on asset sales and other revenue	Comprises the following accounting items: (i) gains or (-) losses on derecognition of non-financial assets and equity holdings, net (excluding gains or (-) losses on the sale of investment properties) and (ii) gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (including only gains or losses on the sale of equity holdings).	Grouping of items used to explain part of the performance of the Group's consolidated results.

ROA	Consolidated profit or loss for the year / Average total assets. The numerator is the annualisation of the profit obtained to date, except for the capital gain on the sale of Solvia Servicios Inmobiliarios, S.L. in 2019. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end. **Average total assets:** arithmetic mean calculated as the sum of the daily balances for the reference period and divided by the number of days in said period.	A measure commonly used in the financial sector to determine the accounting return on Group assets.
RORWA	Profit attributable to the Group / Risk weighted assets (RWAs). **Risk-weighted assets:** total assets of a credit institution, multiplied by its respective risk factors (risk weights). Risk factors reflect the perceived level of risk of a particular asset class.	A measure commonly used in the financial sector to determine the accounting return on risk-weighted assets.
ROE	Profit attributable to the Group / Average shareholders' equity. **Average shareholders' equity:** average shareholders' equity calculated using the month-end balance since December of the previous year.	A measure commonly used in the financial sector to determine the accounting return on the Group's shareholders' equity.
ROTE	Profit attributable to the Group / Average shareholders' equity. The denominator excludes intangible assets and goodwill of investees. **Average shareholders' equity:** average shareholders' equity calculated using the month-end balance since December of the previous year.	Additional measure of the accounting return on own funds, but excluding goodwill from its calculation.
Cost-to-income ratio	Administrative expenses / Adjusted gross income.	Main indicator of efficiency or productivity of banking activity.
Stage 3 exposures	The sum of the following accounting items: loans and advances to customers classified as Stage 3 and not classified as non-current assets held for sale, together with guarantees given classified as Stage 3.	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and to assess its management.
NPL coverage ratio of Stage 3 (with total provisions)	Percentage of exposures classified as Stage 3 (doubtful) that are covered by total provisions. Calculated as impairment of loans and advances to customers (including provisions for guarantees given) / Total exposures classified as Stage 3 (doubtful) (including guarantees given classified as Stage 3).	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and shows the provisions that the institution has allocated for loans classified as Stage 3.
NPL coverage ratio of Stage 3	Percentage of exposures classified as stage 3 that are covered by Stage 3 provisions. Calculated as impairment of Stage 3 customer loans and advances (including provisions for Stage 3 guarantees given) / Total Stage 3 exposures (including guarantees given classified as Stage 3).	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and shows the Stage 3 provisions that the institution

		has allocated for loans classified as Stage 3.
NPA exposures	The sum of risks classified as Stage 3 plus non-performing real estate assets. Non-performing real estate assets are foreclosed properties or properties accepted in payment of debt and properties classified in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment properties with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment.	Indicator of total exposure to risks classified as Stage 3 and to non-performing real estate assets.
Non-performing real estate coverage ratio	The non-performing real estate coverage ratio is obtained by dividing provisions for non-performing real estate assets by total non-performing real estate assets. **Non-performing real estate assets**: foreclosed properties or properties accepted in payment of debt and properties classified in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment properties with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment.	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of real estate risk and shows the provisions that the institution has allocated for real estate exposure.
NPA coverage ratio	This is calculated by dividing the provisions associated with non-performing assets by total non-performing assets.	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk and real estate risk, and it shows the provisions that the institution has allocated for non-performing exposures.
NPL ratio	Exposures classified as Stage 3 expressed as a percentage of total exposures granted to customers that are not classified as non-current assets held for sale. All components of the calculation are headings or sub-headings of the financial statements.. Calculated as the ratio of exposures classified as Stage 3, including guarantees given classified as Stage 3 / Loans to customers not classified as non-current assets held for sale and guarantees given. (See the definition of Stage 3 exposures in this table).	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and to assess its management.
Cost of risk (bps)	The ratio between provisions for loan losses / loans to customers and guarantees given. The numerator is adjusted to account for costs associated with managing assets classified as Stage 3 and provisions for institutional portfolio sales.	A relative measure of risk, being one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk through the cost or loss due to financial asset impairments that have taken place in one year.

Loan-to-deposit ratio	Net loans and receivables in retail funding. Calculated by subtracting brokered loans from the numerator. The denominator consists of retail funding or customer funds, as defined in this table.	It measures the Bank's liquidity through the ratio of its available funds to the volume of loans granted to customers. Liquidity is one of the material aspects that define the structure of an institution.
Market capitalisation	Calculated by multiplying the share price by the average number of shares outstanding as at the reporting date.	It is an economic market measurement or market ratio that indicates the total value of a company according to its market price.
Earnings (or loss) per share (EPS)	Calculated by dividing the net profit (or loss) attributable to the Group by the average number of shares outstanding as at the reporting date. The numerator is adjusted to account for the amount of the Additional Tier 1 coupon recognised in equity, after tax.	It is an economic measurement or market ratio that indicates a company's profitability, and it is one of the measurements used most frequently to assess institutions' performance.
Book value per share	Book value / Average number of shares as at the reporting date. The book value is the sum of shareholders' equity.	It is an economic market measurement or market ratio that indicates the book value per share.
TBV per share	Tangible book value / Average number of shares outstanding as at the reporting date. The tangible book value is the sum of shareholders' equity adjusted to account for intangible assets and goodwill of investees.	It is an economic market measurement or market ratio that indicates the tangible book value per share.
Price/Book value	Share price or value / Book value per share.	Economic measurement or market ratio commonly used by the market, which represents the listed price of a share relative to its book value.
Price / Earnings ratio (P/E)	Share price or value / Net earnings (or loss) per share.	Economic measurement or market ratio commonly used by the market to determine a company's ability to generate future earnings.

APMs reconciliation (data in million euros, with the exception of those shown in percentages).

BALANCE SHEET	31/12/2020	31/12/2019
Gross loans to customers / Gross performing loans to customers		
Mortgage loans & credit	83.573	83.720
Loans and credit secured with other collateral	3.698	3.330
Commercial loans	4.991	6.443
Finance leases	2.230	2.558
Overdrafts, etc.	52.386	48.521
Gross performing loans to customers	**146.878**	**144.572**
Stage 3 assets (customers)	5.320	5.923
Accrual adjustments	3	18
Gross loans to customers, excluding repos	**152.201**	**150.513**
Repos	63	236
Gross loans to customers	**152.265**	**150.749**
Impairment allowances	(3.081)	(2.933)
Loans and advances to customers	**149.183**	**147.816**
On-balance sheet customer funds		
Financial liabilities measured at amortised cost	217.391	205.636
Non-retail financial liabilities	66.612	59.327
Deposits - central banks	31.881	20.065
Deposits - credit institutions	10.083	11.471
Institutional issues	20.905	23.623
Other financial liabilities	3.743	4.168
On-balance sheet customer funds	**150.778**	**146.309**
On-balance sheet funds		
Customer deposits	151.270	147.362
Sight deposits	130.295	118.868
Deposits with agreed maturity, including deposits redeemable at notice, and hybrid financial liabilities	20.805	27.339
Repos	13	951
Accrual adjustments and hedging derivatives	157	204
Debt securities in issue	17.510	19.514
Subordinated liabilities (*)	2.903	3.056
On-balance sheet funds	**171.683**	**169.932**
Off-balance sheet customer funds		
Mutual funds	21.366	26.003
Asset management	3.298	3.363
Pension funds	3.349	3.367
Insurance products sold	10.051	10.430
Off-balance sheet customer funds	**38.064**	**43.163**
Funds under management and third-party funds		
On-balance sheet funds	171.683	169.932
Off-balance sheet customer funds	38.064	43.163
Funds under management and third-party funds	**209.748**	**213.095**

(*) Subordinated liabilities in connection with debt securities.

BALANCE SHEET	31/12/2020	31/12/2019
Other assets		
Derivatives - Hedge accounting	550	469
Fair value changes of the hedged items in portfolio hedge of interest rate risk	459	250
Tax assets	7.152	7.008
Other assets	908	1.496
Non-current assets and disposal groups classified as held for sale	976	764
Other assets	**10.044**	**9.987**
Other liabilities		
Derivatives - Hedge accounting	783	729
Fair value changes of the hedged items in portfolio hedge of interest rate risk	372	235
Tax liabilities	206	241
Other liabilities	883	784
Liabilities included in disposal groups classified as held for sale	-	10
Other liabilities	**2.244**	**1.998**

INCOME STATEMENT	31/12/2020	31/12/2019
Customer spread		
Loans and advances to customers (net)		
Average balance	144.207	139.674
Profit/(loss)	3.628	4.058
Rate (%)	2,52	2,91
Customer deposits		
Average balance	152.495	147.551
Profit/(loss)	(223)	(392)
Rate (%)	(0,15)	(0,27)
Customer spread	**2,37**	**2,64**
Other operating income and expenses		
Other operating income	225	234
Other operating expenses	(509)	(551)
Income from assets under insurance or reinsurance contracts	-	-
Expenses on liabilities under insurance or reinsurance contracts	-	-
Other operating income and expenses	**(284)**	**(317)**

	31/12/2020	31/12/2019
Pre-provisions income		
Gross income	5.302	4.932
Administrative expenses	(2.938)	(2.743)
Staff expenses	(1.885)	(1.649)
Other general administrative expenses	(1.054)	(1.095)
Depreciation and amortisation	(523)	(470)
Pre-provisions income	**1.841**	**1.719**
Total provisions and impairments		
Impairment or reversal of impairment on investments in joint ventures and associates	(0)	7
Impairment or reversal of impairment on non-financial assets, adjusted	(37)	(82)
Impairment or reversal of impairment on non-financial assets	(40)	(86)
Gains or losses on sale of investment properties	4	4
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, adjusted	(217)	(168)
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	103	(36)
Gains on sale of equity holdings	(320)	(133)
Other provisions and impairments	**(254)**	**(244)**
Provisions or reversal of provisions	(275)	(27)
Impairment or reversal of impairment and gains or losses on changes in cash flows from financial assets not measured at fair value through profit or loss and net modification losses or gains	(1.745)	(667)
Provisions for loan losses and financial assets	**(2.020)**	**(694)**
Total provisions and impairments	**(2.275)**	**(938)**
Capital gains on asset sales and other revenue		
Gains or losses on derecognition of non-financial assets, net	(3)	41
Gains on sale of equity holdings	320	133
Gains or losses on sale of investment properties	(4)	(4)
Capital gains on asset sales and other revenue	**313**	**170**

PROFITABILITY AND EFFICIENCY	31/12/2020	31/12/2019
ROA		
Consolidated profit or loss for the year	3	777
Average total assets	227.639	223.470
ROA (%)	**0,00**	**0,35**
RORWA		
Net profit attributable to the Group	2	768
Risk-weighted assets (RWAs)	78.779	81.231
RORWA (%)	**0,00**	**0,95**
ROE		
Net profit attributable to the Group	2	768
Average shareholders' equity	13.151	12.926
ROE (%)	**0,02**	**5,94**
ROTE		
Net profit attributable to the Group	2	768
Average shareholders' equity (excluding intangible assets)	10.558	10.418
ROTE (%)	**0,02**	**7,37**
Cost-to-income ratio		
Administrative expenses	(2.938)	(2.743)
Gross income	5.302	4.932
Cost-to-income ratio (%)	**55,41**	**55,63**

RISK MANAGEMENT	31/12/2020	31/12/2019
Stage 3 exposures		
Loans and advances to customers	5.351	5.942
Stage 3 guarantees given	457	198
Stage 3 exposures	**5.808**	**6.141**
NPL coverage ratio of Stage 3 (*with total provisions*)		
Provisions for loan losses	3.279	3.045
Stage 3 exposures	5.808	6.141
NPL coverage ratio of Stage 3 (*with total provisions*) (%)	**56,5%**	**49,6%**
NPL coverage ratio of Stage 3		
Provisions for Stage 3 loan losses	2.272	2.316
Stage 3 exposures	5.808	6.141
NPL coverage ratio of Stage 3 (%)	**39,1%**	**37,7%**
Non-performing real estate coverage ratio		
Provisions for non-performing real estate assets	502	394
Non-performing real estate assets	1.373	1.185
Non-performing real estate coverage ratio (%)	**36,6%**	**33,3%**
NPA exposures		
Stage 3 exposures	5.808	6.141
Non-performing real estate assets	1.373	1.185
NPA exposures	**7.182**	**7.326**
NPA coverage ratio		
Provisions for non-performing assets	3.781	3.439
Non-performing assets	7.182	7.326
NPA coverage ratio (%)	**52,6%**	**46,9%**
NPL ratio		
Stage 3 exposures	5.808	6.141
Loans to customers and guarantees given	161.474	160.127
NPL ratio (%)	**3,6%**	**3,8%**
Cost of risk (bps)		
Loans to customers and guarantees given	**161.474**	**160.127**
Provisions for loan losses	(1.832)	(672)
NPL expenses	(117)	(140)
Provisions for institutional portfolio sales	(325)	(24)
Cost of risk (bps)	**86**	**32**

LIQUIDITY MANAGEMENT	31/12/2020	31/12/2019
Loan-to-deposit ratio		
Net loans and advances excluding ATAs, adjusted for brokered loans	147.143	144.246
On-balance sheet customer funds	150.778	146.309
Loan-to-deposit ratio (%)	**97,6%**	**98,6%**

SHAREHOLDERS AND SHARES	31/12/2020	31/12/2019
Average number of shares (million)	5.582	5.538
Listed price	0,354	1,040
Market capitalisation (million euros)	**1.976**	**5.760**
Adjusted profit attributable to the Group	(71)	695
Profit attributable to the Group	2	768
Adjustment for accrued AT1	(73)	(73)
Average number of shares (million)	5.582	5.538
Earnings per share (euros)	**(0,01)**	**0,13**
Shareholders' equity	12.944	13.172
Average number of shares (million)	5.582	5.538
Book value per share (euros)	**2,32**	**2,38**
Shareholders' equity	12.944	13.172
Intangible assets	2.622	2.594
Tangible book value (adjusted shareholders' equity)	10.322	10.578
Average number of shares (million)	5.582	5.538
TBV per share	**1,85**	**1,91**
Listed price	0,354	1,040
Book value per share (euros)	2,32	2,38
Price/Book value	**0,15**	**0,44**
Listed price	0,354	1,040
Earnings per share (euros)	(0,01)	0,13
Price / Earnings ratio (P/E)	**(27,75)**	**8,29**

Banco Sabadell Annual Corporate Governance Report

2020

31 December 2020

Banco Sabadell Annual Corporate Governance Report 2020

Contents

[1] The letters shown in the headings of each section of this report refer to the corresponding sections of the standard form of the Annual Corporate Governance Report issued by the Spanish National Securities Market Commission (CNMV).

Banco de Sabadell, S.A. (hereinafter, Banco Sabadell, the Bank or the Institution) is firmly committed to strengthening and continuously improving its corporate governance, on which it has been working steadily in recent years.

The Annual Corporate Governance Report is drawn up with the information from the Bank at year-end 2020, and it forms part of the Directors' Report attached to the separate and consolidated financial statements; it was approved unanimously by the Board of Directors at a meeting on 29 January 2021, in compliance with the provisions of article 540 of the Capital Companies Law and Circular 5/2013, of 12 June, of the of the Spanish National Securities Market Commission (CNMV).

The preparation and format of the Report is governed by the provisions of CNMV Circular 5/2013, as amended by CNMV Circular 2/2018 of 12 June and CNMV Circular 1/2020 of 6 October. Following the amendment introduced by Circular 2/2018, of 12 June, the Annual Corporate Governance Report may be submitted in any PDF format provided that it contains the disclosures defined in the regulations in force. Banco Sabadell has decided to adopt this format for the first time in order to explain and disclose the main aspects of its corporate governance with the utmost transparency. This document is available in the "Corporate Governance and Remuneration Policy" section of the Bank's corporate website www.grupobancosabadell.com.

Corporate Governance of Banco Sabadell in 2020

During 2020, Banco Sabadell continued the process initiated in previous years of improving and reinforcing corporate governance, in line with best practices and, in particular, with the Good Governance Code for listed companies issued by the Spanish National Securities Market Commission (CNMV), revised in June 2020.

1. Board of Directors

In 2020, a preferential goal of the Board of Directors of Banco Sabadell and, in particular, its Appointments Committee was to increase of diversity within the Board by increasing the number of independent directors, the percentage of women and the diversity of knowledge and experience, in line with the recommendations of the CNMV.

Additionally, in 2020, the Appointments Committee, with the active participation of the Lead Independent Director, took the steps envisaged in the Succession Plan for the Chairman and Chief Executive Officer, approved by the Board of Directors on 21 July 2016, which resulted in the appointment of a Chief Executive Officer to replace Mr. Jaime Guardiola Romojaro, which will be effective once clearance has been obtained from the European Central Bank.

1.1. Changes in the composition of the Board of Directors

The following changes were made in the Board of Directors in 2020:

— Ms. Maria Teresa Garcia-Milà Lloveras tendered her resignation as a member of the Board of Directors with effect from 26 March 2020, as the twelve-year period during which she could be considered an independent director had elapsed.
— Ms. Mireya Giné Torrens was appointed as an independent director, at the proposal of the Appointments Committee, by the General Meeting of Shareholders on 26 March 2020.
— Mr. José Luis Negro Rodríguez tendered his resignation as executive director of Banco Sabadell due to his retirement and to facilitate the renewal of the Board, effective 24 September 2020.
— Ms. Alicia Reyes Revuelta was appointed as an independent director, at the proposal of the Appointments Committee, by the Board of Directors on 24 September 2020.
— Mr. César González-Bueno Mayer was appointed Chief Executive Officer, to replace the current Chief Executive Officer, Mr. Jaime Guardiola Romojaro, by the Board of Directors on 17 December 2020; he will take office as soon as the corresponding regulatory authorisations have been received.

Following these changes, the Board of Directors of Banco Sabadell is composed of its Chairman, ten independent directors, three executive directors and one proprietary director.

In addition, Banco Sabadell plans to propose that the forthcoming General Meeting of Shareholders in 2021 amend the Articles of Association so that the Chairman is classified as a non-executive director and as an "other external director"

1.2. Changes in the Composition of the Board Committees

Based on a favourable report from the Appointments Committee and in order to enhance the diversity of views that the Committees contribute to the Board, the Board of Directors made changes in their composition aimed at increasing the differentiation in the composition of the Committees, especially the differentiation between the Audit and Control Committee and the Risk Committee, and between the Appointments Committee and the Remuneration Committee.

As a result of Ms. Maria Teresa Garcia-Milà Lloveras ceasing to form part of the Board of Directors on 26 March 2020, and, consequently, of the Audit and Control Committee, the Appointments Committee and the Risk Committee.

The current composition of the Board Committees is as follows:

Committee	Name	Position
Delegated	Josep Oliu Creus	Chairman
	Jaime Guardiola Romojaro	Member
	José Javier Echenique Landiribar	Member
	Pedro Fontana García	Member
	María José García Beato	Non-member Secretary
Audit and Control	Manuel Valls Morató	Chairman
	Pedro Fontana García	Member
	Mireya Giné Torrens	Member
	José Ramón Martínez Sufrategui	Member
	Miquel Roca i Junyent	Non-member Secretary
Appointments	José Manuel Martínez Martínez	Chairman
	Anthony Frank Elliott Ball	Member
	Aurora Catá Sala	Member
	Miquel Roca i Junyent	Non-member Secretary
Remuneration	Aurora Catá Sala	Chair
	Anthony Frank Elliott Ball	Member
	George Donald Johnston III	Member
	José Ramón Martínez Sufrategui	Member
	María José García Beato	Non-member Secretary
Risk	George Donald Johnston III	Chairman
	Aurora Catá Sala	Member
	Manuel Valls Morató	Member
	María José García Beato	Non-member Secretary

1.3. Matrix of competencies and diversity in the Board of Directors

Since 2019, Banco Sabadell has had a Matrix of competencies and diversity, which was reviewed by the Board of Directors on 29 January 2021, on the occasion of the appointments and changes that occurred within the Board in 2020. These appointments increased the diversity of the Board, in terms of director category, gender, knowledge, skills and experience.

These appointments strengthen the knowledge, skills and experience in the following areas: banking, retail and corporate; financial and capital markets; finance; insurance; other financial competencies; accounting and auditing; risk management; planning and strategy; governance; risk control; legal; digital and IT (digital transformation); human resources, culture, talent and remuneration; responsible business and sustainability; international experience; governing bodies and corporate governance; management and leadership of organisations; business experience; consulting; regulatory and supervisory bodies; academic, and communication and institutional relations.

The appointments of Ms. Mireya Giné Torrens and Ms. Alicia Reyes Revuelta increased gender diversity, so that Banco Sabadell now has four female directors: three independent directors and one executive director. In 2020, the Bank achieved a ratio of 27% of women on the Board, in line with the general 30% target set by the CNMV, and is on track to meet the targets for 2022.

2. Strengthening the risk control and management organisation

During 2020, Banco Sabadell undertook an in-depth review of the risk control organisation and made changes in the organisation of the Risk Regulation and Control Division which are intended to contribute to clarifying the roles and responsibilities between and within each of the three Lines of Defence.

Along the same lines, changes were also made in the risk management organisation, given the need to accommodate the functions of the first and second lines of defence, in order to guarantee an adequate response by the Bank to the challenge of the COVID-19 situation so as to predict and avoid situations of default and improve coordination between the risk and commercial areas, thus achieving a greater vision and culture of risk in the business, and vice versa.

3. Sustainability as a key component of Corporate Governance

Sustainability has become part of Banco Sabadell's purpose and business strategy and, in this respect, given the importance of the initiatives derived from the transition towards a sustainable economy and sustainable development, it has set up a Sustainability Committee chaired by the Bank's Chief Executive Officer. This top-tier management committee is the body responsible for establishing and promoting the Sustainable Finance Plan approved by the Board of Directors on 25 June 2020 and for monitoring its implementation, as well as defining and disseminating the general principles of action in the area of Sustainability. The Committee reports periodically to the Management Committee, and at least once per year to the Board of Directors, on the progress of the Sustainable Finance Plan.

The Board of Directors has also approved a Sustainability Policy aimed at framing all the Bank's activities and organisation within ESG parameters, by factoring environmental, social and government aspects into decision making and using them as the basis for responding to stakeholders' needs and concerns.

Banco Sabadell's Non-Financial Disclosures Report for 2020, which forms part of the 2020 consolidated Directors' Report, annexed to the consolidated financial statements, which will be submitted for approval by the Ordinary General Meeting of Shareholders as a separate item on the agenda, details the actions implemented in relation to the Sustainable Finance Plan, which incorporates key issues for business continuity, the ESG commitments (Principles for Responsible Banking, Climate Action and the disclosure framework of the Task Force on Climate-related Financial Disclosures — TCFD model) and other material issues for the Bank under the law, as well as the response to the impacts derived from COVID-19, focused on the needs of stakeholders, as well as those of the Group's activity.

Contents of the Annual Corporate Governance Report

1. Ownership structure (A)[2]

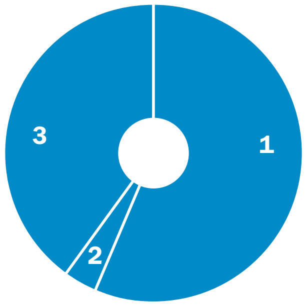
1.1. Share capital (A.1)

At 31 December 2020, the share capital of Banco Sabadell was 703,370,587.63 euros, represented by 5,626,964,701 registered shares, with a par value of 0.125 euros each, all fully subscribed and paid up, representing 5,626,964 voting rights, at a ratio of one right for every 1,000 shares. Last amended on 16 November 2017.

The shares of Banco Sabadell are uncertificated and are listed on the Barcelona, Bilbao, Madrid and Valencia stock exchanges and on the Spanish "SIBE"/Mercado Continuo stock exchange interconnection system. All shares are of the same class and have the same associated rights.

Banco Sabadell did not issue securities traded on a regulated market in the European Union.

There were 244,225 shareholders at 31 December 2020, distributed as follows:



1 Retail investors 56.5 %
2 Board of Directors 3.7 %
3 Institutional investors 39.8 %

No. of shares	No. of shareholders	Shares	% of capital
1 to 12,000	190,901	611,045,364	10.86
12,001 to 120,000	49,841	1,554,814,439	27.63
120,001 to 240,000	2,085	341,433,296	6.07
240,001 to 1,200,000	1,198	526,131,754	9.35
1,200,001 to 15,000,000	167	477,402,590	8.48
More than 15,000,000	33	2,116,137,258	37.61
Total	**244,225**	**5,626,964,701**	**100.00**

1.2. Significant shareholders
(A.2, A.4, A.5, A.6, A.7 and A.8)

At 31 December 2020, the direct and indirect owners of significant stakes in Banco Sabadell were:

Name of shareholder	Voting rights attributed to the shares (%)		Voting rights through financial instruments (%)		Total voting rights (%)
	Direct	Indirect	Direct	Indirect	
Blackrock Inc.	0.00	2.89	0.00	0.42	3.31
Fintech Europe, S.A.R.L.	3.45	0.00	0.00	0.00	3.45
Lewis A. Sanders	0.00	3.47	0.00	0.00	3.47
Norges Bank	3.06	0.00	0.00	0.00	3.06

[2] The letters shown in the headings of each section of this report refer to the corresponding sections of the standard form of the Annual Corporate Governance Report issued by the Spanish National Securities Market Commission (CNMV).

BlackRock Inc. holds its indirect stake via a number of subsidiaries.

Mr. David Martínez Guzmán, a proprietary director, is the indirect owner of the voting rights attributed to the shares held by Fintech Europe, S.À.R.L., as the latter is owned 100% by Fintech Investment Ltd., the investment fund managed by Fintech Advisory Inc. (FAI). FAI is owned 100% by Mr. David Martínez Guzmán.

Lewis A. Sanders is the controlling owner of Sanders Capital, LLC, which is a registered US investment advisor that provides discretionary investment management services to clients; in connection with this service, certain clients grant proxy to Sanders Capital, LLC.

The most significant movements in the ownership structure during the year that were reported to the CNMV by the shareholders and whose disclosures are available on the CNMV's website are as follows:

Name of shareholder	Transaction date	Description of change
Blackrock Inc.	14/01/2020, 06/03/2020 30/03/2020, 09/04/2020	Fell below 5% of voting rights attributed to shares
	04/02/2020, 16/03/2020 02/04/2020	Exceeded 5% of voting rights attributed to shares
	16/04/2020, 29/05/2020	Fell below 5% of voting rights attributed to shares and via financial instruments.
	21/05/2020	Exceeded 5% of voting rights attributed to shares and via financial instruments.
	03/06/2020, 06/10/2020 23/10/2020, 09/11/2020 17/11/2020	Fell below 3% of voting rights attributed to shares
	09/06/2020	Fell below 3% of voting rights attributed to shares and via financial instruments
	05/08/2020	Exceeded 3% of voting rights attributed to shares and via financial instruments.
	06/08/2020, 13/10/2020 30/10/2020, 16/11/2020	Exceeded 3% of voting rights attributed to shares
Citadel Multi-Strategy Equities Master Fund Ltd.	18/08/2020	Exceeded 1% of voting rights attributed to shares
	15/10/2020	Fell below 1% of voting rights attributed to shares
Coltrane Master Fund, Lp	06/03/2020	Fell below 1% of voting rights attributed via financial instruments
Lewis A. Sanders	05/02/2020	Exceeded 3% of voting rights attributed to shares
Norges Bank	17/07/2020, 19/11/2020	Exceeded 3% of voting rights attributed to shares
	18/09/2020	Fell below 3% of voting rights attributed to shares

Banco Sabadell is not aware of any family, commercial, contractual or corporate ties between the owners of significant stakes. Moreover, the Bank and the companies that make up Banco Sabadell Group do not have any family, commercial, contractual or corporate ties with the Bank's significant shareholders other than those arising out of ordinary business relations. The Bank has not been notified of any shareholder agreements and is not aware of any concerted action between shareholders.

1.3. Board of Directors stake in share capital (A.3)

The members of the Board of Directors own 3.7% of the Bank's total voting rights. This information is detailed and updated on the Bank's website www.grupobancosabadell.com. The percentage of voting rights through financial instruments reflects the rights attributed to long-term supplementary incentives which have not vested.

The directors' ownership of capital stock is detailed below:

Name of director	Voting rights attributed to shares (%)		Voting rights through financial instruments (%)		Total voting rights (%)	Voting rights that may be transferred through financial instruments (%)	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
Josep Oliu Creus	0.01	0.11	0.01	0.00	0.13	0.00	0.00
José Javier Echenique Landiribar	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Jaime Guardiola Romojaro	0.04	0.00	0.01	0.00	0.05	0.00	0.00
Anthony Frank Elliott Ball	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Aurora Catá Sala	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pedro Fontana García	0.00	0.00	0.00	0.00	0.00	0.00	0.00
María José García Beato	0.00	0.00	0.00	0.00	0.01	0.00	0.00
Mireya Giné Torrens	0.00	0.00	0.00	0.00	0.00	0.00	0.00
George Donald Johnston III	0.00	0.00	0.00	0.00	0.00	0.00	0.00
David Martínez Guzmán	0.00	3.45	0.00	0.00	3.45	0.00	0.00
José Manuel Martínez Martínez	0.00	0.00	0.00	0.00	0.00	0.00	0.00
José Ramón Martínez Sufrategui	0.05	0.01	0.00	0.00	0.06	0.00	0.00
Alicia Reyes Revuelta	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Manuel Valls Morató	0.00	0.00	0.00	0.00	0.00	0.00	0.00
David Vegara Figueras	0.01	0.00	0.00	0.00	0.01	0.00	0.00

1.4. Own shares (A.9 and A.10)

The Bank is empowered to acquire own shares by a resolution adopted by the Ordinary General Meeting of Shareholders on 28 March 2019, under item Eight on the agenda, within a maximum period of five years as from the date of the resolution, so that, directly or through subsidiaries, subject to obtaining prior authorisation from the European Central Bank, it may acquire, at any time and as often as it sees fit, shares of Banco de Sabadell by any of the means admitted by law, including against profit for the year and/or unrestricted reserves, and that it may subsequently dispose of or cancel any shares thus acquired or, as appropriate, deliver them to employees or directors of Banco Sabadell as part of their remuneration or as a result of the exercise of stock options which they hold, all in accordance with the provisions of articles 146, 509 and matching articles of the Capital Companies Law.

The limits and requirements for such acquisitions are as follows:

— The par value of the shares thus acquired, directly or indirectly, in addition to any shares already held by the Bank and its subsidiaries, may not exceed, at any time, the legal limit established from time to time by the legislation in force (currently ten per cent of share capital), subject in all cases to all the limits for acquisition of treasury shares established by the stock market regulators in the markets on which Banco Sabadell shares are listed.

— The acquisition, plus any shares previously acquired by Banco Sabadell (or a person acting in their own name but on the Bank's behalf) and held by it, must not lead to equity being less than the amount of capital plus legal reserves and reserves that are designated as restricted under the Articles of Association.

— The shares acquired must have been fully paid.

— The acquisition price must be no less than par value and no higher than 20 per cent above the stock market price or any other price whereby the shares may be valued as of the date of their acquisition. All acquisitions of own shares must be made in accordance with general stock market rules and regulations.

At 2020 year-end, Banco Sabadell directly held 48,560,867 own shares, representing 0.86% of share capital. The Bank reported the following changes in treasury stock to the CNMV:

Transaction date	Total number of direct shares acquired	Total number of indirect shares acquired	Total % of share capital
9/03/2020	42,937,122	10,155,636	0.944
28/05/2020	53,864,603	—	0.957
24/06/2020	63,441,504	—	1.127
27/08/2020	51,917,013	—	0.923
13/10/2020	65,370,995	—	1,162

1.5. Estimated free float (A.11)

At 2020 year-end, the estimated free float was 86.01%, i.e. the percentage of share capital not held by significant shareholders, members of the Board of Directors or as treasury stock.

1.6. Transferability and exercise of voting rights (A.12, A.13 and A.14)

There are no restrictions on the free transferability of the Bank's shares such as to hamper the acquisition of control of the Bank through the acquisition of its shares in the market. The only existing restrictions are those established in Spanish law applying to all credit institutions.

Specifically, Act 10/2014, of 26, June, on the Regulation, Supervision and Solvency of Credit Institutions, establishes that in any acquisition of at least 10 percent of the capital or of the voting rights, or that, without attaining that percentage, enables significant influence to be exercised over the institution, as well as any increases such as to exceed 20%, 30% or 50%, or to grant control of the institution, the purchaser must give advance notice to the Bank of Spain, which will process the request for approval or denial by the European Central Bank. The reduction of a stake below those thresholds must be notified by the seller to the Bank of Spain.

The General Meeting of Shareholders has not adopted neutralisation measures against takeover bids and no securities traded on a regulated market in the European Union were issued.

2. General Meeting of Shareholders (B)

2.1. Regulation of the General Meeting of Shareholders (B.1, B.2, B.3, B.6, B.7 and B.8)

The General Meeting of Shareholders is the Bank's main governing body, where the shareholders adopt the resolutions that correspond to them in accordance with the law, the Articles of Association or its own Regulations, and those business decisions that the Board of Directors considers transcendental for the future of the Bank and the corporate interests.

The terms of reference and the basic rules for the conduct of the Banco Sabadell General Meeting of Shareholders, and the system for giving notice and convening meetings and adopting decisions are set out in the Articles of Association and in the Regulation of the General Meeting of Shareholders, which safeguard shareholders' rights and transparency; the system of quora does not differ from that provided in the Capital Companies Law.

This same criterion is applicable to any amendment of the Articles of Association, which is governed by the same principles as established in the Capital Companies Law, both with regard to the requirements for amendment and the required quorum. Additionally, in the cases defined by law, amendments of the Articles of Association require the authorisation of the supervisor exercising the powers assigned to it by article 10 of Royal Decree 84/2015, of 13 February, implementing Act 10/2014, of 26 June, on Regulation, Supervision and Solvency of Credit Institutions, without prejudice to the functions attributed to the European Central Bank in accordance with the provisions of Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

Under the Articles of Association, it is necessary to possess at least 1,000 shares to attend the General Meeting of Shareholders, and shareholders may cast one vote for every thousand shares they own or represent.

In line with best practices in corporate governance, Banco Sabadell transmits the entire General Meeting of Shareholders live via webcast on the corporate website.

The information about General Meetings is available on the Group's corporate website (www.grupobancosabadell.com) directly in the section entitled "Shareholders and investors". Additionally, the information about corporate governance is available on the website directly in the section entitled "Corporate Governance and Remuneration Policy".

2.2. General Meeting of Shareholders 2020 (B.4 and B.5)

Attendance at the General Meeting of Shareholders in recent years, and the percentages by which the resolutions were adopted, are published on the corporate website www.grupobancosabadell.com. Below are the attendance figures for the last three General Meetings, at which all items on the agendas were passed by the shareholders:

Date of General Meeting	% in attendance	% represented	% remote voting		Total
			Electronic voting	Other	
26/03/2020	0.18	61.38	0.00	0.00	61.56
Of which free float:	0.01	61.26	0.00	0.00	61.27
28/03/2019	0.40	58.78	0.00	0.00	59.18
Of which free float:	0.25	58.65	0.00	0.00	58.90
19/04/2018	0.78	60.57	0.00	0.00	61.35
Of which free float:	0.66	60.38	0.00	0.00	61.04

The estimated percentages of free float may include significant holdings held through international custodians.

3. Board of Directors (C) (C.1.15)

With the exception of matters falling within the sole remit of the Shareholders' Meeting, the Board of Directors is the highest decision-making body in the Bank and its consolidated Group as it is entrusted, under the law and the Articles of Association, with administering and representing the Bank. The Board of Directors acts mainly as an instrument of supervision and control, and it delegates the management of ordinary business matters to the Chief Executive Officer.

The Board of Directors is subject to well-defined, transparent rules of governance, particularly the Articles of Association and the Board's own rules of procedure, and it conforms to best practices in the area of corporate governance.

There were no amendments to the Articles of Association, the General Meeting of Shareholders Regulation or the Board of Directors Regulation in 2020.

3.1. Composition of the Board
(C.1, C.1.2, C.1.8 and C.1.29)

At 31 December 2020, the Board comprised 15 members, as follows:

Name of director	Director category	Board committees	Board position	Date of first appointment	Date of last appointment	How appointed
Josep Oliu Creus	Executive	● C	Chairman	29/03/1990	28/03/2019	General Meeting decision
José Javier Echenique Landiribar	Independent	●	Deputy Chairman	18/09/2010	28/03/2019	General Meeting decision
Jaime Guardiola Romojaro	Executive	●	Chief Executive Officer	27/09/2007	19/04/2018	General Meeting decision
Anthony Frank Elliott Ball	Independent	● ●	Lead Independent Director	30/03/2017	30/03/2017	General Meeting decision
Aurora Catá Sala	Independent	● ● (C) ●	Director	29/01/2015	28/03/2019	General Meeting decision
Pedro Fontana Garcia	Independent	● ●	Director	27/07/2017	19/04/2018	General Meeting decision
María José García Beato	Executive		Director	24/05/2018	28/03/2019	General Meeting decision
Mireya Giné Torrens	Independent	●	Director	26/03/2020	26/03/2020	General Meeting decision
George Donald Johnston III	Independent	● ● C	Director	25/05/2017	19/04/2018	General Meeting decision
David Martínez Guzmán	Proprietary		Director	27/03/2014	19/04/2018	General Meeting decision
José Manuel Martínez Martínez	Independent	● C	Director	26/03/2013	19/04/2018	General Meeting decision
José Ramón Martínez Sufrategui	Independent	● ●	Director	18/09/2010	28/03/2019	General Meeting decision
Alicia Reyes Revuelta	Independent		Director	24/09/2020	24/09/2020	Board decision
Manuel Valls Morató	Independent	● C ●	Director	22/09/2016	30/03/2017	General Meeting decision
David Vegara Figueras	Executive		Director	28/05/2015	28/03/2019	General Meeting decision

Board of Directors Committees

- ● Delegated Committee
- ● Audit and Control Committee
- ● Appointments Committee
- ● Remuneration Committee
- ● Risk Committee
- C Chairman

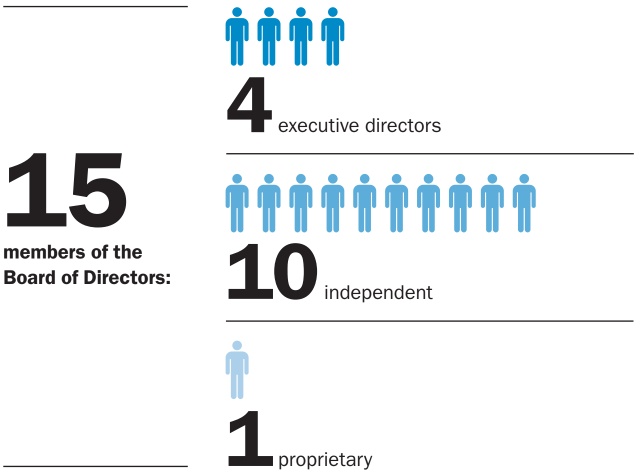
11/15
Directors according to Articles of Association

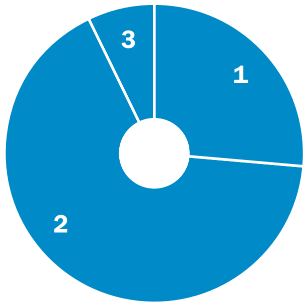
15
Directors established by the General Meeting of Shareholders

15
Members of the Board of Directors

There were no changes in director category in 2020.

Of the fifteen members of the Board of Directors, four are executive directors (26.67% of the total Board) and eleven are non-executive directors: ten independent (66.67% of the total Board) and one proprietary director (6.67% of the total Board).





1	Executive	26.67 %
2	Independent	66.67 %
3	Proprietary	6.67 %

Mr. Miquel Roca i Junyent, who is not a director, has been Secretary of the Board since 13 April 2000.

There have been no appointments of proprietary directors at the proposal of shareholders owning less than 3% of capital.

Following the process envisaged in the Succession Plan for the Chairman and Chief Executive Officer, on 17 December 2020, the Board of Directors appointed Mr. César González-Bueno Mayer as an executive director and Chief Executive Officer to replace Mr. Jaime Guardiola Romojaro, once the corresponding regulatory authorisations have been received.

The following resignations from the Board of Directors of Banco Sabadell took place in 2020 and have been duly notified to the CNMV in the form of regulatory disclosures:

By means of a letter addressed to all the members of the Board of Directors, Ms. Maria Teresa Garcia-Milà Lloveras presented her resignation from the Board of Directors effective on the date of the General Meeting of Shareholders scheduled for 26 March 2020, at second call, since 13 years had elapsed since her first appointment and, consequently, since she was not classified as an independent director, she wished to favour the appointment of another independent director at that General Meeting of Shareholders.

Mr. José Luis Negro Rodríguez tendered his resignation as executive director on 24 September 2020 by means of a letter addressed to all the members of the Board of Directors, in which he stated that, after a long career at the Bank, he intended to retire before 31 December 2020 and that, for this reason, and in order to facilitate the renewal of the Board through the incorporation of new members, he was tendering his resignation as from that date.

3.2. Director profiles (C.1.3)

The Matrix of competencies and diversity of the members of the Board of Directors is available under "Internal Governance Framework" on the website www.grupobancosabadell.com, in the section entitled "Corporate Governance and Remuneration Policy".

Josep Oliu Creus Chairman	**Profile** Banking / Retail & Corporate Banking / Finance / Academic / International	He holds a degree in economics from the University of Barcelona and a PhD in Economics from the University of Minnesota. Professor of Economic Theory at the University of Oviedo. Appointed Director-General Manager of Banco Sabadell in 1990. Chairman of Banco Sabadell since 1999. Non-executive Chairman of Exea Empresarial and the latter's representative on the board of Puig, S.L. Member of FEDEA (Fundación de Estudios de Economía Aplicada), and a member of the Board of Trustees of the Princess of Asturias Foundation and the Princess of Girona Foundation.
Jaime Guardiola Romojaro Chief Executive Officer	**Profile** Banking / Retail & Corporate Banking / Finance/ Business / International	He graduated in Law from Barcelona University and holds a degree in Business and an MBA from ESADE. He commenced working at BBVA in 1990, where he reached the position of General Manager for Spain and Portugal (2006-2007). Chief Executive Officer of Sabadell since 2007. Trustee of Fundación ESADE and member of the Board of Círculo de Economía.
María José García Beato Director - Secretary General	**Profile** Banking / Law / Regulatory / Governance	Degree in Law and Diploma in Criminology. Spanish State Attorney (1991). Former positions include State Attorney at the Madrid High Court of Justice, Legal Counsel at the Data Protection Agency, State Attorney as consultant to the State Legal Service, Head of the General Secretariat of Communications, and State Attorney at the National Court. Chief of Staff and Under-Secretary at the Ministry of Justice (2000-2004). General Counsel of Banco Sabadell (2005-2008). Company secretary of Banco Sabadell since 2008. Independent director at listed company Red Eléctrica Corporación, S.A., member of the Boards of Trustees of Fundación Banco Sabadell and Fundación de la Asociación Española de Banca.
David Vegara Figueras Director - General Manager	**Profile** Financial / Risks / Academic / Regulatory	A graduate in economics from the Autonomous University of Barcelona, he holds an MA in economics from the London School of Economics. Formerly Secretary of State for the Economy in the Spanish government (2004-2009), and Deputy Chief Executive Officer, Banking, in the European Stability Mechanism (2012-2015). Associate professor in the Department of Economics, Finance and Accounting at ESADE (2015- 2018). Member of the Supervisory Board of Hellenic Corporation of Assets and Participations, S.A.
David Martínez Guzmán Proprietary director	**Profile** Business / Finance / International	Degree in Electrical & Mechanical Engineering from the National Autonomous University of Mexico, Diploma in Philosophy from Universitas Gregoriana (Italy), and MBA from Harvard Business School. Founder in 1987 of Fintech Advisory, which manages the Fintech Investments Limited fund (New York and London). Director of listed companies Alfa, S.A.B., Vitro, S.A.B. and Cemex, S.A.B.

José Javier Echenique Landiribar Deputy Chairman Independent	**Profile** Banking / Retail & Corporate Banking /Business	Degree in Economics and Actuarial Science from the University of the Basque Country. Director and General Manager of Allianz-Ercos (1982-1990), General Manager of BBVA Group (1992-2001) and Chairman of Banco Guipuzcoano (2009-2012). Formerly a director of many companies in the energy and construction industries and the media. Proprietary director of listed company ACS, Actividades de la Construcción y Servicios, S.A. and of ACS, Servicios, Comunicaciones y Energía, S.L., both belonging to the same group, director (other external) of listed company Ence, Energía y Celulosa, S.A., and Deputy Chairman and Lead independent director of listed company Telefónica, S.A., director of Telefónica Móviles México, S.A. de C.V. and Telefónica Audiovisual Digital, S.L.U., all belonging to the same group. He is also a trustee of Fundación Novia Salcedo.
Anthony Frank Elliott Ball Lead Independent Director	**Profile** Business / International	Chartered Engineer; MBA from Kingston Business School, Kingston University (London). Honorary Doctorate from the Kingston University Faculty of Business and Law. Formerly Chairman and CEO of Fox Sports International (1995-1996), CEO of Fox Liberty Networks LLC. (1996-1999), CEO of BSkyB Plc. (1999-2004), Chairman of Kabel Deutschland GmbH (2005-2013), and independent director of BT Group (2009-2018). Chairman of Ambassadors Theatre Group Ltd and of Bité Group, both part-owned by Providence Equity Partners LLC.
Aurora Catá Sala Independent director	**Profile** Business / Consulting / Finance / Human Resources	Degree in Industrial Engineering (major in Industrial Organisation) from the Polytechnic University of Catalonia and MBA and PADE from IESE Barcelona. Formerly CFO of Nissan Motor Ibérica, S.A. (1991-1996), Chief Executive Officer of Planeta 2010 (1999-2002), Founder of ContentArena (2002-2003), General Manager of Audiovisual Media at Recoletos Grupo de Comunicación (2003-2008) and member of the Governing Board of Institut Català de Finances (2014). Formerly held a number of directorships. Currently a partner of Seeliger y Conde, S.L., independent director of Atresmedia Corporación de Medios de Comunicación, S.A., Chair of Barcelona Global, and member of the Executive Committee of IESE Alumni.
Pedro Fontana García Independent director	**Profile** Banking / Retail / Business	Degree in Business from ESADE and MBA from Harvard Graduate School of Business Administration. General Manager of COOB'92 (1990-1993), General Manager of Turisme de Barcelona (1993-1994), Chairman of Banca Catalana (1994-1999), General Manager of BBVA Catalonia (2000-2009), Executive Chairman of AREAS (Elior Group) (2012-2017), Deputy General Manager of Elior Group, S.A. (2017-2018), and nominee of EMESA Corporación Empresarial, S.L. on the board of listed company Elior Group, S.A (2018-2019). Independent director of Grupo Indukern, S.L. and of Pax Equityco, S.à.R.L., President of Asociación para el Progreso de la Dirección - Catalonia Chapter, Member of the Board of Trustees of Fundació Privada Cercle d'Economía and of Fundación Barcelona Mobile World Capital, and a director of Fira Internacional de Barcelona.

Mireya Giné Torrens Independent director	**Profile** Finance / Academic / Governance / Digital & IT (Digital Transformation)	BA and MA (Cum Laude) in Economics from Pompeu Fabra University, and PhD from the University of Barcelona. Director of International Initiatives, Wharton Research Data Services (WRDS) since 2012, and Associate Professor in the Department of Finance at IESE Business School since 2018. Researcher at the European Corporate Governance Institute since 2018, a member of the World Economic Forum's network of experts since 2019, and member of the Center for Economic Policy since 2020. Independent director of Sabadell Asset Management (2018-2020), which is a subsidiary of Banco Sabadell, and Trustee of Fundación Aula Escola Europea.
George Donald Johnston III Independent director	**Profile** Banking / Corporate Banking / International	BA in Political Science from Middlebury College, Vermont and MA in International Economics and Latin American Studies from Johns Hopkins University School of Advanced International Studies, Washington DC. Executive Director at Salomon Brothers (1979-1990), Director of Bankers Trust International and member of its Global Executive Committee (1992-1999), Group Head of M&A for Europe and Member of the Europe Executive Committee and of the Global Operating Committee within the investment banking division of Deutsche Bank (1999-2005), Chairman of the M&A Group for Europe at Deutsche Bank (2005-2010). Independent director of listed companies Acerinox, S.A. and Merlin Properties, SOCIMI, S.A.
José Manuel Martínez Martínez Independent director	**Profile** Business / Insurance / Finance / International.	A Public Works Engineer, he obtained a degree in Economics and Actuarial Science at the University of Madrid. Formerly Chairman of MAPFRE (2001-2012), President of Fundación MAPFRE (2007-2012) and member of the Board of Directors of Consorcio de Compensación de Seguros and the International Insurance Society. Honorary Chairman of MAPFRE.
José Ramón Martínez Sufrategui Independent director	**Profile** Banking / Business	An architect specialised in urban development, he holds an Executive MBA from IE Business School. Formerly director of Banco Guipuzcoano (1990-2010). Owner and Chairman of an extensive group of companies, he is currently Chairman of Centro Fuencarral, S.A., Comercial del Campo, S.A., Edificios Cameranos, S.A., Inversiete, S.A., Producción y Desarrollo, S.A., Títulos e Inversiones, S.A., and Villa Rosa, S.A.
Alicia Reyes Revuelta Independent director	**Profile** Banking / Retail & Corporate Banking / Finance / International	Dual degrees in Law and Business Administration from ICADE, Madrid. PhD in Quantitative Methods and Financial markets from ICADE. Formerly held a number of directorships. Country Manager of Bear Stearns for Iberia (2002-2006), Global Head of Structuring of Financial Institutions and Global Head of Insurance Solutions and Strategic Capital Derivatives at Barclays Capital (2010-2014). Partner of Olympo Capital (2014-2015). Independent director (2015-2016), CEO - EMEA (2016-2020) and Acting Chairman (2019) of Wells Fargo Securities International Ltd. Guest lecturer at University College London (UCL) Institute of Finance and Technology, and trustee of NGO Fareshare.

Manuel Valls Morató Independent director	**Profile** Auditor / Finance	Degree in Economics and Business Studies from the University of Barcelona and a post-graduate qualification in Business Administration from IESE/University of Navarra; he is a registered auditor and a member of Spain's official register of auditors since its creation. Partner of PwC (1988-2013), Head of the Audit Division at PwC (2006-2013) and Chairman of PwC Auditores (2006-2011). Independent member of the Governing Board of Institut Català de Finances (2015-2016). Independent director of listed company Renta Corporación Real Estate, S.A. and Chairman of the Audit, Control and Risk Committee at COBEGA.

Mr. David Martínez Guzmán, a proprietary director, is the indirect owner of the voting rights attributed to the shares held by Fintech Europe, S.à.R.L., as the latter is owned 100% by Fintech Investment Ltd., the investment fund managed by Fintech Advisory Inc. (FAI). FAI is owned 100% by Mr. David Martínez Guzmán.

At a meeting on 17 December 2020, the Board of Directors appointed Mr. César González-Bueno Mayer as Executive Director and Chief Executive Officer to replace Mr. Jaime Guardiola Romojaro, once the corresponding regulatory authorisations have been received. His profile is detailed below:

César González-Bueno Mayer Appointment is pending regulatory clearance	**Profile** Banking / Retail & Corporate Banking / Finance / Regulatory / International / Digital & IT (Digital transformation)	Dual degrees in Law and Business Administration from ICADE, Madrid, and an MBA from Yale School of Management. Founder and CEO of ING Direct, N.V. Branch in Spain (1998-2010), General Manager for Spain, France, Italy and United Kingdom of ING Direct, N.V. (2004-2010), Regional Head of Europe at ING Bank (2010-2011), CEO of Novagalicia Banco (now Abanca) (2011-2013), CEO of Gulf Bank (2014-2016) and CEO of ING Spain and Portugal (2017-2019). Currently, non-executive director of TSB Bank, Plc and TSB Banking Group Plc and Trustee of the Fundación Ciudad Escuela de los Muchachos.

3.3. Positions held by directors in other Banco Sabadell Group companies and other listed companies

(C.1.10, C.1.11 and C.1.12)

Mr. Josep Oliu Creus and Mr. Jaime Guardiola Romojaro are, respectively, Chairman and non-executive director of the subsidiary Sabadell Consumer Finance, S.A.U. Mr. Jaime Guardiola Romojaro is non-executive Chairman of the subsidiaries in Mexico, Banco Sabadell, S.A. I.B.M. and Sabcapital, S.A. de C.V., Sofom, E.R., and Mr. David Vegara Figueras is non-executive director of TSB Bank, Plc. Ms. Aurora Catá Sala and Mr. Manuel Valls Morató are non-executive directors of Sabadell Information Systems, S.A.U. (SABIS).

The members of the Board of Directors hold the following positions in other listed companies:

	Name of company	Position
José Javier Echenique Landiribar	ACS Actividades de Construcción y Servicios, S.A.	Director
	Ence Energía y Celulosa, S.A.	Director
	Telefónica, S.A.	Deputy Chairman
Aurora Catá Sala	Atresmedia Corporación de Medios de Comunicación, S.A.	Director
María José García Beato	Red Eléctrica Corporación, S.A.	Director
George Donald Johnston III	Acerinox, S.A.	Director
	Merlin Properties, Socimi, S.A.	Director
David Martínez Guzmán	Alfa, S.A.B. de C.V.	Director
	Cemex, S.A.B. de C.V.	Director
	Vitro, S.A.B. de C.V.	Director
Manuel Valls Morató	Renta Corporación Real Estate, S.A.	Director

In accordance with article 26 of Act 10/2014, of 26 June, the maximum number of directorships at other companies that members of the Board may hold is as follows:
— one executive directorship and two non-executive directorships.
— four non-executive directorships.
The Banco Sabadell Director Candidate Selection Policy, which was approved by the Board of Directors on 25 February 2016 and amended on 28 March 2019, refers to the applicable legislation with regard to the criteria and requirements that directors must fulfil.

3.4. Banco Sabadell Diversity Policy

(C.1.4, C.1.5, C.1.6, C.1.7, C.1.14, and C.2.2)

Banco Sabadell has policies governing diversity in terms of age, gender, ability, and professional training and experience.

The Banco Sabadell Director Candidate Selection Policy, which was approved by the Board of Directors on 25 February 2016 and amended on 28 March 2019, establishes criteria to be considered in the process of selecting new members and re-appointing incumbent members of the Board of Directors in order to foster diversity. This Policy is available in the "Corporate Governance and Remuneration Policy" section of the Bank's corporate website www.grupobancosabadell.com.

Under Article 61 of the Articles of Association, the Appointments Committee is entrusted with the function of ensuring compliance with the qualitative composition of the Board of Directors, establishing a target for representation of the gender that is less represented on the Board of Directors and drawing up guidelines on how to achieve that target.

The candidate selection process pursues an appropriate balance in the composition of the Board of Directors, which, as a whole, enriches decision-making and contributes plural viewpoints to the discussion of matters within its remit.

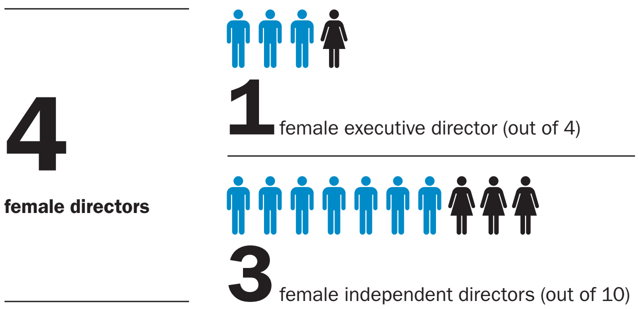
In fulfilling its duties, the Appointments Committee implemented the policy and measures to increase the diversity of gender, age, education, knowledge and experience that contribute to the collective fitness and suitability of the Board, by proposing the appointment in 2020 of two female independent directors who meet all these criteria.

In compliance with Recommendation 14 of the Good Governance Code for listed companies, with the function assigned in section 4.17 of its Regulations and with the Banco Sabadell Director Candidate Selection Policy, the Appointments Committee verified compliance with the Policy in the appointments made in 2020 by the General Meeting of Shareholders and the Board of Directors, which conformed to the parameters and requirements of both the Policy and the regulations in force for the position of member of the Board of Directors of a credit institution, and concluded that the appointments approved in 2020 favour an appropriate composition of the Board of Directors, by increasing the number of independent directors and also with two women, thus complying with the mandate to the Board of Directors and the Appointments Committee itself to contribute to increasing gender diversity within the Board.

To select candidates, the Appointments Committee relied on the Matrix of competencies and diversity of the members of the Board of Directors of Banco Sabadell, which defines directors' abilities and knowledge. The Committee also relied on external consultants, which provided it with female candidates for director.

At 2020 year-end, there were four female directors; three independent directors out of a total of ten, and one executive director.

The trend in the number of female directors in the Board of Directors and its committees in recent years is as follows:



	Number of female directors				% of total directors in each category			
	2020	2019	2018	2017	2020	2019	2018	2017
Executive	1	1	1	—	25.00	20.00	25.00	0.00
Proprietary	—	—	—	—	—	—	0.00	0.00
Independent	3	1	2	2	30.00	12.50	20.00	20.00
Other external	—	1	—	—	—	100.00	0.00	0.00
Total	**4**	**3**	**3**	**2**	**26.67**	**20.00**	**20.00**	**13.33**

With regard to the presence of women on the Board Committees, the Remuneration Committee is chaired by a female independent director, who is also a member of the Risk Committee and the Appointments Committee, and another female independent director is a member of the Audit and Control Committee. Women chair one of the Board committees and are present in four of the five Board committees. Women account for 25% of the Audit and Control Committee, 33.33% of the Risk Committee, 25% of the Remuneration Committee and 33.33% of the Appointments Committee. The female executive director is also the Secretary (not a member) of the Delegated Committee, the Remuneration Committee and the Risk Committee.

Number of female directors

	2020		2019		2018		2017	
	Number	%	Number	%	Number	%	Number	%
Delegated Committee	0	0.00	0	0.00	0	0.00	0	0.00
Audit and Control Committee	1	25.00	1	25.00	1	25.00	1	20.00
Appointments Committee	1	33.33	2	50.00	2	50.00	2	66.67
Remuneration Committee	1	25.00	1	25.00	2	50.00	2	50.00
Risk Committee	1	33.33	1	33.33	1	25.00	1	25.00

In 2020, Banco Sabadell achieved a ratio of 27% of women on the Board, in line with the general 30% target set by the CNMV, and is on track to meet the targets set for 2022.

In addition, Banco Sabadell has a set of policies, internal rules and codes of conduct that guarantee ethical and responsible behaviour throughout the organisation and have an impact on diversity and are equally applicable to the Board of Directors, both in the director selection procedure and in the day-to-day performance of their functions, in matters such as training and professional experience, age, ability and gender. These rules, which are applicable to the entire organisation, guarantee an increase in its diversity.

The percentage of women in senior management is 7.69%. The percentage of female executives at Banco Sabadell is 25.6%, having increased by 2.5% with respect to 2019.

+2.5%

Increase in the number of female executives

3.5. Director Selection (C.1.16, C.1.21, C.1.22 and C.1.23)

In accordance with the provisions of Articles 50, 53, 55 and 61 of the Articles of Association, articles 14, 19 and 20 of the Board of Directors Regulation, the Banco Sabadell Director Candidate Selection Policy, approved by the Board of Directors on 25 February 2016, the procedure for assessing the suitability of the members of the Board of Directors and key function holders of Banco Sabadell, and the procedures for appointment, reappointment, evaluation and removal of directors are as follows:

Selection

The Appointments Committee is responsible for analysing the competencies and diversity of the Board of Directors in order to determine the profile of candidates for director, for which purpose it relies on the Matrix of competencies and diversity of the members of the Board of Directors. In compliance with the Policy, it is responsible for performing a prior assessment to ensure that candidates for directorship possess the necessary competencies, knowledge and experience; to that end, it is necessary to consider the balance of knowledge, skills, diversity and experience of the members of the Board of Directors and, for this purpose, to define the roles and capabilities required of the candidates to fill each vacancy and to evaluate the time and dedication needed for them to effectively perform their duties.

To select candidates, the Appointments Committee may, if deemed necessary, engage a prestigious consultant in the field of personnel selection to initiate a process of finding candidates that fit the desired profile. Additionally, any director may suggest candidates for director provided they meet the requirements of the Banco Sabadell Director Candidate Selection Policy.

Suitability assessment

Once a candidate has been selected, the procedure for assessing the suitability of Board members and key personnel must be applied; on this basis, the Appointments Committee analyses the information about the candidates and the reports presented by the Board Secretary, drawn up by the Bank's General Secretariat, as to their commercial and professional integrity, knowledge and experience and their willingness to provide good governance, by application of the requirements defined in Law 10/2014, of 26 June, and having regard to the criteria for assessing the suitability of the members of the Board of Directors as set out in Royal Decree 84/2015, of 13 February, implementing the aforementioned Law 10/2014, of 26 June, and the European Central Bank guidelines on fit and proper assessments updated in May

2018, as well as the Guidelines to assess the suitability of members of management bodies and key function holders (EBA/GL/2017/12) dated 21 March 2018. The Appointments Committee checks that candidates meet the requirements as to integrity, knowledge, experience and governance envisaged in the applicable legislation and draws up a candidate suitability assessment report. In addition, candidates for directorships must be vetted by the European Central Bank.

The Appointments Committee is also entrusted with assessing director suitability on an ongoing basis, evaluating the profile of the persons most suited to being members of the various committees, and making proposals in this regard to the Board of Directors; in particular, it must seek to ensure that the rules on the qualitative composition of the Board of Directors are complied with.

Appointment

After assessing the suitability of candidates for director, the Appointments Committee is entrusted, among its basic responsibilities in accordance with Article 61 of the Articles of Association, with making proposals to the Board for the appointment of independent directors either by co-optation or for submission to a vote at the General Meeting of Shareholders, and must advise on the proposals to appoint other director categories by co-optation or by referral to the General Meeting of Shareholders.

Ordinary members of the Board of Directors are appointed by the General Meeting of Shareholders. Any vacancies arising on the Board of Directors are filled by the General Meeting unless the Board decides, in the interests of the Bank, to act in accordance with the Capital Companies Law. Directors appointed by co-optation hold office until the next General Meeting of Shareholders.

Re-appointment

Directors are appointed for a term of at most four years and they can be re-appointed one or more times for periods of the same maximum duration.

The Articles of Association and Board of Directors Regulation do not establish an age or term limit for directors or any other requirements for independent directors that are stricter than those provided by law.

Specific requirements applicable to the Chairman and Chief Executive Officer

The Succession Plan for the Chairman and Chief Executive Officer of Banco Sabadell establishes the specific requirements for appointment as Chairman of the Board of Directors and Chief Executive Officer; in general, they must be of acknowledged commercial and professional fitness, have suitable knowledge and experience to perform the duties of the office, and be willing to exercise good governance of the Bank.

In particular, they must have proven experience in the financial sector and/or in senior management functions, have sufficient technical training in the fields of finance and/or business management and administration for the performance of the executive functions inherent to their position, and they must accredit a professional career that demonstrates leadership and/or entrepreneurship, in addition to meeting the conditions of suitability required of a director of a credit institution in accordance with the applicable regulations.

Removal

Directors must step down when their term ends if they are not re-appointed, or when the General Meeting of Shareholders or the Board of Directors so decides using the powers conferred on them by law or the Articles of Association. The Appointments Committee is empowered to make proposals for the removal of independent directors by the General Meeting of Shareholders, and to advise on proposals to remove directors in other categories. The Board does not currently have any powers in this respect under the law or the Articles of Association. The General Meeting of Shareholders may remove directors at any time, as provided in article 50 of the Articles of Association.

Restrictions

The following may not hold office as members of the Board of Directors:

— Minors.
— Persons disqualified by law, undischarged bankrupts or insolvents, those under convictions involving disqualification from holding public office, and those convicted of serious breaches of the law or Company regulations, or who are prevented from engaging in trade by reason of their office.
— Government officials whose duties are related to, or have a bearing on, the business of the Bank.
— Those in default with respect to any past-due obligation to the Bank.
— Persons in any of the situations of incompatibility or limitation on holding office as provided by law.

3.6. Reasons for which a director is obliged to resign (C.1.19, C.1.36 and C.1.37)

Specifically, under article 50 of the Articles of Association and article 23 of the Board of Directors Regulation, and in compliance with the Banco Sabadell Group Code of Conduct and its Policy on Conflicts of Interest of Directors and Senior Executives, directors must disclose any case where there might be a conflict of values or interests in order to enable the Bank to manage such situations appropriately.

Directors are obliged to resign when they incur in a case of incompatibility, prohibition or limitation as provided for in the applicable regulations.

Additionally, in accordance with article 20 of the Banco Sabadell Board of Directors Regulation, directors must step down when their term ends and when the General Meeting of Shareholders or the Board of Directors so decides using the powers conferred on them by law or the Articles of Association, and;

— If they meet any of the conditions of incompatibility or prohibition envisaged in the law or the Articles of Association.
— If they are arraigned for a crime or are the subject of disciplinary proceedings by the supervisory authorities for a serious or very serious violation.
— Where their continuance on the Board may jeopardise the company's interests.

During 2020, the Board of Directors was not informed and did not otherwise become aware of any situation affecting a director, whether or not related to their performance in the Bank itself, that might impair the Bank's credit and reputation; consequently, it was not necessary to minute any such case.

3.7. Operation of the Board of Directors

(C.1.9, C.1.20, C.1.24, and C.1.35)

3.7.1. Proxies

Directors must attend Board of Directors meetings in person. However, when they can not attend in person, they may grant proxy to another director. Article 56 of the Articles of Association establishes that non-executive directors may grant proxy only to another non-executive director.

Additionally, the Director Remuneration Policy for 2019, 2020 and 2021, approved by the Shareholders' Meeting on 28 March 2019, which establishes the system of remuneration for directors for their functions as members of the Board of Directors, establishes, in addition to the fixed remuneration for membership of the Board, per diems for meeting attendance, capped at 11 per diems for ordinary meetings; directors may collect per diems for up to two meetings per year missed for just cause provided that they grant proxy.

3.7.2. Adopting resolutions

No supermajority is required other than the legal majority.

3.7.3. Powers delegated to the Board

The Board of Directors has delegated to the Chairman, Mr. Josep Oliu Creus, general powers to exercise his functions as Chairman of the Board of Directors and Chairman of the Delegated Committee. The Board has delegated to the Chief Executive Officer, Mr. Jaime Guardiola Romojaro, all the powers of the Board, except those that may not by law be delegated, and those powers that are necessary for him to manage the institution effectively as its chief executive. The Director - Secretary General, Ms. María José García Beato, and the Director - Chief Risk Officer, Mr. David Vegara Figueras, have the necessary general powers of attorney to perform their executive duties in the Bank.

All the powers corresponding to the Board of Directors, except the powers that the law or the Articles reserve exclusively for the Board, have been delegated to the Delegated Committee.

3.7.4. Information and documentation

The Bank has procedures for providing the directors with the necessary information and material to prepare for meetings of the Board of Directors and its committees in a timely manner.

Article 17.1 of the Board of Directors Regulation establishes that the notice of meeting must always include the agenda, which must contain, among other items, information about subsidiaries and Board committees, and proposals and suggestions by the Chairman and other Board members and the Bank's General Managers, to be received no less than five days in advance of the Board meeting; such proposals must be accompanied by the appropriate material for distribution to the directors.

Additionally, article 21 provides that:

— Directors are vested with the broadest powers to be informed about any aspect of the company, to examine its books, records, documents and other background information on the company's transactions and to inspect all of its installations. The right to information extends to subsidiaries, both domestic and foreign.
— So as not to disturb the ordinary running of the company, requests by directors for information must be channelled through the Chairman or the Board Secretary, who must attend to the director's requests by giving the information directly, providing appropriate access to individuals at the relevant level of the organisation, or providing the means by which the director may carry out the desired examination and inspection on site.

Banco Sabadell has a procedure for providing the directors with the necessary material to prepare for meetings of the Board of Directors and its committees in a confidential and encrypted way, using the Diligent Boards software running on iPads. Information for Board meetings is circulated to the directors one week in advance, and it is elaborated upon or updated in the boardbook as needed; hence, they are duly informed.

3.8. Number of Board and Committee meetings, and attendance

(C.1.25 and C.1.26)

The following table shows the number of meetings held by the Board of Directors and its Committees in 2020:

Number of meetings

Board of Directors	Board of Directors meetings not attended by the Chairman	Delegated Committee	Audit and Control Committee	Appointments Committee	Remuneration Committee	Risk Committee
19	0	35	12	16	12	14

Additionally, the Lead Independent Director held 2 meetings with the other directors which the executive directors did not attend either in person or by proxy.

Attendance at Board of Directors meetings is shown in the following table:

Number of meetings

Meetings which were attended in person by at least 80% of directors	Meetings at which all the directors were present in person or for which they granted proxy with specific instructions
19	18

%

Attendance in person as a % of the total number of votes during the year	Votes cast with all directors actually present or having granted proxy with specific instructions, as a % of total votes in the year
98.15%	99.63%

3.9. Takeover bids (C.1.38)

The Bank has not entered into any significant agreements which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

3.10. Evaluation of the Board and its Committees (C.1.17 and C.1.18)

Each year since 2007, the Bank assesses the performance of the Board of Directors and of its committees (Delegated Committee, Audit and Control Committee, Appointments Committee, Remuneration Committee and Risk Committee). In compliance with Recommendation 36 of the Good Governance Code of Listed Companies, every three years the Board of Directors of Banco Sabadell engages an external facilitator to aid in the evaluation process. This facilitator's independence is verified by the Appointments Committee.

It was decided that the performance assessment of the Board of Directors and its committees for 2020 would be performed internally by the Bank in the first quarter of 2021. The internal assessment methodology is based on two main features: (i) input from the directors, and (ii) analysis of significant corporate documentation of Banco Sabadell relating to key aspects of the Bank's corporate governance system.

In line with the recommendations in the Code of Good Governance for Listed Companies, the evaluation of the performance of the Board of Directors and its committees and of the Chief Executive Officer was organised and coordinated by the Chairman of the Board of Directors, while the Lead Independent Director directed the assessment of the Chairman.

The areas to be evaluated are those indicated in the CNMV's Technical Guide on Nomination and Remuneration Committees, which extends the scope of the evaluation provided for in Recommendation 36 of the Good Governance Code of Listed Companies; quality and efficiency of the functioning of the Board and its committees, including the degree of effective performance and contributions of its members; the size, composition and diversity of the Board and its Committees; the performance of the Chairman, the Deputy Chairman, the Chief Executive Officer, the Lead Independent Director and the Secretary of the Board; the performance and contribution of the Directors; the frequency and duration of meetings; attendance; the content of the agenda and whether sufficient time was devoted to dealing with the issues in accordance with their importance; the quality of the information received; the breadth and openness of the debates; and training.

Following a report from the Appointments Committee, on 26 March 2020 the Board of Directors approved the 2019 evaluation carried out within the recommended 3-year term with the assistance of independent external consultant Deloitte Legal, S.L.P., relations with which are within the ordinary course of business, and which provided advice on criminal liability matters. Other companies in the Deloitte Group have provided advisory services to Banco Sabadell Group, particularly in the field of information technology and security.

The assessment revealed that, in 2020: (i) the format of the documentation available to directors as background for meetings was improved; (ii) gender diversity on the Board was increased with the appointment of two female independent directors, and the diversity of knowledge and experience on the Board was increased with the incorporation of new profiles and increased knowledge in retail banking; and (iii) the Director Training Programme continued.

3.11. Remuneration of directors and senior management (C.1.13 and C.1.14)

Further details of director remuneration may be found in the Annual Report on Director Remuneration for 2020, approved by the Board of Directors on the same date as the Annual Report on Corporate Governance, which is published on the website of the CNMV and available on the corporate website of Banco Sabadell, www.grupobancosabadell.com, under "Corporate Governance and Remuneration Policy".

Remuneration earned by the Board of Directors in 2020 (thousand euro)	6,779
Amount of pension rights accumulated by current directors since 2000 (thousand euro)	37,084

The members of Banco Sabadell's senior management and the Head of Internal Audit, excluding executive directors, are as follows:

Senior management:

General Manager

Miquel Montes Güell
Tomás Varela Muiña
Carlos Ventura Santamans
José Nieto De La Cierva

Deputy General Manager

Rafael José García Nauffal
Jaime Matas Vallverdú
Ramón De La Riva Reina
Enric Rovira Masachs
Manuel Tresánchez Montaner

Assistant General Manager
Head of Internal Audit

Nuria Lázaro Rubio

Total remuneration of senior management and the head of internal audit (thousand euro)	5,077
Combined contributions to pension plans, structured through insurance policies, in 2020 (thousand euro)	2,174

3.12. Indemnities, guarantees clauses and golden handshakes agreed between the Bank and its directors, executives or employees (C.1.39)

— 40 beneficiaries
— Description of beneficiaries: Chairman, Chief Executive Officer, Director - Secretary General, Director - Chief Risk Officer, and 36 Executives
— Description of agreements:
The contracts with the Chairman, Chief Executive Officer and Director - Secretary General contain a clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control. The contract with the Director-Chief Risk Officer has a post-contractual non-compete clause for a duration of 2 years from the date of unfair dismissal and some limited cases of change of control, lasting at most until the first date of ordinary retirement, in the amount of two years' fixed remuneration.

The contracts with 21 executives have a clause providing indemnity in the amount of 2 years' fixed remuneration for cases of unfair dismissal and some limited cases of change of control. The contracts with 16 executives have a post-contractual non-compete clause for a duration of 2 years from the date of unfair dismissal and some limited cases of change of control, lasting at most until the first date of ordinary retirement, in the amount of two years' fixed remuneration.

These contracts have been notified to and/or approved by the Board of Directors, and the General Meeting of Shareholders is informed of these clauses.

3.13. Audit of the financial statements (C.1.27, C.1.28, C.1.30, C.1.31, C.1.32, C.1.33 and C.1.34)

The separate and consolidated financial statements of Banco Sabadell are certified beforehand by the Chairman of the Board, the Chief Executive Officer and the CFO.

The Bank's internal units draw up the financial statements such as to present a true and fair view of Banco Sabadell's net worth, financial situation and results, by applying generally accepted accounting principles to all the financial and accounting information, so that the financial statements are drawn up in accordance with current accounting standards.

The Audit and Control Committee reviews Banco Sabadell's financial statements, both separate and consolidated, before referring them to the Board, and exercises vigilance to ensure compliance with the law and the proper application of generally-accepted accounting principles. To this end, it holds regular meetings with the external auditors in order to be informed punctually about the audit process and to be aware sufficiently in advance of any discrepancies or differences of opinion that might arise. In the event of a discrepancy that might lead to a qualification in the auditors' report, the committee seeks to resolve it before the financial statements are authorised. The auditors attend the Board meeting to report on the degree to which the financial statements conform to the accounting standards.

If the discrepancies cannot ultimately be resolved before the financial statements are authorised, the annual report of the Audit and Control Committee must expressly describe the discrepancies and its position in connection with them.

The auditors' reports on the separate and consolidation financial statements for 2020 were unqualified.

In connection with the external auditors, article 60 of the Articles of Association provides that the Audit and Control Committee has the following competencies:
— "4. Proposing to the Board of Directors, for submission to the General Meeting, the appointment of the external auditor, establishing the engagement conditions, the scope of the professional mandate, and revocation or non-renewal, if appropriate; reviewing compliance with the audit contract, and striving to ensure that the opinion on the financial statements and the main content of the auditors' report are drafted clearly and accurately.
— 6. Establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions and in the audit rules."

The Board of Directors Regulation expresses itself in similar terms: article 30 provides that: "Relations between the Board and the company's external auditors will be conducted through the Audit and Control Committee".

Specifically, in 2020, to preserve the independence of the external auditor, Banco Sabadell was audited for the first time by KPMG Auditores, S.L., upon completion of the auditor rotation process in compliance with the current legislation; based on a reasoned recommendation from the Audit and Control Committee, the Board of Directors proposed that the General Meeting of Shareholders appoint KPMG Auditores, S.L. as auditors of Banco Sabadell and of the consolidated financial statements of Banco Sabadell Group for the years 2020, 2021 and 2022; that motion was approved by the General Meeting of Shareholders on 28 March 2019.

In 2020, the Audit and Control Committee comprised three independent directors and one other external director until 26 March 2020, when the resignation of the latter presented on 20 February 2020 took effect; the vacancy was filled by the incorporation of a new independent director so that, from 24 September 2020, the Committee comprised four independent directors. The Committee's Regulation, which was current in 2020, includes the provisions of the Articles of Association and the Board of Directors Regulation; article 21.3 provides that, as directors and members of the Committee, those members must act with independence of opinion and action with respect to the rest of the organisation (...)

On 19 April 2016, in conformity with Act 22/2015, of 20 July, on Auditing, and Regulation (EU) No 537/2014, of 16 April, the Audit and Control Committee approved the Group policy for safeguarding auditor independence. The last review of same was approved by the Board of Directors following a recommendation by the Audit and Control Committee. The policy is implemented through procedures that contemplate measures to preserve the auditor's independence by monitoring possible incompatibilities arising from personal circumstances, prohibited services, rotation requirements and fee limits, as well as measures in the processes of auditor selection, appointment, reappointment or replacement, and processes for authorising all the auditor's services, particularly in connection with non-audit services that the auditor is not prohibited from providing.

Additionally, based on information received from the auditors, the Committee vetted the procedures and tools used by the firm to ensure compliance with the auditor independence requirements. Written confirmation of the firm's independence with respect to Banco Sabadell Group was received on 29 July 2020 and 26 January 2021. Based on the results of these checks, the Committee issued a report to the Board of Directors giving a favourable opinion on compliance with the auditor independence requirement before the auditor's report on the accounts was issued, and it issued its annual report on that independence.

Banco Sabadell complies with the principles of transparency and non-discrimination set out in the current legislation with respect to other market players. Specifically, Banco Sabadell: i) takes care not to provide financial analysts with any information that might put them in a position of privilege with respect to other market participants, ii) regularly uses the services of four prestigious rating agencies (Fitch, DBRS, Moody's and Standard and Poor's), and iii) where Banco Sabadell receives advice from investment banks in certain transactions and, in the course of providing those services, such investment banks become privy to inside information, the institution includes the persons who become privy to such information in its internal control systems, and expressly notifies such persons of the obligation to fulfil their duty of confidentiality and comply with any trading restrictions, and ensure that others comply with them too.

Additionally, Banco Sabadell conforms to the rules set out in its General Policy on Conflicts of Interest that was approved by the Board of Directors, whose ultimate and fundamental objective is that the persons who are bound by it should act in accordance with the ethical norms and principles that govern the Bank's activities, based on the following guidelines:

Existence of measures to prevent conflicts of interest from arising.

Where conflicts of interest arise or are going to arise, existence of measures that enable them to be detected for the purpose of registering them and addressing them immediately.

Where conflicts arise, they must be eliminated; otherwise, steps must be taken to reveal their nature and origin to the customer or the decision-making bodies, as appropriate, for the appropriate decisions to be made.

Banco Sabadell also acts in accordance with the principles established in the Banco Sabadell Policy on Outsourcing of Functions, approved by the Board of Directors.

3.13.1. Rotation of external auditors

The incoming auditor is KPMG Auditores, S.L. and the outgoing auditor is PricewaterhouseCoopers, S.L. There was no dispute with the outgoing auditor.

The year 2020 was the first year audited by the incoming auditor, after the Board of Directors, based on a reasoned recommendation from the Audit and Control Committee, resolved at a meeting on 20 December 2018, as disclosed via regulatory disclosure no. 273.045, to appoint KPMG Auditores, S.L. as auditors of the financial statements of Banco Sabadell and the consolidated financial statements of Banco Sabadell Group for the years 2020, 2021 and 2022. This decision was adopted in compliance with current legislation on auditor rotation and as a result of a selection process performed in accordance with the provisions of Regulation (EU) 537/2014 of 16 April, on specific requirements regarding statutory audit of public-interest entities. Based on a proposal by the Board of Directors, the General Meeting of Shareholders approved that appointment on 28 March 2019.

The amount of fees for non-audit work does not include audit-related services for a total of 93 thousand euros (65 thousand euros corresponding to the Company and 28 thousand euros corresponding to Group subsidiaries), since they are independent assurance services, some of which are required by law.

	Separate	Consolidated
Number of consecutive years	1	1
No. of years audited by the current audit firm / No. of years that the company or its group has been audited (%)	2.50	2.78

	Company	Group companies	Total
External auditor's fees for work other than auditing (thousand euro)	214	5	**219**
Fees for work other than auditing / Total audit fees (%)	10.22	0.09	**2.97**

4. Board of Directors Committees (C) (C.2.1 and C.2.3)

There are currently five operational Board of Directors committees with the functions defined in the Articles of Association and the Board of Directors Regulation, which are elaborated upon and complemented by the committees' specific terms of reference. Those documents are available on the website www.grupobancosabadell.com, under "Corporate Governance and Remuneration Policy".

The Committees have sufficient resources to perform their functions, can draw on external advice and are entitled to obtain information about any aspect of the institution, with unrestricted access to senior management and Group executives and to any type of information or documentation at the Bank's disposal in connection with the matters within their competency.

All Board committees draw up an annual self-assessment report on their activities, which is submitted to the Bank's Board of Directors for evaluation. Additionally, the Audit and Control Committee, Appointments Committee, Remuneration Committee and Risk Committee draw up annual reports on their functions and activities, which are available on the website (www.grupobancosabadell.com) in the section on "Corporate Governance and Remuneration Policy".

4.1. Delegated Committee

Chairman	Josep Oliu Creus	
Members	José Javier Echenique Landiribar	Independent
	Jaime Guardiola Romojaro	Executive
	Pedro Fontana García	Independent

The independent director, Mr. José Manuel Martínez Martínez, was appointed as Chairman of the Appointments Committee, and ceased to be a member of the Delegated Committee, on 26 March 2020.

The Delegated Committee is expressly regulated by article 59 of the Articles of Association and article 12 of the Board of Directors Regulation, and it has its own terms of reference that regulate its organisation and functioning.

In accordance with the Board of Directors Regulation, the Delegated Committee must consist of a maximum of six directors, to be appointed by the Board with the favourable vote of two-thirds of its members, and must have a composition similar to that of the Board in terms of categories; it is chaired by the Chairman of the Board. The resolutions of the Committee must be entered in a minutes book, and the minutes must be signed by the Chairman and the Secretary or, where applicable, by those who played those roles at the meeting in question.

It must meet whenever convened by its Chairman or by the Deputy Chairman standing in for the former, and its meetings may be attended by any person, whether related to the Company or otherwise, who is invited to attend, by a decision of the Committee itself or the Chairman of same, for the purposes to be determined on the basis of the matter in question; the Board of Directors will designate the Secretary of the Committee, who need not be a director, and will also designate a person to stand in for the Secretary in the event of absence or illness.

The Delegated Committee is responsible for the adopting any resolutions and decisions under the scope of the powers granted to it by the Board of Directors, and for overseeing the Bank's ordinary activities; it must report the decisions adopted at its meetings to the Board of Directors, without prejudice to the other functions attributed to it by the Articles of Association and the Board of Directors Regulation. In accordance with Article 4 of its Regulations, the Delegated Committee also has informative, consultative and advisory functions in relation to all the powers corresponding to the Board of Directors. The Delegated Committee is also empowered to make decisions within the limits established by the Bank's policies, particularly risk decisions, in accordance with the delegations scheme approved by the Board of Directors.

In 2020, the Delegated Committee monitored the ordinary activities of the Bank, adopted resolutions and decisions falling within the scope of the powers established by the Board of Directors, and analysed and reviewed other issues, providing favourable reports to the committees with competency in those areas and to the Board of Directors for the adoption of the appropriate resolutions.

The most salient actions undertaken in 2020 by the Delegated Committee in carrying out its functions and discharging its duties and responsibilities included tracking and analysing the financial information and results of the Bank and its Group; analysing the reaction of markets and investors to the Bank's results; being apprised of the strategic plan and tracking strategic issues appropriately; and tracking business performance and trends in own shares and the share price. The Committee also analysed and, as appropriate, approved transactions in connection with the Group's corporate development. It was informed of new developments in legislation, of supervisors' activities and of regulatory matters. It was also informed of the Group's risks, and decided on the risk operations that fell under its remit due to their amount or relevance. It issued favourable reports to the Board of Directors on the incorporation and/or dissolution and liquidation of subsidiaries and investees, as well as changes in capital and other amendments to the articles of association; it informed the Appointments Committee and the Board of Directors of changes in the composition of such institutions' governing bodies.The Delegated Committee reported all decisions to the Board of Directors.

During 2020, the Delegated Committee performed a self-assessment of its performance in 2019 with the support of an independent external consultant; the self-assessment for 2020 is expected to be performed in the first quarter of 2021.

4.2. Audit and Control Committee

Chairman	Manuel Valls Morató	Independent
Members	Pedro Fontana Garcia	Independent
	Mireya Giné Torrens	Independent
	José Ramón Martínez Sufrategui	Independent

100%
independent directors

Ms. María Teresa García-Milà Lloveras, who was classified as an Other External Director, ceased to be a member of the Audit and Control Committee on 26 March 2020 as a result of her resignation as a director, and independent director Ms. Mireya Giné Torrens was appointed as a member of the Committee on 24 September 2020.

The Audit and Control Committee is expressly regulated by article 60 of the Articles of Association and article 13 of the Board of Directors Regulation, and it has its own terms of reference that regulate its organisation, functioning and governance.

The members of the Audit and Control Committee and, in particular, its Chairman, have knowledge and experience in accounting, auditing or both. Mr. Manuel Valls Morató was appointed Chairman of the Committee on 30 March 2017.

In accordance with the Board of Directors Regulation, the Audit Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least a majority of them must be independent directors, and one must be appointed on the basis of his/her knowledge and experience of accounting and/or auditing. The Board of Directors must appoint the committee's Chairman from among the members who are independent directors, with the favourable vote of two-thirds of its members, and the committee secretary, who may not be a director. The Secretary must take minutes of every meeting, which must be approved at the end of the meeting itself or at the next meeting. The business transacted at Committee meetings must be reported to the Board of Directors at the next meeting by means of a reading of the minutes.

The Committee must meet at least once every three months, and whenever convened by the Chairman at his/her own initiative or at the request of any Committee member, or at the request of the Chairman of the Board of Directors or of the external auditors, to discharge the duties assigned to it.

The purpose of the Audit and Control Committee is to exercise oversight to ensure good banking and accounting practices in the various echelons of the organisation, as well as to ensure that suitable measures are taken to address improper conduct or methods. It also has a watchdog function, ensuring that the measures, polices and strategies defined by the Board are duly implemented.
The Audit and Control Committee has the responsibilities established by law, including:

a. Reporting to the General Meeting on all issues raised by shareholders that are within its remit.

When notice is given of a General Meeting of Shareholders, the Committee makes the report on its activities during the year available to shareholders so as to inform them of the issues and actions under its area of competence.

b. Supervising the effectiveness of the company's internal control, internal audit and risk management systems, including those relating to tax risk, as well as discussing with the auditors or audit firms any significant weaknesses in the internal control system that were detected in the course of the audit.

During the year, the Committee carried out a review of the Group's risk management and control functions via reports from the persons in charge of internal control and internal audit at the Bank, and satisfied itself that suitable steps were being taken at General Manager level and by other senior executive functions to ensure that the Group's main risks were being appropriately identified, measured and controlled.

In the context of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) for 2019, the Audit and Control Committee monitored the risk governance, management and control systems implemented by the Group. In addition, in its review of the Pillar III Disclosures for 2019 and the first half of 2020, the Committee assessed the risk management and control objectives contained in the Group's policies.

The Committee also met with the Bank's senior managers in the Finance, Tax, Compliance and Sustainability Departments, among others, to be informed of business trends and the associated risks.

The Audit and Control Committee also evaluated the conclusions of the reviews carried out by Internal Audit of the Bank's risk control and management system.

In connection with its function of overseeing the internal audit units, the Internal Audit Department reports directly to the Board of Directors' Audit and Control Committee, which reinforces its hierarchical and functional independence from the rest of the Bank's departments.

On the basis of its Policy, which was approved by the Board of Directors, the functions of the Internal Audit

Department include supporting the Audit and Control Committee in supervising the proper design, implementation and effective functioning of the risk management and control systems.

At a meeting on 28 January 2020, after a detailed assessment of the plan for 2020 proposed by the Head of Internal Audit, which was based on an update of the Group's strategic objectives as set out in the 2018-2020 Master Plan, the business risks arising from the current economic context and the systems for analysis, measurement and control adopted by the Group, together with the supervisory and regulatory requirements, the Committee resolved to issue a favourable report to the Board of Directors on the Internal Audit Plan for 2020, and it was approved by the Board on 30 January 2020.

As a result of the economic and health crisis created by COVID-19, at a meeting on 27 April 2020, the Committee evaluated in detail the modifications to the Internal Audit Activity Plan proposed by the Head of Internal Audit in response to the new situation, and approved the update to the Plan, as well as the measures for more flexible implementation of audit recommendations as a result of COVID-19.

During 2020, the Committee received information about the execution of the actions in the Plan; in some cases, it reviewed the control environment and, in particular, evaluated the proper identification of risks in processes, and the sufficiency, design, implementation and effective functioning of existing controls. The Committee evaluated the results of each internal audit and prioritised and monitored corrective actions.

In addition, during 2020, the Committee checked the independence and objectivity of the internal audit function, checking that it has sufficient resources and access to information to fulfil its tasks, in accordance with the professional standards that apply to internal auditors. At a meeting on 28 January 2020, the Committee reviewed and decided to recommend that the Board approve the Internal Audit Department budget for 2020.

On 26 January 2021, the Committee received the Annual Report on Internal Audit Activities, which includes the report of the Internal Audit Quality Assurance and Improvement Programme with the internal evaluations of its function and of the implementation of the action plans that arose from the external assessments performed in 2018, to assess their effectiveness, as well as the performance of the head of that unit.

In 2020, the Committee also received information about the conclusions of the reports issued by the external auditors and the supervisory authorities and assessed whether the action plans to fulfil the requirements had been implemented properly.

c. Overseeing the drafting and presentation of regulated financial information.

During the year, the Audit Committee supervised the Bank's internal control model for the process of preparing and presenting regulated financial and non-financial information and it supervised and analysed the sufficiency, clarity and integrity of all the financial and related non-financial information, for the Bank itself and for the Group, that the Bank made public, prior to its presentation to the Board of Directors and its dissemination to the market and supervisory bodies. To this end, it received information from the Finance Department, the Internal Audit Department and the external auditors regarding the risks relating to financial and non-financial reporting processes and the adequacy and effectiveness of the controls that mitigate them, as well as aspects that may give rise to changes in the internal control model, including the situation created by COVID-19, regulatory changes, the incorporation of new products or the modification of Banco Sabadell's processes. It also supervised to ensure that the regulated disclosures conformed to the accounting standards and the criteria established by regulators and supervisors, and supervised updates to the Group's accounting policies, procedures and manuals.

d. Proposing to the Board of Directors, for submission to the General Meeting, the appointment of the external auditor, establishing the engagement conditions, the scope of the professional mandate, and revocation or non-renewal, if appropriate; reviewing compliance with the audit contract, striving to ensure that the opinion on the financial statements and the main content of the auditors' report are drafted clearly and accurately.

On 28 March 2019, the General Meeting of Shareholders approved the appointment of KPMG Auditores, S.L. for the years 2020 to 2022, based on a proposal by the Board of Directors, which was based on a reasoned recommendation from the Audit and Control Committee made following a selection process performed in accordance with the provisions of Regulation (EU) 537/2014 of 16 April, on specific requirements regarding statutory audit of public-interest entities.

With regard to the oversight of compliance with the audit contract and the performance of the audit, throughout the year the Committee liaised constantly with the external auditor to ascertain the progress of the handover from the previous auditor, its strategy and work plan, the team of experts and specialists involved in the audit, the criteria for quantifying materiality, the work schedule, its execution, and the main conclusions of the work performed, focusing on the identified audit risks, as well as on the impact of the COVID-19 health crisis on the audit of the Bank and the Group. The Committee also reviewed in depth the contents of the audit report, as well as the Additional Report presented by the auditors to the Audit and Control Committee in connection with the audit of the year ended 31 December 2020, required to comply with the provisions of article 36 of Act 22/2015, of 20 July 2015, on Auditing and with article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities.

e. Advising on the annual, quarterly and half-yearly financial statements and the prospectuses that must be submitted to the regulatory or supervisory bodies, exercising vigilance to ensure compliance with the requirements of the law and the proper application of generally accepted accounting principles, and advising on proposals to amend those principles.

In the course of the year, the Committee paid particular attention to reviewing the Bank's financial statements and the quarterly and half-yearly trading and financial reports as well as other information disclosed to the market, to ensure that they conform to generally accepted accounting principles and to the criteria established by regulators and supervisors. It reviewed with particular care, and approved in 2020, the judgements, estimates and valuation approaches used in the preparation of the financial statements that were affected by the uncertainty caused by COVID-19 and the current macroeconomic situation, which has had a fundamental impact on the determination of asset impairment losses. In order to carry out these reviews, the Finance Department and the external auditor participated in meetings of the Committee to present matters relating to the financial disclosures.

The Committee oversaw the Annual Corporate Governance Report and the Pillar III Disclosures, all produced and published in line with the Pillar II requirements, the Bank's Policy on Financial and Non-Financial Disclosures, the ICAAP and ILAAP, and the Universal Share Prospectus, covering specific aspects relating to the impact of the COVID-19 pandemic, before they were released to the market.

f. Establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions and in the audit rules.

In order to comply with the requirements for the engagement of non-audit services from audit firms and their networks, as established in the Banco Sabadell Group Policy to Safeguard Auditor Independence, the Audit and Control Committee reviewed the main non-audit services provided by the firm KPMG during 2020. The objective of these reviews was to ensure that all that work fulfilled the independence requirements established in Act 22/2015, of 20 July, on Auditing and in Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

Additionally, based on information received from the auditors, the Committee vetted the procedures and tools used by the firm to ensure compliance with the auditor independence requirements. Written confirmation of the firm's independence with respect to Banco Sabadell Group was received on 29 July 2020 and 26 January 2021.

Based on the results of these checks, the Committee issued a report to the Board of Directors giving a favourable opinion on fulfilment of the auditor independence requirement before the auditor's report on the accounts was issued.

g. Advising on any issues referred to the Committee by the Board of Directors that are within its remit.

In the course of its duties as assigned by the law, the Articles of Association and the Board of Directors Regulation and its own terms of reference, the Audit and Control Committee reviewed all the reports under its remit, including the annual assessment of its performance, as well as a report on the issues it dealt with and the activities it performed in discharging its duties.

h. Any other matters for which the Committee is responsible by law or under the Articles of Association or any regulations made in accordance therewith, or under any generally applicable rules on corporate governance.

In pursuit of good governance of the Bank's business, the Committee decided to recommend that the Board of Directors give its approval to a report submitted by the Delegated Committee on the corporate governance structure and practices at Banco Sabadell in the year.

The Committee also examined half-yearly reports from the Group's Corporate Ethics Committee on action taken to ensure compliance with the Banco Sabadell Group Code of Conduct in relation to the securities market, the Group's Code of Conduct, activities in connection with environmental, social and governance (ESG) factors, and other key aspects.

By reviewing these reports, the Committee also received information on the performance of the whistleblower channel, including the number of notifications received, their origin and types, the results of the investigations and the proposals for action.

The Audit and Control Committee also assessed the implications of material corporate transactions performed in 2020.

In connection with related-party transactions, the Committee verified that the related-party transactions performed during the year fulfilled the terms and conditions established in current legislation such as not to require authorisation from the governing bodies, after it had checked that the consideration and other proposed conditions were in line with market parameters. The Committee also reviewed the information on related-party transactions that was disclosed in the financial statements.

Additionally, in conformity with the recommendations contained in a document published by the CNMV on 18 July 2013 entitled "Recommendations by the Comisión Nacional del Mercado de Valores for securities issuers and financial intermediaries acting on their behalf in discretionary transactions with own shares", the Audit and Control Committee received regular briefings from the Director-General Manager and the head of treasury share management on trading in the Bank's own shares and on compliance with the regulator's recommendations.

During 2020, the Audit and Control Committee performed a self-assessment of its performance in 2019 with the support of an independent external consultant; the self-assessment for 2020 is expected to be performed in the first quarter of 2021.

4.3. Appointments Committee

Chairman	José Manuel Martínez Martínez	Independent
Members	Anthony Frank Elliot Ball	Independent
	Aurora Catá Sala	Independent

100% **independent directors**

The independent director, Mr. José Manuel Martínez Martínez, was appointed Chairman of the Appointments Committee, of which he was already a member, on 26 March 2020, replacing Ms. Aurora Catá Sala, who continues as a member; Ms. María Teresa García-Milà Lloveras stepped down from the committee as a result of her resignation as a director.

The Appointments Committee is expressly regulated by article 61 of the Articles of Association and article 14 of the Board of Directors Regulation, and it has its own terms of reference approved by the Board of Directors on 24 October 2019 that regulate its organisation and functioning.

In accordance with the Board of Directors Regulation, the Appointments Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least two of them must be independent directors. The Committee will have a Chairman, appointed by the Board of Directors with a two-thirds majority from among the independent directors who are members of the Committee.

The Appointments Committee Regulation establishes that the Board of Directors will also appoint the Committee Secretary and, in the event, a Deputy Secretary, neither of whom need be a member of the Board of Directors; the Committee meets as often as necessary, and at least once every three months, when convened by its Chairman, at his/her own initiative or at the request of any member of the Committee, or whenever the Board or its Chairman requests that it issue a report or adopt a proposal, and, in any event, whenever it is advisable in order to properly discharge its duties. In any case, it must meet once per year to provide advice in advance on the Board's performance evaluation.

Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors, the Board of Directors Regulation or its own terms of reference, the Appointments Committee has the following basic duties:

a. Making proposals to the Board of Directors as to the appointment of independent directors, for co-optation or for referral to the General Meeting, and as to the re-appointment or removal of such directors;
In fulfilment of its functions, it made a proposal to the Board of Directors that it refer the appointment of an independent director to the General Meeting of Shareholders, and it proposed that the Board appoint an independent director by co-optation, having assessed their fitness and suitability.

b. Advising on proposals to appoint other directors — proprietary, other external and executive — by co-optation or for referral to the General Meeting, and on proposals to re-appoint or remove them;

To this end, it advised the Board of Directors on a proposal for the appointment by co-optation of an executive director, having assessed their fitness and suitability.

c. Ensuring that the qualitative composition of the Board of Directors complies with the provisions of article 53 of the Articles of Association, by assessing the balance of knowledge, capacity, diversity and experience among its members. To this end, it must define the necessary functions and skills to be possessed by candidates for each vacancy, as well as the time that it considers needs to be dedicated to properly discharge the duties;

In all its proposals for the appointment of independent directors, the Committee exercised oversight to ensure compliance with the qualitative composition of the Board, as well as advising on the proposal for an executive director to replace the Chief Executive Officer. It also verified compliance with the Banco Sabadell Director Candidate Selection Policy, in accordance with Recommendation 14 of the Code of Good Governance of Listed Companies, and analysed and advised the Board on the composition of the Board, the categories of directors, and the approval of the Annual Corporate Governance Report.

d. Striving to ensure that selection procedures for filling vacancies or appointing new directors favour a diversity of experience and knowledge, facilitate the selection of female directors and, generally, do not suffer from implicit biases that might result in discrimination of any type;

In the proposals to appoint two female independent directors, it appropriately applied the Selection Policy and relied on the Matrix of Competencies and on external consultants, who provided it with profiles of female candidates for directorships.

e. Evaluating to ensure that the members of the Board of Directors are suitable and have the requisite competency, knowledge and experience, and assessing their ability to devote the necessary time, with a view to referring their candidacy to the competent authorities;

During 2020, it analysed the powers and diversity of the Board of Directors in order to fill vacancies and it assessed the suitability of the candidates presented for appointment as directors.

f. Advising on proposals for the appointment and removal of senior executives and the Identified Staff, and assessing their fitness and suitability;

The Committee fulfilled its function of advising the Board of Directors on proposals for the appointment of senior executives, having assessed their suitability. It also reviewed the list of the Identified Staff of the Bank, the Group and the subsidiaries, and advised the Board of Directors on proposals to amend the list of the Identified Staff.

g. Advising on the basic contractual conditions for executive directors and, as appropriate, on their specific contracts, which must be approved by the Board of Directors and be attached to its minutes as an annex;

The Appointments Committee issued a favourable report to the Board of Directors on the contractual terms and conditions under which the Chief Executive Officer will perform executive functions.

h. Examining and organising succession plans for the Chairman of the Board of Directors and the Bank's Chief Executive Officer, and, as appropriate, raising proposals to the Board and implementing the provisions of any duly approved and published Succession Plan in the event;

The Succession Plan for the Chairman and Chief Executive Officer of Banco Sabadell was followed to ensure an orderly succession of the Chief Executive Officer. It interviewed the candidate proposed by the Chairman of the Board, issued a report to the effect that the candidate has the knowledge, skills and experience in accordance with the provisions of article 8 of the Plan, obtained expert advice, and issued suitability assessment reports required by Law 10/2014, of 26 June, and by article 529.decies.6 of the Capital Companies Law.

i. Establishing a target for representation of the gender that is less represented on the Board of Directors and drawing up guidelines on how to achieve that target;

The Appointments Committee proposed the appointment of two female independent directors in order to increase gender diversity. It verified compliance with the Director Candidate Selection Policy in the resolutions adopted in 2020 regarding the appointment of directors, which conformed to the diversity parameters and requirements set out in the Policy and in the current regulations governing directorships of credit institutions and, in particular, with a view to achieving the objectives as to the weighting in the Board of the under-represented gender.

j. Evaluating regularly, and at least once per year, the structure, size and composition of the Board of Directors and its Committees, and advising the Board on the most appropriate configuration, as well as advising on proposals regarding the appointment or removal of their members;

The Committee evaluated the structure, size and composition of the Board and its committees and advised the Board of Directors on the most appropriate configuration, as well as providing advice on proposals for appointment of directors, and on changes in the composition of the Board Committees.

k. Making proposals to the Board of Directors for the assignment of directors to the appropriate category, their continuance in that category in the event of re-appointment, and changes of category where necessary;

The Committee analysed the circumstances of the candidates for appointment as independent directors and submitted its proposals to the Board for the appropriate decisions.

l. Reviewing directors' categories each year and informing the Board of Directors for inclusion in the Annual Corporate Governance Report;

The Committee reviewed the director categories and informed the Board for disclosure in the Annual Corporate Governance Report.

m. Advising the Board of Directors on proposals for the appointment of the Deputy, as applicable;

n. Advising the Board of Directors on proposals regarding the appointment of the Secretary and, as appropriate, the Deputy Secretary of the Board of Directors, neither of whom need be a director.

o. Making proposals to the Board of Directors for the appointment, removal or re-appointment of the Lead Independent Director;

The Appointments Committee did not exercise functions m), n) or o) in 2020 since there were no changes in the persons holding those positions.

p. Producing and regularly updating a matrix of competencies in the Board of Directors, evaluating the knowledge, skills and experience of the members of the Board of Directors and of the Board as a whole, for approval by the Board of Directors;

The Appointments Committee issued a favourable report to the Board of Directors on the revision of the Matrix of competencies, for its approval by the Board of Directors on 29 January 2021, as a result of the appointments and changes that occurred in the Board in 2020.

q. Periodically reviewing and making proposals to the Board for the amendment of the policies regarding the selection and diversity of the members of the Board of Directors, and verifying compliance with them annually, informing the Board of Directors as to the degree of compliance;

The committee verified compliance with the Director Candidate Selection Policy.

r. Providing advice each year on performance reviews for the Board of Directors and for the Chairman of the Board of Directors and the Chief Executive Officer;

The Appointments Committee provided advice on the annual performance review of the Board of Directors, its Chairman and the Chief Executive Officer. The performance review for 2019 was conducted in 2020 with the assistance of an independent external consultant.

s. Referring to the Board of Directors the assessments of the Board Committees with the results of the assessment and a proposal for an action plan or recommendations to correct any deficiencies detected or improve the functioning of the Board or its Committees;

The Appointments Committee issued a favourable report to the Board on the annual performance review of the Committee itself for 2019, as well the performance reviews for the other Board committees (Delegated Committee, Audit and Control Committee, Appointments Committee, Remuneration Committee and Risk Committee), which included, depending on the outcome, an action plan to correct any deficiencies that had been detected.

t. Designing and organising regular refresher courses for directors;

At a meeting on 30 January 2020, the Appointments Committee issued a favourable report to the Board of Directors on the 2020 Director Training Programme, with special emphasis on updating the skills and knowledge of the Bank's directors in specific issues related to the institution.

u. Reviewing, at least once per year, the execution and quality of the initial training and onboarding and the Director Training Programme, and informing the Board of Directors;

At a meeting on 30 January 2020, the Appointments Committee adopted a favourable assessment of the Director Training Programme conducted in 2019.

During 2020, the Appointments Committee performed a self-assessment of its performance in 2019 with the support of an independent external consultant; the self-assessment for 2020 is expected to be performed in the first quarter of 2021.

4.4. Remuneration Committee

Chairman	Aurora Catá Sala	Independent
Members	Anthony Frank Elliot Ball	Independent
	George Donald Johnston III	Independent
	José Ramón Martínez Sufrategui	Independent

100% **independent directors**

The Remuneration Committee is expressly regulated by article 62 of the Articles of Association and article 14 bis of the Board of Directors Regulation, and it has its own terms of reference approved by the Board of Directors on 24 October 2019 that regulate its organisation and functioning.

In accordance with the Board of Directors Regulation, the Remuneration Committee will comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least two of them must be independent directors. The Committee will have a Chairman, appointed by the Board of Directors with a two-thirds majority from among the independent directors who are members of the Committee.

The Remuneration Committee Regulation establishes that the Board of Directors will also appoint the Committee Secretary and, in the event, a Deputy Secretary, neither of whom need be a member of the Board of Directors; the Committee meets as often as necessary, and at least once every three months, when convened by its Chairman, at his/her own initiative or at the request of any member of the Committee, or whenever the Board or its Chairman requests that it issue a report or adopt a proposal, and, in any event, whenever it is advisable in order to properly discharge its duties. In any event, the Committee must meet once per year to prepare the information on directors' remuneration that the Board of Directors must approve and include in its annual public documentation.

Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors, the Board of Directors Regulation or its own terms of reference, the Remuneration Committee has the following basic duties:

a. Making proposals to the Board of Directors in connection with the director remuneration policy;

The Remuneration Policy for the directors of Banco Sabadell for the years 2019, 2020 and 2021 was approved by the General Meeting of Shareholders on 28 March 2019.

b. Proposing, to the Board of Directors, the remuneration policy for general managers and others performing senior management functions who report directly to the Board of Directors, the Delegated Committee or the Chief Executive Officers, and the individual remuneration and other contractual conditions for executive directors, exercising oversight to ensure that they are complied with;

To perform this function, it cross-checked the compensation benchmark for the executive directors and senior management and internal audit with reports from external consultants; it issued a favourable report to the Board of Directors in connection with the degree of fulfilment of the 2019 objectives for executive directors, senior management and internal audit, as well as their fixed and variable remuneration for 2020. It reviewed and issued a favourable report to the Board of Directors on the Remuneration Policy for Senior Management.

c. Advising on remuneration programmes based on shares and/or options;

d. Periodically reviewing the general principles of remuneration and the remuneration programmes for all employees, and considering whether they conform to those principles;

The Remuneration Committee examined the independent assessment of remuneration policy and practices produced by an external consultant, which analysed whether Banco Sabadell's remuneration policy and practices conform to the regulators' requirements and recommendations. It also reviewed the report produced each year by the Human Resources Department in order to provide the Remuneration Committee with the essential information to enable it to perform the functions entrusted to it in relation to reviewing the general principles of Banco Sabadell Group's remuneration policy and exercising oversight of the remuneration of the Bank's Chairman, Chief Executive Officer and executive directors, senior management and the other members of the Group's Identified Staff.

It also reported favourably to the Board of Directors on the fixed remuneration for Group's entire workforce and an increase in the total salary expense for the year 2020.

e. Reviewing the remuneration policy each year to ensure that it is aligned with the institution's situation and short-, medium- and long-term strategy and with market conditions and to assess whether it contributes to the creation of long-term value and to appropriate risk control and management;

In 2020, the Remuneration Committee examined the report by an external consulting firm on the Prudential

Assessment of Remuneration 2019, which was commissioned in order to analyse whether Banco Sabadell's remuneration policy and practices conform to the regulators' requirements and recommendations.

When advising the Board of Directors on the approval of the individual objectives for the Chief Executive Officer, the executive directors, members of Senior Management and members of the Group's Identified Staff, the Remuneration Committee analysed the report of the Risk Committee on the consistency of those objectives with the level of risk appetite.

f. Ensuring that the institution's remuneration policy and practices are up to date, by proposing any necessary changes, and ensuring that they are subject to a central, independent internal review at least once per year;

The Remuneration Committee analysed the Internal Audit Report on the Remuneration Policy of the Group and Subsidiaries, whose objective was to review the degree to which the organisation's remuneration policies (Group and subsidiaries) conform to the guidelines of the European Banking Authority (EBA).

The Remuneration Committee reviewed and issued a favourable report to the Board of Directors on Banco Sabadell's remuneration policies, comprising the Remuneration Policy for Banco Sabadell Group, the Remuneration Policy for Senior Executives, the Remuneration Policy for the Group's Identified Staff, and the Remuneration Policy for Banco Sabadell Spain.

g. Verifying that the remuneration policy is properly applied and that directors do not receive remuneration outside the policy;

The Remuneration Committee tracked the recommendations set out in the Internal Audit Report on the Remuneration Policy of the Group and Subsidiaries, whose objective was to review the degree to which the institution's remuneration policies conform to the EBA guidelines and applicable legislation, seeking to ensure their proper application.

h. Assessing the mechanisms and systems adopted to ensure that the remuneration system duly takes account of all types of risks and liquidity and capital levels, and that the remuneration policy promotes and is consistent with adequate, effective risk management, and that it is in line with the institution's business strategy, objectives, culture and corporate values and long-term interests;

At a meeting on 29 January 2020, the Remuneration Committee examined the independent report on the evaluation of the remuneration policy and practices prepared by an external consultant, which concluded that the remuneration policy applicable to Banco Sabadell Group's Identified Staff and the Remuneration Policy for Directors that were in force in 2020 are in line with the prevailing prudential regulations on remuneration. With regard to variable remuneration, the independent report indicated that Banco Sabadell complies with the applicable regulations insofar as the total amount of variable remuneration is based on an evaluation of results within a multi-year framework in which the individual results, assessed in accordance with both financial and non-financial criteria, of the business unit and the overall results are combined, and it contains a general limitation that the total amount of variable remuneration must not limit the Bank's capacity to strengthen its capital base. The independent report also states that Banco Sabadell's Risk Control Department participates in defining the guidelines and objectives of the Identified Staff and submits a report to the Risk Committee on the suitability and coherence of the objectives with the risks assumed.

i. Reviewing the various possible scenarios to analyse how remuneration policies and practices react to internal and external events, and considering retrospective evidence of the criteria used to determine remuneration and the ex-ante adjustment to risk based on actual risk outcomes;

During the year, the Remuneration Committee analysed the prospect of meeting targets and variable remuneration in 2020, particularly taking into account the impact of COVID-19, with a detailed study and analysis of simulations of possible target achievement. The Remuneration Committee also analysed a report by an external consultant on market practices in variable remuneration in 2020, which includes a survey of practices at Spanish banks in the management of objectives and remuneration components in the context of COVID-19, including the metrics published by the main competitors and market intelligence regarding remuneration components.

j. Reviewing the conditions of the contracts with executive directors and senior management and providing advice in this connection to the Board of Directors, and verifying that they are consistent with the current remuneration policy;

The Committee reviewed and, as appropriate, advised on the terms and conditions of the contracts, and amendments to same, of executive directors and senior management, and/or their removal, verifying that they are consistent with the remuneration policy.

k. Evaluating the degree of compliance with the criteria and objectives established in relation to the previous year, which is what must determine the proposal for the individual remuneration for directors, particularly executive directors, senior management and members of the Identified Staff, including the short-, medium- and long-term variable components, with the participation of the external advisor where appropriate.

The Committee analysed the degree of attainment of the Group's objectives established for the year 2019, advised the Board on approving the percentages of attainment of the objectives for the Group, for the Chairman, Chief

Executive Officer, executive directors, members of senior management and the Audit Manager, as well as for the members of the Group's Identified Staff.

l. Proposing the determination of remuneration earned by the directors and senior management;

The Remuneration Committee reported favourably to the Board of Directors on the fixed remuneration and short- and long-term variable remuneration for executive directors and senior management in 2020.

m. Proposing the determination of the bonus for senior management at the Bank and its subsidiaries;

The Remuneration Committee issued a favourable report to the Board of Directors on the 2020 variable remuneration for senior management at the Bank and its subsidiaries;

n. Verifying whether circumstances have arisen that justify triggering the malus or clawback clauses governing variable remuneration, and proposing the appropriate measures to recover any amounts due in that event;

The Remuneration Committee assessed the possible application of ex ante adjustments for risks to the 2019 variable remuneration and the possible application of malus and clawback clauses to the deferred variable remuneration from previous years of the Group's Identified Staff, and found that there were no events triggering their application at Group, unit or individual level.

o. Approving the appointment of external consultants on remuneration that the Board decides to hire to provide advice or support;

It approved the hiring of remuneration advisors for 2021.

p. Ensuring that any conflicts of interests are not detrimental to the independence of external advisors;

q. Ensuring that remuneration is transparent;

The Committee cooperated actively in the Corporate Governance Road Show held at the beginning of February 2020 for proxy advisors and significant shareholders, in which it detailed the most salient aspects of the remuneration policy.

r. Verifying the information on remuneration contained in the various corporate documents, including the Report on Director Remuneration.

The Remuneration Committee determined and reviewed the information on director remuneration that the Board must approve and disclose in the annual public documentation.

s. Preparing the information on directors' remuneration that the Board of Directors must approve and include in its annual public documentation.

The Remuneration Committee determined and reviewed the information on director remuneration that the Board must approve and disclose in the annual public documentation.

t. Reviewing to ensure that the information that the institution divulges via its website on matters that are the competence of the Committee in connection with directors and senior management is sufficient and adequate and conforms to the applicable corporate governance recommendations.

The Remuneration Committee ensured the proper dissemination of the information on remuneration through the corporate website, in accordance with the applicable regulations and corporate governance recommendations.

The Remuneration Committee also reported favourably to the Board of Directors on the submission for approval by the General Meeting of Shareholders on 26 March 2020 of the maximum limit on variable remuneration for the Group's Identified Staff in an amount equivalent to 2 years' remuneration, i.e. 200% of the fixed annual remuneration assigned to each one of them.

During 2020, the Remuneration Committee performed a self-assessment of its performance in 2019 with the support of an independent external consultant; the self-assessment for 2020 is expected to be performed in the first quarter of 2021.

4.5. Risk Committee

Chairman	George Donald Johnston III	Independent
Members	Aurora Catá Sala	Independent
	Manuel Valls Morató	Independent

100%
independent directors

Ms. Aurora Catá Sala, an independent director, was appointed as a member of the Risk Committee, and Ms. María Teresa García-Milà Lloveras stepped down as a Member as a result of her resignation as a director on 26 March 2020.

The Risk Committee is expressly regulated by article 63 of the Articles of Association and article 15 of the Board of Directors Regulation, and it has its own terms of reference approved by the Board of Directors on 24 October 2019 that regulate its organisation and functioning.

In accordance with the Board of Directors Regulation, the Risk Committee comprises at most five directors, appointed by the Board of Directors, none of whom may be an executive director; they must have the appropriate knowledge, skill and experience to fully understand and oversee the Bank's risk strategy and risk appetite; at least two of them must be independent directors. The Board of Directors appoints its Chairman from among the members who are independent directors, with the favourable vote of two-thirds of its members.

In the exercise of its functions, the Risk Committee may directly request the information it sees fit from both the Director Chief Risk Officer and from the departments that report to him/her, including notably the Internal Control Department and the Credit Risk Control Department, which was recently created following adoption of the new organisational structure (both were previously part of the Risk Control Department); and in accordance with its Regulations, the Committee meets as often as necessary and at least once every two months, when convened by its Chairman, at his own initiative or at the request of any member of the Committee, or at the request of the Chairman of the Board of Directors.

Its functions are focused on supervising and exercising oversight to ensure that all the risks of the Bank and its consolidated Group are accepted, controlled and managed appropriately, and reporting to the Board on the performance of the functions corresponding to it, in accordance with the law, the Articles of Association, the Board of Directors Regulation and its own terms of reference. The main functions of the Risk Committee are as follows:

a. Supervising implementation of the Overall Risk Policy;
b. Reporting each quarter to the full Board about the levels of risk assumed, investments made and their performance, and the potential repercussions on Group revenues of variations in interest rates, and the degree to which they conform to the VAR levels approved by the Board of Directors;

c. Monitoring and detecting any excess above the approved tolerance thresholds, and overseeing the activation of the contingency plans established for this purpose;

d. Advising the Remuneration Committee as to whether the employee compensation programmes are coherent with the Bank's levels of risk, capital and liquidity.

e. Advising and supporting the Board of Directors in connection with tracking the institution's risk appetite and general risk strategy, taking into account all types of risks, to ensure that they are in line with the institution's business strategy, objectives, corporate culture and values.

f. Assisting the Board of Directors in monitoring the application of the institution's risk strategy and established limits.

g. Monitoring implementation of the capital and liquidity management strategies, as well as all the institution's other material risks, in order to assess their conformity to the approved risk strategy and appetite.

h. Providing recommendations to the Board of Directors on such adjustments to the risk strategy as may be considered necessary as a result of, inter alia, changes in the institution's business model, market performance or recommendations made by the risk control function.

i. Advising on the appointment of external consultants in connection with overseeing the institution's activities.

j. Analysing a series of possible scenarios, including stress scenarios, to assess how the institution's risk profile would react to external and internal events.

k. Monitoring the degree to which the major financial products and services offered to customers conform to the institution's business model and risk strategy. The Risk Commission will assess the risks associated with the offered financial products and services and will take into account how the prices of those products and services relate to the rewards obtained.

l. Assessing internal or external auditors' recommendations and verifying proper implementation of any measures that are adopted.

m. Reporting to the full Board regarding the performance of its functions under this article and other applicable legislation and the provisions of the Articles of Association.

For each of the functions of the Risk Committee listed in the preceding paragraphs, items a) through m), the most salient actions carried out by the Committee during the year were as follows:

In relation to Governance functions, as referred to in items a), e), f), g), h), i), j), l) and m), the Risk Committee analysed and reviewed matters that required it to issue a recommendation for subsequent approval by the Board of Directors, including notably the Global Risk Framework, the Risk Appetite Framework (RAF), Risk Appetite Statement (RAS), as well as the Risk Policies. In this same area, as part of the development of the Global Risk Framework, the Risk Committee also analysed, and subsequently submitted to the Board of Directors for approval, the review and, where appropriate, definition of risk policies relating to credit, concentration and operational risk, IRRBB, CSRBB, and liquidity, market, counterparty, exchange rate, actuarial, model, conduct and compliance risk, which explicitly set out the core principles and procedures governing the management and control of all the Group's material risks, incorporating the requirements established by the regulations.

Additionally, in 2020 the Risk Committee reviewed: the capital adequacy and liquidity adaptation processes (ICAAP and ILAAP reports), which assess the Group's capital and liquidity situation; it participated in the analysis of risks associated with updating the new preliminary projections for 2021-2026 in the current financial situation, and reviewed the Recovery Plan, and the internal crisis management framework.

In connection with its function of assessing the recommendations by internal and external auditors, the Risk Commission is apprised of the results of the various audits and of proper implementation of the recommendations.

Regarding the functions referred to in items b), c) and k) of the list of functions, the Risk Committee regularly monitored the Risk Appetite Statement during the year, including the following actions:

Regularly reviewing a scorecard that reflects trends in the main metrics and variables associated with material risks in accordance with the existing risk taxonomy, and ensuring that they conform to the established risk appetite.

Monographic analyses of market, operational, country, balance sheet and cyber risk and certain portfolio risks, among others.

Reporting and proposing the appropriate action (activating protocols, changing guidelines, etc.) as a result of analysing risk trends.

Tracking risk-adjusted pricing trends and the degree to which prices conform to the related risks.

Monitoring exposure to large groups that are reviewed by the Delegated Committee.

Monitoring quarterly NPA performance.

The Risk Committee also tracked the development of risks associated with COVID-19 from the outset of the crisis. This tracking included an analysis of the deterioration of the economic and industry situation and the potential impact on credit risk. The analysis also included monitoring other risk factors, including notably the potential financial impact and share price performance, as well as the possible reputational impact, together with the appropriate corrective measures.

The Risk Committee also reviewed and, where appropriate, recommended the approval of actions related to the main components of the risk models. In this regard, during 2020 the Risk Committee reviewed the risk management and control model that covers IRB (Internal Rating Based), provisioning models, credit risk management models and models affecting the Interest Rate Risk in the Banking Book (IRRBB), in order to recommend their approval by the Board of Directors.

Regarding the function of advising the Remuneration Committee about the coherence of the employee remuneration programmes with the Bank's risk, capital and liquidity levels, as indicated in item d), the Risk Committee reviewed the analysis carried out on the composition of the Identified Staff and the alignment of its objectives with the Bank's risk, capital and liquidity levels, and issued a favourable report to the Remuneration Committee. The Risk Committee also reviewed the appropriateness of the Group's remuneration policies, verifying that they comply with the regulatory parameters applicable to credit institutions and that they are aligned to the risks.

During 2020, the Risk Committee performed a self-assessment of its performance in 2019 with the support of an independent external consultant; the self-assessment for 2020 is expected to be performed in the first quarter of 2021.

5. Related party and intragroup transactions (D) (D.1, D.2, D.3, D.4, D.5, D.6 and D.7)

5.1. Procedure for the approval of related-party and Intragroup transactions, and the bodies empowered for this purpose (D.1, D.2, D.3, D.4, D.5 and D.7)

The Audit and Control Committee vets any related-party transaction before it is approved by the Board of Directors, except for cases where the law provides an exemption from Board of Directors approval.

Intragroup transactions are subject to the same approval procedures as customer transactions, requiring at least the approval of the Group Risk Transactions Committee and at most the approval of the Board of Directors.

There were no transactions that were material because of their size or nature between the Bank or any Group undertaking and the Bank's significant shareholders.

There were no material transactions with directors or executives of the Bank. Those that did take place were performed in the normal course of the Bank's business or were performed on an arm's-length basis or in the conditions available to any employee. There is no record of any transactions being performed other than on an arm's-length basis with persons or entities related to directors or senior managers.

The balances of transactions with related parties are disclosed in note 40 to the Group's consolidated financial statements and in note 36 to the separate financial statements.

The Bank is not controlled by any other entity, listed or otherwise, in the meaning of article 42 of the Commercial Code.

5.2. Mechanisms established for detecting, determining and resolving possible conflicts of interest between the company and/or its group, and its directors, executive or significant shareholders (D.6)

Banco Sabadell has mechanisms for detecting, determining and resolving possible conflicts of interest between the Bank and/or its Group, and its directors, executives or significant shareholders.

1. The General Policy on Conflicts of Interest of Banco Sabadell Group and of Banco Sabadell are internal regulations approved by the Board of Directors of Banco Sabadell, which were adapted in 2019 to the EBA's Guidelines on Internal Governance, and their purpose is to be effective in identifying, evaluating, managing, mitigating, preventing or, ultimately, disclosing potential or actual conflicts of interest. The Compliance Department is responsible for correctly applying those policies and, when necessary, it will urge the other departments in the Group to which they apply to take the necessary action.
2. The Policy on Conflicts of Interest of Directors and Senior Executives, approved by the Board of Directors on 28 January 2016 and amended by the Board of Directors on 30 July 2020, establishes the necessary measures for managing conflicts of interest of directors and senior executives and their related parties in connection with corporate transactions or non-bank activities and also with ordinary banking business.

   The Group's Risk Transactions Committee analyses all credit operations carried out by directors, senior executives and their related parties and makes proposals to the Board of Directors for their approval.

   Royal Decree 84/2005, implementing Act 10/2014, of 26 June, on the Regulation, Supervision and Solvency of Credit Institutions, sets out the requirements in connection with disclosure of transactions by directors, senior executives and their related parties to the competent authority and for authorisation by the latter.
3. Banco Sabadell Group's Code of Conduct provides a set of rules for the guidance of all persons employed by the Group and its stakeholders (customers, suppliers, shareholders, authorities and the local community) based on principles which we consider fundamental to carrying on our business.

   It expressly contemplates rules applicable to possible conflicts of interest with customers and suppliers and sets out guidelines for such cases.
4. Banco Sabadell Group's Internal Rules of Conduct in connection with the securities markets (IRC), approved by the Board of Directors on 24 May 2018, are applicable to the members of the Bank's Board of Directors, and to all executives and employees whose work is directly or indirectly related to activities and services in the field of the stock markets or who have frequent or habitual access to price-sensitive information related to the Bank itself or Group companies.

   Section 4 of the IRC sets out the mechanisms for identifying, preventing and resolving possible conflicts of interest that are detected by persons bound by the code, who are obliged to declare any significant relations of a financial, family or other nature with customers of the Bank in connection with services related to the securities markets or to companies listed on the Stock Exchange, as well as any other relationships that, in the opinion of an external and neutral observer, might compromise the impartiality of the persons concerned.

5. Banco Sabadell Group's Corporate Ethics Committee is responsible for fostering ethical conduct throughout the organisation and for giving advice to the Board of Directors, via the Audit and Control Committee, and advising the corporate and business units on decisions involving issues that might lead to conflicts of interest.

   The Committee is also responsible for overseeing the Group's compliance with its obligations as set out in the Code of Conduct and in the Internal Rules of Conduct in connection with the securities market.

   To achieve its objectives, the Corporate Ethics Committee can call upon the resources of the Compliance Department, and has been given extensive powers by the Board to gain access to all the documents and information it requires to perform its supervisory function.
6. Under the Board of Directors Regulation, all Board members are bound by a duty of loyalty and confidentiality and are required to disclose any interest they may have in the company itself or in other companies outside the Group.

   Specifically, Article 25 of the Regulation states that a director may not provide professional services to Spanish companies whose corporate purpose coincides wholly or partly with that of the company. An exception is made for offices they hold in companies in the Group. Directors must notify the Appointments Committee before accepting any executive appointment in another company or institution.

   Article 27 of the Board of Directors Regulation states that directors must inform the company of any company shares which they own directly or through companies in which they hold a significant stake.

   It is also necessary to disclose any shares held, directly or indirectly, by their close relatives. Directors must also inform the company of all positions that they hold and activities that they perform in other companies or entities and, generally, of any fact or situation that may be material in connection with their performance as directors of the company.
7. The Capital Companies Law establishes that directors have a duty to avoid conflicts of interest, and it lists the situations in which a director must abstain from acting and, in any case, establishes the duty to notify the other directors and, where appropriate, the Board of Directors of any situation where their interests, or those of their related parties, may be in conflict, directly or indirectly, with the interests of the company.

6. Risk control and management systems (E)

6.1. Scope of the Bank's Risk Control and Management System, including that relating to tax risks (E.1)

For risk management and control, Banco Sabadell Group has defined a Global Risk Framework that is formalised in the form of a set of principles, embodied in policies and deployed in procedures, strategies and processes that seek to increase the likelihood of achieving the strategic goals of the Group's various activities by facilitating management in a context of uncertainty.

The Group's Global Risk Framework includes, among other aspects, all those actions associated with identification, decision-making, measurement, evaluation, monitoring and control of the risks to which the Group is exposed, including tax risk. These activities include the functions performed by the overall Group's areas and business units.

The Global Risk Framework comprises the Global Risk Framework Policy, the Risk Appetite Framework (RAF), the Risk Appetite Statement (RAS) and the set of policies for each of the risks, together with the operating and conceptual Procedures and Manuals that make up the regulations of the Group and its subsidiaries.

The Board of Directors of Banco Sabadell has approved the Group's tax strategy. That strategy is governed by the principles of efficiency, prudence, transparency and minimisation of tax risk, it is broadly aligned with Banco Sabadell Group's business strategy, and it is applied in all the companies controlled by the Group, regardless of their geographical location.

6.2. Bodies of the Bank responsible for drawing up and executing the Risk Control and Management System, including tax risk (E.2)

The functions of Banco Sabadell's Board of Directors include identifying the Group's main risks and implementing and monitoring the appropriate internal control and information systems, including challenges and tracking and strategic planning of the Group and oversight of management of the material risks and their alignment with the profile defined by the Group. To this end, it participates directly (or through the Bank's Risk Committee) in monitoring the risk strategy, including the definition of risk appetite, RAF, RAS and policies; monitoring the implementation of the risk culture throughout the organisation, and in reviewing the adequacy of the organisational structure to that strategy.

The Board of Directors is the body responsible for establishing the general guidelines on the organisational distribution of the risk management and control functions and for determining the main lines of strategy in this respect, ensuring their consistency with the Group's short- and long-term strategic objectives, as well as with the business plan, capital and liquidity planning, risk capacity and remuneration programs and policies.

The Board of Directors has indelegable responsibility for: (i) determining the tax strategy; (ii) approving investments or operations considered strategic by virtue of their amount or special characteristics, strategic nature or particular tax risks, unless their approval corresponds to the General Meeting; (iii) approving the creation of special-purpose vehicles or entities resident in jurisdictions considered tax havens, or the acquisition of shares in such undertakings; and (iv) the approval of any other transactions or operations of a comparable nature whose complexity might impair the transparency of Banco Sabadell and its Group.

Additionally, the Delegated Committee, the Risk Committee, the Remuneration Committee and the Audit and Control Committee are involved in the Group's Global Risk Framework and, therefore, in risk management and control. Moreover, a number of Committees and Departments have a significant involvement in the risk function.

Specifically, the following committees have been created and have risk control and management functions within the Global Risk Appetite Framework:

— Technical Risk Committee (CTR), which holds meetings on a monthly basis and has the following functions: (i) supporting the Risk Committee in fulfilling its functions (which include determining, proposing, reviewing and tracking the body of regulations relating to risk, the Risk Appetite Framework and the frameworks associated with each portfolio and/or risk; supervising the institution's risk on an overall level; tracking the tolerance thresholds of first- and second-tier metrics in the RAS on the basis of established governance, and any adaptation plans); (ii) tracking, analysing and, as appropriate, approving matters in the Committee's remit (approving the limits of certain RAS metrics according to the established governance, making proposals to the Risk Committee regarding material changes in internal models for referral to the Board for approval, and approving asset allocation); (iii) tracking management of doubtful assets and foreclosed assets that together make up the Non-Performing Assets (NPAs), and reporting on this to the Risk Committee; (iv) analysing ad-hoc issues in specific portfolios or risk classes, for referral and inclusion in risk management.

— Risk Transactions Committee, with the following functions: (i) approval of credit and asset management transactions, including transactions/limits for countries and banks, and of specific criteria in line with the policies under the established delegation of powers; (ii) establishment of autonomies for risk acceptance by lower committees, and referring proposals to the Delegated Committee on the basis of established delegations; and (iii) monthly reporting to the Delegated Committee of the transactions approved and performed in the previous month.

Committee created at the end of 2020 as a result of the new organisational structure of the risk function. Its functions will be fully deployed during 2021.

— Non-Performing Assets Tracking and Management Committee, with the following functions: (i) monitor the performance of the Bank's loan book, on a sub-portfolio basis, with a focus on forecasting, identifying returns by sector/sub-portfolio, and setting limits in sectors/sub-portfolios with higher risk; (ii) establish management priorities to be communicated to the Business Units based on the portfolios/sectors/exposures to be focused on at any given time in order to anticipate potential default and a potential classification as non-performing; (iii) ensure coordination between the Risk Department and the Business units to reduce the potential for default and delinquency; (iv) monitor the portfolio of non-performing assets and the recovery strategy for those assets; and (v) establish frameworks, tools and/or algorithms to facilitate decision-making for both monitoring sub-portfolios and managing non-performing assets.

Committee created at the end of 2020 as a result of the new organisational structure of the risk function. Its functions will be fully deployed during 2021.

— Assets and Liabilities Committee (ALCO): Management body responsible for optimising and monitoring the management of structural risk in the Group's balance sheet that is assumed in the commercial activity, and the market risk; it has the following functions: (i) approving and tracking macroeconomic and financial scenarios generated by the Group Chief Economist. Additionally, it must be informed regularly of economic, financial, political and geopolitical events and, generally, of other external factors capable of influencing the Group's structural risks; (ii) approving and tracking management of the structural risks in the balance sheet by the Balance Sheet Management unit at Banco Sabadell Spain and the Group, including liquidity risk, IRRBB, CSRBB and currency risk; (iii) delegate monitoring of market risk to the Investment and Liquidity Committee (CIL), and receive regular reports on this issue; (iv) optimise the balance sheet structure vis-à-vis those structural risks in accordance with the guidelines, goals and policies defined by the Board of Directors; (v) monitor and define management guidelines in relation to the structural liquidity position, securities issues, interest rate risk, the ALCO portfolio, transfer prices and the structural currency position; (vi) functions related to corporate (Group) and local structural risks at the level of UGB BS (centralised coordination and supervision of the corporate management function, monitoring of the Group's financial activity and that of UGB BS, with breakdown of margins, business performance, performance of the various products, and monitoring of hedges arranged to manage the IRRBB at the level of UGB BS); (vii) activate and, as appropriate, close down the Liquidity Contingency Plan, with the possibility of delegating management of a liquidity crisis situation to the Investment and Liquidity Committee.

— Internal Control Body (OCI): The management body responsible for implementing the policies and procedures established in the Law on the prevention of money laundering and terrorist finance, with the following functions: (i) deciding whether to notify the Spanish government's anti-money laundering agency (SEPBLAC) of transactions or events likely to be related to money laundering or terrorist financing; (ii) approving files arising from alerts raised by employees which, after analysis by the Money Laundering and Terrorist Finance Prevention Department (DPBCFT), it is decided not to notify to SEPBLAC; (iii) approving or rejecting proposals for responses to requests by SEPBLAC for information about customers and/or transactions; (iv) deciding on whether to maintain or terminate business relationships with customers that are analysed, on the basis of the established procedure; (v) authorising or rejecting proposals for the establishment of commercial relations with financial institutions resident in high-risk countries and/or sanctioned countries and the establishment and/or maintenance of commercial relations with politically exposed persons or their related parties; (vi) approving or rejecting requests to create exceptions for certain customers with respect to sending alerts of unusual transactions, requests from customers that operate with countries where there are certain international restrictions, requests to exempt customers with transactions that require prior authorisation, and proposals for corporate transactions, in accordance with the section of Group manual 4815 on Money Laundering Prevention; (vii) approving the annual training plan on the prevention of money laundering and terrorist financing; (viii) approving updates to the internal regulation manuals on the prevention of money laundering and terrorist financing of the Bank and the domestic Group companies that are subject to the Law; (ix) designating the members of the internal control body (OCI) to perform the functions delegated to them with respect to any decision that cannot wait until the OCI's next scheduled meeting; any actions they take must be reported to the next meeting; (x) approving special analysis files arising from court orders; and (xi) approving reports regarding material information on possible breaches of the law for the prevention of money laundering and terrorist financing that have been communicated by the Bank's employees, executives or agents, including anonymous reports.

6.3. Main risks (E.3)

The Group has established a taxonomy of risks that includes the risks to which it is exposed in the performance of its activities. Specifically, it identifies the following first-tier and second-tier risks:

6.3.1. Strategy risk

Risk of losses (or negative impacts in general) as a result of the adoption or subsequent implementation of strategic decisions. It also includes the inability of the Group's business model to adapt to changes in the environment in which it operates. This risk includes:

— Solvency risk: the risk of not having sufficient capital, in terms of quality or quantity, to achieve the strategic and business objectives, withstand operating losses or fulfil regulatory requirements and/or the expectations of the market where it operates.
— Business risk: the possibility of incurring losses as a result of adverse events with a negative impact on the capacity, strength and recurrence of the income statement, whether its viability (short term) or its sustainability (long term).
— Reputational risk: the risk of losses derived from failures in processes, operations, strategy or corporate governance that produce a negative perception among customers, counterparties, shareholders, investors or regulators that can negatively affect the Group's capacity to maintain its business relationships or establish new ones, and to continue accessing funding sources.
— Environmental risk: the risk associated with either factors in the physical environment related to adverse climate events (such as floods or heat waves) or long-term changes in climate (such as rising sea levels) or environmental transition factors derived from the transition towards a low-emission economy (such as regulatory changes, the emergence of disruptive technologies, etc.).

6.3.2. Credit risk

The possibility that losses may be incurred as a result of borrowers failing to meet their obligations or through losses in value due simply to deterioration in borrower quality. This risk includes:

— Borrower default risk: the risk that borrowers fail to honour their payment obligations in a timely manner; it also includes the risk of fraud in applications for credit.
— Concentration risk: complementary to credit risk, concentration risk refers to exposures that can potentially generate losses large enough to threaten the institution's solvency or the viability of its ordinary business activity.
— Counterparty risk: counterparty risk arises in the event where, in a transaction involving derivatives or repos with deferred settlement or on margin, the counterparty defaults before the final settlement of the transaction cash flows.
— Country risk: the risk arising in the debts of a country, taken as a whole, as a result of reasons inherent to the country's sovereignty and economic and political situation, i.e. for circumstances other than regular credit risk. It manifests itself in a debtor's potential inability to honour their foreign currency payment obligations to external creditors due, among other reasons, to the country preventing access to foreign currency, the inability to transfer it, or the non-enforceability of legal action against borrowers for reasons of sovereignty, war, expropriation or nationalisation. Country risk affects not only debts contracted with a State or entities guaranteed by it but also all private debtors that belong to such State and who, for reasons outside their control and not at their volition, find themselves generally unable to honour debts.
— Non-performing asset (NPA) risk: the risk of incurring higher costs or losses associated with managing doubtful and/or foreclosed assets.
— Equity risk: the risk of incurring losses as a result of adverse changes in the value of an equity instrument. It refers basically to the Group's portfolio of unlisted equity holdings and the portfolio of listed shares.

6.3.3. Finance risk

The possibility of obtaining insufficient returns or having insufficient liquidity such as to prevent compliance with requirements and future expectations. This risk includes:

— Liquidity risk: the possibility of incurring losses as a result of the Bank being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or of it being unable to access the markets to obtain finance at a reasonable price. This risk may be associated with factors of a systemic nature or specific to the institution itself.
— Exchange rate risk: risk arising from changes in exchange rates between currencies and the possibility that these movements may result in losses in the P&L on financial investments and on permanent investments in foreign branches and subsidiaries.
— Interest Rate Risk in the Banking Book (IRRBB): the risk of incurring losses as a result of the impact caused by interest rate fluctuations on the income statement (revenues and expenses) and on an entity’s equity structure (current value of assets, liabilities and off-balance sheet positions sensitive to interest rates).
— Market risk: arising from the possibility of loss in the market value of financial asset positions due to variations in risk factors with an impact on their market prices or volatility or the correlation between them. This refers in particular to trading positions.
— Insurance risk: arising from the institution's equity

holdings in insurance companies, basically from actuarial risks as well as other risks (market, counterparty, operational, etc.).
— Credit Spread Risk in the Banking Book (CSRBB): any credit spread risk on credit instruments not attributable to structural interest rate risk or default risk.

6.3.4. Operational risk

Operational risk is defined as the risk of loss resulting from failures or inadequacies in people, processes, and systems or from unforeseen external events. This risk includes:

— Fraud risk: the possibility, present or future, of losses arising from actions, by employees or by third parties, with the intent to defraud, misappropriate, or evade regulations, laws or company policies.
— Conduct risk: the possibility, present or future, of losses derived from inadequate provision of financial services, including cases of malice or negligence.
— Process risk: the possibility of incurring losses due to failures in process management, execution or delivery or to inadequate processes.
— Technology risk (or ICT risk): the risk, present or future, of losses due to inadequacy or failures in the hardware and software of technical infrastructures that may compromise the availability, integrity, accessibility and security of the infrastructures and data.
— Outsourcing risk: the risk, present or future, of losses arising from the use of a third party's resources on a normalised stable, permanent basis to perform processes of the principal, which inherently entails exposure to a series of underlying risks, such as operational risk, including conduct risk, information and communication technology (ICT) risk, legal and compliance risk; reputational risk, concentration risk, step-in risk and country risk.
— Talent/management risk: the risk of incurring losses related to events with an impact on employees, e.g. non-availability of suitable profiles, staff rotation and replacement, dissatisfaction among employees, etc. This category also includes losses arising from actions in breach of legislation or agreements in the area of employment, workplace health and safety, personal injury claims, or diversity/discrimination events.
— Property risk: the risk of incurring material losses on buildings and other tangible assets, including losses arising from incidents in physical security.
— Model risk: the risk, present or future, to an institution as a result of decisions based primarily on the results of internal models, due to errors in the design, application or use of those models.
— Data aggregation risk: the risk associated with the accuracy, preparation, dissemination and, where appropriate, publication of internal and external reporting, including regulatory and financial reporting.
— Compliance risk: the risk, present or future, of losses arising from legal or administrative penalties, significant financial losses or an impairment of reputation due to a breach of laws, regulations, rules, self-regulation codes or codes of conduct applicable to the banking business.
— Legal risk: the risk of incurring losses or other negative consequences due to being sanctioned, fined, convicted or obliged to pay damages as a result of a breach of rules or regulations, directly or due to derivative liability. This risk also covers crime risk, including that arising from corruption. To this end, for the purposes of identifying and controlling corruption-related risk, Banco Sabadell has a Criminal Liability Prevention Programme with a specific section related to combating corruption, and it also has a specific anti-corruption policy.
— Tax risk: the probability of failing to comply with the objectives set out in the institution's tax strategy from a dual perspective due to either internal or external factors:
  — Firstly, the probability of failing to comply with tax obligations that may result in a failure to pay taxes that are due or the occurrence of any other event that impairs attainment of the institution's goals.
  — Secondly, the probability of paying taxes not actually due under tax obligations, thus impairing the position of shareholders or other stakeholders.

6.4. Levels of risk tolerance, including tax risk (E.4)

The Group has a Risk Appetite Framework (RAF) that establishes the structure and mechanisms associated with the governance, definition, disclosure, management, measurement, monitoring and control of the Group's Risk Appetite. In addition to the Group's RAF, each subsidiary has a Local RAF which, based on the principle of proportionality, is adapted to the local situation but is aligned at all times with the Group RAF.

The Group also has a Risk Appetite Statement, which is a written declaration of the level of risk that the Group is willing to accept, or wishes to avoid, in order to achieve its business objectives. Therefore, depending on the nature of each risk, the RAS includes both qualitative and quantitative metrics. Consequently, the RAF is a key element in setting the risk strategy, since it determines the scope.

In addition to the Group's RAF, each subsidiary has a Local RAF which, based on the principle of proportionality, is adapted to the local situation but is aligned at all times with the Group RAF.

As for tax risk, one of the main principles of the tax strategy referred to in section "6.1 Scope of the Bank's Risk Control and Management System, including that relating to tax risks (E1)" above is to minimise tax risk.

This statement applies to all risks identified in section "6.3 Main risks (E3)" above.

6.5. Risks, including tax risks, that materialised during the year (E.5)

The Group provides detailed information of the risks in Note 4 "Risk Management" in the Notes to the Consolidated Financial Statements of Banco Sabadell Group, which are available on the corporate website (www.grupobancosabadell.com – Information for shareholders and investors – Financial information – Annual Reports).

The pandemic is having a disruptive impact on the economy, by increasing the risks to financial stability, which have been mitigated by the implementation of economic policy measures. Although it should be noted that no material risks of particular importance materialised in 2020, expectations regarding the duration and intensity of the negative impact on economic activity remain highly uncertain.

6.6. Response and supervision plans for the Bank's main risks, including tax risks, as well as the procedures applied by the Bank to ensure that the Board of Directors responds to emerging challenges (E.6)

In accordance with the provisions of the Risk Appetite Framework (RAF), the Group's Risk Appetite Statement (RAS) has a solid governance process which ensures its proper deployment to all participants in the decision-making process. Consequently, the RAS follows a set of guidelines for approval/review, regular monitoring and oversight (including notification of breaches) and deployment to Group subsidiaries.

Specifically, the mechanisms for regular tracking of the RAS ensure a high degree of involvement at all times by the Group's governing bodies, which must have an updated vision of compliance and adaptation to the Risk Appetite defined for the Group, making it possible to make informed decisions. Accordingly, depending on their nature and hierarchy, the metrics in the Group RAS are reported regularly to different echelons (including the Board of Directors and the Risk Committee) and committees, and there is a procedure for giving notice of breaches.

In the event of a breach, the RAF identifies the Governing Bodies and Committees that must receive notice of the breach, as well as the need to define an Adaptation Plan, and defines its main characteristics, such as the parties responsible for approving it, deadlines, and mandatory content.

The main mechanisms implemented by the Group for monitoring and supervising risks are the following:

— Risk governance through the definition of the Risk Appetite in the RAS (through quantitative metrics and qualitative aspects) and the set of risk policies.
— Evaluation of the risk profile through a systematic process that provides a comprehensive view of the risks and risk tracking.
— Regular reporting of risks (including tax risk), mainly via the Risk Committee scorecard, which facilitates risk tracking. Specifically, that reporting covers at least the principal risks, maintaining a balance between qualitative data and comments, and, where possible, it incorporates prospective measures, information on risk appetite limits and emerging risks. It also exercises oversight to ensure a homogeneous vision that provides an integrated perspective at Group level, without prejudice to including the local perspective.
— Forward-looking risk management by using stress scenarios in cases where this is considered to be meaningful, which also makes it possible to identify new risks.

More information regarding the systems for controlling the risks to which the Group is exposed can be found in the Annual Report, specifically Note 4 "Risk Management" of the Notes to the Consolidated Financial Statements of Banco Sabadell Group, available on the corporate website: www.grupobancosabadell.com – Shareholder and Investor Information – Financial Information – Annual Reports.

7. Internal Control over Financial Reporting (ICFR) (F)

7.1. Control environment (F.1)

7.1.1. Governance and governing bodies

The Group's Finance Department contributes to implementing the general framework of the internal control systems that are rolled out across the entire organisation.

Part of that contribution materialises in responsibility for designing and implementing internal control systems for financial information that ensure the accuracy of the financial information that is generated.

Article 5 of the Board of Directors Regulation states that the Board of Directors is an instrument of supervision and control whose responsibility is identifying the company's and the consolidated Group's main risks and implementing and monitoring suitable internal control and reporting systems, as well as setting policies on the reporting and disclosure of information to shareholders, the markets and the general public.

In addition, as provided in Article 13 of its Regulation, the Board of Directors delegates supervision of internal control systems to the Audit and Control Committee.

The functions of the Group's Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design and implementation and effective functioning of the risk management and control systems, which include ICFR.

7.1.2. Positions of responsibility

The design and review of the organisational structure is the responsibility of the Global Organisation and Corporate Projects Department, based on Banco Sabadell Group's Master Plan and current banking regulations. That Department analyses and adapts the functions and organisational structure of each Division to bring it into line with the established objectives and the current regulations. Modifications to the organisational structure of the members of the Management Committee are submitted to the Board of Directors for approval, while modifications to the organisational structure of the reports to the members of the Management Committee are presented to the Management Committee for approval.

At the same time, the details of all the departments/units/offices are sent on a monthly basis to the Human Resources Department showing all the modifications that have been made, so as to equip them with the resources considered necessary to perform their duties.

The organisation chart of Banco Sabadell Group arising from the above process addresses all the departments, areas and divisions into which Banco Sabadell Group is divided. This organisation chart is complemented by the policies and procedures of each Division, which determine the framework for action and the responsibilities of each unit of the Bank.

7.1.3. Code of conduct

Banco Sabadell Group has a Code of Conduct, approved by the Board of Directors and available via the corporate intranet, whose fundamental principles include a commitment to transparency and, in particular, a commitment to place all the financial and corporate information at shareholders' disposal. The purpose is to comply strictly with Banco Sabadell Group's obligation to offer reliable financial reporting prepared in accordance with the regulations so as to present a true and fair view of the company. It also includes the responsibilities of its employees and executives to ensure this is so, via both proper discharge of their duties and notification to the governing bodies of any circumstance which might affect this commitment.

There is a Corporate Ethics Committee, whose functions include fostering ethical behaviour throughout the organisation, making proposals and advising both the Board of Directors and the various corporate and business units in connection with decisions that refer to issues that may lead to conflicts of values.

Among the tasks carried out by the Corporate Ethics Committee is the analysis of compliance with the Code of Conduct or any other code or self-regulation that exists. In order to perform its functions, it has access to the human and material resources of the Compliance Department. If, as a consequence of exercising its functions, it detects any non-compliance, it must advise the Human Resources Department for the application of corrective actions and sanctions. Additionally, the Corporate Ethics Committee has been designated by the Board of Directors as being in charge of Supervision and Compliance with the Organisation and Crime Risk Management Model.

7.1.4. Whistleblower channel

Banco Sabadell Group has, and encourages the use of, an autonomous independent whistleblower channel to report all types of irregularities or crimes, including breaches of the General Code of Conduct. Any reports received are treated confidentially and, once handled by the Corporate Ethics Committee, are referred to the Audit and Control Committee, if appropriate. This channel is managed internally and may be contacted by email at CanalDenunciasGBS@bancsabadell.com.

7.1.5. Training

As regards training and refresher programmes and particularly regarding the financial reporting process, Banco Sabadell Group's Finance Department has a training plan that basically addresses areas such as the company's internal accounting/finance procedures, analysis of current regulations and drafts of new domestic and international accounting standards, analysis of the domestic and international economic situation, together with training in the use of software to facilitate management and oversight of the financial reporting process.

These training sessions are programmed based on two criteria:

— Sessions scheduled at the start of the year by selecting the areas considered of greatest interest by the Finance Department.
— Sessions scheduled during the current year when an issue arises that is believed to warrant prompt distribution (drafts of new accounting standards, changes in the economic situation, etc.).

Training is taught chiefly by internal professionals of Banco Sabadell Group and by external experts who are specialists in the subject area.

In addition, the Human Resources Department places at the disposal of Banco Sabadell Group employees a series of financial training courses which they can take online. The most notable courses refer to IFRS (International Financial Reporting Standards), financial mathematics, financial analysis, Spain's General Accounting Plan and general tax matters.

The Internal Audit Department has a training plan in place for all management professionals which includes a University Specialist Programme in Bank Internal Auditing (PSAI) at a prestigious academic institution. The course covers areas such as accounting principles and financial reporting, the basics of auditing, and financial risk monitoring and management. In 2020, nine audit professionals were taking this programme, and 83 members of the Internal Audit Department hold PSAI certificates. Additionally, during 2020, the members of the Internal Audit Department participated in workshops on new regulations on risk management and control and on disclosure, including impacts on accounting and financial reporting, and 28 of them obtained certification in the COSO Integrated Framework for Internal Control; a total of 79 internal auditors are now certified.

7.2. Evaluation of financial reporting risks (F.2)

Banco Sabadell Group's process of identifying the risk of error or the probability of fraud in financial reporting is documented in a manual which sets out the frequency, methods, types of risks and other basic features of the process.

The process covers all the financial reporting objectives (existence and occurrence; integrity; valuation; presentation, itemisation and comparability; and rights and obligations) and focuses on identifying risks of material error based on transaction complexity, quantitative and qualitative materiality, complexity of the calculations and application of judgements and estimations, updated on an quarterly basis. If (i) circumstances not previously identified lead to the possibility of errors in the financial information, or (ii) material changes to the operations of Banco Sabadell Group arise during the year, the Finance Department evaluates the risks to be added to those already identified.

The process is structured such that, on a half-yearly basis, an analysis is conducted to identify where material transactions arise, in terms of the areas or processes and the companies and locations.

Once they have been identified, they are reviewed so as to analyse the potential risks of error for these types of transactions in each financial reporting objective. In the case of one-off transactions (i.e. quite complex non-recurring transactions), a specific analysis is performed on a quarterly basis to assess whether new risks have arisen that need to be mitigated.

The process for delimiting the consolidation scope is detailed in section "7.3. Control activities (F.3, F.6)" of this document.

In addition, the process considers the risk of error in certain processes not linked to specific transaction types but which are especially important in view of their impact on financial reporting, such as the process of reviewing judgements and estimates, significant accounting policies and the closing and consolidation process. In this respect, and with a view to covering the risks of these processes, Banco Sabadell Group has the control activities described in the next section “7.3 Control activities (F.3, F.6)” of this document. It should also be noted that the risk identification process takes into account the possible effects of other types of risks (operational, technology, financial, legal, reputational, environmental, etc.), insofar as these may affect the financial statements.

The aforementioned process is conducted and documented by Banco Sabadell Group’s Finance Department and is supervised ultimately by the Audit and Control Committee.

7.3. Control activities (F.3, F.6)

7.3.1. Procedures for reviewing and authorising financial reporting

The procedure for reviewing and authorising Banco Sabadell Group's financial reporting to the markets commences with a review by the Finance Department. In accordance with the Board of Directors Regulation, the separate and consolidated financial statements and half-yearly summary consolidated financial statements are reviewed by the Audit and Control Committee prior to being authorised by the Board of Directors. In accordance with its terms of reference, the Audit and Control Committee reads and discusses the information with the heads of the Finance and Internal Audit departments and with the external auditors prior to submission to the Board of Directors.

Once the Audit and Control Committee has vetted the information and either approved it or attached its comments, the CFO, the Chairman and the Chief Executive Officer of Banco Sabadell Group sign the accounts and submit them to the Board of Directors for authorisation. Although it is not obligatory, the mid-year summary consolidated financial statements are audited by the external auditor.

The Audit and Control Committee reviews the quarterly financial disclosures (income statement and trend of the main balance sheet items) before they are submitted to the Board of Directors.

With regard to the activities and controls directly relating to transactions that may have a significant impact on the financial statements, Banco Sabadell Group has descriptions of the controls in place to mitigate the risk of material error (intentional or otherwise) in the information reported to the markets. For the critical areas of Banco Sabadell Group, special emphasis is placed on developing solid descriptions of the flows of activities and controls, which cover, among others:

— Loans and advances
— Fixed-income portfolio and issuance
— Equity securities
— Customer deposits
— Derivatives
— Foreclosed real estate

These descriptions contain information on what form the control activity should take, its purpose (risk to be mitigated), the party responsible for executing it and the frequency. The descriptions cover controls on the proper accounting, measurement, presentation and disclosure of these areas.

Banco Sabadell Group also has procedures for mitigating the risk of error in processes not related to specific transactions. In particular, there are procedures defined for the accounting close which include the consolidation process and specific review procedures for material judgements and estimates, which are escalated to senior management when appropriate.

With regard to the consolidation process within the accounting close, procedures have been implemented to ensure proper identification of the consolidation scope. In particular, for example, Banco Sabadell Group conducts a monthly analysis of the consolidation scope, requesting the necessary information from all subsidiaries; the analysis covers all types of corporate structures.

The review of judgements and estimates is carried out at different levels by members of the Finance Department. In addition, in its financial statements Banco Sabadell Group describes the most important areas in which judgements and estimates are made, together with the key assumptions in this connection. It also has procedures for reviewing accounting estimates. The main judgements and estimates made relate to the determination of the business models under which financial assets are managed, the determination of a significant increase in the risk of financial assets, impairment losses on certain financial assets, actuarial calculations relating to pension liabilities and commitments, the useful lives of tangible and intangible assets and their impairment losses, measurement of goodwill, provisions and the classification of contingent assets, the fair value of certain unlisted financial assets, the fair value of real estate assets and the recoverability of non-monetisable deferred tax assets and tax credits.

The Banco Sabadell Finance Department has implemented a software application that includes and formalises all the ICFR controls referred to above while, at the same time, ensuring ongoing identification of new risks to be considered and updates to mitigating controls in each accounting close. This application enables the controls to be validated on time and properly with the aim of guaranteeing the reliability of the financial reporting. The software features are designed to take account of the recommendations in the CNMV's guide entitled "Internal Control over Financial Reporting in Listed Companies," based on the principles and good practices contained in the COSO report (Committee of Sponsoring Organisations of the Treadway Commission).

7.3.2. Internal control policies and procedures over information systems

Banco Sabadell Group uses information systems to maintain an adequate record and control of its operations and is, consequently, highly dependent on them working properly.

As part of the process to identify risks of error in financial reporting, Banco Sabadell Group identifies which systems and applications are important in each of the areas or processes considered to be material. The identified systems and applications include those used directly in preparing the financial information and those that are important for ensuring that the controls to mitigate the risk of errors are effective.

The design and implementation of the applications define a methodological framework that establishes various points of control to ensure that the solution complies with user requirements and meets the required standards of reliability, efficiency and maintainability.

Any change regarding infrastructures or applications is handled via the change management service, which defines the change approval flow, which may be escalated to the Change Committee, with a definition of the impact and the possibility of roll-back.

The Technological Security Department establishes policies governing measures to protect the information systems so as to guarantee secure access and combat emerging cyber threats. These measures include role-based access control and periodic recertification of these permissions, two-factor remote access, malware protection systems and a 24x7 cyber incident monitoring and response team. This Department also ensures that there are redundant infrastructures and recovery procedures that are tested periodically to guarantee the continuity of technology services.

7.3.3. Internal control policies and procedures for outsourced activities and outsourced appraisals

Banco Sabadell Group regularly examines whether activities carried out by third parties are material to the financial reporting process or might indirectly affect its reliability. To date, Banco Sabadell Group has not outsourced processes with a material impact on financial reporting. However, Banco Sabadell Group regularly uses reports from independent experts for measuring transactions that may materially affect the financial statements.

In 2020, the activities outsourced to third parties (assessments, appraisals and calculations by independent experts) were connected with real estate valuations, valuing equity holdings, checking the accounting treatment of corporate transactions, measuring post-employment benefits for employees, and reviewing goodwill/Cash Generating Units.

The units of Banco Sabadell Group responsible for these operations exercise oversight on the work of the external experts to check their competence, skills, accreditation and independence together with the validity of the data and methods used and the reasonableness of the assumptions applied, as described in the preceding section "7.3.1 Procedures for reviewing and authorising financial reporting".

7.4. Information and reporting (F.4)

7.4.1. Function in charge of accounting policies

The Accounting Regulation and Financial Reporting Department (under the Financial Reporting Department) is the unit responsible for identifying and defining the accounting policies that affect Banco Sabadell Group and for responding to accounting queries from the subsidiaries and business units.

The Financial Reporting Department is responsible for informing Senior Management of Banco Sabadell Group regarding new accounting standards, the results of their implementation and their impact on the financial statements of Banco Sabadell Group.

The functions of the Technical Committee on Accounting and Financial Disclosures include reviewing and updating policies related to financial reporting, approving the general accounting criteria and procedures, approving and reporting on the accounting treatment adopted by the Management Committee and the Audit and Control Committee, and determining the transactions that, in accordance with the established procedures, need to be cross-checked by an independent accounting expert.

Banco Sabadell Group has guides on accounting procedure that conform to the needs, requirements and dimension of Banco Sabadell Group; they set out and explain the rules for preparing financial reporting and describe how to apply the rules to the Bank's specific operations. These documents not only explicitly refer to the standards applied to each type of transaction but also elaborate upon and interpret them so as to adapt exactly to each transaction type.

These documents are updated regularly, and at least once per year. Significant modifications are notified to the dependent companies to which they are applicable.

7.4.2. Mechanisms for preparing financial reporting

The main IT systems and applications used in generating financial reporting by Banco Sabadell Group are centralised and interconnected. There are procedures and controls that monitor system development and maintenance, as well as their proper performance, continuity and security.

During consolidation and the preparation of the financial reporting, inputs such as the financial statements issued by Group subsidiaries are used in the established formats, together with the rest of the financial information required both for accounting harmonisation and for meeting the disclosure requirements.

Banco Sabadell Group has a software application for consolidation, including a series of controls to ensure the reliability and proper processing of the information received from subsidiaries, notably checks to ensure consolidation entries were posted correctly, an analysis of variations in all balance sheet and income statement items, variations in the results obtained with respect to proper insertion of Group undertakings' financial statements, the monthly and annual budget, and specific Bank of Spain checks on the financial statements, in which the balance sheet and profit and loss account items are cross-checked.

Banco Sabadell Group also has a computer application for producing full-year and mid-year financial statements and directors' reports. The application makes it possible to add checks to ensure that the information in the accounts is internally coherent and that the arithmetic totals of the financial statements and the tables contained in the notes to financial statements are correct.

7.5. Supervision of system operation (F.5)

7.5.1. ICFR supervision

At each financial close, the Financial Department assesses the internal control model, considering its periodicity, the risks in the financial reporting processes, and the adequacy and effectiveness of the controls that mitigate them, and it produces and custodies evidence that each specific control was performed. The Finance Division also continuously evaluates aspects that may lead to changes in the internal control model — including regulatory changes, the introduction of new products and amendments to Banco Sabadell's processes — and identifies the risks associated with them and designs controls to mitigate them; it also reviews the criticality of the controls and the changes in the materiality of processes with an accounting impact.

In accordance with the Board of Directors Regulation, the Audit and Control Committee is entrusted with oversight of Internal Audit. Additionally, the Audit and Control Committee's functions include approving the Internal Audit plan, assessing the outcome of each audit, and prioritising and tracking corrective measures.

The Bank's Internal Audit Department reports directly to the Audit and Control Committee, which grants it hierarchical and functional independence from the rest of Banco Sabadell's departments and positions the function at an appropriate level of the organisation.

On the basis of its policy, which was approved by the Board of Directors, the functions of the Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design, implementation, and effective functioning of the risk management and control systems.

The Overall Audit Plan that the Board of Directors approved at a meeting on 20 January 2020, based on a favourable report by the Audit and Control Committee, set out, inter alia, the actions to be implemented with respect to the areas or processes considered to have the highest residual risk on the basis of a risk assessment exercise. The actions set out in the plan were performed in 2020; in some cases, the control environment was reviewed and, in particular, the proper identification of risks in processes was assessed, along with the sufficiency, design, implementation and effective functioning of existing controls. The general controls on reporting systems indicated in the preceding section, "7.3.2 Internal control policies and procedures over information systems", are reviewed every year.

In addition to the aforementioned supervisory activities carried out by the ICFR Department, the Audit and Control Committee and the Internal Audit Department, in 2019 the external auditor reviewed the information relating to the ICFR, with no adverse findings in the auditor's report on "Information on ICFR" as indicated in section "7.6 External auditors' report (F.7)" in this report.

7.5.2. Detecting and managing weaknesses

The Audit and Control Committee meets at least once every three months (prior to the publication of the regulated disclosures) in order to obtain and analyse the necessary information to fulfil the functions entrusted to it by the Board of Directors in connection with supervision of the process of producing and presenting the mandatory financial disclosures.

These meetings carry out an in-depth review of the annual and half-yearly accounts and the interim financial statements of the company together with the rest of the information made available to the market. To carry out this process, the Audit and Control Committee first receives all the documentation and meets with the Director - General Manager, the Internal Audit Department and the external auditor (in the case of the annual and half-yearly accounts) in order to ensure proper application of the current accounting standards and the reliability of the financial reporting. In addition, this discussion process assesses any ICFR weaknesses that were identified, the proposals to correct them and the status of any actions that have been taken.

The Group's auditor has direct access to the Group's senior management and holds regular meetings to obtain the necessary information and to report on control weaknesses detected during the audit. With regard to the latter, each year the external auditor submits a report to the Audit and Control Committee detailing any internal control weaknesses that were detected or certifying that there were none. This report incorporates comments by Group management and any action plans implemented to remedy internal control weaknesses.

7.6. External auditors' report (F.7)

Banco Sabadell Group submitted the ICFR information supplied to the markets for 2020 to the external auditor for review.The report by the external auditor (KPMG Auditores, S.L.) will be attached as an annex to this annual report on corporate governance once it is available.
The scope of the auditor's review is determined by "Guía de Actuación y Modelo de Informe del Auditor referidos a la Información relativa al Sistema de Control Interno sobre la Información Financiera (SCIIF) de las Entidades Cotizadas", issued by means of Circular E14/2013, dated 19 July 2013, of the Instituto de Censores Jurados de Cuentas de España.

8. Degree of compliance with corporate governance recommendations (G)

The degree to which Banco Sabadell complies with the recommendations in the Code of Good Governance for Listed Companies is detailed in section G of the Statistical Annex to the Annual Report on Corporate Governance 2020 attached to this report.

9. Other information (H)

Since 2017, Banco Sabadell has adopted the Code of Good Tax Practices approved by the Large Company Forum on 20 July 2010 and applies its recommendations.

Accordingly, Banco Sabadell voluntarily submitted the "Annual Tax Transparency Report" for 2019 to the State Tax Agency.

Additionally, in 2014 Banco Sabadell Group adopted the "Code of Practice on Taxation for Banks" promoted by the UK tax authorities, and is in compliance with its contents.

This annual corporate governance report was approved by Banco Sabadell's Board of Directors at a meeting on:

29/01/2021

No directors abstained or voted against the adoption of this Report.

The English version is a Translation of the original in Spanish and is provided for information purposes only. In case of discrepancy, the original version in Spanish shall prevail.

STATISTICAL ANNEX TO THE ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED PUBLIC LIMITED COMPANIES

ISSUER IDENTIFICATION DETAILS

YEAR END-DATE: 31/12/2020

TAX ID (CIF): A-08000143

Company name:

BANCO DE SABADELL, S.A.

Registered office:

AV. OSCAR ESPLÁ N.37 (ALICANTE)

A. OWNERSHIP STRUCTURE

A.1. Complete the table below with details of the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
16/11/2017	703,370,587.63	5,626,964,701	5,626,964

Indicate whether there are different classes of shares with different associated rights:

[ ] Yes
[√] No

A.2. List the company's significant direct and indirect shareholders at year end, excluding director:

Name or company name of shareholder	% of voting rights attached to the shares		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
BLACKROCK INC.	0.00	2.89	0.00	0.42	3.31
FINTECH EUROPE, S.À.R.L.	3.45	0.00	0.00	0.00	3.45
LEWIS A. SANDERS	0.00	3.47	0.00	0.00	3.47
NORGES BANK	3.06	0.00	0.00	0.00	3.06

Breakdown of the indirect holding:

Name or company name of the indirect owner	Name or company name of the direct owner	% of voting rights attached to the shares	% of voting rights through financial instruments	% of total voting rights
BLACKROCK INC.	Subsidiaries of BLACKROCK, INC.	2.89	0.42	3.31
LEWIS A. SANDERS	SANDERS CAPITAL, LLC	3.47	0.00	3.47

A.3. Complete the following tables on members of the company's Board of Directors holding voting rights on the company's shares:

Name or company name of director	% of voting rights attached to the shares		% of voting rights through financial instruments		% of total voting rights	% voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
JOSEP OLIU CREUS	0.01	0.11	0.01	0.00	0.13	0.00	0.00
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	0.00	0.00	0.00	0.00	0.00	0.00	0.00
JAIME GUARDIOLA ROMOJARO	0.04	0.00	0.01	0.00	0.05	0.00	0.00
ANTHONY FRANK ELLIOTT BALL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
AURORA CATÁ SALA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PEDRO FONTANA GARCIA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MARÍA JOSÉ GARCÍA BEATO	0.00	0.00	0.00	0.00	0.01	0.00	0.00
MIREYA GINÉ TORRENS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GEORGE DONALD JOHNSTON III	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DAVID MARTÍNEZ GUZMÁN	0.00	3.45	0.00	0.00	3.45	0.00	0.00
JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	0.05	0.01	0.00	0.00	0.06	0.00	0.00
ALICIA REYES REVUELTA	0.00	0.00	0.00	0.00	0.00	0.00	0.00

MANUEL VALLS MORATÓ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DAVID VEGARA FIGUERAS	0.01	0.00	0.00	0.00	0.01	0.00	0.00

% total percentage of voting rights held by the Board of Directors	3.7

Breakdown of the indirect holding:

Name or company name of director	Name or company name of the direct owner	% of voting rights attached to the shares	% of voting rights through financial instruments	% of total voting rights	% voting rights that can be transmitted through financial instruments
DAVID MARTÍNEZ GUZMÁN	FINTECH EUROPE, S.À.R.L.	3.45	0.00	3.45	0.00

A.7. Indicate whether the company has been notified of any shareholders' agreements that may affect it, in accordance with the provisions of Articles 530 and 531 of the Spanish Corporate Enterprises Act. If so, describe them briefly and list the shareholders bound by the agreement:

[ ] Yes
[√] No

Indicate whether the company is aware of any concerted actions among its shareholders. If so, provide a brief description::

[ ] Yes
[√] No

A.8. Indicate whether any individual or company exercises or may exercise control over the company in accordance with Article 5 of the Securities Market Act. If so, identify them::

[ ] Yes
[√] No

A.9. Complete the following table with details of the company's treasury shares:

At the close of the year:

Number of direct shares	Number of indirect shares (*)	Total percentage of share capital
48,560,867	-	0.86

(*) Through:

Name or company name of direct shareholder	Number of direct shares
Total	-

A.11. Estimated floating capital:

	%
Estimated floating capital	86.01

A.14. Indicate whether the company has issued shares that are not traded on a regulated EU market..

[ ] Yes
[√] No

B. GENERAL SHAREHOLDER'S MEETING

B.4. Give details of attendance at General Shareholders' Meetings held during the reporting year and the two previous years::

	Attendance data				
Date of general meeting	% physically present	% present by proxy	% distance voting		Total
			Electronic voting	Other	
26/03/2020	0.18	61.38	0.00	0.00	61.56
Of which free float	0.01	61.26	0.00	0.00	61.27
28/03/2019	0.40	58.78	0.00	0.00	59.18
Of which free float	0.25	58.65	0.00	0.00	58.90
19/04/2018	0.78	60.57	0.00	0.00	61.35
Of which free float	0.66	60.38	0.00	0.00	61.04

B.5. Indicate whether there has been any item on the agenda at the general meetings held during the year that has not been approved by the shareholders.:

[ ] Yes
[√] No

B.6. Indicate whether the articles of incorporation contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or to vote remotely:

[√] Yes
[ ] No

Number of shares required to attend General Meetings	1,000
Number of shares required for voting remotely	-

C. STRUCTURE OF COMPANY'S ADMINISTRATION

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors established in the articles of incorporation:

Maximum number of directors	15
Minimum number of directors	11
Number of directors set by the general meeting	15

C.1.2 Complete the following table on Board members:

Name or company name of director	Representative	Category of director	Position on the board	Date first appointed	Date of last appointment	Election procedure
JOSEP OLIU CREUS		EXECUTIVE	CHAIRMAN	29/03/1990	28/03/2019	GENERAL MEETING DECISION
JOSÉ JAVIER ECHENIQUE LANDIRIBAR		INDEPENDENT	DEPUTY CHAIRMAN	18/09/2010	28/03/2019	GENERAL MEETING DECISION
JAIME GUARDIOLA ROMOJARO		EXECUTIVE	CHIEF EXECUTIVE OFFICERS	27/09/2007	19/04/2018	GENERAL MEETING DECISION
ANTHONY FRANK ELLIOTT BALL		INDEPENDENT	LEAD INDEPENDENT DIRECTOR	30/03/2017	30/03/2017	GENERAL MEETING DECISION
AURORA CATÁ SALA		INDEPENDENT	DIRECTOR	29/01/2015	28/03/2019	GENERAL MEETING DECISION
PEDRO FONTANA GARCIA		INDEPENDENT	DIRECTOR	27/07/2017	19/04/2018	GENERAL MEETING DECISION
MARÍA JOSÉ GARCÍA BEATO		EXECUTIVE	DIRECTOR	24/05/2018	28/03/2019	GENERAL MEETING DECISION
MIREYA GINÉ TORRENS		INDEPENDENT	DIRECTOR	26/03/2020	26/03/2020	GENERAL MEETING DECISION

GEORGE DONALD JOHNSTON III		INDEPENDENT	DIRECTOR	25/05/2017	19/04/2018	GENERAL MEETING DECISION
DAVID MARTÍNEZ GUZMÁN		PROPRIETARY	DIRECTOR	27/03/2014	19/04/2018	GENERAL MEETING DECISION
JOSÉ MANUEL MARTÍNEZ MARTÍNEZ		INDEPENDENT	DIRECTOR	26/03/2013	19/04/2018	GENERAL MEETING DECISION
JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI		INDEPENDENT	DIRECTOR	18/09/2010	28/03/2019	GENERAL MEETING DECISION
ALICIA REYES REVUELTA		INDEPENDENT	DIRECTOR	24/09/2020	24/09/2020	BOARD OF DIRECTORS DECISION
MANUEL VALLS MORATÓ		INDEPENDENT	DIRECTOR	22/09/2016	30/03/2017	GENERAL MEETING DECISION
DAVID VEGARA FIGUERAS		EXECUTIVE	DIRECTOR	28/05/2015	28/03/2019	GENERAL MEETING DECISION

Total number of directors	15

Indicate if any directors, whether through resignation or by agreement of the general meeting, have left the Board during the period subject to this report:

Name or company name of director	Category of the director at the time of cessation	Date of last appointment	Date of cessation	Specialised committees of which he/she was a member	Indicate whether the director left before the end of his or her term of office
MARIA TERESA GARCIA-MILÀ LLOVERAS	Other external	30/03/2017	26/03/2020	Risk Committee, Audit and Control Committee, and Appointments Committee.	Yes
JOSÉ LUÍS NEGRO RODRÍGUEZ	Executive	30/03/2017	24/09/2020	-	Yes

C.1.3 Complete the following tables on the members of the Board and their categories:

EXECUTIVE DIRECTORS		
Name or company name of director	Post in organisation chart of the company	Profile
JOSEP OLIU CREUS	CHAIRMAN	BANKING / RETAIL & CORPORATE BANKING / FINANCE / INTERNATIONAL ACADEMIC/INTERNATIONAL. He holds a degree in economics from the University of Barcelona and a PhD in Economics from the University of Minnesota. Professor of Economic Theory at the University of Oviedo. Appointed Director-General Manager of Banco Sabadell in 1990. Chairman of Banco Sabadell since 1999. Non-executive Chairman of Exea Empresarial and the latter's representative on the board of Puig, S.L. Member of FEDEA (Fundación de Estudios de Economía Aplicada) and of the Board of Trustees of the Princess of Asturias Foundation and the Princess of Girona Foundation.
JAIME GUARDIOLA ROMOJARO	CHIEF EXECUTIVE OFFICER	BANKING / RETAIL & CORPORATE BANKING / FINANCE/ BUSINESS / INTERNATIONAL He graduated in Law from Barcelona University and holds a degree in Business and an MBA from ESADE. He commenced working at BBVA in 1990, where he reached the position of General Manager for Spain and Portugal (2006-2007). Chief Executive Officer of Sabadell from 2007. Trustee of Fundación ESADE and member of the Board of Círculo de Economía.
MARÍA JOSÉ GARCÍA BEATO	DIRECTOR SECRETARY GENERAL	BANKING / LAW / REGULATORY / GOVERNANCE. Degree in Law and Diploma in Criminology. Spanish State Attorney (1991). Her positions include State Attorney at the Madrid High Court of Justice, Legal Counsel at the Data Protection Agency, State Attorney as consultant to the State Legal Service, Head of the General Secretariat of Communications, and State Attorney at the National Court. Chief of Staff and Under-Secretary at the Ministry of Justice (2000-2004). General Counsel of Banco Sabadell (2005-2008). Company secretary of Banco Sabadell since 2008. Independent director at listed company Red Eléctrica Corporación, S.A., member of the Boards of Trustees of Fundación Banco Sabadell and Fundación de la Asociación Española de Banca.
DAVID VEGARA FIGUERAS	DIRECTOR-GENERAL MANAGER	FINANCIAL / RISKS / ACADEMIC / REGULATORY. A graduate in economics from the Autonomous University of Barcelona, he holds an MA in economics from the London School of Economics. Formerly Secretary of State for the Economy in the Spanish government (2004-2009), and Deputy Managing Director, Banking, in the European Stability Mechanism (2012-2015). Associate professor in the Department of Economics, Finance and Accounting at ESADE (2015-2018). Member of the Supervisory Board of Hellenic Corporation of Assets and Participations, S.A.

Total number of executive directors	4
Percentage of Board	26.67

EXTERNAL PROPRIETARY DIRECTORS		
Name or company name of director	Name or company name of the significant shareholder represented by the director or that nominated the director	Profile
DAVID MARTÍNEZ GUZMÁN	FINTECH EUROPE, S.À.R.L.	BUSINESS / FINANCE / INTERNATIONAL Degree in Electrical & Mechanical Engineering from the National Autonomous University of Mexico, Diploma in Philosophy from Universitas Gregoriana (Italy), and MBA from Harvard Business School. Founder in 1987 of Fintech Advisory, which manages the Fintech Investments Limited fund (New York and London). Director of listed companies Alfa, S.A.B., Vitro, S.A.B. and Cemex, S.A.B.

Total number of proprietary directors	1
Percentage of Board	6.67

EXTERNAL INDEPENDENT DIRECTORS	
Name or company name of director	Profile
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	BANKING / RETAIL & CORPORATE BANKING / BUSINESS. Holds a degree in Economics and Actuarial Science from the University of the Basque Country. Director and General Manager of Allianz-Ercos (1982-1990), General Manager of BBVA Group (1992-2001) and Chairman of Banco Guipuzcoano (2009-2012). Formerly a director of many companies in the energy and construction industries and the media. Proprietary director of listed company ACS, Actividades de la Construcción y Servicios, S.A. and of ACS, Servicios, Comunicaciones y Energía, S.L., both belonging to the same group, director (other external) of listed company Ence, Energía y Celulosa, S.A., and Deputy Chair and Lead independent director of listed company Telefónica, S.A., director of Telefónica Móviles México, S.A. de C.V. and Telefónica Audiovisual Digital, S.L.U., all belonging to the same group. He is also a trustee of Fundación Novia Salcedo.
ANTHONY FRANK ELLIOTT BALL	BUSINESS/INTERNATIONAL. Chartered Engineer; MBA from Kingston Business School, Kingston University (London). Honorary Doctorate from the Kingston University Faculty of Business and Law. Formerly Chairman and CEO of Fox Sports International (1995-1996), CEO of Fox Liberty Networks LLC. (1996-1999), CEO of BSkyB Plc. (1999-2004) and Chairman of Kabel Deutschland GmbH (2005-2013), and independent director of BT Group (2009-2018). Chairman of Ambassadors Theatre Group Ltd and of Bité Group, both part-owned by Providence Equity Partners LLC.
AURORA CATÁ SALA	BUSINESS / CONSULTING / FINANCE / HUMAN RESOURCES. Holds a degree in Industrial Engineering (major in Industrial Organisation) from the Polytechnic University of Catalonia and an MBA and PADE from IESE Barcelona. Formerly CFO of Nissan Motor Ibérica, S.A. (1991-1996), Managing Director of Planeta 2010 (1999-2002), Founder of ContentArena (2002-2003), General Manager of Audiovisual Media at Recoletos Grupo de Comunicación (2003-2008) and member of the Governing Board of Institut Català de Finances (2014). Formerly held a number of directorships. Currently a partner of Seeliger y Conde, S.L., independent director of Atresmedia Corporación de Medios de Comunicación, S.A., Chair of Barcelona Global, and member of the Executive Committee of IESE Alumni.

PEDRO FONTANA GARCIA	BANKING / RETAIL BANKING / BUSINESS. Degree in Business from Escuela Superior de Administración y Dirección de Empresas (ESADE), Barcelona, and MBA from Harvard Graduate School of Business Administration. General Manager of COOB'92 (1990-1993), General Manager of Turisme de Barcelona (1993-1994), Chairman of Banca Catalana (1994-1999), General Manager of BBVA Catalonia (2000-2009), Executive Chairman of AREAS (Elior Group) (2012-2017), Deputy General Manager of Elior Group, S.A. (2017-2018), and nominee of EMESA Corporación Empresarial, S.L. on the board of listed company Elior Group, S.A (2018-2019). Independent director of Grupo Indukern, S.L. and of Pax Equityco, S.à.R.L., President of Asociación para el Progreso de la Dirección - Catalonia Chapter, Member of the Board of Trustees of Fundació Privada Cercle d'Economía and of Fundación Barcelona Mobile World Capital, and a director of Fira Internacional de Barcelona.
MIREYA GINÉ TORRENS	FINANCE / ACADEMIC / GOVERNANCE / DIGITAL & IT (Digital Transformation) Holds a bachelor's degree and an MA (Cum Laude) in economics from Pompeu Fabra University, and a PhD from the University of Barcelona. Director of International Initiatives, Wharton Research Data Services (WRDS) since 2012, and Associated Professor in the Department of Finance at IESE Business School since 2018. Researcher at the European Corporate Governance Institute since 2018, a member of the World Economic Forum's network of experts since 2019, and member of the Center for Economic Policy since 2020. Independent director of Sabadell Asset Management (2018-2020), which is a subsidiary of Banco Sabadell, and Trustee of Fundación Aula Escola Europea.
GEORGE DONALD JOHNSTON III	BANKING / CORPORATE BANKING / INTERNATIONAL. BA in Political Science from Middlebury College, Vermont; MA in International Economics and Latin American Studies from Johns Hopkins University School of Advanced International Studies, Washington DC. Executive Director at Salomon Brothers (1979-1990), Director of Bankers Trust International and member of its Global Executive Committee (1992-1999), Group Head of M&A for Europe and Member of the Europe Executive Committee and of the Global Operating Committee within the investment banking division of Deutsche Bank (1999-2005), Chairman of the M&A Group for Europe at Deutsche Bank (2005-2010). Independent director of listed companies Acerinox, S.A. and Merlin Properties, SOCIMI, S.A.
JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	BUSINESS / INSURANCE / FINANCE / INTERNATIONAL. A Public Works Engineer, he obtained a degree in Economics and Actuarial Science at the University of Madrid. Formerly Chairman of MAPFRE (2001-2012), President of Fundación MAPFRE (2007-2012) and member of the Board of Directors of Consorcio de Compensación de Seguros and the International Insurance Society. Honorary Chairman of MAPFRE.
JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	BANKING / BUSINESS. An architect specialised in urban development, he holds an Executive MBA from IE Business School. Formerly director of Banco Guipuzcoano (1990-2010). Owner and Chairman of an extensive group of companies, he is currently Chairman of Centro Fuencarral, S.A., Comercial del Campo, S.A., Edificios Cameranos, S.A., Inversiete, S.A., Producción y Desarrollo, S.A., Títulos e Inversiones, S.A., and Villa Rosa, S.A.
ALICIA REYES REVUELTA	BANKING / RETAIL & CORPORATE BANKING / FINANCE/ INTERNATIONAL Dual degrees in Law and Business Administration from ICADE, Madrid. PhD in Quantitative Methods and Financial markets from ICADE. Formerly held a number of directorships. Country Manager of Bear Stearns for Iberia (2002-2006), Global Head of Structuring of Financial institutions and Global Head of Insurance Solutions and Strategic Capital Derivatives at Barclays Capital (2010-2014). Partner of Olympo Capital (2014-2015). Independent director (2015-2016), CEO - EMEA (2016-2020) and Acting Chairman (2019) of Wells Fargo Securities International Ltd. Guest lecturer at University College London (UCL) Institute of Finance and Technology, and trustee of NGO Fareshare.

MANUEL VALLS MORATÓ	AUDITOR / FINANCE. Degree in Economics and Business Studies from the University of Barcelona and a post-graduate qualification in Business Administration from IESE/University of Navarra; he is a registered auditor and a member of Spain's official register of auditors since its creation. Partner of PwC (1988-2013), Head of the Audit Division at PwC (2006-2013) and Chairman of PwC Auditores (2006-2011). Independent member of the Governing Board of Institut Català de Finances (2015-2016).Independent director of listed company Renta Corporación Real Estate, S.A. and Chairman of the Audit, Control and Risk Committee at COBEGA.

Total number of independent directors	10
Percentage of Board	66.67

Indicate whether any director classified as independent receives from the company or any company in its group any amount or benefit other than remuneration as a director, or has or has had a business relationship with the company or any company in its group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company that has or has had such a relationship..

If so, include a reasoned statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director..

Name or company name of director	Description of the relationship	Reasoned statement
-----		

OTHER EXTERNAL DIRECTORS			
Identify the other external directors, indicate the reasons why they cannot be considered either proprietary or independent, and detail their ties with the company or its management or shareholders:			
Name or company name of director	Reasons	Company, manager or shareholder to which or to whom the director is related	Profile
-----			

Total number of other external directors	N.A.
Percentage of Board	N.A.

Indicate any changes that have occurred during the period in each director's category::

Name or company name of director	Date of change	Previous category	Current
-------			

C.1.4 Complete the following table with information relating to the number of female directors at the close of the past four years, as well as the category of each:

	Number of female directors				% of total directors for each category			
	Year 2020	Year 2019	Year 2018	Year 2017	Year 2020	Year 2019	Year 2018	Year 2017
Executive	1	1	1		25.00	20.00	25.00	0.00
Proprietary						0.00	0.00	0.00
Independent	3	1	2	2	30.00	12.50	20.00	20.00
Other External		1				100.00	0.00	0.00
Total:	4	3	3	2	26.67	20.00	20.00	13.33

C.1.11 List any directors or representatives of legal-person directors of your company who are members of the Board of Directors or representatives of legal-person directors of other companies listed on regulated markets other than group companies of which the company has been informed:

Name or company name of director	Company name of the listed entity	Position
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	ACS ACTIVIDADES DE CONSTRUCCION Y SERVICIOS, S.A.	DIRECTOR
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	ENCE ENERGÍA Y CELULOSA, S.A.	DIRECTOR
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	TELEFONICA, S.A.	DEPUTY CHAIRMAN
AURORA CATÁ SALA	ATRESMEDIA CORPORACIÓN DE MEDIOS DE COMUNICACIÓN, S.A.	DIRECTOR
MARÍA JOSÉ GARCÍA BEATO	RED ELÉCTRICA CORPORACIÓN, S.A.	DIRECTOR
GEORGE DONALD JOHNSTON III	ACERINOX, S.A.	DIRECTOR
GEORGE DONALD JOHNSTON III	MERLIN PROPERTIES, SOCIMI, S.A.	DIRECTOR
DAVID MARTÍNEZ GUZMÁN	ALFA, S.A.B. DE C.V.	DIRECTOR
DAVID MARTÍNEZ GUZMÁN	CEMEX, S.A.B. DE C.V.	DIRECTOR
DAVID MARTÍNEZ GUZMÁN	VITRO, S.A.B. DE C.V.	DIRECTOR
MANUEL VALLS MORATÓ	RENTA CORPORACION REAL ESTATE, S.A.	DIRECTOR

C.1.12 Indicate whether the company has established rules on the maximum number of company boards on which its directors may sit, explaining if necessary and identifying where this is regulated, if applicable::

[√] Yes
[ ] No

C.1.13 Indicate the amounts of the following items of the overall remuneration for the Board of Directors:

Remuneration accruing in favour of the Board of Directors in the financial year (thousands of euros)	6,779
Amount of pension rights accumulated by directors currently in office (thousands of euros)	37,084
Amount of pension rights accumulated by former directors (thousands of euros)	

C.1.14 Identify members of senior management who are not also executive directors and indicate their total remuneration accrued during the year:

Name or company name	Position(s)
MIQUEL MONTES GÜELL	GENERAL MANAGER
TOMÁS VARELA MUIÑA	GENERAL MANAGER
CARLOS VENTURA SANTAMANS	GENERAL MANAGER
JOSÉ NIETO DE LA CIERVA	GENERAL MANAGER
RAFAEL JOSÉ GARCÍA NAUFFAL	DEPUTY GENERAL MANAGER
JAIME MATAS VALLVERDÚ	DEPUTY GENERAL MANAGER
RAMÓN DE LA RIVA REINA	DEPUTY GENERAL MANAGER
ENRIC ROVIRA MASACHS	DEPUTY GENERAL MANAGER
MANUEL TRESÁNCHEZ MONTANER	DEPUTY GENERAL MANAGER
NURIA LÁZARO RUBIO	ASSISTANT GENERAL MANAGER - HEAD OF INTERNAL AUDIT

Number of women in senior management	1
Percentage of total senior management	7.69

Total remuneration of senior management (thousands of euros)	5,077

C.1.15 Indicate whether the Board regulations were amended during the year:

[ ] Yes
[√] No

C.1,21 Explain whether there are any specific requirements, other than those relating to directors, for being appointed as chairman of the Board of Directors:

[√] Yes
[ ] No

C.1,23 Indicate whether the articles of incorporation or Board regulations establish any term limits for independent directors other than those required by law or any other additional requirements that are stricter than those provided by law:

[ ] Yes
[√] No

C.1.25 Indicate the number of meetings held by the Board of Directors during the year. Also indicate, if applicable, the number of times the Board met without the chairman being present. Meetings where the chairman gave specific proxy instructions are to be counted as attended..

Number of board meetings	19
Number of board meetings held without the chairman's presence	0

Indicate the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings	2

Indicate the number of meetings held by each Board committee during the year:

Number of meetings held by the Delegated Committee	35
Number of meetings held by the Audit and Control Committee	12
Number of meetings held by the Nomination Committee	16
Number of meeting held by the Remuneration Committee	12
Number of meetings held by the Risk Committee	14

C.1.26 Indicate the number of meetings held by the Board of Directors during the year with member attendance data:

Number of meetings in which at least 80% of directors were present in person	19
Attendance in person as a % of total votes during the year	98.15
Number of meetings with attendance in person or proxies given with specific instructions, by all directors	18
Votes cast in person and by proxies with specific instructions, as a % of total votes during the year	99.63

C.1.27 Indicate whether the individual and consolidated financial statements submitted to the Board for issue are certified in advance::

[√] Yes
[ ] No

Identify, if applicable, the person(s) who certified the individual and consolidated financial statements of the company for issue by the Board:

Name	Position
JOSEP OLIU CREUS	CHAIRMAN
JAIME GUARDIOLA ROMOJARO	CHIEF EXECUTIVE OFFICER
TOMÁS VARELA MUIÑA	GENERAL MANAGER— CHIEF FINANCIAL OFFICER

C.1,29 Is the secretary of the Board also a director?

[ ] Yes
[√] No

If the secretary is not a director, complete the following table:

Name or company name of the secretary	Representative
MIQUEL ROCA JUNYENT	

C.1.31 Indicate whether the company changed its external auditor during the year. If so, identify the incoming and outgoing auditors:

[√] Yes
[ ] No

Outgoing auditor	Incoming auditor
PricewaterhouseCoopers, S.L.	KPMG Auditores, S.L.

If there were any disagreements with the outgoing auditor, explain their content::

[ ] Yes
[√] No

C.1.32 Indicate whether the audit firm performs any non-audit work for the company and/or its group and, if so, state the amount of fees it received for such work and express this amount as a percentage of the total fees invoiced to the company and/or its group for audit work:

[√] Yes
[ ] No

	Company	Group companies	Total
Amount invoiced for non-audit services (thousands of euros)	214	5	219
Amount invoiced for non-audit work/Amount for audit work (in %)	10.22	0.09	2.97

C.1.33 Indicate whether the auditors' report on the financial statements for the preceding year contains a qualified opinion or reservations. If so, indicate the reasons given to shareholders at the general meeting by the chairman of the audit committee to explain the content and extent of the qualified opinion or reservations..

[ ] Yes
[√] No

C.1.34 Indicate the number of consecutive years for which the current audit firm has been auditing the company's individual and/or consolidated financial statements. Also, indicate the number of years audited by the current audit firm as a percentage of the total number of years in which the financial statements have been audited:

	Individual	Consolidated
Number of consecutive years	1	1

	Individual	Consolidated
Number of years audited by the current audit firm/number of years in which the company has been audited (in %)	2.50	2.78

C.1.35 Indicate whether there is a procedure for directors to be sure of having the information necessary to prepare the meetings of the governing bodies with sufficient time; provide details if applicable:

[√] Yes
[ ] No

Details of the procedure

The Bank has procedures for providing the directors with the necessary information and material to prepare for meetings of the Board of Directors and its committees in a timely manner.

Article 17.1 of the Board of Directors Regulation establishes that the notice of meeting must always include the agenda, which must contain, among other items, information about subsidiaries and Board committees, and proposals and suggestions by the Chairman and other Board members and the bank's General Managers, to be received no less than five days in advance of the Board meeting; such proposals must be accompanied by the appropriate material for distribution to the directors.

Additionally, article 21 provides that:

1. Directors are vested with the broadest powers to be informed about any aspect of the company, to examine its books, records, documents and other background information on the company's transactions and to inspect all of its installations. The right to information extends to subsidiaries, both domestic and foreign.

2. So as not to disturb the ordinary running of the company, requests by directors for information must be channelled through the Chairman or the Board Secretary, who must attend to the director's requests by giving the information directly, providing appropriate access to individuals at the relevant level of the organisation, or providing the means by which the director may carry out the desired examination and inspection on site.

Banco Sabadell has a procedure for providing the directors with the necessary material to prepare for meetings of the Board of Directors and its committees in a confidential and encrypted way, using the Diligent Boards software running on iPads. Information for Board meetings is circulated to the directors one week in advance, and it is elaborated upon or updated in the boardbook as needed, of which they are duly informed.

C.1.39 Identify individually as regards directors, and in aggregate form in other cases, and provide details of any agreements between the company and its directors, executives or employees containing indemnity or golden parachute clauses in the event of resignation or dismissal without due cause or termination of employment as a result of a takeover bid or any other type of transaction.

Number of beneficiaries	40
Type of beneficiary	Description of the agreement
CHAIRMAN, CEO, DIRECTOR SECRETARY GENERAL, DIRECTOR - CHIEF RISK OFFICER, AND 36 EXECUTIVES	The contracts with the Chairman, CEO and Director Secretary General contain a clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control. The contract with the Director-Chief Risk Officer has a post-contractual non-compete clause for a duration of 2 years from the date of unfair dismissal and some limited cases of change of control, lasting at most until the first date of ordinary retirement, in the amount of two years' fixed remuneration. The contracts with 21 executives have a clause providing indemnity in the amount of 2 years' fixed remuneration for cases of unfair dismissal and some limited cases of change of control. The contracts with 15 executives have a post-contractual non-compete clause for a duration of 2 years from the date of unfair dismissal and some limited cases of change of control, lasting at most until the first date of ordinary retirement, in the amount of two years' fixed remuneration.

Indicate whether, beyond the cases established by legislation, these agreements have to be communicated and/or authorised by the governing bodies of the company or its group. If so, specify the procedures, the cases concerned and the nature of the bodies responsible for their approval or communication:

	Board of Directors	General Shareholder Meeting
Body that authorises the clauses	√	

	Yes	No
Are these clauses notified to the General Shareholders' Meeting?	√	

C.2. Committees of the Board of Directors

C.2.1 Provide details of all committees of the Board of Directors, their members, and the proportion of executive, proprietary, independent and other external directors forming them:

DELEGATED COMMITTEE		
Name	Position	Current
JOSEP OLIU CREUS	CHAIRMAN	Executive
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	MEMBER	Independent
JAIME GUARDIOLA ROMOJARO	MEMBER	Executive
PEDRO FONTANA GARCÍA	MEMBER	Independent

% of executive directors	50.00
% of proprietary directors	0.00
% of independent directors	50.00
% of other external directors	0.00

AUDIT AND CONTROL COMMITTEE		
Name	Position	Current
MANUEL VALLS MORATÓ	CHAIRMAN	Independent
PEDRO FONTANA GARCIA	MEMBER	Independent
MIREYA GINÉ TORRENS	MEMBER	Independent
JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	MEMBER	Independent

% of proprietary directors	0.00
% of independent directors	100.00
% of other external directors	0.00

Identify the directors who are members of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date on which the Chairperson of this committee was appointed.

Names of directors with experience	MANUEL VALLS MORATÓ/PEDRO FONTANA GARCÍA/MIREYA GINÉ TORRENS/JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI
Date of appointment of the chairperson	30/03/2017

APPOINTMENTS COMMITTEE		
Name	Position	Current
JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	CHAIRMAN	Independent
ANTHONY FRANK ELLIOTT BALL	MEMBER	Independent
AURORA CATÁ SALA	MEMBER	Independent

% of proprietary directors	0.00
% of independent directors	100.0
% of other external directors	0.00

REMUNERATION COMMITTEE		
Name	Position	Current
AURORA CATÁ SALA	CHAIRMAN	Independent
ANTHONY FRANK ELLIOTT BALL	MEMBER	Independent
GEORGE DONALD JOHNSTON III	MEMBER	Independent
JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	MEMBER	Independent

% of proprietary directors	0.00
% of independent directors	100.00
% of other external directors	0.00

RISK COMMITTEE		
Name	Position	Current
GEORGE DONALD JOHNSTON III	CHAIRMAN	Independent
AURORA CATÁ SALA	MEMBER	Independent
MANUEL VALLS MORATÓ	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	0.00
% of independent directors	100.00
% of other external directors	0.00

C.2.2 Complete the following table with information regarding the number of female directors who were members of Board committees at the close of the past four years::

	Number of female directors							
	Year 2020		Year 2019		Year 2018		Year 2017	
	Number	%	Number	%	Number	%	Number	%
Delegated Committee	0	0.00	0	0.00	0	0.00	0	0.00
Audit and Control Committee	1	25.00	1	25.00	1	25.00	1	20.00
Appointments Committee	1	33.33	2	50.00	2	50.00	2	66.67
Remuneration Committee	1	25.00	1	25.00	2	50.00	2	50.00
Risk Committee	1	33.33	1	33.33	1	25.00	1	25.00

D. RELATED PARTY AND INTRAGROUP TRANSACTIONS

D.2. Describe any transactions that are significant, either because of the amount involved or the subject matter, entered into between the company or entities within its group and the company's significant shareholders:

Name or company name of significant shareholder	Name or company name of the company or entity within its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
-----				N.A.

D.3. Describe any transactions that are significant, either because of their amount or the subject matter, entered into between the company or entities within its group and directors or managers of the company:

Name or company name of director(s) or manager(s)	Name or company name of the company or entity within its group	Relationship	Nature of the transaction	Amount (thousands of euros)
-----				N.A.

D.4. Report any material transactions carried out by the company with other entities belonging to the same group, provided that these are not eliminated in the consolidation process and do not form part of the company's ordinary business activities in terms of their purpose and conditions.

In any case, report any intragroup transaction conducted with entities established in countries or territories considered as tax havens:

Company name of the entity within the group	Brief description of the transaction	Amount (thousands of euros)
-----		N.A.

D.5. Report any material transactions carried out by the company or entities belonging to its group with other related parties that have not been reported in the previous sections:

Company name of the related party	Brief description of the transaction	Amount (thousands of euros)
-----		N.A.

G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Specify the company's degree of compliance with recommendations of the Good Governance Code for listed companies.

In the event that a recommendation is not followed or only partially followed, a detailed explanation of the reasons must be included so that shareholders, investors and the market in general have enough information to assess the company´s conduct. General explanations are not acceptable.

1. That the articles of incorporation of listed companies should not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of its shares on the market.

   Complies [X]   Explain [ ]

2. That when the listed company is controlled by another entity in the meaning of Article 42 of the Commercial Code, whether listed or not, and has, directly or through its subsidiaries, business relations with said entity or any of its subsidiaries (other than the listed company) or carries out activities related to those of any of them it should make accurate public disclosures on:

   a) The respective areas of activity and possible business relationships between the listed company or its subsidiaries and the parent company or its subsidiaries.

   b) The mechanisms in place to resolve any conflicts of interest that may arise.

   Complies [ ]   Complies partially [ ]   Explain [ ]   Not applicable [X]

3. That, during the ordinary General Shareholders' Meeting, as a complement to the distribution of the written annual corporate governance report, the chairman of the Board of Directors should inform shareholders orally, in sufficient detail, of the most significant aspects of the company's corporate governance, and in particular:

   a) Changes that have occurred since the last General Shareholders' Meeting.

   b) Specific reasons why the company has not followed one or more of the recommendations of the Code of Corporate Governance and the alternative rules applied, if any..

   Complies [ ]   Complies partially [X]   Explain [ ]

   The 2020 General Meeting of Shareholders was held in exceptional circumstances because of the coronavirus pandemic and since the only recommendations in the Code of Good Governance of listed companies that were partially complied with were numbers 34 and 37, and those issues were considered to be sufficiently addressed in the 2019 Annual Report on Corporate Governance, the Chairman of the Board of Directors concentrated his address to the meeting on the measures adopted to tackle the crisis and the main corporate governance issues.

4. That the company should define and promote a policy on communication and contact with shareholders and institutional investors, within the framework of their involvement in the company, and with proxy advisors that complies in all aspects with rules against market abuse and gives equal treatment to similarly situated shareholders. And that the company should publish this policy on its website, including information on how it has been put into practice and identifying the contact persons or those responsible for implementing it..

   And that, without prejudice to the legal obligations regarding dissemination of inside information and other types of regulated information, the company should also have a general policy regarding the communication of economic-financial, non-financial and corporate information through such channels as it may consider appropriate (communication media, social networks or other channels) that helps to maximise the dissemination and quality of information available to the market, investors and other stakeholders.

Complies [X]   Complies partially [ ]   Explain [ ]

5. That the Board of Directors should not submit to the General Shareholders' Meeting any proposal for delegation of powers allowing the issue of shares or convertible securities with the exclusion of preemptive rights in an amount exceeding 20% of the capital at the time of delegation.

   And that whenever the Board of Directors approves any issue of shares or convertible securities with the exclusion of preemptive rights, the company should immediately publish the reports referred to by company law on its website.

   Complies [X]   Complies partially [ ]   Explain [ ]

6. That listed companies that prepare the reports listed below, whether under a legal obligation or voluntarily, should publish them on their website with sufficient time before the General Shareholders' Meeting, even if their publication is not mandatory:

   a) Report on the auditor's independence.

   b) Reports on the workings of the audit and nomination and remuneration committees.

   c) Report by the audit committee on related party transactions.

   Complies [X]   Complies partially [ ]   Explain [ ]

7. That the company should transmit in real time, through its website, the proceedings of the General Shareholders' Meetings.

   And that the company should have mechanisms in place allowing the delegation and casting of votes by means of data transmission and even, in the case of large-caps and to the extent that it is proportionate, attendance and active participation in the General Meeting to be conducted by such remote means.

   Complies [ ]   Complies partially [X]   Explain [ ]

   Banco Sabadell transmits the entire General Meeting of Shareholders live via webcast on the corporate website.

8. That the audit committee should ensure that the financial statements submitted to the General Shareholders' Meeting are prepared in accordance with accounting regulations. And that in cases in which the auditor has included a qualification or reservation in its audit report, the chairman of the audit committee should clearly explain to the general meeting the opinion of the audit committee on its content and scope, making a summary of this opinion available to shareholders at the time when the meeting is called, alongside the other Board proposals and

   Complies [X]   Complies partially [ ]   Explain [ ]

9. That the company should permanently publish on its website the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

   And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

   Complies [X]   Complies partially [ ]   Explain [ ]

10. That when a duly authenticated shareholder has exercised his or her right to complete the agenda or to make new proposals for resolutions in advance of the General Shareholders' Meeting, the company:

a) Should immediately distribute such complementary points and new proposals for resolutions.

b) Should publish the attendance, proxy and remote voting card specimen with the necessary changes such that the new agenda items and alternative proposals can be voted on in the same terms as those proposed by the Board of Directors.

c) Should submits all these points or alternative proposals to a vote and apply the same voting rules to them as to those formulated by the Board of Directors including, in particular, assumptions or default positions regarding votes for or against.

d) That after the General Shareholders' Meeting, a breakdown of the voting on said additions or alternative proposals be communicated.

Complies [X] Complies partially [ ] Explain [ ] Not applicable [ ]

11. That if the company intends to pay premiums for attending the General Shareholders' Meeting, it should establish in advance a general policy on such premiums and this policy should be stable.

Complies [ ] Complies partially [ ] Explain [ ] Not applicable [X]

12. That the Board of Directors should perform its functions with a unity of purpose and independence of criterion, treating all similarly situated shareholders equally and being guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, promoting its continuity and maximising the economic value of the business.

And that in pursuit of the company's interest, in addition to complying with applicable law and rules and conducting itself on the basis of good faith, ethics and a respect for commonly accepted best practices, it should seek to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders that may be affected, as well as the impact of its corporate activities on the communities in which it operates and on the environment.

Complies [X] Complies partially [ ] Explain [ ]

13. That the Board of Directors should be of an appropriate size to perform its duties effectively and in a collegial manner, which makes it advisable for it to have between five and fifteen members.

Complies [X] Explain [ ]

14. That the Board of Directors should approve a policy aimed at favouring an appropriate composition of the Board and that:

a) Is concrete and verifiable;

b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the skills required by the Board of Directors; and

c) Favours diversity of knowledge, experience, age and gender. For these purposes, it is considered that the measures that encourage the company to have a significant number of female senior executives favour gender diversity.

That the result of the prior analysis of the skills required by the Board of Directors be contained in the supporting report from the nomination committee published upon calling the General Shareholders' Meeting to which the ratification, appointment or re-election of each director is submitted.

The nomination committee will annually verify compliance with this policy and explain its findings in the annual corporate governance report.

Complies [X]   Complies partially [ ]   Explain [ ]

15. That proprietary and independent directors should constitute a substantial majority of the Board of Directors and that the number of executive directors be kept to a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

And that the number of female directors should represent at least 40% of the members of the Board of Directors before the end of 2022 and thereafter, and no less 30% prior to that date.

Complies [X]   Complies partially [ ]   Explain [ ]

16. That the number of proprietary directors as a percentage of the total number of non-executive directors not be greater than the proportion of the company's share capital represented by those directors and the rest of the capital.

This criterion may be relaxed:

a) In large-cap companies where very few shareholdings are legally considered significant.

b) In the case of companies where a plurality of shareholders is represented on the Board of Directors without ties among them.

Complies [X]   Explain [ ]

17. That the number of independent directors should represent at least half of the total number of directors.

That, however, when the company does not have a high level of market capitalisation or in the event that it is a large-cap company with one shareholder or a group of shareholders acting in concert who together control more than 30% of the company's share capital, the number of independent directors should represent at least one third of the total number of directors.

Complies [X]   Explain [ ]

18. That companies should publish the following information on its directors on their website, and keep it up to date:

a) Professional profile and biography.

b) Any other Boards to which the directors belong, regardless of whether or not the companies are listed, as well as any other remunerated activities engaged in, regardless of type.

c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.

d) Date of their first appointment as a director of the company's Board of Directors, and any subsequent re-elections.

e) Company shares and share options that they own.

Complies [X]   Complies partially [ ]   Explain [ ]

19. That the annual corporate governance report, after verification by the nomination committee, should explain the reasons for the appointment of any proprietary directors at the proposal of shareholders whose holding is less than 3%. It should also explain, if applicable, why formal requests from shareholders for presence on the Board were not honoured, when their shareholding was equal to or exceeded that of other shareholders whose proposal for proprietary directors was honoured.

Complies [ ]   Complies partially [ ]   Explain [ ]   Not applicable [X]

20. That proprietary directors representing significant shareholders should resign from the Board when the shareholder they represent disposes of its entire shareholding. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors.

Complies [X] Complies partially [ ] Explain [ ] Not applicable [ ]

21. That the Board of Directors should not propose the dismissal of any independent director before the completion of the director's term provided for in the articles of incorporation unless the Board of Directors finds just cause and a prior report has been prepared by the nomination committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties inherent to his or her post as a director, fails to complete the tasks inherent to his or her post, or is affected by any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public takeover bid, merger or other similar corporate transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of application of the proportionate representation criterion provided in Recommendation 16.

Complies [X] Explain [ ]

22. That companies should establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which affect them, whether or not related to their actions in the company itself, and which may harm the company's standing and reputation, and in particular requiring them to inform the Board of any criminal proceedings in which they appear as suspects or defendants, as well as of how the legal proceedings subsequently unfold.

And that, if the Board is informed or becomes aware in any other manner of any of the circumstances mentioned above, it must investigate the case as quickly as possible and, depending on the specific circumstances, decide, based on a report from the nomination and remuneration committee, whether or not any measure must be adopted, such as the opening of an internal investigation, asking the director to resign or proposing that he or she be dismissed. And that these events must be reported in the annual corporate governance report, unless there are any special reasons not to do so, which must also be noted in the minutes. This without prejudice to the information that the company must disseminate, if appropriate, at the time when the corresponding measures are implemented

Complies [X] Complies partially [ ] Explain [ ]

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors..

Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies to the secretary of the Board of Directors, even if he or she is not a director.

Complies [ ] Complies partially [ ] Explain [ ] Not applicable [X]

24. That whenever, due to resignation or resolution of the General Shareholders' Meeting, a director leaves before the completion of his or her term of office, the director should explain the reasons for this decision, or in the case of non-executive directors, their opinion of the reasons for cessation, in a letter addressed to all members of the Board of Directors.

And that, without prejudice to all this being reported in the annual corporate governance report, insofar as it is relevant to investors, the company must publish the cessation as quickly as possible, adequately referring to the reasons or circumstances adduced by the director.

Complies [X] Complies partially [ ] Explain [ ] Not applicable [ ]

25. That the nomination committee should make sure that non-executive directors have sufficient time available in order to properly perform their duties.

And that the Board regulations establish the maximum number of company Boards on which directors may sit..

Complies [X] Complies partially [ ] Explain [ ]

26. That the Board of Directors meet frequently enough to be able to effectively perform its duties, and at least eight times per year, following a schedule of dates and agendas established at the beginning of the year and allowing each director individually to propose other items that do not originally appear on the agenda.

Complies [X] Complies partially [ ] Explain [ ]

27. That director absences occur only when absolutely necessary and be quantified in the annual corporate governance report. And when absences do occur, that the director appoint a proxy with instructions..

Complies [X] Complies partially [ ] Explain [ ]

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes at the request of the director expressing them.

Complies [ ] Complies partially [ ] Explain [ ] Not applicable [X]

29. That the company should establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company’s expense.

Complies [X] Complies partially [ ] Explain [ ]

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances make this advisable.

Complies [X] Explain [ ] Not applicable [ ]

31. That the agenda for meetings should clearly indicate those matters on which the Board of Directors is to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.

When, in exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall be duly recorded in the minutes.

Complies [X] Complies partially [ ] Explain [ ]

32. That directors be periodically informed of changes in shareholding and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies [X] Complies partially [ ] Explain [ ]

33. That the chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out the duties assigned by law and the articles of incorporation, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the

company, should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances make this advisable.

Complies [X] Complies partially [ ] Explain [ ]

34. That when there is a coordinating director, the articles of incorporation or Board regulations should confer upon him or her the following powers in addition to those conferred by law: to chair the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; to reflect the concerns of non-executive directors; to liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and to coordinate a succession plan for the chairman.

Complies [ ] Complies partially [X] Explain [ ] Not applicable [ ]

Article 54 of the Articles of Association and article 8 of the Board of Directors Regulation expressly give the Lead Independent Director the power to convene a meeting of the Board of Directors, add items to the agenda of meetings, coordinate and arrange meetings of the non-executive directors, convey the opinions of the external directors, direct the regular performance review of the Chairman, and chair the Board of Directors in absence of the Chairman and the Deputy Chairman.

35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account such recommendations regarding good governance contained in this Good Governance Code as may be applicable to the company.

Complies [X] Explain [ ]

36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:

a) The quality and efficiency of the Board of Directors' work.

b) The workings and composition of its committees.

c) Diversity in the composition and skills of the Board of Directors.

d) Performance of the chairman of the Board of Directors and of the chief executive officer of the company.

e) Performance and input of each director, paying special attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the nomination committee.

Every three years, the Board of Directors will rely for its evaluation upon the assistance of an external advisor, whose independence shall be verified by the nomination committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group must be specified in the annual corporate governance report.

The process and the areas evaluated must be described in the annual corporate governance report.

Complies [X] Complies partially [ ] Explain [ ]

37. That if there is an executive committee, it must contain at least two non-executive directors, at least one of whom must be independent, and its secretary must be the secretary of the Board.

Complies [ ] Complies partially [X] Explain [ ] Not applicable [ ]

The Secretary of the Delegated Committee is the Deputy Secretary of the Board of Directors.

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.

Complies [X] Complies partially [ ] Explain [ ] Not applicable [ ]

39. That the members of the audit committee, in particular its chairman, be appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, both financial and non-financial.

Complies [X] Complies partially [ ] Explain [ ]

40. That under the supervision of the audit committee, there should be a unit in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive chairman of the Board or of the audit committee.

Complies [X] Complies partially [ ] Explain [ ]

41. That the person in charge of the unit performing the internal audit function should present an annual work plan to the audit committee, for approval by that committee or by the Board, reporting directly on its execution, including any incidents or limitations of scope, the results and monitoring of its recommendations, and present an activity report at the end of each year.

Complies [X] Complies partially [ ] Explain [ ] Not applicable [ ]

42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:

1. With regard to information systems and internal control:

a) Supervising and evaluating the process of preparation and the completeness of the financial and non-financial information, as well as the control and management systems for financial and non-financial risk relating to the company and, if applicable, the group - including operational , technological, legal, social, environmental, political and reputational risk, or risk related to corruption - reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria.

b) Ensuring the independence of the unit charged with the internal audit function; proposing the selection, appointment and dismissal of the head of internal audit; proposing the budget for this service; approving or proposing its orientation and annual work plans for approval by the Board, making sure that its activity is focused primarily on material risks (including reputational risk); receiving periodic information on its activities; and verifying that senior management takes into account the conclusions and recommendations of its reports.

c) Establishing and supervising a mechanism that allows employees and other persons related to the company, such as directors, shareholders, suppliers, contractors or subcontractors, to report any potentially serious irregularities, especially those of a financial or accounting nature, that they observe in the company or its group. This mechanism must guarantee confidentiality and in any case provide for cases in which the communications can be made anonymously, respecting the rights of the whistleblower and the person reported.

d) Generally ensuring that internal control policies and systems are effectively applied in practice.

2. With regard to the external auditor:

a) In the event that the external auditor resigns, examining the circumstances leading to such resignation.

b) Ensuring that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.

c) Making sure that the company informs the CNMV of the change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.

d) Ensuring that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks performed and the development of the company's accounting situation and risks.

e) Ensuring that the company and the external auditor comply with applicable rules regarding the provision of services other than auditing, limits on the concentration of the auditor's business, and, in general, all other rules regarding auditors' independence.

Complies [X] Complies partially [ ] Explain [ ]

43. That the audit committee be able to require the presence of any employee or manager of the company, even stipulating that he or she appear without the presence of any other member of management.

Complies [X] Complies partially [ ] Explain [ ]

44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draw up a prior report to the Board of Directors on the economic conditions and accounting implications and, in particular, any exchange ratio involved.

Complies [X] Complies partially [ ] Explain [ ] Not applicable [ ]

45. That the risk management an control policy identify or determine, as a minimum:

a) The various types of financial and non-financial risks (including operational, technological, legal, social, environmental, political and reputational risks and risks relating to corruption) which the company faces, including among the financial or economic risks contingent liabilities and other off-balance sheet risks.

b) A risk control and management model based on different levels, which will include a specialised risk committee when sector regulations so require or the company considers it to be appropriate.

c) The level of risk that the company considers to be acceptable.

d) Measures in place to mitigate the impact of the risks identified in the event that they should materialise.

e) Internal control and information systems to be used in order to control and manage he aforementioned risks, including contingent liabilities or off-balance sheet risks.

Complies [6] Complies partially [ ] Explain [ ]

46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal risk control and management function should exist, performed by an internal unit or department of the company which is expressly charged with the following responsibilities:

a) Ensuring the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks affecting the company.

b) Actively participating in drawing up the risk strategy and in important decisions regarding risk management.

c) Ensuring that the risk management and control systems adequately mitigate risks as defined by the policy laid down by the Board of Directors.

Complies [X] Complies partially [ ] Explain [ ]

47. That in designating the members of the nomination and remuneration committee – or of the nomination committee and the remuneration committee if they are separate – care be taken to ensure that they have the knowledge, aptitudes and experience appropriate to the functions that they are called upon to perform and that the majority of said members are independent directors.

Complies [X] Complies partially [ ] Explain [ ]

48. That large-cap companies have separate nomination and remuneration committees.

Complies [X] Explain [ ] Not applicable [ ]

49. That the nomination committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director be able to ask the nomination committee to consider potential candidates that he or she considers suitable to fill a vacancy on the Board of Directors.

Complies [X] Complies partially [ ] Explain [ ]

50. That the remuneration committee exercise its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:

a) Proposing the basic conditions of employment for senior management to the Board of Directors.

b) Verifying compliance with the company's remuneration policy.

c) Periodically reviewing the remuneration policy applied to directors and senior managers, including share-based remuneration systems and their application, as well as ensuring that their individual remuneration is proportional to that received by the company's other directors and senior managers.

d) Making sure that potential conflicts of interest do not undermine the independence of external advice given to the committee.

e) Verifying the information on remuneration of directors and senior managers contained in the various corporate documents, including the annual report on director remuneration.

Complies [X] Complies partially [ ] Explain [ ]

51. That the remuneration committee should consult with the chairman and the chief executive of the company, especially on matters relating to executive directors and senior management.

Complies [X] Complies partially [ ] Explain [ ]

52. That the rules regarding the composition and workings of the supervision and control committees should appear in the regulations of the Board of Directors and that they should be consistent with those applying to legally mandatory committees in accordance with the foregoing recommendations, including:

a) That they be composed exclusively of non-executive directors, with a majority of independent directors.

b) That their chairpersons be independent directors.

c) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and require them to render account of their activities and of the work performed in the first plenary session of the Board of Directors held after each committee meeting.

d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.

e) That their meetings be recorded and the minutes be made available to all directors.

Complies [X] Complies partially [ ] Explain [ ] Not applicable [ ]

53. That verification of compliance with the company's policies and rules on environmental, social and corporate governance matters, and with the internal codes of conduct be assigned to one or divided among more than one committee of the Board of Directors, which may be the audit committee, the nomination committee, a specialised committee on sustainability or corporate social responsibility or such other specialised committee as the Board of Directors, in the exercise of its powers of self-organisation, may have decided to create. And that such committee be composed exclusively of non-executive directors, with a majority of these being independent directors, and that the minimum functions indicated in the next recommendation be specifically assigned to it.

Complies [ ] Complies partially [X] Explain [ ]

In accordance with its terms of reference, the remit of the Audit and Control Committee is to assess the sufficiency and fulfilment of the Regulation of the General Meeting of Shareholders, the Regulation of the Board of Directors, the Company's Code of Conduct and, in particular, the Internal Code of Conduct in connection with the Securities Markets, and to assess the degree of compliance with the company's governance rules and oversee the corporate governance report to be adopted by the Board of Directors.

As part of the Sustainability Policy, the Board of Directors has tasked the Appointments Committee with tracking and overseeing the initiatives and procedures related to the Sustainability Policy and the environment, social and governance rules, in accordance with recommendations 53, 54 and 55 of the CNMV's Code of Good Governance of Listed Companies, as revised in June 2020, except for those functions that correspond to the Audit and Control Committee and the Risk Committee in accordance with the Articles of Association, the Regulation of the Board of Directors, the Regulations of those Committees or a policy approved by the Board of Directors.

54. The minimum functions referred to in the foregoing recommendation are the following:

a) Monitoring of compliance with the company’s internal codes of conduct and corporate governance rules, also ensuring that the corporate culture is aligned with its purpose and values.

b) Monitoring the application of the general policy on communication of economic and financial information, non-financial and corporate information and communication with shareholders and investors, proxy advisors and other stakeholders. The manner in which the entity communicates and handles relations with small and medium-sized shareholders must also be monitored.

c) The periodic evaluation and review of the company's corporate governance system, and environmental and social policy, with a view to ensuring that they fulfil their purposes of promoting the interests of society and take account, as appropriate, of the legitimate interests of other stakeholders.

d) Supervision of the company's environmental and social practices to ensure they are in alignment with the established strategy and policy.

e) Supervision and evaluation of the way in which relations with the various stakeholders are handled

Complies [ ] Complies partially [X] Explain [ ]

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55. That environmental and social sustainability policies identify and include at least the following:

a) The principles, commitments, objectives and strategy relating to shareholders, employees, clients, suppliers, social issues, the environment, diversity, tax responsibility, respect for human rights, and the prevention of corruption and other unlawful conduct
b) Means or systems for monitoring compliance with these policies, their associated risks, and management.
c) Mechanisms for supervising non-financial risk, including that relating to ethical aspects and aspects of business conduct.
d) Channels of communication, participation and dialogue with stakeholders.
e) Responsible communication practices that impede the manipulation of data and protect integrity and honour.

Complies [X] Complies partially [ ] Explain [ ]

56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgement of non-executive directors.

Complies [X] Explain [ ]

57. That only executive directors should receive variable remuneration linked to corporate results and personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments referenced to the share price and long-term savings plans such as pension plans, retirement schemes or other provident schemes.

Consideration may be given to delivering shares to non-executive directors as remuneration providing this is conditional upon their holding them until they cease to be directors. The foregoing shall not apply to shares that the director may need to sell in order to meet the costs related to their acquisition.

Complies [X] Complies partially [ ] Explain [ ]

58. That as regards variable remuneration, remuneration policies should incorporate the necessary limits and technical safeguards to ensure that such remuneration is in line with the professional performance of its beneficiaries and not based solely on general developments in the markets or in the sector in which the company operates, or other similar circumstances.

And, in particular, that variable remuneration components:

a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk incurred to achieve a given result.
b) Promote the sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with the company's rules and internal operating procedures and with its risk management and control policies.
c) Are based on balancing the attainment of short-, medium- and long-term objectives, so as to allow remuneration of continuous performance over a period long enough to be able to assess its contribution to the sustainable creation of value, such that the elements used to measure performance are not associated only with one-off, occasional or extraordinary events.

Complies [X]   Complies partially [ ]   Explain [ ]   Not applicable [ ]

59. That the payment of variable remuneration components be subject to sufficient verification that previously established performance or other conditions have effectively been met. Entities must include in their annual report on director remuneration the criteria for the time required and methods used for this verification depending on the nature and characteristics of each variable component.

That, additionally, companies consider the inclusion of a reduction ('malus') clause for the deferral of the payment of a portion of variable remuneration components that would imply their total or partial loss if an event were to occur prior to the payment date that would make this advisable.

Complies [X]   Complies partially [ ]   Explain [ ]   Not applicable [ ]

60. That remuneration related to company results should take into account any reservations that might appear in the external auditor’s report and that would diminish said results.

Complies [X]   Complies partially [ ]   Explain [ ]   Not applicable [ ]

61. That a material portion of executive directors' variable remuneration be linked to the delivery of shares or financial instruments referenced to the share price.

Complies [X]   Complies partially [ ]   Explain [ ]   Not applicable [ ]

62. That once shares or options or financial instruments have been allocated under remuneration schemes, executive directors be prohibited from transferring ownership or exercising options or rights until a term of at least three years has elapsed.

An exception is made in cases where the director has, at the time of the transfer or exercise of options or rights, a net economic exposure to changes in the share price for a market value equivalent to at least twice the amount of his or her fixed annual remuneration through the ownership of shares, options or other financial instruments.

The forgoing shall not apply to shares that the director may need to sell in order to meet the costs related to their acquisition or, following a favourable assessment by the nomination and remuneration committee, to deal with such extraordinary situations as may arise and so require.

Complies [X]   Complies partially [ ]   Explain [ ]   Not applicable [ ]

63. That contractual arrangements should include a clause allowing the company to demand reimbursement of the variable remuneration components in the event that payment was not in accordance with the performance conditions or when payment was made based on data subsequently shown to have been inaccurate.

Complies [X] Complies partially [ ] Explain [ ] Not applicable [ ]

64. That payments for contract termination should not exceed an amount equivalent to two years of total annual remuneration and should not be paid until the company has been able to verify that the director has fulfilled all previously established criteria or conditions for payment.

For the purposes of this recommendation, payments for contractual termination will be considered to include any payments the accrual of which or the obligation to pay which arises as a consequence of or on the occasion of the termination of the contractual relationship between the director and the company, including amounts not previously vested of long-term savings schemes and amounts paid by virtue of post-contractual non-competition agreements.

Complies [X] Complies partially [ ] Explain [ ] Not applicable [ ]

Indicate whether any director voted against or abstained from approving this report

[ ] Yes
[√] No

I declare that the details include in this statistical annex coincide and are consistent with the descriptions and details included in the annual corporate governance report published by the Company.

Banco de Sabadell, S.A.

Auditor's Report on the "Internal Control over Financial Reporting (ICOFR) Information" of Banco de Sabadell, S.A. for 2020

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
Torre Realia
Plaça d'Europa, 41-43
08908 L'Hospitalet de Llobregat
(Barcelona)

Auditor's Report on the "Internal Control over Financial Reporting (ICOFR) Information" of Banco de Sabadell, S.A. for 2020

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the directors of Banco de Sabadell, S.A.,

As requested by the board of directors of Banco de Sabadell, S.A. (the "Company") and in accordance with our proposal letter dated 3 November 2020, we have applied certain procedures to the "ICOFR information" attached hereto in section F of the Annual Corporate Governance Report (ACGR) of Banco de Sabadell, S.A. for 2020, which summarises the Entity's internal control procedures for annual financial reporting.

The Board of Directors is responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and oversight of an adequate system of internal control, the development of improvements to that system and the preparation and definition of the content of the information concerning the ICOFR attached.

In this respect, it should be borne in mind that irrespective of the quality of the design and operation of the internal control system adopted by the Entity in relation to annual financial reporting, the system may only provide reasonable, but not absolute assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.

In the course of our audit work on the annual accounts and in accordance with Technical Auditing Standards, our evaluation of the Entity's internal control was solely aimed at enabling us to establish the scope, nature and timing of the audit procedures on the Entity's annual accounts. Consequently, the scope of our evaluation of internal control, performed for the purposes of the audit of accounts, was not sufficient to enable us to issue a specific opinion on the effectiveness of this internal control over regulated annual financial reporting.

For the purposes of issuing this report, we have applied only the specific procedures described below and set out in the Guidelines for preparing the auditor's report on the information on the system of internal control over financial reporting of listed companies, published on the website of the Spanish National Securities Market Commission (CNMV), which define the work to be performed, the minimum scope thereof and the content of this report. As the scope of the work resulting from these procedures is in any event limited and substantially less than that of an audit or review of the internal control system, we do not express an opinion on its effectiveness or design or operational efficiency, with respect to the Entity's annual financial reporting for 2020 described in the attached Information concerning the ICOFR. Consequently, had additional procedures been applied other than those established in the aforementioned Guidelines, or had an audit or a review been performed of the internal control system in relation to regulated annual financial reporting, other events or matters could have been identified, which would have been reported to you.

As this special work did not constitute an audit of accounts and is not subject to current legislation regulating the audit of accounts in Spain, we do not express an audit opinion under the terms provided in such legislation.

The procedures applied were as follows:

1. Reading and understanding of the information prepared by the entity regarding ICOFR – disclosures included in the directors' report – and an evaluation of whether this information meets all the minimum reporting requirements, taking into account the minimum content described in section F, on the description of ICOFR, of the ACGR template provided in the Spanish National Securities Market Commission (CNMV) Circular 5/2013 of 12 June 2013 and subsequent amendments, the most recent being CNMV Circular 1/2020 of 6 October 2020 (hereinafter the CNMV Circulars).

2. Inquiries of the personnel responsible for drawing up the information detailed in point 1 above in order to: (i) gain an understanding of the preparation process; (ii) obtain information that allows us to assess whether the terminology used conforms to the definitions contained in the reference framework; (iii) obtain information on whether the control procedures described are in place and operational in the entity.

3. Review of explanatory documentation supporting the information detailed in point 1 above, and which will mainly include that made directly available to those responsible for preparing the descriptive information on ICOFR. This documentation includes reports prepared by internal audit, senior management and other internal or external specialists supporting the Audit Committee.

4. Comparison of the information detailed in point 1 above with the understanding of the Entity's ICOFR gained as a result of the procedures performed within the framework of the audit work on the annual accounts.

5. Reading of the minutes of the meetings of the board of directors, Audit and Control Committee and other committees of the entity for the purposes of assessing the consistency of the matters discussed at these meetings in relation to ICOFR with the information detailed in point 1 above.

6. Procurement of a representation letter concerning the work performed, duly signed by those responsible for preparing and drawing up the information detailed in point 1 above.

As a result of the procedures applied to the ICOFR information, no inconsistencies or incidents have been detected that could affect it.

This report has been prepared exclusively within the context of the requirements laid down in article 540 of the Revised Spanish Companies Act and in the CNMV Circulars for the purposes of the description of ICOFR in annual corporate governance reports.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Francisco Gibert
Partner
4 February 2021