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 today by telematics means at the registered office, by written notice dated 11 February 2022, attended by the Chairman José Oliu Creus and directors Pedro Fontana García, César González-Bueno Mayer Wittgenstein, Anthony Frank Elliott Ball, Aurora Catá Sala, Luis Deulofeu Fuguet, María José García Beato, Mireia Giné Torrens, David Martínez Guzmán, José Manuel Martínez Martínez, José Ramón Martínez Sufrategui, Alicia Reyes Revuelta, Manuel Valls Morató y David Vegara Figueras, with justified absence of George Donald Johnston who delegates the vote to Manuel Valls Morató, with the undersigned acting as Secretary, the following resolutions were 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 2021, 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 resolutions were 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 17 February 2022.

Approved by

The Chairman

The Secretary

Auditor's Report on Banco de Sabadell, S.A.

(Together with the annual accounts and directors' report of Banco de Sabadell, S.A. for the year ended 31 December 2021)

(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 Annual Accounts

(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.

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Banco de Sabadell, S.A. (the "Bank"), which comprise the balance sheet at 31 December 2021, and the income statement, statement of recognised income and expense, statement of total changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Bank at 31 December 2021, 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 annual accounts) 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 Annual Accounts* section of our report.

We are independent of the Bank in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the annual accounts 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.

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Paseo de la Castellana, 259C 28046 Madrid

On the Spanish Official Register of Auditors ("ROAC") with No. S0702, and the Spanish Institute of Registered Auditors' list of companies with No. 10.
Reg. Mer Madrid, T. 11.961, F. 90, Sec. 8, H. M -188.007, Inscrip. 9
N.I.F. B-78510153

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts 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 customers

See notes 1.3, 3.1, 3.4.2 and 10 to the annual accounts

Key audit matter	*How the matter was addressed in our audit*
The Bank's portfolio of loans and advances to customers reflects a net balance of Euros 112,994 million at 31 December 2021, while allowances and provisions recognised at that date for impairment total Euros 5,525 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 Bank, establishing this classification is a relevant process inasmuch as the calculation of allowances and provisions for credit risk varies depending on the category in which the financial asset has been included. Impairment is calculated based on an expected loss model, which the Bank 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 allowances and provisions consider estimates of future business performance and the market value of collateral provided for credit transactions.	Our audit approach in relation to the Bank's estimate of impairment of loans and advances to customers due to credit risk mainly consisted of assessing the methodology applied to calculate expected losses, particularly as regards the methods and assumptions used to estimate exposure at default, probability of default and loss given default; determining the future macroeconomic scenarios. We also assessed the mathematical accuracy of the expected loss calculations and the reliability of the data used. To this end, we brought in 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 Bank's accounting policies with the applicable regulations. – Evaluating the appropriate classification of the loans and advances to customers portfolio based on their credit risk, in accordance with the criteria defined by the Bank, particularly the criteria for identifying and classifying refinancing and restructuring transactions. – Assessing the relevant controls relating to the monitoring of transactions. – Evaluating whether the internal models for estimating both individual and collective allowances and provisions for expected losses, and for the management and valuation of collateral, are functioning correctly. – 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 customers See notes 1.3, 3.1, 3.4.2 and 10 to the annual accounts	
Key audit matter	*How the matter was addressed in our audit*
In the case of collective allowances and provisions, 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 Bank 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 continues to affect the economy and business activities of the countries where the Bank operates. To mitigate the impacts of COVID-19, in 2021 governments of different countries have continued to launch initiatives to support the most affected sectors and customers through various measures relating to the provision of State-backed credit facilities, penalty-free payment deferrals (moratoriums) and flexible financing and liquidity facilities. All these aspects have an impact on the parameters considered by the Bank at 31 December 2021 to quantify the expected losses on financial assets (macroeconomic variables, customer net revenues, value of collateral pledged, probability of default, etc.), thus increasing the uncertainty associated with their estimation. The consideration of this matter as a key audit matter is based both on the significance for the Bank of the loans and advances to customers portfolio, and thus of the related allowance and provision, as well as on the relevance of the process for classifying these financial assets for the purpose of estimating impairment thereon and the subjectivity and complexity of calculating expected losses, while also taking into consideration the situation brought about 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 Bank. 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 Bank, 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 Bank. – Assessing the methods and assumptions used to estimate exposure at default, probability of default and loss given default. – 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 losses. To this end, we brought in our corporate business valuation specialists to assess the macroeconomic scenario variables used by the Bank in its internal models to estimate the expected loss. Likewise, we analysed whether the disclosures in the notes to the annual accounts were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Bank.

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

Risks associated with information technology	
Key audit matter	*How the matter was addressed in our audit*
The Bank 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 Bank's financial and accounting information, 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.	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 appropriate processing of the financial information. • Testing of the key automated processes that are involved in generating the financial information. • Testing of the controls over 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 controls over the operation, maintenance and development of applications and systems.

Other Information: Directors' Report

Other information solely comprises the 2021 directors' report, the preparation of which is the responsibility of the Bank's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts 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 and the Annual Report on Directors' Remuneration, 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 annual accounts, based on knowledge of the Bank obtained during the audit of the aforementioned annual accounts. 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.

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

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 annual accounts for 2021, and that the content and presentation of the report are in accordance with applicable legislation.

Responsibilities of the Bank's Directors' and the Audit and Control Committee for the Annual Accounts

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

In preparing the annual accounts, the Directors are responsible for assessing the Bank'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 Bank's Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Bank's Audit and Control Committee is responsible for overseeing the preparation and presentation of the annual accounts.

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

Auditor's Responsibilities for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts 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 the economic decisions of users taken on the basis of these annual accounts.

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 annual accounts, 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Directors.
- Conclude on the appropriateness of the Bank's 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 Bank'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 annual accounts 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Bank'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 Bank'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 Bank, we determine those that were of most significance in the audit of the annual accounts 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 2021 in European Single Electronic Format (ESEF) comprising an XHTML file with the annual accounts for the aforementioned year, which will form part of the annual financial report.

The Directors of Banco de Sabadell, S.A. are responsible for the presentation of the 2021 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 Directors of the Bank, 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 annual accounts included in the aforementioned digital file fully corresponds to the annual accounts we have audited, and whether the annual accounts 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 annual accounts, and these are presented, in all material respects, in accordance with the requirements of the ESEF Regulation.

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

Additional Report to the Bank's Audit and Control Committee

The opinion expressed in this report is consistent with our additional report to the Bank's Audit and Control Committee dated 16 February 2022.

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 after the year ended 31 December 2020.

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

(Signed on the original in Spanish)

Francisco Gibert Pibernat
On the Spanish Official Register of Auditors ("ROAC") with No. 15,586
17 February 2022

BANCO DE SABADELL, S.A.

Annual financial statements and Directors' Report for the year ended 31 December 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-IFRS). In the event of a discrepancy the Spanish-language version prevails.

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Annual report for the year ended 31 December 2021

Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2021 and 2020

Thousand euro

Assets	Note	2021	2020 (*)
Cash, cash balances at central banks and other demand deposits (**)	**6**	**42,305,858**	**28,723,571**
Financial assets held for trading		**1,765,884**	**2,434,831**
Derivatives	9	1,175,511	2,147,113
Equity instruments		—	—
Debt securities	7	590,373	287,718
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		*106,791*	*15,792*
Non-trading financial assets mandatorily at fair value through profit or loss		**76,832**	**70,236**
Equity instruments	8	14,582	12,516
Debt securities	7	62,250	57,720
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		**5,856,546**	**5,066,571**
Equity instruments	8	64,568	56,126
Debt securities	7	5,791,978	5,010,445
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		*1,530,351*	*1,091,719*
Financial assets at amortised cost		**133,047,125**	**137,243,172**
Debt securities	7	12,176,675	16,171,219
Loans and advances	10	120,870,450	121,071,953
Central banks		—	—
Credit institutions		7,876,763	8,845,708
Customers		112,993,687	112,226,245
Memorandum item: loaned or pledged as security with sale or pledging rights		*3,554,788*	*4,950,813*
Derivatives – Hedge accounting	**11**	**240,921**	**393,702**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**126,152**	**369,688**
Investments in subsidiaries, joint ventures and associates	**13**	**5,358,076**	**5,557,864**
Group entities		5,237,576	5,231,504
Associates		120,500	326,360
Tangible assets	**14**	**1,837,094**	**2,049,405**
Property, plant and equipment		1,762,166	1,980,720
For own use		1,762,166	1,980,720
Leased out under operating leases		—	—
Investment properties		74,928	68,685
Of which: leased out under operating leases		*74,928*	*68,524*
Memorandum item: acquired through finance leases		*786,344*	*893,375*
Intangible assets	**15**	**48,840**	**102,101**
Goodwill		36,854	73,378
Other intangible assets		11,986	28,723
Tax assets		**5,485,221**	**5,534,245**
Current tax assets		219,403	430,106
Deferred tax assets	35	5,265,818	5,104,139
Other assets	**16**	**267,876**	**424,291**
Insurance contracts linked to pensions		116,453	133,757
Inventories		—	—
Rest of other assets		151,423	290,534
Non-current assets and disposal groups classified as held for sale	**12**	**771,395**	**939,343**
TOTAL ASSETS		**197,187,820**	**188,909,020**

(*) 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 2021.

Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2021 and 2020

Thousand euro

Liabilities	Note	2021	2020 (*)
Financial liabilities held for trading		**1,189,494**	**2,316,140**
Derivatives	9	1,132,832	2,100,210
Short positions		56,662	215,930
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		**182,745,169**	**172,930,575**
Deposits		159,650,268	151,240,358
Central banks	17	31,702,700	28,467,532
Credit institutions	17	8,170,430	9,451,176
Customers	18	119,777,138	113,321,650
Debt securities issued	19	18,831,284	18,218,817
Other financial liabilities	20	4,263,617	3,471,400
Memorandum item: subordinated liabilities		*4,243,768*	*2,487,926*
Derivatives – Hedge accounting	**11**	**354,769**	**521,384**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**95,139**	**241,550**
Provisions	**21**	**840,139**	**1,024,950**
Pensions and other post employment defined benefit obligations		79,575	94,463
Other long term employee benefits		297	1,228
Pending legal issues and tax litigation		76,841	114,089
Commitments and guarantees given		277,888	421,572
Other provisions		405,538	393,598
Tax liabilities		**135,055**	**144,609**
Current tax liabilities		62,479	26,451
Deferred tax liabilities	35	72,576	118,158
Share capital repayable on demand		**—**	**—**
Other liabilities		**524,808**	**633,390**
Liabilities included in disposal groups classified as held for sale		**—**	**—**
TOTAL LIABILITIES		**185,884,573**	**177,812,598**

(*) 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 2021.

Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2021 and 2020

Thousand euro

Equity	Note	2021	2020 (*)
Shareholders' equity	**22**	**11,371,203**	**11,140,285**
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		9,663	8,755
Retained earnings		4,486,020	4,402,722
Revaluation reserves		—	—
Other reserves		(2,021,071)	(1,930,114)
(-) Treasury shares		(34,419)	(37,457)
Profit or loss for the year		328,412	93,781
(-) Interim dividends		—	—
Accumulated other comprehensive income	**23**	**(67,956)**	**(43,863)**
Items that will not be reclassified to profit or loss		(74,402)	(83,433)
Actuarial gains or (-) losses on defined benefit pension plans		(179)	173
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		(74,223)	(83,606)
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		6,446	39,570
Hedge of net investments in foreign operations [effective portion]		(2,915)	13,392
Foreign currency translation		44,138	(29,673)
Hedging derivatives. Cash flow hedges reserve [effective portion]		(20,235)	70,959
Fair value changes of debt instruments measured at fair value through other comprehensive income		(14,542)	(15,108)
Hedging instruments [not designated elements]		—	—
Non-current assets and disposal groups classified as held for sale		—	—
TOTAL EQUITY		**11,303,247**	**11,096,422**
TOTAL EQUITY AND TOTAL LIABILITIES		**197,187,820**	**188,909,020**
Memorandum item: off-balance sheet exposures			
Loan commitments given	**24**	**21,078,872**	**23,214,810**
Financial guarantees provided	**24**	**8,966,917**	**2,404,071**
Other commitments provided	**24**	**7,425,425**	**7,617,470**

(*) 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 2021.

Income statements of Banco de Sabadell, S.A.

For the years ended 31 December 2021 and 2020

Thousand euro

	Note	2021	2020 (*)
Interest income	26	2,822,930	3,007,650
Financial assets at fair value through other comprehensive income		48,872	36,560
Financial assets at amortised cost		2,369,585	2,587,757
Other interest income		404,473	383,333
(Interest expenses)	26	(641,558)	(740,717)
(Expenses on share capital repayable on demand)		—	—
Net interest income		**2,181,372**	**2,266,933**
Dividend income		72,568	59,205
Fee and commission income	27	1,447,682	1,279,947
(Fee and commission expenses)	27	(165,503)	(136,426)
Gains or (-) losses on financial assets and liabilities, net	28	171,015	1,217,692
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		331,246	761,882
Financial assets at amortised cost		323,928	728,213
Other financial assets and liabilities		7,318	33,669
Gains or (-) losses on financial assets and liabilities held for trading, net		(162,522)	461,983
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		(162,522)	461,983
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		4,521	(8,999)
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		4,521	(8,999)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		—	—
Gains or (-) losses from hedge accounting, net		(2,230)	2,826
Exchange differences [gain or (-) loss], net		184,214	(421,156)
Other operating income		53,042	74,587
(Other operating expenses)	29	(289,181)	(320,219)
Gross income		**3,655,209**	**4,020,563**

(*) 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 2021.

Income statements of Banco de Sabadell, S.A.

For the years ended 31 December 2021 and 2020

Thousand euro

	Note	2021	2020 (*)
(Administrative expenses)		(2,066,063)	(2,096,881)
(Staff expenses)	30	(1,292,430)	(1,345,424)
(Other administrative expenses)	30	(773,633)	(751,457)
(Depreciation and amortisation)	14, 15	(218,687)	(247,487)
(Provisions or (-) reversal of provisions)	21	(196,830)	27,404
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	31	(844,018)	(1,825,114)
(Financial assets at fair value through other comprehensive income)		701	308
(Financial assets at amortised cost)		(844,719)	(1,825,422)
Profit/(loss) on operating activities		**329,611**	**(121,515)**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)		(54,438)	(48,513)
(Impairment or (-) reversal of impairment on non-financial assets)	32	(53,417)	(170)
(Tangible assets)		(53,417)	(170)
(Intangible assets)		—	—
(Other)		—	—
Gains or (-) losses on derecognition of non-financial assets, net	33	102,933	5,430
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	52,565	174,915
Profit or (-) loss before tax from continuing operations		**377,254**	**10,147**
(Tax expense or (-) income related to profit or loss from continuing operations)	35	(48,842)	83,634
Profit or (-) loss after tax from continuing operations		**328,412**	**93,781**
Profit or (-) loss after tax from discontinued operations		—	—
Profit or loss for the year		**328,412**	**93,781**

(*) 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 2021.

Statements of recognised income and expenses of Banco de Sabadell, S.A.

For the years ended 31 December 2021 and 2020

Thousand euro

	Note	2021	2020 (*)
Profit or loss for the year		**328,412**	**93,781**
Other comprehensive income	**23**	**(24,093)**	**(102,107)**
Items that will not be reclassified to profit or loss		9,032	(17,258)
Actuarial gains or (-) losses on defined benefit pension plans		(503)	2,753
Non-current assets and disposal groups held for sale		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income		5,105	(15,740)
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		—	—
Other valuation adjustments			
Income tax relating to items that will not be reclassified		4,430	(4,271)
Items that may be reclassified to profit or loss		(33,125)	(84,849)
Hedge of net investments in foreign operations [effective portion]		(16,307)	13,614
Valuation gains or (-) losses taken to equity		(16,307)	13,614
Transferred to profit or loss		—	—
Other reclassifications		—	
Foreign currency translation		73,810	(76,250)
Translation gains or (-) losses taken to equity		73,810	(76,250)
Transferred to profit or loss		—	—
Other reclassifications		—	
Cash flow hedges (effective portion)		(130,277)	(36,432)
Valuation gains or (-) losses taken to equity		(265,074)	94,501
Transferred to profit or loss		134,799	(131,655)
Transferred to initial carrying amount of hedged items		(2)	722
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		2,728	3,875
Valuation gains or (-) losses taken to equity		8,313	37,645
Transferred to profit or loss		(5,585)	(33,770)
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		36,921	10,344
Total comprehensive income for the year		**304,319**	**(8,326)**

(*) Shown for comparative purposes only.

Explanatory notes 1 to 39 and the accompanying Schedules I to VII form an integral part of the statement of recognised income and expenses for 2021.

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

For the years ended 31 December 2021 and 2020

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
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**
Effects of corrections of errors	—	—	—	—	—	—	—	—	—	—	—	—
Effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
Opening balance 01/01/2021	**703,371**	**7,899,227**	**—**	**8,755**	**4,402,722**	**—**	**(1,930,114)**	**(37,457)**	**93,781**	**—**	**(43,863)**	**11,096,422**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**328,412**	**—**	**(24,093)**	**304,319**
Other changes in equity	**—**	**—**	**—**	**908**	**83,298**	**—**	**(90,957)**	**3,038**	**(93,781)**	**—**	**—**	**(97,494)**
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)	—	—	—	—	—	—	—	—	—	—	—	**—**
Purchase of treasury shares	—	—	—	—	—	—	—	(63,960)	—	—	—	**(63,960)**
Sale or cancellation of treasury shares	—	—	—	—	—	—	1,416	66,998	—	—	—	**68,414**
Reclassification of financial instruments from equity to liability	—	—	—	—	—	—	—	—	—	—	—	**—**
Reclassification of financial instruments from liability to equity	—	—	—	—	—	—	—	—	—	—	—	**—**
Transfers among components of equity	—	—	—	—	93,781	—	—	—	(93,781)	—	—	**—**
Equity increase or (-) decrease resulting from business combinations	—	—	—	—	—	—	—	—	—	—	—	**—**
Share based payments	—	—	—	2,613	—	—	—	—	—	—	—	**2,613**
Other increase or (-) decrease in equity	—	—	—	(1,705)	(10,483)	—	(92,373)	—	—	—	—	**(104,561)**
Closing balance 31/12/2021	**703,371**	**7,899,227**	**—**	**9,663**	**4,486,020**	**—**	**(2,021,071)**	**(34,419)**	**328,412**	**—**	**(67,956)**	**11,303,247**

Explanatory notes 1 to 39 and the accompanying Schedules I to VII form an integral part of the statement of total changes in equity for 2021.

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

For the years ended 31 December 2021 and 2020

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
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**
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**

Shown for comparative purposes only.

Explanatory notes 1 to 39 and the accompanying Schedules I to VII form an integral part of the statement of total changes in equity for 2021.

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

For the years ended 31 December 2021 and 2020

Thousand euro

	Note	2021	2020 (*)
Cash flows from operating activities		**11,413,847**	**19,784,723**
Profit or loss for the period		328,412	93,781
Adjustments to obtain cash flows from operating activities		1,363,219	1,841,120
Depreciation and amortisation		218,687	247,487
Other adjustments		1,144,532	1,593,633
Net increase/decrease in operating assets		3,738,945	6,880,597
Financial assets held for trading		668,947	(131,381)
Non-trading financial assets mandatorily at fair value through profit or loss		(6,596)	48,928
Financial assets designated at fair value through profit or loss		—	—
Financial assets at fair value through other comprehensive income		(779,324)	337,058
Financial assets at amortised cost		3,279,024	7,128,324
Other operating assets		576,894	(502,332)
Net increase/decrease in operating liabilities		5,892,275	10,999,261
Financial liabilities held for trading		(1,126,646)	(247,194)
Financial liabilities designated at fair value through profit or loss		—	—
Financial liabilities at amortised cost		8,064,595	10,635,423
Other operating liabilities		(1,045,674)	611,032
Income tax receipts or payments		90,996	(30,036)
Cash flows from investing activities		**580,190**	**555,351**
Payments		(119,926)	(182,118)
Tangible assets	14	(112,282)	(140,148)
Intangible assets	15	(6,131)	(10,857)
Investments in joint ventures and associates	13	(1,187)	—
Other business units	13	(326)	(31,113)
Non-current assets and liabilities classified as held for sale		—	—
Other payments related to investing activities			—
Collections		700,116	737,469
Tangible assets	14, 33	101,357	798
Intangible assets		—	—
Investments in joint ventures and associates	13	68,693	53,257
Other business units	13	155,709	41,297
Non-current assets and liabilities classified as held for sale		374,357	642,117
Other collections related to investing 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 2021.

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

For the years ended 31 December 2021 and 2020

Thousand euro

	Note	2021	2020 (*)
Cash flows from financing activities		**1,567,594**	**(429,199)**
Payments		(250,822)	(845,335)
Dividends		—	(112,539)
Subordinated liabilities		—	(424,600)
Amortisation of own equity instruments		—	—
Acquisition of own equity instruments		(63,961)	(145,055)
Other payments related to financing activities		(186,861)	(163,141)
Collections		1,818,416	416,136
Subordinated liabilities		1,750,000	300,000
Issuance of own equity instruments		—	—
Disposal of own equity instruments		68,416	116,136
Other collections related to financing activities		—	—
Effect of exchange rate fluctuations		**20,656**	**20,200**
Net increase (decrease) in cash and cash equivalents		**13,582,287**	**19,931,075**
Cash and cash equivalents at the beginning of the year	**6**	**28,723,571**	**8,792,496**
Cash and cash equivalents at the end of the year	**6**	**42,305,858**	**28,723,571**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Cash	6	584,211	567,987
Cash equivalents in central banks	6	41,423,202	27,946,361
Other demand deposits	6	298,445	209,223
Other financial assets		—	—
Less: bank overdrafts repayable on demand		—	—
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**42,305,858**	**28,723,571**

(*) 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 2021.

Annual report of Banco Sabadell, S.A. for the year ended 31 December 2021

Note 1 – Activity, accounting policies and practices

1.1 Activity

Banco de Sabadell, S.A. (hereinafter, also referred to as Banco Sabadell, the Bank, the Institution, 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 of entities (see Note 13 and Schedule I) 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, changes in accounting regulations, and impacts arising from COVID-19

The Bank's annual financial statements for the year ended 31 December 2021 have been prepared in accordance with that set forth in Bank of Spain Circular 4/2017, of 27 November (hereinafter, "Circular 4/2017"), as well as other provisions of the financial reporting regulations applicable to the Bank, and considering the formatting requirements established in Commission Delegated Regulation EU 2019/815, in order to fairly present the equity and financial situation as at 31 December 2021 and the results of its operations, recognised income and expenses, changes in equity and cash flows in 2021. The aforesaid Circular 4/2017 constitutes the implementation and adaptation to Spanish credit institutions of the 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 2021 have been signed off by the directors of Banco Sabadell at a meeting of the Board of Directors on 17 February 2022 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

	2021	2020
Total assets	251,946,591	235,763,292
Shareholders' equity	13,356,905	12,943,594
Income from financial activities	6,254,920	6,698,763
Profit or loss attributable to owners of the parent	530,238	2,002

Adoption of Bank of Spain Circular 6/2021

The fundamental purpose of this Circular is to preserve the convergence of Spanish accounting legislation for financial institutions with the framework of EU-IFRS, FINREP and the Guidelines of the European Banking Authority (EBA), and to update the tables of alternative solutions for collective allowance estimates of credit losses and the discounts applied to the reference value of assets foreclosed or received in settlement of debt, as well as the statistical data requirements of the Economic and Monetary Union (EMU), and to partially modify the requirements of detailed standalone financial statements (those that need to be filed with the regulator and that are more detailed than those published).

This Circular adapts accounting criteria relating to Phase 2 of the interest rate benchmark reform (hereinafter, the "IBOR" reform) of the EU-IFRS. The Phase 2 amendments are intended to address the problems that affect financial information when changes are made to the cash flows of financial instruments or hedging relationships as a result of the IBOR reform. A summary of the main new features is set out below:

- Variations in the basis for determining contractual cash flows of a financial asset or a financial liability required by interest rate benchmark reform processes will be dealt with, when determining the amortised cost, as though they were a periodic update of future payments of interest on a floating-rate instrument. This way, the aforesaid variations will give rise to an updated effective interest rate without generally having a material impact on the carrying amount.

- The Institution may modify the designation and documentation of a hedging relationship in order to reflect the changes required by the interest rate benchmark reform. The designation of a hedge will only be modified to make one or more of the following changes: to designate an alternative benchmark rate as the hedged risk, to modify the identification of the hedged item, to modify the identification of the hedging instrument, or to modify the way in which the Institution will evaluate hedge effectiveness.

- Variations in the basis for determining lease payments required by the interest rate benchmark reform will be dealt with by the lessee as though they were a periodic update of future amounts due on variable lease payments that depend on an interest rate benchmark.

On the other hand, a series of changes have been introduced in the criteria for reclassifying restructured, refinanced or refinancing transactions from the category of doubtful (stage 3) exposures to a different category, in order to keep those criteria in line with those reflected in the detailed standalone financial statements. These changes have been applied since 31 December 2021.

Most hedging relationships in the Bank are based on Euribor, which has not been replaced but has simply been modified in terms of its calculation methodology and, as such, the entry into force of this Circular has not had a significant impact on these hedging relationships. Similarly, the remaining criteria established by this Circular and adopted by the Bank in 2021 have not had any significant impact on its financial statements.

Furthermore, the tables of alternative solutions for collective allowance estimates and discounts applied to the reference value of assets foreclosed or received in settlement of debt have been updated. The Bank will apply the new tables from 30 June 2022 onwards, and does not expect the impact of this update on the financial statements to be significant.

Impacts arising from COVID-19

The public health emergency triggered by COVID-19 in March 2020 continued into the start of 2021. During the first half of the year, the main markets in which the Group operates experienced a third wave of COVID-19 infections, causing them to tighten containment measures. Subsequent to this, although the epidemiological situation was generally brought under control for a good part of the second half of the year thanks to the progress of vaccination programmes, the surge of the new, more infectious Omicron variant in November and December once again threatened to overwhelm hospitals and resulted in the reintroduction of certain containment measures, whose impact and duration remains to be seen in 2022.

In the face of this situation, throughout 2021 some of the measures implemented in the previous year to cushion the impact of this crisis remained in place, while other measures were introduced in order to steer the economy towards recovery.

Statutory and sector moratoria

Royal Decree-Law 3/2021, of 2 February, extended the deadline for applying for legislative and non-legislative moratoria to 30 March 2021, stipulating that they would apply for a total period of no longer than 9 months, including any length of time during which they had already been in effect. With this amendment, the moratoria were brought in line with the new date set in the revised Guidelines on Moratoria issued in December 2020 by the European Banking Authority.

Regarding sector moratoria, in 2020, Banco Sabadell signed up to the moratorium promoted by the Spanish Banking Association (Asociación Española de Banca, or AEB), while its subsidiary Sabadell Consumer Finance S.A.U. signed up in that same year to the moratorium promoted by the National Association of Financial Credit Institutions (Asociación Nacional de Establecimientos Financieros de Crédito, or ASNEF). Both of these sector moratoria were initially planned to remain in effect until September 2020, but they were subsequently renewed following the publication of the EBA Guidelines, extending the application deadline to 30 March 2021 and 31 March 2021, respectively, under the same terms as those provided in the aforesaid Guidelines.

ICO COVID-19 guarantee line

Following Royal Decree-Law 8/2020, of 17 March, which approved a government guarantee line for companies and self-employed persons of up to 100 billion euros (of which more than 92.5 billion euros had already been mobilised as at 31 December 2021), Royal Decree-Law 25/2020, of 3 July, approved a new ICO government guarantee line for companies and self-employed persons of up to 40 billion euros, whose final tranche was approved by the Council of Ministers' Resolution of 28 May 2021. The full guaranteed amount of this new line amounted to almost 10.5 billion euros as at 31 December 2021.

Similarly, in March 2021, Royal Decree-Law 5/2021 was approved, mobilising 11 billion euros of direct aid for companies, support for the restructuring of balance sheets and recapitalisations.

This aid was aimed at viable businesses in the sectors hardest hit by the pandemic, in order to channel funds to the overall economy and reduce the risk of over-indebtedness, which could hamper economic recovery. These measures include more flexible criteria for government-guaranteed loans, thus enabling the ICO to be involved in any refinancing or restructuring arrangements agreed between banks and their customers.

Similarly, with the approval of this Royal Decree-Law 5/2021, the deadline for applying for all guarantees was extended to 31 December 2021. Lastly, on 24 November 2021, Royal Decree-Law 27/2021 was published, which further extended the deadline for applying for these guarantees by another 6 months, i.e. to 30 June 2022, in line with the extension of the European Union State Aid Temporary Framework.

Code of Good Practice

On 11 May 2021, the Council of Ministers adopted a Resolution approving the Code of Good Practice for renegotiations with customers of the guaranteed loans envisaged in Royal Decree-Law 5/2021, of 12 March, on extraordinary business solvency support measures in response to the COVID-19 pandemic.

This Code of Good Practice provides three main options available to debtors meeting a series of specific conditions in order to deal with the economic difficulties resulting from COVID-19: maturity extensions (which they could initially apply for until 15 October 2021), conversion of debt into participating loans (which they could also initially apply for until 15 October 2021), and debt reductions (which could initially be executed until 1 December 2022).

Lastly, on 1 December 2021, the Resolution dated 30 November 2021 of the *Secretaría de Estado de Economía y Apoyo a la Empresa* (State Secretariat for Economic Affairs and Support for Businesses) was published in the Official State Gazette (BOE). This Resolution once again extends the deadlines for applying for maturity extensions and conversions of debt into participating loans to 1 June 2022 and the deadline for applying for debt reductions to 1 June 2023, thus bringing the deadlines in line with the new thresholds established in the EU Temporary Framework following its amendment.

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

Details of the impact, if any, of COVID-19 on 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 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 accounting classification of financial assets according to their credit risk (see Notes 1.3.3, 7 and 10).
- Impairment losses on certain financial assets (see Notes 1.3.3, 7 and 10).
- The assumptions used in actuarial calculations of liabilities and post-employment obligations (see Notes 1.3.16 and 21).
- The measurement 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 measurement 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 are 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 applied in preparing these annual financial statements, are described below. There are no cases in which accounting principles or measurement criteria have not been applied because of a significant effect on the Bank's annual financial statements for 2021.

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 entities subject to joint control agreements whereby decisions on significant activities are made unanimously by all of the entities which share control, and where rights to their net assets are held. The Bank has not held investments in joint ventures in 2021 and 2020.

Associates are entities over which the Bank exerts 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 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.

The Bank considers the following indicators, among others, 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 of 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 value of the allowances for the impairment of interests held in 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 carrying amount will 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 the companies' profit/loss, pooling them into activity sectors (real estate, renewable energy, industrial, financial, etc.) and evaluating the macroeconomic factors specific to that sector which could affect the performance of those 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 carrying amount 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 the performance of supervisory activities, are circumstances that could affect the ability of these institutions to transfer funds in the form of cash, dividends, loans or advances.

Note 13 includes information on the most significant acquisitions and disposals that have taken place during the year. Significant disclosures regarding the Group's companies are provided in Schedule I.

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 issuance. 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 measurements occurring subsequent to initial recognition for reasons other than those mentioned above are treated according to the classification of financial assets and financial liabilities for the purposes of their measurement which, in general, is based on the following aspects:

- The business model for managing the financial assets, and
- The contractual cash flow characteristics of the financial assets.

Business model

A business model refers to the way in which financial assets are managed in order to generate cash flows. The business model is determined by considering the way in which groups of financial assets are managed together 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 here below:

- Business model whose objective is to hold financial assets in order to collect contractual cash flows: under this model, financial assets are managed in order to collect their particular contractual cash flows, rather than to obtain an overall return 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.
- Business model whose objective is to sell financial assets.
- Business model that combines the two objectives above (hold financial assets in order to collect contractual cash flows and sell 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.

Contractual cash flow characteristics of the financial assets

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

- Those whose contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount 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 the credit risk associated with the principal amount outstanding during a particular period of time, plus a profit margin.

If a financial asset contains contractual terms that could change the timing or amount of cash flows, the Group will estimate the cash flows that could arise before and after the change and determine whether these are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The most significant judgements used in this evaluation are indicated here below:

- Modified time value of money: in order to determine whether the interest rate of a transaction incorporates any consideration other than that linked to the passage of time, transactions that present a difference between the tenor of the benchmark interest rate and the reset frequency of that interest rate are analysed, considering a tolerance threshold, in order to determine whether the instrument's contractual (undiscounted) cash flows could be significantly different from the contractual (undiscounted) benchmark cash flows of a financial instrument whose time value of money element was not modified. At present, tolerance thresholds of 10% and 5%, respectively, are used for the differences in each tenor and for the analysis of cumulative cash flows over the life of the financial asset.

- Contractual terms that change the timing or amount of cash flows: an analysis is carried out to determine whether any contractual terms exist that could change the timing or amount of contractual cash flows from the financial asset:

  - Clauses for conversion to equity shares: clauses that include a conversion-to-equity option and the loss of the right to claim contractual cash flows in the event the principal amount is reduced due to insufficient funds. Contracts that include this option will automatically fail the SPPI test.

  - Existence of the option to prepay or extend the financial instrument, or extend the contractual term, and possible residual compensation: a financial asset will fulfil the SPPI test requirements if it includes a contractual option that permits the issuer (or debtor) to prepay a debt instrument or to put back a debt instrument before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest outstanding, which may include reasonable additional compensation for the early termination of the contract.

  - Other clauses that could change the timing or amount of cash flows: clauses that could alter contractual cash flows as a result of changes in credit risk are considered to pass the SPPI test.

- Leverage: financial assets with leverage (i.e. those in which the contractual cash flow variability increases, such that they do not have the same economic features as the interest rate on the principal amount of the transaction) fail the SPPI test.

- Contractually linked financial instruments: the cash flows arising from these types of financial instruments are considered to consist solely of payments of principal and interest on the principal amount outstanding provided that:

  - the contractual terms of the tranche being assessed for classification (without looking through to the underlying pool of financial instruments) give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding;

  - the underlying pool of financial instruments comprises instruments whose contractual cash flows are solely payments of principal and interest on the principal amount outstanding; and

  - the exposure to credit risk corresponding to the tranche being assessed is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments.

- Non-recourse financial assets: in the case of debt instruments that are primarily repaid with cash flows from specified assets or projects and for which there is no personal liability for the holder, an assessment is made of the underlying assets or cash flows to determine whether the contractual cash flows of the instrument are payments of principal and interest on the principal amount outstanding.

For cases in which a financial asset characteristic is inconsistent with a basic lending arrangement (i.e. if one of the asset's characteristics gives rise to contractual cash flows other than payments of principal and interest on the principal amount outstanding), the significance and probability of occurrence is assessed to determine whether that characteristic should be taken into account in the SPPI test:

- To determine the significance of a financial asset characteristic, the impact that it could have on contractual cash flows is estimated. The impact is not considered significant (de minimis effect) if it is estimated that the change in expected cash flows will be below the tolerance thresholds indicated previously.

- If an instrument's characteristic could have a significant effect on the contractual cash flows but would only affect the instrument's contractual cash flows upon occurrence of an event that is very unlikely to occur, that characteristic will not be taken into account to determine whether the contractual cash flows of the instrument are solely payments of principal and interest on the capital amount outstanding.

Portfolios of financial instruments classified for the purpose of their measurement

Financial assets and financial liabilities are classified, for the purpose of their measurement, 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 managed with a business model whose objective is to hold financial assets in order to collect contractual cash flows, and

- Their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount 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 offsetting 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 expected life of the instrument, 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 coincides with the rate of return in respect of all applicable concepts until the date of the first scheduled benchmark rate revision.

Financial assets at fair value through other comprehensive income

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

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

- The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount 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 classified 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 practically 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.
- 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 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. 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.

No reclassifications have been made in 2021 and 2020 between the portfolios in which financial assets are recognised for the purpose of their measurement.

Financial liabilities held for trading

Financial liabilities held for trading include financial liabilities that have been issued for the purpose of repurchasing 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 measured at amortised cost

Financial liabilities measured at amortised cost are financial liabilities that cannot be classified into any of the above categories and which relate to the typical deposit-taking activity of a financial institution, irrespective of their substance 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 measurement 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 accounted for separately if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, if a different financial instrument with the same conditions as those of the embedded derivative would qualify as a derivative instrument, and if the entire hybrid contract is not designated at fair value through profit or loss.

Most of the hybrid financial instruments issued by the Bank are instruments whose payments of principal and/or interest are indexed to specific equity instruments (generally, shares of listed companies), to a basket of shares, to stock market indices (such as IBEX and NYSE), or to a basket of stock market indices.

The fair value of the Bank's financial instruments as at 31 December 2021 and 2020 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 executed, due to the materialisation of credit risk.
- In the case of off-balance sheet exposures that carry 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 cannot be recovered.

1.3.3.1 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 section "Definition of classification categories" in this note), accrued interest 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.

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 granting, assessing and arranging debt instruments and off-balance sheet exposures, when identifying their possible impairment and, where applicable, when calculating the amounts necessary to cover these expected losses.

1.3.3.1.1 Accounting classification on the basis of credit risk attributable to insolvency

The Bank has established criteria that allow credit transactions 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, into the following stages:

- Stage 1: standard exposures, i.e. transactions whose risk profile has not changed since they were granted and for which there are no doubts as to the fulfilment of repayment commitments in accordance with the contractually agreed terms.

- Stage 2: standard exposures under special monitoring, i.e. transactions which, although they do not meet the criteria to be classified individually as stage 3 or write-offs, show significant increases in credit risk (SICR) since initial approval. In this regard, the Bank does not make use of the low credit risk exemption envisaged in Circular 4/2017 for its portfolio of loans and advances. According to this exemption, if an entity considers that a financial instrument has low credit risk at the reporting date, it can assume that there has not been any significant increase in credit risk since initial recognition. This category includes, among other transactions, those in which there are amounts more than 30 days past due, with the exception of non-recourse factoring, for which a threshold of more than 60 days is applied (32 million euros as at 31 December 2021), as well as refinanced and restructured transactions not recognised as stage 3 until they are classified into a lower risk category once they meet the established requirements for modifying their classification.

  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 were classified as standard exposures under special monitoring (stage 2), due to the existence of amounts more than 30 days past due, will be reclassified into the category of standard exposures (stage 1) after passing a 3-month probation period, depending on the likelihood of them re-entering the stage 2 category. Transactions that were classified as standard exposures under special monitoring (stage 2) due to significant increases in credit risk will be subject to a 3-month probation period when they

are customers who have been given a negative rating/score by internal customer monitoring tools. Similarly, transactions that were classified in this category after passing a 3-month probation period in the 'doubtful for reasons other than borrower arrears' category (stage 3), will be reclassified to the standard exposures category (stage 1) once they have completed an additional 9-month probation period in stage 2.

– Stage 3: doubtful or non-performing exposures are transactions for which there are reasonable doubts as to their repayment in full in accordance with the contractually agreed terms. This category 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 Group is likely but whose recovery is doubtful.

  - As a result of borrower arrears: all transactions, without exception, with any amount of principal, interest or contractually agreed expenses more than 90 days past due, unless they should be classified as write-offs. This category also includes debt transactions and guarantees given classified as non-performing due to the pulling effect (more than 20% of the exposures of one obligor are more than 90 days past due).

  - For reasons other than borrower arrears: transactions which do not meet the conditions for classification as write-offs or stage 3 as a result of borrower arrears, 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 Group is likely but whose recovery is doubtful. This category includes transactions that were classified as stage 3 due to arrears, which will be maintained, for a 3-month probation period, in the stage 3 category for reasons other than borrower arrears.

  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 considered 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 arrears 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. This 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 with portions that 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 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 a 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 cumulative changes in lifetime expected credit losses since initial recognition. Interest income on these assets will be calculated by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset.

Extent of alignment between the stage 3 accounting category and the prudential definition of default

The prudential definition of default adopted by the Bank bases materiality thresholds and the counting of days past due on regulatory technical standard EBA/RTS/2016/06 and all other conditions on guidelines EBA/GL/2016/07.

In general, contracts that are considered impaired from an accounting standpoint are also considered impaired for prudential purposes. The exception to this are contracts that are impaired by reason of the accounting definition of default but whose past-due amounts are equal to or below a materiality threshold (exposures of 100 euros for the retail segment and of 500 euros for the non-retail segment, and where 1% of the total exposures are past-due for both cases).

Notwithstanding the foregoing, the prudential definition is generally more conservative than the accounting definition. The key differing aspects are set out hereafter:

- Under the prudential definition, the number of days in default are counted from the moment the first past-due amount goes above the materiality threshold. The counting cannot be restarted or reduced until the borrower has paid all past-due amounts or until the past-due amounts fall back below the materiality thresholds. Under the accounting definition, a FIFO criterion can be applied to past-due amounts when there have been partial repayments, enabling the number of days past due to be reduced for that reason.

- Under the prudential definition, a 3-month probation period exists for all amounts in default, while a 12-month probation period is used for amounts in default classified as refinancing. Under the accounting definition, the 3-month period applies only to amounts classified as stage 3 as a result of borrower arrears, while the 12-month period applies only to amounts classified as stage 3 that correspond to refinancing.

- In terms of unlikely-to-pay amounts in default (for reasons other than borrower arrears), there are explicit criteria defined at the prudential level, which are additional to those applied at the accounting level.

Transaction classification criteria

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

- Automatic criteria;

- Specific criteria for refinancing; and

- Criteria based on indicators (triggers).

The automatic factors and specific classification criteria for refinancing make up what the Institution refers to as 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 different triggers for 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 reclassification as stages 2 or 3 are assessed by means of a process the objective of which is to identify any significant increases in credit risk since the transaction was first approved and which could result in losses greater than those incurred on other similar transactions classified as stage 1. For significant borrowers, on the other hand, there is an automated system of triggers in place that generates a series of alerts, which serve to indicate, during a borrower's assessment, that a decision needs to be made with regard to their classification.

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 a significance threshold in terms of exposure, which is used to classify certain borrowers as significant, meaning that their risks need to be assessed individually.

The thresholds at the customer level used to classify borrowers as significant have been set at 10 million euros for customers classified in stage 1 and at 3 million euros for customers classified in stages 2 or 3. These thresholds comprise amounts drawn, amounts available and guarantees.

Exposures of more than 1 million euros of borrowers within the Top 10 main risk groups classified in stage 3, identified on an annual basis, are also considered individually. Exceptionally, and with the sole purpose of classifying and more precisely impairing transactions, borrowers whose exposures are not above the significance threshold but who nevertheless belong to a group in which the individual assessment of its components is based on consolidated data may also be assessed individually.

To assess significant borrowers' transactions, a system of triggers, or indicators, is established. These triggers identify any significant increase in credit risk, as well as any signs of impairment.

A team of expert risk analysts carries out the individual assessment of borrowers, reviewing each transaction and assigning it the corresponding accounting classification.

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".

The system of triggers for significant borrowers is automated and takes into account the particular characteristics of segments that perform differently within the loan portfolio. In any event, the system of triggers does not automatically or individually classify borrowers. Instead, it serves to indicate, during a borrower's assessment, that a decision needs to be made with regard to their classification. The aspects that the system of triggers aims to identify are listed here below:

– A significant increase in credit risk or an impairment event, considering 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. Examples of stage 2 and stage 3 triggers:

Stage 2 triggers:

- Adverse changes in the financial situation, such as a significant increase in debt levels, or sharp drops in turnover.
- Adverse changes in the economy or market indicators, such as a significant fall in share prices or a reduction in the price of debt issues.
- 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.
- 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 equity 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.

– Breach of contract, non-payments 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, non-payments or delayed payments 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. Non-payments declared in other credit institutions in the financial system are also considered in the assessment.

– Borrowers experiencing financial difficulties are granted concessions or advantages 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 or obligors is ostensibly affected, which could give rise to a loss event depending on the impact on future cash flows pending collection.

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.

Collective assessment

For borrowers who have been classified below the significant borrower threshold and who, in addition, have not been classified as stages 2 or 3 by the automatic classification algorithm, the Bank has defined a process to identify transactions that show a significant increase in credit risk compared to when the transaction was approved, and which could give rise to greater 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 probability of default (PD) term structure and, therefore, the residual lifetime PD of a contract (or the PD from a given moment in time up to the maturity of the transaction), 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 under the conditions that existed at the time the transaction was approved (or originated), or under the conditions existing at the time the provision is calculated. Therefore, the current 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 the annualised residual lifetime PD, which is a criterion for classification as stage 2, have been calibrated using historical data in order to maximise risk discrimination (default rate) among borrowers and/or transactions classified as stage 1 and 2. These thresholds are not fixed, rather, they act as a non-linear function that depends on the level of annualised residual lifetime PD at origination, requiring higher relative increases if the PD is low. This type of function is deemed adequate and has the best discriminatory power.

This criterion is applied to the main portfolios in Spain (individuals with mortgages or consumer loans, and companies). More specifically, a contract is classified as stage 2 if the following is true in relation to the two PDs:

$$PD_{current} > (PD_{upon\ approval})^{1-\beta}$$

where *beta* is a parameter between 0 and 1 calibrated using historical data.

For the less material portfolios in Spain, the multiplier between lifetime PD upon approval and current lifetime PD is used as a metric to identify any significant increase in credit risk and classify exposures as stage 2.

In any case, as a general criterion additional to those described above, applicable to all portfolios in Spain, all borrowers/transactions whose multiplier of current annualised residual lifetime PD relative to PD upon approval is greater than 3 and whose current annualised residual lifetime PD is over 2% are reclassified as stage 2.

The average multiplier of current PD relative to PD upon approval that has resulted in a risk being reclassified from stage 1 to stage 2 has ranged between 2.3 and 3 in 2021 (1.95 and 2.95 in 2020), depending on the portfolio to which each risk was assigned.

Refinancing and restructuring transactions

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 transactions, which should be understood as follows:

- Refinancing transaction: refinancing is approved or used for economic or legal reasons related to a borrower's current or foreseeable financial difficulties in order to terminate one or more transactions approved 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 the manner agreed.

- Restructured transaction: restructuring involves modifying the financial terms of a transaction for economic or legal reasons related to 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 honour their payment obligations in good time and in the manner agreed, even when that modification is already provided for in the contract. In any case, transactions whose terms are modified 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, are all considered restructured transactions, unless it can be proven that the terms are being modified for reasons other than borrowers' financial difficulties and that the modified terms are equivalent to the terms that would be applied by other institutions in the market for similar risks.

If a transaction is classified in 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. Reclassification into a lower risk category will only be considered if evidence exists of a continuous and significant improvement in the recovery of the debt over time; therefore, the act of refinancing does not in itself produce any immediate improvements.

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

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

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

- The borrower has paid the instalments of principal and interest accumulated since the date of the refinancing or restructuring or, if later, since the date of reclassification to 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.

- At least 12 months have passed since the grace period fully came to an end.
- The debt of both the contract and the borrower's exposures has been reduced by at least 5% compared to the debt that existed prior to refinancing, and where that figure is greater, at least, than the unpaid refinanced amount.

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

- 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 refinancing, refinanced or restructured transaction is reclassified as stage 2.
- At least 12 months have passed since the grace period fully came to an end.
- The debt of both the contract and the borrower's exposures has been reduced by at least 3% compared to the debt that existed prior to refinancing, and where that figure is greater, at least, than the unpaid refinanced amount.

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 arrears, when payments are, in general, over 90 days past due, or for reasons other than borrower arrears, when there are reasonable doubts as to their recoverability).

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 greater than the estimated loss on a transaction with no history of non-payment, unless sufficient additional effective guarantees are provided 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 finance 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 insofar as there have been no doubts as to the repayment of the obligations and provided no significant increase in credit risk has 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 finance 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 until the grace period and the probation period have both come to an end, at which time they are classified according to the Institution's general classification rules.

Due to the macroeconomic situation caused by COVID-19, the criteria for classifying credit exposures according to their credit risk have been modified. 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.

The new criteria applied in the Bank for reclassifications to stage 2 are described hereafter:

- Transactions to which a legislative moratorium has been applied in Spain have been classified as stage 2 where they had amounts more than 10 days past due or where their borrowers were unemployed and/or furloughed, or where they were assessed as being higher risk by internal customer monitoring tools.
- Company contracts identified as being blocked from the point of view of credit risk management.
- All transactions whose borrowers showed signs of financial difficulties, even when they were granted during the pandemic to help deal with the situation generated by the crisis, are tagged as refinancing.

– Incorporation of a sectoral adjustment: increase of PD for certain sectors, reclassifying transactions of borrowers that showed a significant increase in credit risk on applying this sectoral adjustment, or that were considered to be in the special monitoring category in the internal customer monitoring tool as a result of the application of this sectoral adjustment, due to an increase in their PD and because their liquidity needs were expected to continue.

In the stage 3 category, the new criteria applied mainly stem from the establishment of a 3-month cure period for transactions with amounts more than 90 days past due and from the enhanced monitoring of significant borrowers who are assessed individually.

Given the types of measures adopted and described above, their effect will be transitory, lasting for the duration of the situation that has given rise to the classification into the stage 2 or stage 3 categories.

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 have been applied are not identified as restructuring or refinancing unless they have been tagged as such or if signs that they would be difficult to recover had already emerged prior to the outbreak of the pandemic.

In terms of ICO-guaranteed loans, the status of transactions granted to the borrower prior to the start of the COVID crisis is taken into account in order to determine the classification of the guaranteed loan on the basis of its credit risk and whether it should be tagged 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. Similarly, 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.

1.3.3.1.2 Credit loss 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 to which it expects to be exposed when a loan defaults.

  The exposure metrics considered by the Bank in order to cover this value are the currently drawn balances and the estimated amounts that it expects to disburse in the event its off-balance sheet exposures enter into default, by applying a Credit Conversion Factor (CCF).

– PD (Probability of Default): estimation of the probability that a borrower will default 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 practically 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 debtors' probability of default are behavioural credit scores that monitor credit risk in the case of individuals, and early warning indicators and credit ratings in the case of companies:

  - Credit ratings (for companies): 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 model estimates the risk rating in the medium term, based on qualitative information provided by risk analysts, financial statements and other relevant information. 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 actual default patterns. 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 transaction approval process (system of discretions), risk monitoring and pricing policies.

- Early warnings tool, known as HAT (for companies): HAT gives a score that estimates the risk of a company defaulting in the near term, determined based on a variety of information (balances, non-payments, information from CIRBE (Spain's central credit register), external credit bureaux, etc.). HAT aims to capture the short-term risk of a company. The scores that it gives are very sensitive to changes in a company's status or behaviour and are therefore updated on a daily basis.

- 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, identifying the relevant predictive factors. 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 all customers using information regarding their activity based on their financial situation (balances, activity, non-payments), their personal characteristics and the features of 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 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 carrying amount of the financial asset or to the amortised cost of the financial liability.

– Multiple scenarios: in order to estimate expected losses, the Group applies different scenarios to identify the effect of the non-linearity of losses. To this end, the provisions required are estimated in the different scenarios for which a probability of occurrence has been defined. Specifically, the Group has considered three macroeconomic scenarios: one baseline scenario, the most likely of all (60%), and two alternative scenarios: alternative scenario 1, which considers a swift, worldwide eradication of the pandemic and productivity gains (15%), and alternative scenario 2, which envisages further outbreaks 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.

  In 2020, the Group considered three macroeconomic scenarios, with the same weights and macroeconomic variables as in *2021.*

  Baseline scenario

  - The pandemic remains under control in advanced economies, where concern about the spread of the virus, previously paramount, starts to decline. Unlike the global financial crisis, the COVID-19 crisis does not produce major structural losses of GDP.

- The rate of global economic growth remains high for a time, but slows down as unemployment levels drop. The bottlenecks that had affected activity in 2021 begin to be resolved in 2022 and are greatly reduced in 2023. By then, the pandemic has also receded in emerging economies, demand has shifted towards service activities and supply has increased.

- High levels of inflation are transitory, converging towards central bank targets, while agents' inflation expectations continue to be firmly anchored. Nevertheless, inflation persistently remains slightly above pre-COVID levels, with a balance of risks that is clearly tilted to the upside.

- In terms of economic policy, stimulus measures are withdrawn gradually, keeping pace with fiscal and monetary policies. In Europe, the tax framework review enables the pursuit of more social and inclusive criteria rather than the de facto application of austerity measures.

- The main central banks make progress with their exit strategies. The rate hike cycle is slower than on previous occasions, slightly higher rates of inflation are tolerated, and aspects such as the recovery of full employment and financial stability are prioritised.

- With regard to the Spanish economy, its good performance largely rests on domestic demand. The labour market performs well, with falling unemployment rates, while the real estate sector benefits from benign financing conditions.

- In relation to financial markets, long-term government bond yields plunge substantially below fundamentals due to central bank interventions. Sovereign debt risk premiums in the European periphery remain at contained levels.

- The US dollar, in its currency pair with the euro, faces depreciation pressure as global economic recovery takes hold and against a backdrop of high deficits (both public and external) in the United States.

- As regards Brexit, the scenario envisages a situation in which the United Kingdom and the European Union continue to implement pragmatic solutions to the agreements.

Alternative scenario 1: Swift, worldwide eradication of the pandemic and productivity gains

- The pandemic is left behind relatively quickly thanks to the efficacy of vaccines and their distribution across the globe.

- Economies have greater potential to grow despite adverse demographic dynamics. Global economic growth is robust and synchronised, thanks to productivity gains stemming from a more digitised and sustainable economy.

- These productivity gains allow increased growth to become compatible with the absence of inflationary pressure. Inflation remains close to the levels targeted in the monetary policy of the respective central banks.

- Stimulus measures introduced to overcome the crisis are withdrawn gradually, albeit at a faster pace than in the baseline scenario, in both the monetary and fiscal domains.

- Global financing conditions remain lax, with no significant episodes of risk aversion.

- The macroeconomic and financial environment allows risk premiums on both peripheral debt and corporate bonds to remain contained.

- In Spain, the economy particularly benefits from the full resumption of activity, given the importance of the sectors most affected by COVID. The funds from Next Generation EU are seamlessly absorbed and used efficiently.

Alternative scenario 2: Further outbreaks of the pandemic in 2022

- New outbreaks of the pandemic take place, linked to the emergence of more vaccine-resistant mutations of the virus. This requires restrictions to be reintroduced, affecting both the movement of people and certain close contact activities.

- Economic recovery comes to a halt and some sectors, such as tourism and catering, are once again particularly hard hit. The difficulty in eradicating the pandemic fuels the uncertainty and cautionary attitude of economic players, which further weighs down consumption and investment. The environment of economic contraction spreads across the globe.
- Weakened domestic demand brings inflation back down to low levels, requiring the accommodative response of economic policy to be maintained and intensified. The environment of zero or negative interest rates endures.
- In financial markets, the backdrop of uncertainty and economic downturn that exists in 2022 generates a complicated market environment, with tightening financial conditions and dwindling risk asset prices.
- Government bond yields fall below historic lows and risk premiums on peripheral government bonds increase. This increase is exacerbated by further deterioration of fiscal metrics but is mitigated by the actions taken by the ECB.
- In Spain, the economic importance of the sectors most vulnerable to outbreaks heightens the impact on activity. Solvency problems in companies cause structural damage to part of the economy's productive fabric, despite the stimulus of Next Generation EU.

As at 31 December 2021, the main forecast variables considered for Spain are as follows:

%

	31/12/2021				
	2022	**2023**	**2024**	**2025**	**2026**
GDP growth					
Baseline scenario	6.3	3.3	2.7	2.2	2.0
Alternative scenario 1	7.8	4.5	3.6	2.7	2.4
Alternative scenario 2	3.4	1.9	1.8	1.5	1.4
Unemployment rate					
Baseline scenario	14.1	12.9	12.0	11.6	11.4
Alternative scenario 1	12.5	10.6	9.5	8.7	8.0
Alternative scenario 2	16.9	16.5	15.5	14.6	14.0
House price growth (*)					
Baseline scenario	3.8	3.8	3.5	3.2	3.2
Alternative scenario 1	5.7	4.8	4.0	3.8	3.6
Alternative scenario 2	-0.5	0.6	1.8	2.0	2.4

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

As at 31 December 2020, the main forecast variables considered for Spain were as follows:

%

	31/12/2020				
	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.

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 a default event has occurred. 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).

Similarly, the internal model for calculating impairment losses has been designed in such a way as to require the allowance to be automatically increased in situations where an increase in PD is detected, but where that increase is not significant enough to require a reclassification into a different stage.

12-month expected credit losses are defined as:

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

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:

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

Where:

EADi is the exposure at default for each year, taking into account both the entry into default and the (agreed) amortisation, 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 estimates” 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 the borrower in question and, on the other hand, country risk.

The Bank includes forward-looking information when calculating expected 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 value 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 Bank monitors credit risk on an individual basis for all risks deemed to be significant. To estimate the individual allowance for credit risk, an individual estimate is made for all individually significant borrowers classified as stage 3, and for certain borrowers classified as stage 2. Individual estimates are also made for transactions identified as having 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 section entitled "Guarantees" of this note).

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

- Discounted cash flow method (going concern): 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 (gone concern): debtors who are not able to generate cash flows during the course of their own business activities and who are forced to liquidate assets in order to fulfil 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 potential sales 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 the 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 the provision of 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, non-payments, vintage, exposure, collateral, characteristics of the borrower or contract). Available historical information representative of the Institution and past losses (defaults) is therefore taken into account. It is worth highlighting that the estimation obtained from the models is adjusted to account for the existing economic climate and the forecasts in the scenarios considered, the latter of which are representative of expected credit losses. The estimates of impairment loss allowance models are directly integrated in some activities related to risk management and the input data that they use (e.g. credit ratings and credit scores) are those used for approving risks, monitoring risks, for pricing purposes 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 incorporate the most recent information available 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.

Segmentation of models

Specific models exist depending on the segment or product of the customer (portfolio) and each one uses explanatory variables that uniformly catalogue all of the portfolio's exposures. The purpose of the segmentation of models is to optimise the capture of customers' default risk profile based on a set of common risk drivers. Therefore, the exposures of these segments can be considered to reflect a uniform collective treatment.

The models for companies calculate PD at the borrower level and are fundamentally segmented according to the size of the company (annual turnover) and its activity (real estate development, holding, or other).

The PD models for natural persons, including the self-employed, follow a segmentation that centres primarily on the lending product. Different models exist for different products: mortgage loans, consumer loans, credit cards and lines of credit, considering the recipient of the transaction (individual or company). PDs are estimated at the contract level, meaning that a single borrower can have different PDs depending on the lending product being quantified.

The SICR models carry out calculations at the contract level, in order to consider the characteristics specific to each transaction (origination date, maturity date).

Where LGD is concerned, contracts with similar risk characteristics are grouped together for collective assessment, using the following segmentation hierarchy:

– By type of borrower: companies, developers and natural persons.

– By type of guarantee: mortgage, unsecured, monetary/financial, and guarantors.

– By type of product: credit cards, overdrafts, leases, credits and loans.

Different LGDs are estimated for each segment, which are representative of the borrowers, of the recovery processes and of the recoverability assigned to each one based on the Institution's past experience.

Risk drivers

The risk drivers or explanatory variables of models are the shared credit risk characteristics. In other words, they are common elements that can be used to rate borrowers in a homogeneous way within a portfolio and which explain the credit risk rating assigned to each exposure. Risk drivers are identified by means of a rigorous process that combines historical data analysis, explanatory power and expert judgment, as well as knowledge about the risk/business.

The main risk drivers are presented hereafter, grouped together by type of model (PD, SICR and LGD).

PD models use credit ratings or credit scores as input data (internal ratings-based (IRB) models used for both risk management and capital calculations). They incorporate additional information to give a more faithful reflection of the risk at a given moment in time (point-in-time). For companies, the early warnings tool known as HAT and the credit rating are used. For individuals, the credit score is used. A description of these tools can be found earlier in this same note.

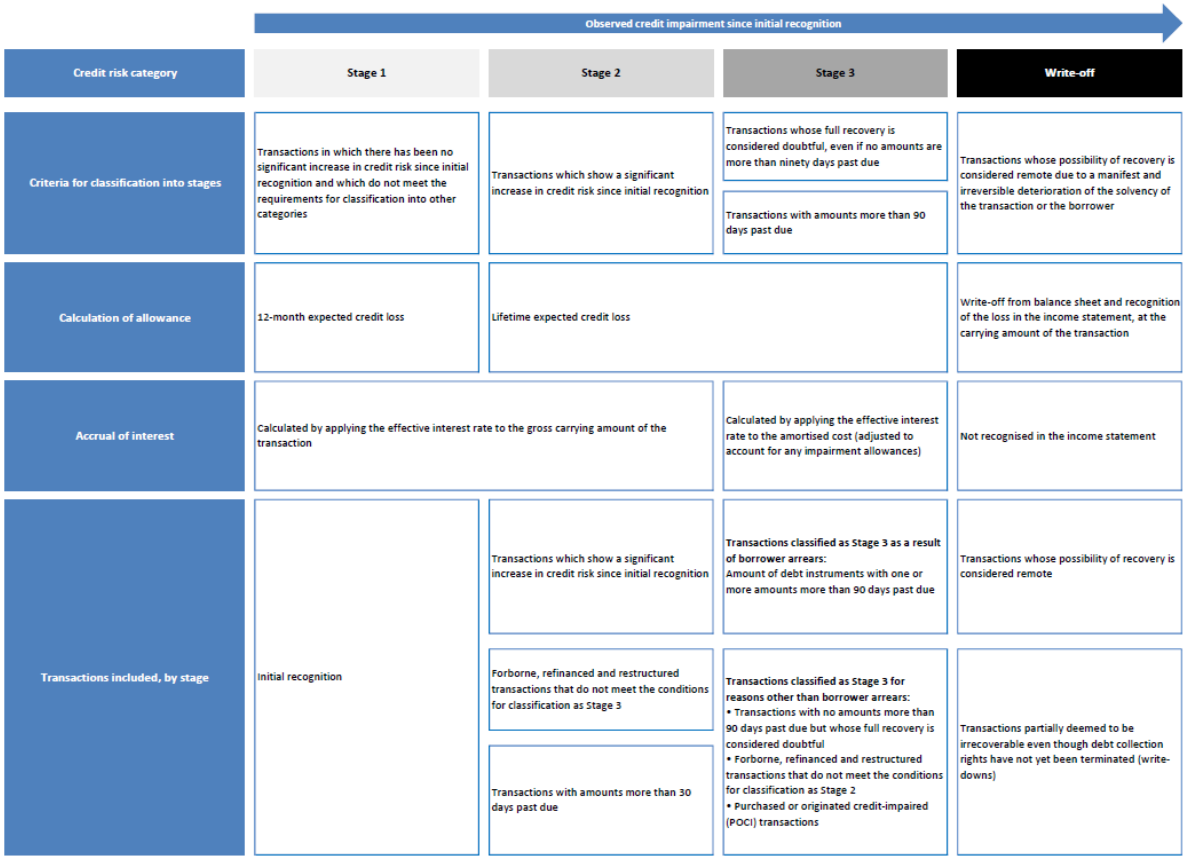
In both cases, other recent risk events (refinancing, exit from default status, non-payments, lending restrictions) also explain the probability of default.

The explanatory factors mainly used by SICR models are the PD upon approval and the current residual lifetime PD (i.e. for the residual life of the transaction).

LGD models use additional risk drivers that enable a more in-depth segmentation to take place. More specifically, for mortgage guarantees, the LTV (Loan to Value) is used, or the order of priority in the event the mortgage guarantee is enforced. Similarly, the amount of the debt and the type of product are also factors taken into account.

Summary of criteria for classification and 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:



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.

Allowances for country risk are not significant in relation to 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, of 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 prevailing legislation. 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 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 the transactions are granted, 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. In addition, 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 stages 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. Similarly, statistical methodologies may be used to update appraisals but only for properties that have a certain level of homogeneity among them, in other words, those with low exposure and low risk whose characteristics are likely to be shared by other properties and which are located in an active market with frequent transactions, although a full appraisal is carried out in accordance with the aforesaid ECO Order (an “ECO appraisal”) at least once every three years.

Assets located in other EU countries are appraised in accordance with that set forth in Royal Decree 716/2009 of 24 April, while those in the rest of the world are appraised by companies and/or experts with recognised expertise and experience in the country in question. Real estate assets located in a foreign country, where these exist, will be appraised using the method approved by the RICS (Royal Institution of Chartered Surveyors), through prudent and independent appraisals carried out by authorised experts in the country where the property is located or, where appropriate, by appraisal firms or services accredited in Spain, and in accordance with the appraisal rules applicable in that country insofar as these are compatible with generally accepted appraisal practices.

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 properties with similar prices and timelines, as well as the costs of enforcement, maintenance and sale.

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, are calculated based on their expected credit loss less the positive impact of cash flows expected to be recovered with the State guarantee.

Overall comparison between financial asset and real estate asset impairment allowances

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 carried out show that the credit loss allowances are adequate given the portfolio's credit risk profile.

1.3.4 Hedging transactions

The Bank applies the criteria established by Circular 4/2017, based on IAS 39 on hedge accounting.

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 conditions:

- The financial derivative 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 or 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 appropriate. 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 measurement will be recognised with a balancing entry in the income statement.

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 in the income statement, 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 on behalf of a third party in the event of that 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 other items.

The Bank recognises financial guarantee contracts under the heading "Financial liabilities 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 income to be received. At the same time, fees and similar income received upon commencement of the operations, as well as the accounts receivable, measured at the present value of future cash flows pending collection, are recognised as a credit item 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 particular level or volume in terms of the provision of such services, it initially recognises those guarantees at 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 the customer 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 rewards 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 2021 and 2020, 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 carrying amounts of assets – stated individually or combined in a disposal group, or as part of a business unit intended to be sold (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 carrying amount 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 through its continued use.

Specifically, real estate or other non-current assets received by the Bank for the full or partial settlement of debtors' 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 those assets or to include them in its rental operations. Similarly, investments in joint ventures or associates that meet the above 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 their fair value less 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 (less any associated provisions), for as long as the tangible and intangible assets that would otherwise be subject to depreciation or 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 according to their nature.

1.3.9 Discontinued operations

A discontinued operation or activity is a component of the Bank that has been sold or otherwise disposed of, or that is classified as a non-current asset held for sale and which also meets one or more of the following conditions:

- It represents a separate significant line of business or geographical area of operations.
- It is part of a single coordinated plan to sell or otherwise dispose of a separate significant line of business or geographical area of operations.
- It 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 component has been derecognised from the asset side of the balance sheet and when it remains there as at 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 one year, (ii) property, plant and equipment leased out 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 measured 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 systematically 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 recognised in the income statement and generally calculated based on the remaining years of the estimated useful life of the different groups of components:

	Useful life (years)
Land and buildings	38 to 75
Fixtures and fittings	5 to 20
Furniture and office equipment	3 to 10
Vehicles	3 to 6
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 significant changes. Should any such changes occur, 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 any internal or external signs 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 carrying amount against its recoverable amount (the higher of its fair value, less selling costs, and its value in use). When the asset's carrying amount is higher than its recoverable amount, the Bank reduces the carrying amount of the corresponding component to its recoverable amount and adjusts future depreciation charges in proportion to the adjusted carrying amount 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 carrying amount being increased to a value higher than the value that the asset component would have had if no impairment losses had 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 cumulative contribution margin less the 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 investment properties, the Bank uses valuations carried out by third parties entered in the Bank of Spain 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 are incurred.

1.3.11 Leases

The Bank evaluates the existence of a lease contract at its inception or when its terms are changed. A contract is deemed to be a lease contract when the asset is identified in that contract 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-cancellable period established in the contract, plus the periods covered by an extension option (if the lessee is reasonably certain to exercise that option) 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 stipulated 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 at amortised cost – Other financial liabilities" of the balance sheet (see Note 20), at 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 that depend on an index or rate.
- Amounts expected to be paid for residual value guarantees given 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 maturity date 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 the accumulated amortisation and any impairment loss that 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 valuable consideration and it is amortised over a period of 10 years.

Goodwill is assigned to one or more cash-generating units (UGEs, 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 occurred. To this end, the Bank calculates their value in use 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 assigned) 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 conditions:

- They 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 with 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.

All transactions involving the issuer'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 carrying amount 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 contracts that have both a financial liability and an own equity instrument from the issuer's perspective (e.g. convertible bonds that grant their holder the right 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 instrument, 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 of own equity instruments to employees 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 cost 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 tenors and other conditions envisaged in the commitments.

The amounts recognised in equity cannot subsequently be 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 recognises a service cost over the period during which the services are provided by the employees, with a balancing entry on the liabilities side of the balance sheet. The Bank measures 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 value. 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 other items, 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 whose settlement is unlikely to originate any reduction of funds, or whose value, in extremely rare cases, cannot be reliably measured. 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 may 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 consolidated 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 make 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 cover all existing commitments arising from the Collective Bargaining Agreement for Banks (*Convenio Colectivo de Banca*).

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

Pension plan

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

- Additional commitments due to early retirement, as set out in the Collective Bargaining Agreement for Banks.
- 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 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 outside of the Group. Obligations of the pension plan insured by the Group's associate entities are not considered plan assets.

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

Insurance contracts

Insurance contracts generally cover certain commitments arising from the 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 not covered with benefits accrued in the Banco Sabadell employee pension plan.
- Commitments towards early retirees. These may be partly financed with benefits accrued in the Banco Sabadell employee pension plan.

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

Voluntary social welfare agency (Entidad de Previsión Social Voluntaria, or 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 the aforesaid bank in 1991 as an agency with a separate legal personality. All of the pension commitments to serving and former employees are insured by entities outside the Group.

Internal funds

Internal funds are used to settle obligations with early retirees up to their legal retirement age.

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 actuarial present 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 conditions:

- They are owned, not 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 insolvency.
- 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 Institution, 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 standalone balance sheet of the insurance company 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 in the following way:

- 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 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 – Items that will not be reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans" 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 heading "Provisions – Other long term employee benefits" on the liabilities side of the balance sheet includes, mainly, 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 relevant financial/actuarial assumptions used in the valuation of pension commitments are as follows:

	2021	2020
Tables	PER2020_Col_1er.orden	PER2020_Col_1er.orden
Discount rate, pension scheme	1.00% per annum	0.50% per annum
Discount rate, internal fund	1.00% per annum	0.50% per annum
Discount rate, related insurance	1.00% per annum	0.50% per annum
Discount rate, non-related insurance	1.00% per annum	0.50% per annum
Inflation	2.00% per annum	1.50% per annum
Rate of increase in salaries	3.00% per annum	2.50% 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 2021 and 2020, 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 13.70 and 12.6 years, respectively.

The early retirement age considered is the earliest retirement date after which pension entitlements cannot be revoked by the employer for 100% of the 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 (1.00% and 0.50% in 2021 and 2020, respectively).

1.3.17 Foreign currency transactions

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 being denominated in a foreign currency.

On initial recognition, debit and credit balances denominated in foreign currencies 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 as at the reporting date.

– 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 in non-monetary items measured at fair value where the fair value adjustment is 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 expenses

Interest income and expenses and other similar items

Interest income and expenses 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 expenses" 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 expenses 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 expenses

These items are recognised in the accounts upon delivery of the non-financial asset or upon 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, distribution of the transaction price between 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 levy.

Deposit Guarantee Fund

The Bank is a member of the Deposit Guarantee Fund. In 2021, 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 0.17% of the value of deposits guaranteed as at 31 December 2020. Each entity's contribution is calculated based on the value of the 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 value of the securities guaranteed as at 31 December 2021 (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 a European level.

As part of the implementation of this Regulation, on 1 January 2016 the Single Resolution Fund came 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 Institution's risk profile (see Note 29).

1.3.19 Corporation tax

Corporation tax and similar taxes applicable to foreign branches are considered to be an expense and recognised under the heading "Tax expense or (-) income related to profit or loss from continuing operations" in the income statement, except when they arise as a result of a transaction that has been directly recognised in the statement of equity, in which case they are recognised directly 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 losses carried forward, is recognised provided that the fiscal 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 resulting 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 twelve 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, adjusting them as required.

To conduct the aforesaid review, the following variables are taken into account:

- Forecasts of results of the Spanish fiscal group and other entities, based on the financial budgets approved by the Bank's directors 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 by prevailing 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 TLTRO III programme

Against the backdrop of COVID-19, the European Central Bank announced measures designed to mitigate the impact arising from this situation, including the TLTRO III programme, which offers favourable conditions for banks to borrow funds. More specifically, the TLTRO III programme ensures an interest rate that will be no higher than the average deposit facility rate (-0.50%), provided that the growth targets of eligible net lending established by the European Central Bank are met in certain special reference periods. Moreover, the interest rate over the period from 24 June 2020 to 23 June 2022 will be 50 basis points below the aforesaid rate, potentially being as low as -1%.

The Bank has considered that the use of a more favourable interest rate, i.e. the deposit facility rate (0.50%), rather than the interest rate on the main refinancing operations (0%), subject to compliance with the lending performance thresholds established by the European Central Bank for the period from 1 March 2020 to 31 March 2021 (the 'special reference period') and for the period from 1 October 2020 to 31 December 2021 (the 'additional special reference period'), does not place the conditions of these operations significantly below market interest rates; therefore, this refinancing has been recognised as a financial liability measured at amortised cost pursuant to Bank of Spain Circular 4/2017.

The effective interest rate on this financial liability has been determined on the assumption that the European Central Bank's net lending targets would be met. These have been monitored by the Bank on an ongoing basis throughout 2021. The two special reference periods expired on 31 March 2021 and 31 December 2021, respectively. Compliance with the growth targets set for both periods has been verified.

The further interest rate reduction of 50 basis points for the period from 24 June 2020 to 23 June 2021 (the 'special interest rate period') and for the period from 24 June 2021 to 23 June 2022 (the 'additional special interest rate period') is not subject to compliance with any specific net lending target, having estimated that this reduction could result in the cost of this refinancing having better conditions than those in the market. Accordingly, this reduction has been considered a discount associated with the COVID-19 pandemic, aimed at reducing the Bank's borrowing costs during the special interest rate periods, and it has been recognised under net interest margin in the income statement in a systematic way throughout the aforesaid periods (see Note 3.4.3.1).

1.3.21 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 will not be reclassified in the income statement and those which may be reclassified in the income statement.

    - Corporation tax due on recognised income and expenses, with the exception of adjustments arising from equity interests held in associates or joint ventures accounted for using the equity method, which are shown net.

– Total recognised income and expenses, calculated as the sum of the two previous sections.

1.3.22 Statement of total changes in equity

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

– Adjustments due to accounting changes and corrections of errors: includes the changes in equity that arise as a result of the retroactive restatement of financial statement balances, distinguishing between those that arise from changes in 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 remaining items recognised in equity, such as capital increases or decreases, 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.

1.3.23 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 investing or financing activities.

– Investing 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 corresponding to 2020 is provided solely and exclusively for purposes of comparison with the information for the year ended 31 December 2021 and therefore does not constitute the Bank's annual financial statements for 2020.

Note 2 – Shareholder remuneration and earnings per share

Set out below is the proposed distribution of the profits earned by Banco de Sabadell, S.A. in 2021, which the Board of Directors will submit to shareholders for approval at the Annual General Meeting (AGM), together with the proposed distribution of profits earned by Banco de Sabadell, S.A. in 2020, which was approved by shareholders at the AGM on 26 March 2021:

Thousand euro

	2021	2020
To dividends	168,809	—
To Canary Island investment reserve	—	216
To voluntary reserves	159,603	93,565
Profit for the year of Banco de Sabadell, S.A.	**328,412**	**93,781**

During 2020, the Bank's Board of Directors, at its meeting held on 8 April 2020, following the recommendation of the European Central Bank to financial institutions not to pay or enter into irrevocable commitments to pay dividends for the financial years 2019 and 2020, resolved that no dividends would be paid out for 2020, as a prudent measure in light of the crisis caused by COVID-19.

On 21 July 2021, the European Central Bank issued a note in which it indicated that the recommendation period for not paying or entering into irrevocable commitments to pay dividends ended on 30 September 2021. Subsequently, on its meeting on 26 January 2022, the Board of Directors agreed to submit a proposal to the Annual General Meeting for the distribution of a dividend of 0.03 euros gross per share paid out of the earnings of 2021, to be paid in cash in the second quarter of 2022.

Earnings per share

Basic earnings 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 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:

	2021	2020
Profit or loss attributable to owners of the parent (thousand euro)	530,238	2,002
Adjustment: Remuneration of other equity instruments (thousand euro)	(100,593)	(73,227)
Profit or (-) loss after tax from discontinued operations (thousand euro)	—	—
Adjusted net profit attributable to the owners of the parent company (thousand euros)	429,646	(71,225)
Weighted average number of ordinary shares outstanding (*)	5,586,444,414	5,582,484,318
Conversion undertaken of convertible debt and other equity instruments	—	—
Adjusted weighted average number of ordinary shares outstanding	5,586,444,414	5,582,484,318
Earnings (or loss) per share (euros)	0.08	(0.01)
Basic earnings (or loss) per share adjusted for the effect of mandatory convertible bonds (euros)	0.08	(0.01)
Diluted earnings (or loss) per share (euros)	0.08	(0.01)

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

As at 31 December 2021 and 2020, there were no other share-based financial instruments or commitments with employees with a significant impact on the calculation of diluted earnings per share for the periods presented. For this reason, basic earnings per share coincide with diluted earnings per share.

Note 3 – Risk management

3.1 Introduction

Throughout 2021, 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. The most significant aspects of 2021 are set out below:

- COVID-19 remained in the limelight during 2021, although vaccination rollouts took some focus away from it as a conditioning factor of economic activity and of the financial markets.
- In general, global economic performance has been positive, especially that of developed countries.
- In Spain, the economy has performed well and the employment rate has recovered to pre-pandemic levels.
- The poorer health conditions of many emerging countries and their reduced capacity to extend the stimulus measures have negatively impacted their economies.
- In Latin America, Mexico has stood out positively due to its low fiscal, financial and socio-political vulnerabilities and its strong link to the United States.
- In Europe, the implementation of the Next Generation EU programme is noteworthy. Spain expects to receive around 70 billion euros in transfers in the coming years.
- As regards economic policy in Spain, a labour reform aimed at limiting temporary employment was adopted, as well as a pension reform that introduces incentives to push back the retirement age.
- Inflation surprised upwards and is at high levels in many countries.
- Rising inflation has been driven by factors such as the quick recovery of demand, supply problems and the price of commodities.
- High inflation has prompted a shift in central banks' monetary policies, especially in emerging markets.
- The European Central Bank (ECB) confirmed that it will end the PEPP (an asset purchase programme implemented during the pandemic) in March 2022. The ECB also presented its new monetary policy strategy.
- The Federal Reserve (Fed) began tapering its asset purchases in November and expects several official interest rate hikes in 2022.
- The Bank of England raised the benchmark interest rate in December by 15 basis points, to 0.25%, concerned over the tightening of the job market.
- Global financial markets remained underpinned by the measures implemented by various authorities after the onset of the crisis, as well as by vaccination rollouts and the economic recovery.
- Long-term government bond yields in the major developed countries rebounded sharply, influenced by inflation and central bank policy moves.
- Peripheral sovereign debt risk premiums ended 2021 at somewhat higher levels than the previous year, although they remained contained.
- The dollar showed its strength and appreciated significantly against the euro due to the Fed's less accommodating tone and the lack of a synchronised global economic recovery.
- Emerging currencies tended to depreciate; the case of the Turkish lira is noteworthy as it lost more than 40% of its value against the dollar.

– Financial authorities have focused on monitoring risks to financial stability, in an environment in which certain vulnerabilities in the global non-bank financial sector and concerns over the momentum of the real estate market in some European countries have materialised.

Brexit

The Group continued to monitor developments and consequences of Brexit. Since the Brexit deals came into effect on 1 January 2021, one of the focal points has been the difficulties that certain sectors have experienced when attempting to continue trade relations between the UK and the EU and on how companies have been adapting to the new trade arrangements. It is difficult to distinguish between the impacts caused by Brexit, the impacts caused by the restrictions put in place due to the pandemic and the impacts arising from the complications observed in global supply chains since the economic reopening. Another focus point has been the implementation of the Northern Ireland Protocol, which is part of the Brexit agreements, and that is still being negotiated between the United Kingdom and the European Union as a result of the challenges arising from its entry into force.

As regards financial services post-Brexit, the UK has indicated that it will work on the assumption that no general equivalence deal will be reached. The UK has therefore brought forward the publication, for consultation purposes, of proposals regarding the regulation of financial services, using the new regulatory freedoms offered by Brexit. Meanwhile, the EU indicated that it plans to extend the equivalence decision that allows EU banks to continue to use central clearing houses in the UK, but it has not signalled its intention of wanting to go further in terms of other equivalence decisions. In addition, the EU announced that it intends to strengthen central clearing houses' infrastructure so that in the medium-/long-term this activity is performed in the EU, rather than in the UK. On the other hand, news of financial service activity moving from the UK to the EU and the US continues to trickle through.

In relation to the specific activity of Banco Sabadell Group in the United Kingdom, there have been no significant changes in the Group's exposure to Brexit relative to its exposure as at 31 December 2020.

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 2021:

I. Non-performing assets:

– The NPL ratio has increased slightly from 3.6% to 3.7% over the year, mainly due to higher inflows as a result of model changes and the repurchase of non-performing portfolios.

II. Lending performance:

– Performing loans continue to increase year-on-year in all regions, with annual growth figures of 2.3% in Spain, 19.1% in TSB and 5.6% in Mexico.

– In Spain, the year-on-year growth has been mainly underpinned by business loans granted to companies, SMEs and the self-employed and the increase in mortgages to individuals. In addition, we see momentum in the project finance portfolio, in which sustainable projects are gaining traction.

– In TSB, there has been steady growth in all loan categories, especially mortgages. 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.

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 and shows a downward trend.

– Similarly, in terms of individual concentration, the downward trend in risk metrics relating to concentration of large exposures continues, both due to lower exposure (numerator) and to an increase in capital (denominator). The credit rating of top borrowers has been impacted, although not significantly, due to a deterioration in the balance sheets as a result of the health crisis.

– 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 12.22% in fully-loaded terms as at 2021 year-end (compared to 12.02% as at 2020 year-end). Generalised fulfilment of regulatory capital requirements.
- The Total Capital ratio was 17.70% as at 2021 year-end (compared to 15.91% as at 2020 year-end), while the Leverage ratio was 5.81%, vs. 5.05% a year earlier (in fully-loaded terms).

V. Sound liquidity position:

- The LCR stood at 221% (compared to 198% as at 2020 year-end) and the loan-to-deposit ratio was 96%.
- The MREL requirement is still being met.

3.2.2 Strengthened credit risk management and control environment

2021 was marked by the monitoring and control of the measures adopted to mitigate the effects of COVID-19.

Special focus has been placed on the monitoring and control of the measures adopted (mainly payment holidays and ICOs). RAS metrics have also been tightened and exposure to the sectors most affected by the crisis has been assessed to mitigate their impact.

Performance of the main solutions offered in Spain

As at 31 December 2021, the gross carrying amount of the Bank's loans to which moratoriums have been granted is 3,077 million euros, of which an amount of 3,002 million euros has already matured and 75 million euros remains in effect. As regards the breakdown by sector, 88% corresponds to households (includes self-employed workers).

As for ICOs, as at 31 December 2021, the amount of the loans granted is approximately 8.6 billion euros. During the year, extensions to payment holidays have been facilitated by taking advantage of the windows offered in March and October, and, as at 31 December 2021, approximately 40% of the total are in force.

Performance of the main solutions offered in the United Kingdom

In the United Kingdom, the main solutions during 2020 and 2021 were government-backed loans to companies, the so-called BBLs (Bounce Back Loans). These guaranteed loans benefited from extensions by the UK government during the year, facilitating repayment conditions for customers. The exposure to these loans as at 2021 year-end was 546 million pounds, representing more than 75% of the corporate customer portfolio.

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 different 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 activities, 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:

- Risk governance and involvement of the Board of Directors through the model of three lines of defence, among others;

  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.

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

  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.

- Integration of the risk culture, focusing on aligning remuneration with the risk profile;

  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.

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

  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.

– Alignment with the interests of stakeholders.

  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 declaration 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 setting the risk strategy, as it determines 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. Some or all of the thresholds of a given metric 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 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.

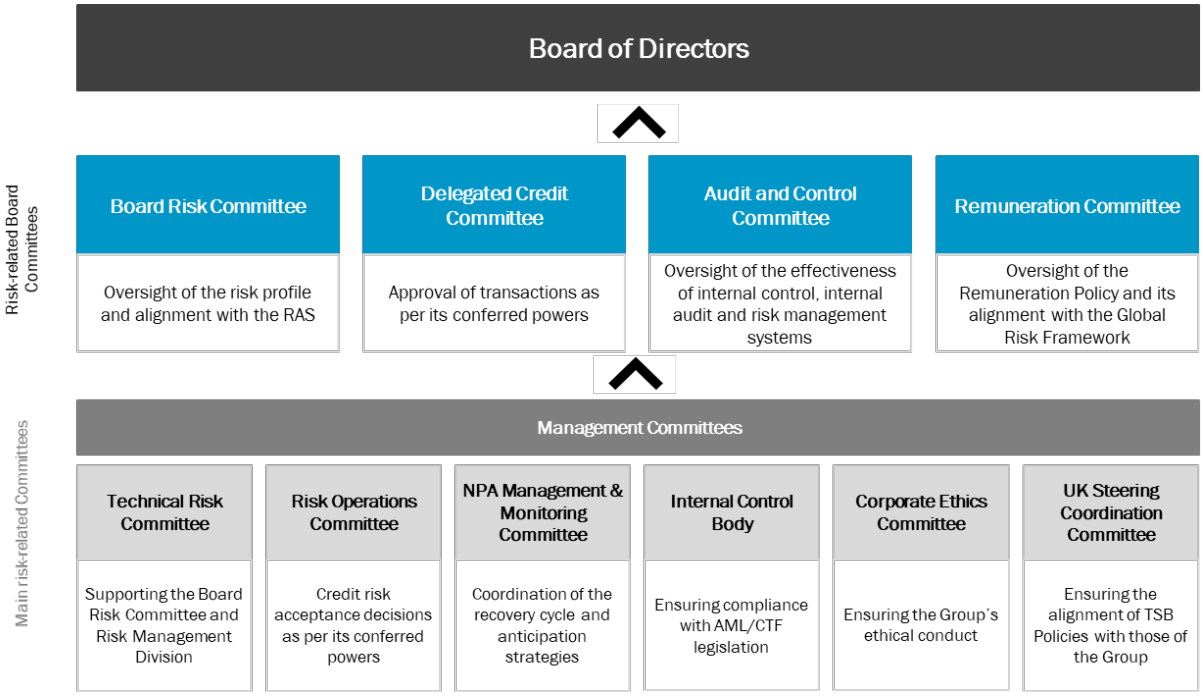
3.3.5 Overall organisation of the risk function

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 Credit 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 development 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 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 control 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 existing 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.

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 2021 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 develops a Strategic Plan which sets out the Bank's strategy over a certain period of time. In 2021, Banco Sabadell defined a new Strategic Plan which sets out the main lines for action and transformation for each business in the coming years to seize the opportunity to consolidate its position as a major domestic bank.

As part of the Strategic Plan, the Group develops 5-year financial projections, which are the result of the implementation of the strategic lines defined in the Plan. These projections are prepared on the basis of the most likely economic scenario for the key regions (baseline scenario) and they are 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. In addition, the Plan is regularly monitored in order to analyse the Group's most recent performance and changes in the environment, as well as the risks taken.

The projection exercises of the Strategic 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 the 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 addition to that implemented in 1Q21) in Spain (to be implemented in 1Q22), which includes initiatives designed to increase the digitalisation of customer services as well as projects for organisational restructuring and streamlining. Meanwhile, TSB, after the restructuring programmes implemented, reached the breakeven point in the first quarter of 2021.

Strategic risk includes the management and control of four risks:

- Solvency risk: this is the risk of not having sufficient capital, in terms of either 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, strength 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 or corporate governance, which generate a negative perception among customers, counterparties, shareholders, investors or regulators that can negatively affect the Group's ability to maintain its business relationships or establish new ones, and to continue to access funding sources.

- Environmental and climate risk: this is the risk of incurring losses arising from the impact, both present and future, on the climate risk factors of customers and of the Bank's own activity. These factors may materialise mainly in physical aspects (the physical effects of weather changes, such as more frequent extreme weather events and gradual changes in the weather) and transition factors (arising from adjustment processes towards a lower emissions economy). Climate risk acts, where appropriate, as a driver for other risks such as credit risk.

3.4.1.1 Solvency risk

Banco Sabadell's ratios are above the minimum capital requirements established by the European Central Bank. 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.

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

Details on the closing data as at 31 December 2021 for solvency risk and capital management are available in Note 5 to the consolidated annual financial statements.

3.4.1.2 Business risk

The economic environment has been impacted by disruptions in the supply chains of some sectors, the different spread of COVID-19 among countries and rising inflation. In any case, the Eurozone's economy performed positively in 2021, enabling an increase of the Group's core banking revenue, which has remained solid throughout the year. Fee and commission income also performed well.

The actions taken throughout the year have 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.

3.4.1.3 Reputational risk

Regarding reputational risk, in 2021 Banco Sabadell has continued to be by the side of its customers during the situation brought about by COVID-19 and its transition towards a more digital business model.

In 2021, the Group has strengthened the deep transformation process envisaged in the new Strategic Plan, which has been welcomed by various stakeholders and which has been supported by the publication of good quarterly results. As regards the organisation, significant changes have been carried out both in the Institution's business model and in its internal structure.

During the first quarter of 2021, the voluntary redundancy programme started in 2020 was completed. In the second half of the year, a labour force adjustment plan was launched, which has the agreement of all the members of the negotiating table, and it will mostly be fulfilled with voluntary redundancies.

The Group's actions and its interactions with customers and the general public through social networks and the media have allowed Banco Sabadell to stand out from other banks in the sector in terms of reputational impact.

3.4.1.4 Environmental and climate risk

The big milestone in the international commitment to fight climate change is materialised in the 2015 Paris Agreement, which promotes the reduction of carbon emissions to limit global warming "well below" 2ºC in 2100 and seeks not to exceed 1.5ºC in relation to pre-industrial average temperatures (1850-1900). The EU included the Agreement in its legislation, detailing and tightening it through a "regulatory tsunami" whose main initiatives are established in the Action Plan on Sustainable Finance of March 2018, as well as in its subsequent restatement in the Renewed Sustainable Finance Strategy (RSFS) of July 2021.

Banco Sabadell's commitment to sustainability has been incorporated into all areas of its strategy and business model, internal governance, 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. The aim is to support the Group's customers in the transition towards a sustainable future, either by providing them with the appropriate and necessary funding for this or by offering them those savings and investment products which help to achieve GHG emissions neutral operations.

As part of this corporate goal, Banco Sabadell has continued to implement throughout 2021 the Sustainable Finance Plan, which includes a series of initiatives adding to its track record of projects that pursue a more sustainable economy.

Furthermore, all these initiatives enable the adoption and implementation of the various sustainability regulations to which Banco Sabadell is subject, as well as to comply with supervisory expectations on climate and environmental risk management and disclosure set out by the European Central Bank (ECB).

In line with our commitment to achieve a sustainable future, Banco Sabadell has joined the Net-Zero Banking Alliance (NZBA), an international banking alliance under the sponsorship of the United Nations, whose main goal is to achieve the alignment of their loan and investment portfolios with net zero emission scenarios in 2050 or earlier. Committing to this entails achieving one of the most ambitious climate goals established in the Paris Agreement.

Finally, Banco Sabadell has also agreed to follow the recommendations for disclosure of financial information related to climate risks established by the Task Force on Climate-related Financial Disclosures (TCFD).

Banco Sabadell Sustainable Finance Plan

Since 2020, Banco Sabadell has been developing a cross-cutting Sustainable Finance Plan that will enable reaching the Institution's sustainability commitments, as well as adopting all the regulations, regulatory initiatives and supervisory expectations in the European Union's banking sector.

As part of the initiatives developed, worthy of note is the approval by the Board of Directors of the Sustainability Policy in 2020 (which defines the vision, governance and responsibilities of the three lines of defence in relation to sustainability) and of the Climate Risk Policy of July 2021 (which defines the critical management parameters to progressively and proportionally integrate these risks into the risk management and control and business units). During this year, Banco Sabadell has also defined and developed climate and environmental risk indicators which will gradually be converted to metrics that can be included in the RAS in order to manage and monitor these risks.

Climate risk management

Climate risks can be associated with two types of factors: "physical environmental factors" and "environmental transition factors". Physical environmental factors, also called physical risks, are related to adverse weather events (such as floods or heat waves) or long-term changes in the weather (such as rising sea levels). On the other hand, environmental transition factors or transition risks arise from the transition processes towards a low-emission economy (such as regulatory changes, the emergence of disruptive technologies, market trends, etc.). For more information, please check the section on Environmental and Climate Risk of the Non-Financial Disclosures Report.

According to the EBA's Sustainable Finance Plan to be developed during the period 2020-2025 and which envisages including ESG factors and risks in the EU's regulatory framework (Pillars I, II and III of the Basel prudential framework for credit institutions), Banco Sabadell is adapting and aligning its internal corporate governance, strategy, structure and risk management and control processes, as well as its disclosures to comply with these planned regulations. All this will be based on an assessment of the materiality of ESG risks (initially focusing more on climate risks) which enables us to analyse the transmission channels through which they end up moving and impacting as an additional risk factor to traditional banking risks (credit, market, liquidity, operational) and measure their impact (e.g., in terms of the solvency of customers or counterparties or the Institution itself).

Today, as the EBA and the ECB themselves acknowledge, the academic world is working intensively and rapidly to develop and define the more suitable methodologies that allow tackling technical challenges and the lack of robust data that the field of sustainability-related risks is facing.

The assessment of the materiality of climate risks on Banco Sabadell's credit exposure has enabled on a preliminary basis to initiate the analysis process of the qualitative calculation of the impacts of climate risk on traditional banking risks. During 2021, the quantitative analysis process of the exposure of its credit portfolios to the sectors that emit more carbon emissions was initiated and the process of measuring its sustainable exposure (green, social or sustainability-linked operations) is underway.

It is worth noting that the Group has not incurred losses related to climate risk. On the other hand, we should also mention that on a preliminary basis on a first qualitative assessment of the materiality of the climate change factor on those risks in which this could be relevant, the risks focus on credit portfolios, the more relevant risks being transition risks (in the first instance) from a triple point of view: regulation, technological change and market factors. While no impact is expected in the short term, an ongoing monitoring and assessment of medium- and long-term impacts must be carried out, depending on the sector.

As regards banking operations, Banco Sabadell is developing and implementing a network of teams specialised in environmental risks in both risk management and control and the business units themselves that collect information related to the sustainability of the customer and of its operations through specific ESG questionnaires. The main goal is to support customers transition towards a more sustainable economy.

It is also worthy of note the rollout of an internal eligibility guide, aligned with the EU's taxonomy and the ICMA's Social Bond Principles, that will be updated with the Social Taxonomy and that enables the validation of the sustainability of the credit transactions financed by Banco Sabadell, as well as the adoption of sector-specific regulations in which the commitment to sustainability of the Institution is set when granting finance to certain greenhouse gas-intensive sectors and sectors with the greatest potential impact on the climate and the environment.

In the same vein, the Sustainable Finance Plan 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 in the capital market in the third bond issue of this kind (the first issue was placed in 2020).

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 or through losses in value due simply to the deterioration of borrower quality.

3.4.2.1 Credit risk management framework

Acceptance and monitoring

Credit risk exposures are rigorously managed and monitored through regular assessments of borrowers' solvency 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 Credit 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, 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, while 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 the transaction/borrower level and at the 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.

Management of non-performing exposures

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 that is in line with the borrower's current and expected payment capacity, preventing future difficulties.
- 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 Non-Performing Asset (NPA) risk management model in place to manage the impaired assets portfolio. The purpose of managing NPA risk is to find the best solution for the customer upon detecting the first signs of impairment, 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: Refinancing and restructuring operations" 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 in light of the 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 given 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 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 of the loan or its settlement by the customer is not a feasible option are managed using support models depending on the type of loan or financed item.

  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, out-of-court 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, which has had high concentrations of this type of risk in the past, has a first-tier RAS metric in place which establishes a maximum level of concentration of exposures associated with real estate development based on 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 "Other risk information: Exposure to 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 their probability of default (see section "Impairment of financial assets" in Note 1).

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.

The percentage distribution by credit rating of Banco Sabadell's portfolio of companies as at 31 December 2021 and 2020 is detailed below:

%

2021 Breakdown of Sabadell corporates portfolio by rating										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
0.16%	5.18%	15.28%	23.73%	32.66%	13.63%	6.73%	1.85%	0.68%	0.10%	**100%**

In this scale of 0 to 9, probability of default goes from high to low.

%

2020 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%	29.33%	11.42%	6.35%	1.83%	0.52%	0.15%	**100%**

In this scale of 0 to 9, probability of default goes from high to low.

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, identifying the relevant predictive factors (see section "Impairment of financial assets" in Note 1).

The percentage distribution by credit score of Banco Sabadell's portfolio of individuals as at 31 December 2021 and 2020 is detailed below.

%

Distribution, by credit score, of Banco Sabadell's portfolio of individuals 2021										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
0.48%	5.74%	22.28%	36.30%	20.92%	9.48%	2.80%	0.93%	0.31%	0.76%	**100%**

In this scale of 0 to 9, probability of default goes from high to low.

%

Distribution, by credit score, of Banco Sabadell's portfolio of individuals 2020										
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%**

In this scale of 0 to 9, probability of default goes from high to low.

Warning tools

In general, the 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 (see section "Impairment of financial assets" in Note 1).

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 existing 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 to be significantly higher in 2021 and especially in 2020.

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 2021 and 2020, 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	2021	2020
Financial assets held for trading		**590,373**	**287,718**
Debt securities	7	590,373	287,718
Non-trading financial assets mandatorily at fair value through profit or loss		**76,832**	**70,236**
Equity instruments	8	14,582	12,516
Debt securities	7	62,250	57,720
Financial assets at fair value through other comprehensive income		**5,965,759**	**5,179,469**
Equity instruments	8	173,781	169,024
Debt securities	7	5,791,978	5,010,445
Financial assets at amortised cost		**138,574,149**	**142,293,023**
Debt securities	7	12,176,675	16,171,219
Loans and advances	10	126,397,474	126,121,804
Derivatives	**9, 11**	**1,416,432**	**2,540,815**
Total credit risk due to financial assets		**146,623,545**	**150,371,261**
Loan commitments provided	24	21,078,872	23,214,810
Financial guarantees provided	24	8,966,917	2,404,071
Other commitments provided	24	7,425,425	7,617,469
Total off-balance sheet exposures		**37,471,214**	**33,236,350**
Total maximum credit risk exposure		**184,094,759**	**183,607,611**

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' solvency 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.

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 in treasury activities, which are mostly repos with maturities of no more than six months, therefore their fair value does not differ substantially from their carrying amount (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 694,554 thousand euros and are included by type under the repos heading in Notes 17 and 18.

There have been no significant changes to Banco de Sabadell'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 2021 and 2020 are as follows:

Thousand euro

Guarantees received	2021	2020
Value of collateral	54,069,935	54,589,074
Of which: securing Stage 2 loans	*4,080,781*	*3,579,998*
Of which: securing Stage 3 loans	*1,682,506*	*1,609,065*
Value of other guarantees	16,438,028	15,397,551
Of which: securing Stage 2 loans	*2,715,568*	*1,890,505*
Of which: securing Stage 3 loans	*543,243*	*411,057*
Total value of guarantees received	**70,507,963**	**69,986,625**

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, as at 31 December 2021, exposures secured with mortgages represent 42.9% of total gross performing loans to customers (43.2% as at 31 December 2020).

In addition, the Bank has carried out two synthetic securitisation transactions in 2021 and 2020.

In September 2021, the Bank carried out a synthetic securitisation of a portfolio of loans granted to SMEs and mid-corporates for 1.5 billion euros, having received an initial guarantee from Chorus Capital Management in the amount of 75 million euros (70 million euros as at 31 December 2021), covering losses of between 0.9% and 5.9% on the securitised portfolio. This transaction did not involve a substantial transfer of the risks and rewards from the assets concerned and, consequently, did not entail the derecognition of those assets from the balance sheet.

In June 2020, the Bank carried out a synthetic securitisation of a portfolio of loans granted to SMEs and mid-corporates for 1.6 billion euros, having received an initial guarantee from the European Investment Fund in the amount of 96 million euros (63 million euros as at 31 December 2021), covering losses of between 1.5% and 7.5% on the securitised portfolio. This transaction did not involve a substantial transfer of the risks and rewards from the assets concerned and, consequently, did not entail the derecognition of those assets from the balance sheet.

Both transactions are given preferential treatment for capital consumption purposes, in accordance with Article 270 of Regulation (EU) 2017/2401.

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

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 specifications of the ECB guide to internal models (Article 26 a) published in October 2019.

The breakdown of the Group's total exposures, rated based on the various internal rating levels, as at 31 December 2021 and 2020 is as follows:

Million euro

Breakdown of exposure by rating	Loans assigned rating/score				
	2021				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	18,848	140	11	—	19,000
A	12,337	38	—	—	12,375
BBB	86,246	220	4	*1*	86,470
BB	23,747	520	2	*2*	24,269
B	21,667	3,827	19	*74*	25,512
Other	3,979	7,496	5,662	*83*	17,137
No rating/score assigned	4,515	86	—	—	4,601
Total gross amount	**171,339**	**12,327**	**5,698**	**160**	**189,364**
Impairment allowances	**(378)**	**(494)**	**(2,432)**	***(1)***	**(3,304)**
Total net amount	**170,962**	**11,833**	**3,266**	***159***	**186,060**

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
Other	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**

The breakdown of the Group's total off-balance sheet exposures, rated based on the various internal rating levels, as at 31 December 2021 and 2020 is as follows:

Million euro

Breakdown of exposure by rating	Loans assigned rating/score				
	2021				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	1,598	38	—	—	1,636
A	2,546	4	—	—	2,550
BBB	10,642	106	4	—	10,752
BB	9,095	158	3	—	9,255
B	10,323	684	2	*24*	11,009
Other	406	587	550	*1*	1,543
No rating/score assigned	725	352	—	—	1,077
Total gross amount	**35,335**	**1,928**	**559**	***25***	**37,822**
Impairment allowances	**(52)**	**(18)**	**(121)**	**—**	**(191)**
Total net amount	**35,283**	**1,910**	**438**	**25**	**37,631**

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
Other	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**

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 2021, 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.

%

	31/12/2021							
	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	1.00%	20.10%	17.90%	21.20%	100.00%	42.40%	6.70%	21.20%
Other financial corporations	1.00%	22.10%	18.80%	20.60%	100.00%	60.20%	2.30%	22.20%
Non-financial corporations	1.70%	29.40%	13.20%	24.30%	100.00%	47.10%	6.90%	29.40%
Households	0.50%	13.20%	28.10%	14.30%	100.00%	39.40%	6.70%	14.50%

%

	31/12/2021							
	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	1.30%	32.00%	9.90 %	29.30%	100.00%	27.80%	2.20%	31.90%
Other financial corporations	1.50%	31.80%	13.20 %	32.00%	100.00%	19.50%	1.60%	31.80%
Non-financial corporations	1.50%	30.40%	8.60 %	29.90%	100.00%	28.20%	2.40%	30.30%
Households	0.80%	36.70%	24.40 %	21.50%	100.00%	31.00%	1.20%	36.50%

%

	31/12/2020							
	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%

%

	31/12/2020							
	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%

The development of new LGD models started in 2020 and continued in 2021 in order to renew previous models that were in use since the implementation of IFRS 9 and to improve some aspects that had been previously identified, during either the ongoing monitoring carried out by Banco Sabadell or the independent reviews conducted by the internal control units (Models Validation and Internal Audit). In addition, a new database was built in order to incorporate valuable new information for modelling and to improve the quality of historic data. The new models involve a technological advance, improve the differentiation of risks and most significantly affect the unsecured LGD of the non-financial corporate segment, which is where the reduction in LGD is mainly recorded. As at 2021 year-end, LGDs were adjusted to include the results of the new models. The adjustment processes follow the internal governance established for their validation, review and approval by the corresponding divisions.

Assets classified as Stage 3 have increased by 395 million euros in 2021. However, the Group's NPL ratio has fallen during this period due to the increase in lending volumes, as shown in the table below:

%

	2021	2020
NPL ratio (*)	3.65	3.60
NPL (stage 3) coverage ratio, with total provisions (*)	56.34	56.45

(*) The NPL ratio excluding TSB stands at 4.44% and the NPL coverage ratio at 58.45% (in 2020, 4.28% and 56.37%, respectively).

A more detailed quantitative breakdown of allowances and assets classified as Stage 3 can be found in Note 10, and a more detailed breakdown of forborne (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, including 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 Credit 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 Credit 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 in 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 2021 and 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, 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 Board of Directors and the corresponding decision-making bodies, as per their conferred powers, and they are continuously monitored to ensure that any deterioration in the economic, political or social prospects 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 value 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:

%

2021															
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	Other	**TOTAL**
0.0%	0.0%	18.2%	30.1%	15.8%	0.9%	8.2%	8.9%	5.7%	1.9%	2.2%	2.4%	1.3%	0.6%	3.8%	**100.0%**

%

2020															
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	Other	**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%**

%

	2021	2020
Euro Zone	71.6%	65.6%
Rest of Europe	18.3%	25.7%
United States and Canada	6.6%	6.3%
Rest of the world	3.5%	2.5%
Total	**100.0%**	**100.0%**

As can be seen in the table, the risk is concentrated in counterparties with a high credit quality, with 73% of the risk relating to counterparties rated A, whereas in 2020 this concentration was 79%.

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) began to apply to the Group. For this reason, the derivatives arranged 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, according to whether the counterparty is another financial institution, clearing house or organised market, is shown below:

Million euro

	2021	2020
Transactions with organised markets	2,000	4,992
OTC transactions	95,318	115,560
Settled through clearing houses	*40,355*	*48,689*
Total	**97,318**	**120,552**

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 2021 and 2020:

Thousand euro

	2021				
	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	1,110,669	1,009,677	116,054	—	(15,062)
Repos	4,935,785	—	22,350	4,927,409	(13,974)
Total	**6,046,454**	**1,009,677**	**138,404**	**4,927,409**	**(29,036)**

Thousand euro

	2021				
	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	1,395,229	1,009,677	575,955	159,273	(349,676)
Repos	5,454,650	—	37,643	5,680,214	(263,207)
Total	**6,849,879**	**1,009,677**	**613,598**	**5,839,487**	**(612,883)**

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)**

The values of derivative financial instruments which are settled through a clearing house as at 31 December 2021 and 2020 are indicated hereafter:

Thousand euro

	2021	2020
Derivative financial assets settled through a clearing house	659,582	986,806
Derivative financial liabilities settled through a clearing house	600,870	1,146,359

The philosophy behind counterparty credit risk management is consistent with the business strategy, seeking to ensure the creation of value at all times whilst maintaining a balance between risk and return. To this end, criteria have been established for controlling and monitoring counterparty credit risk arising from activity in financial markets, which ensure that the Bank can carry out its business activity whilst adhering to the risk thresholds approved by the Board of Directors.

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 substitution 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 with the limits approved by the Board of Directors. 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).
- Initial margin collateral agreements for derivatives (CTA and SA).

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 agreements.

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 2021 and 2020, 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 mortgage covered bonds, public sector covered bonds and long-term asset-backed securities (see Note 19 and Schedules III and IV). The remaining 0pledged 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 home equity loans granted in Spain, included in "Loans and advances – Customers" and linked to the issuance of mortgage 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, as well as other financial assets transferred, depending on whether they have been derecognised or retained in full on the balance sheet, is as follows:

Thousand euro

	2021	2020
Fully derecognised from the balance sheet:	**808,862**	**752,548**
Securitised mortgage assets	118,986	113,369
Other securitised assets	397,367	632,599
Other transferred financial assets	292,509	6,580
Fully retained on the balance sheet:	**6,950,706**	**8,176,528**
Securitised mortgage assets	6,721,857	7,730,400
Other securitised assets	228,849	446,128
Other transfers to credit institutions	—	—
Total	**7,759,568**	**8,929,076**

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 retained in the balance sheet. As at 31 December 2021 and 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 having 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 in 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 the governing body, committees and management bodies, 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 de 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) and the individual management of their own risk) 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 clear and consistent definitions of their terminologies, as well as its alignment with the Group's business strategy through 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, providing independence in the assessment of positions and in risk assessment and control.

- 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, through first- and second-tier risk taxonomies, and 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.

As regards 2021, the effects of the COVID-19 crisis have been reduced, resulting in greater stability in lending volumes. Nevertheless, the mitigating actions taken by central banks in response to COVID-19 are still in place. Worthy of note is the asset purchase programmes designed to ensure market liquidity, the support put in place for bank lending, allowing banks to accept a larger number of loans as collateral and the reduction of the deduction from the market value of collateral pledged for loans, among others.

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 metrics 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 the relevant set of metrics to the governing body, committees and management bodies, depending on the tiers into which those metrics have been classified.
- 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.

In addition, Banco Sabadell regularly reviews the identification of potential liquidity risks and assesses their materiality. It also conducts regularly liquidity stress tests, which envisage a series of stress scenarios in the short and longer term, and it analyses its impact on the liquidity position and the main metrics in order to ensure that the exposures are consistent at all times with the established liquidity risk tolerance threshold.

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, among others: the definition of the strategy for its implementation, 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 maturity, excluding, in some cases, value adjustments and impairment losses, of certain pools of items on the balance sheet as at 31 December 2021 and 2020, under business-as-usual market conditions:

Thousand euro

2021										
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	—	44,949,729	6,225	639,359	1,043,810	258,255	362,440	291,365	39,849	**47,591,032**
Loans and advances	—	6,162,414	4,975,250	17,843,707	17,356,574	10,325,527	9,004,463	7,124,359	42,009,251	**114,801,545**
Debt securities	—	—	56,484	1,071,105	1,351,555	1,538,215	1,378,681	1,309,007	9,300,221	**16,005,268**
Other assets	—									
Total assets	**—**	**51,112,143**	**5,037,959**	**19,554,171**	**19,751,939**	**12,121,997**	**10,745,584**	**8,724,731**	**51,349,321**	**178,397,845**
Money Market	—	5,533,449	10,154	515,179	27,560,425	5,000,000	5,229	—	—	**38,624,436**
Of which: Repos	—	*4,415,675*	—	*482,405*	*560,425*	—	—	—	—	***5,458,505***
Customer deposits	106,410,398	1,031,178	1,794,988	3,955,018	1,271,890	1,261,492	104,546	877,871	130,057	**116,837,438**
Issues of marketable securities (*)	—	116,338	1,640,355	2,756,172	2,952,599	4,287,368	2,700,910	2,496,110	3,673,398	**20,623,250**
Of which: Secured senior debt	—	*11,098*	*321,537*	*895,557*	*1,463,599*	*1,905,368*	*879,210*	*429,110*	*2,408,373*	***8,313,852***
Of which: Unsecured senior debt	—	*44,146*	*604,415*	*582,215*	*989,000*	*2,382,000*	*1,521,700*	*567,000*	*500,000*	***7,190,476***
Of which: Subordinated liabilities	—	—	—	*1,150,000*	*500,000*	—	*300,000*	*1,500,000*	*765,025*	***4,215,025***
Other liabilities	—	34,061	127,775	225,731	229,251	196,623	161,939	141,842	738,232	**1,855,454**
Total liabilities	**106,410,398**	**6,715,026**	**3,573,272**	**7,452,100**	**32,014,165**	**10,745,483**	**2,972,624**	**3,515,823**	**4,541,687**	**177,940,578**
Of which:										
Secured liabilities	—	*4,426,773*	*321,537*	*1,377,962*	*2,024,025*	*1,905,368*	*879,210*	*429,110*	*2,408,373*	***13,772,358***
Unsecured liabilities	*106,410,398*	*2,288,253*	*3,251,735*	*6,074,137*	*29,990,141*	*8,840,116*	*2,093,414*	*3,086,713*	*2,133,314*	***164,168,221***
Trading and Hedging Derivatives										
Receivable	—	3,673,541	3,724,587	8,481,451	11,361,142	14,097,461	3,675,670	5,579,757	29,751,995	**80,345,604**
Payable	—	3,431,728	3,822,997	8,321,320	9,868,689	13,981,588	3,653,398	5,151,087	32,153,776	**80,384,583**
Net	**—**	**241,813**	**(98,410)**	**160,131**	**1,492,453**	**115,873**	**22,272**	**428,670**	**(2,401,781)**	**(38,979)**
Contingent risks										
Financial guarantees	276	29,716	108,517	345,395	159,160	109,127	50,119	36,045	8,128,562	**8,966,917**

(*) For details of maturities of issues aimed at institutional investors, see the section entitled "Funding strategy and liquidity trends in 2021" in this note.

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**

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.

Furthermore, 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 behavioural 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 taken 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 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 2021 and 2020, the Bank had no instruments in addition to those regulated by master agreements associated with the arrangement 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 2021 and 2020.

Funding strategy and evolution of liquidity in 2021

The Group's primary source of funding is customer deposits (mainly demand 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 continues to maintain 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 2021 and 2020, on-balance sheet customer funds broken down by maturity were as follows:

Million euro / %

	Note	2021	3 months	6 months	12 months	>12 months	No mat.
Total on-balance sheet customer funds (*)		**119,592**	**4.2 %**	**1.6 %**	**1.7 %**	**3.0 %**	**89.5 %**
Deposits with agreed maturity		11,395	38.0 %	13.6 %	17.2 %	31.2 %	0.0 %
Sight accounts	18	107,068	0.0 %	0.0 %	0.0 %	0.0 %	100.0 %
Retail issues		1,129	62.9 %	33.9 %	3.2 %	0.0 %	0.0 %

(*) 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	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 %	0.0 %
Sight accounts	18	95,326	0.0 %	0.0 %	0.0 %	0.0 %	100.0 %
Retail issues		1,125	5.5 %	28.4 %	4.9 %	61.2 %	0.0 %

(*) 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 resulted in a change in the composition of on-balance sheet customer funds, as term deposits flowed through to demand deposits.

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 (Banking Business Spain, TSB and Mexico). Details of the volumes of these business units are included in the "Businesses" section of the Directors' Report.

In 2021, 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 97.6% as at 2020 year-end to 96.3% as at 2021 year-end).

Capital markets

In 2021, the level of funding in capital markets remained steady because of the need to meet regulatory requirements such as MREL (Minimum Requirement for own funds and Eligible Liabilities), focusing on products that have a tighter cost-to-term ratio given the Institution's credit rating. The outstanding nominal amount of funding in capital markets, by type of product, as at 31 December 2021 and 2020, is shown below:

Million euro

	2021	2020
Outstanding nominal balance	**21,086**	**20,788**
Covered Bonds	9,754	10,862
Of which: TSB	*2,083*	*1,390*
Commercial paper and ECP	—	—
Senior debt	4,335	4,621
Senior non-preferred debt	2,042	1,451
Subordinated debt and preference shares	4,215	2,888
Of which: TSB	—	*428*
Securitisation bonds	738	953
Of which: TSB	—	—
Other	2	13

Maturities of issues in capital markets, by type of product (excluding securitisations and commercial paper), and considering their legal maturity, as at 31 December 2021 and 2020, are analysed below:

Million euro

	2022	2023	2024	2025	2026	2027	>2027	Balance outstanding
Covered bonds (*)	1,717	1,388	2,743	836	390	1100	1580	9,754
Senior Debt (**)	25	1,475	735	1,600	—	500	—	4,335
Senior non-preferred debt (**)	—	—	975	500	67	—	500	2,042
Subordinated debt and preference shares (**)	—	—	—	—	500	—	3,715	4,215
Other medium/long term financial instruments (**)	—	—	2	—	—	—	—	2
Total	**1,742**	**2,863**	**4,455**	**2,936**	**957**	**1,600**	**5,795**	**20,348**

(*) Secured issues.

(**) Unsecured issues.

Million euro

	2021	2022	2023	2024	2025	2026	>2026	Balance outstanding
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 preference shares (**)	—	—	—	—	—	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 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 2021 Commercial Paper Programme was registered with the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR) and had an issuance limit of 7 billion euros, which can be extended to 9 billion euros. As at 31 December 2021, the outstanding balance of the programme was 426 million euros (net of commercial paper subscribed by Group companies), compared with 374 million euros as at 31 December 2020.

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 2 November 2021, 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 issuance of non-equity securities for 2021, as at 31 December 2021, was 9,933 million euros (as at 31 December 2020, the limit available under the Fixed Income Programme for 2020 was of 8.5 billion euros).

  Banco Sabadell's public issuance volume under the Fixed-Income Programme in 2021 amounted to a total of 67 million euros:

  Million euro

	ISIN Code	Type of investor	Issue Date	Amount	Term
Issue of Ordinary Non-Preferred Bonds 1/2021	ES0213860333	Institutional	29/11/2021	67	5

– Euro Medium Term Notes (EMTN) programme, registered with the Irish Stock Exchange on 31 May 2021, and renewed on 3 August and 3 November 2021. 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 issuance volume under the EMTN Programme in 2021 amounted to a total of 1 billion euros. On 15 January, it issued Tier 2 subordinated debt for 500 million euros, with a 10.25-year maturity and an early cancellation option in favour of Banco Sabadell after the fifth year. Furthermore, on 16 June 2021, it carried out an inaugural green bond issuance of senior non-preferred debt in the amount of 500 million euros with a 7-year maturity and an early cancellation option in favour of Banco Sabadell in the sixth year. Throughout the year, Banco Sabadell has issued the following:

Million euro

	ISIN Code	Type of investor	Issue Date	Amount	Term
Subordinated Bonds 1/2021	XS2286011528	Institutional	January-21	500	10.25
Senior Non Preferred 1/2021 issue	XS2353366268	Institutional	June-21	500	7

On 15 March 2021, the Bank carried out an issue of subordinated securities contingently convertible into newly issued ordinary shares of Banco Sabadell (Additional Tier 1), for a nominal amount of 500 million euros, at an annual interest rate of 5.75%, subject to reset every five years as from 15 September 2026.

Furthermore, on 19 November 2021, the Bank carried out an issue of undated securities contingently convertible into newly issued ordinary shares of Banco Sabadell (Additional Tier 1), for a nominal amount of 750 million euros, at an annual interest rate of 5%, subject to reset every five years as from 19 November 2027.

The aforesaid subordinated securities and undated securities are perpetual, although they may be converted into newly issued Banco Sabadell ordinary shares, if either Banco Sabadell or its consolidable group has 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.

Meanwhile, on 22 June 2021, TSB carried out a new covered bonds issuance. TSB placed with the institutional market a 500 million pound 7-year transaction with a floating coupon set at SONIA + 37 bp.

In relation to asset securitisation:

– Since 1993, the Group has been very active in this market and has taken part in various securitisation programmes, sometimes acting together with other institutions, granting mortgage loans, loans to small and medium-sized enterprises and consumer loans.

– There are currently 17 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 as collateral in exchange 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 2021, the nominal value of asset-backed securities placed in the market was 738.4 million euros.

– During 2021, Banco de Sabadell carried out an early call of the fund TDA 14 mixto, FTA in January, on the date of the clean-up call. It also carried out an early call of the fund IM Sabadell PYME 10, FT in February, whose bonds were fully retained by Banco de Sabadell.

Coinciding with the repayment of TLTRO II, on 24 June 2020 Banco Sabadell requested a withdrawal of 27 billion euros from TLTRO III (see Note 1.3.20). In addition, on 24 March 2021, Banco Sabadell requested a withdrawal of 5 billion euros from TLTRO III. Considering this, as at 31 December 2021, the total balance drawn down by Banco Sabadell stood at 32 billion euros, corresponding to TLTRO III. The Group has recognised 313,056 thousand euros in interest income on TLTRO III during 2021 (143,250 thousand euros during 2020).

On the other hand, the Bank of England has also launched a package of measures to drive lending in the COVID-19 environment.

These include the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME), whose aim is to incentivise lending to SMEs in the United Kingdom. Through this programme, British banks can carry out 4-year drawdowns, extendable in a first phase to 6 years, in the case of having one or more lenders accredited by the BBLS (Bounce Back Loan Scheme) to be able to align with the term of loans granted through the BBLS and, in a second phase for a further 4 years, up to a total of 10, providing collateral eligible as consideration. To determine the volume that can be extended, in this first phase, the total volume of BBLS loans outstanding as at 30 June 2021 will be considered, with those loans already extended in the previous phase being eligible for extension in the second phase for an additional 4 years, and considering the total volume of BBLS loans of the Institution outstanding at that time. TSB, as member of the Sterling Monetary Framework (SMF), made use of the TFSME throughout 2021, refinancing through this programme the amount outstanding from the TFS, as well as carrying out additional drawdowns during the second half of the year, resulting in a total amount taken from the Bank of England of 6,545 million euros as at 31 December 2021.

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

	2021	2020
Cash(*) + Net Interbank Position	43,189	29,560
Funds available in Bank of Spain facility	1,527	7,728
ECB eligible assets not pledged in facility	4,429	3,387
Other non-ECB eligible marketable assets (**)	4,738	3,710
Memorandum item:		
Balance drawn from Bank of Spain facility(***)	*32,000*	*27,978*
Balance drawn from Bank of England Term Funding Scheme (****)	*6,545*	*3,409*
Total Liquid Assets Available	**53,883**	**44,385**

(*) 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.

(***) Corresponds to 32 billion euros of TLTRO III in 2021, while in 2020 it included 27 billion euros of TLTRO III and the drawdown of 1.2 billion dollars, with a 3-week maturity, from the ECB .

(****) Includes 5,500 million pounds for Small and Medium-sized Enterprises.

With respect to 2020, the Group's first line of liquidity increased during the year by 9,498 million euros. Of particular note are the increase in the issuance of own-name securities and other non-marketable securities pledged in the Bank of Spain and the Bank of England facilities, as well as the positive funding gap generated by a greater increase of funds than lending. The balance of central bank reserves and the net interbank position increased by 13,629 million euros in 2021, mainly due to the additional withdrawal of 5 billion euros from TLTRO III and sales made in the fixed income portfolio. There is also a volume of ECB-eligible liquid assets, whose balance has decreased by 5,159 million euros during 2021, also primarily due to the additional TLTRO III drawdown, while available non-ECB-eligible assets have increased by 1,028 million euros during 2021, mainly due to the increase in TSB.

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.

In addition to the first line of liquidity, each UGL monitors its liquidity buffer with internal and conservative criteria, called counterbalancing capacity. In the case of the BSab UGL (includes Banco de Sabadell, S.A., which incorporates activity in foreign branches, as well as the business in Mexico of Banco de Sabadell, S.A.), this liquidity buffer comprises the first and second lines of liquidity. As at 31 December 2021, the second line of liquidity amounted to 11,536 million euros, including the issuing capacity of mortgage covered bonds considering the average haircut applied by the ECB to own-use covered bonds to obtain funding, as well as assets available for up to 7 days of the business in Mexico not included in the first line of liquidity.

For the TSB UGL, this metric is calculated as the sum of the first line of liquidity and those loans pre-pledged with the Bank of England to obtain funding. As at 31 December 2021, the amount of loans pre-pledged with the Bank of England stood at 5,786 million euros (6,499 million euros as at 31 December 2020).

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, 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 has been 100%, a level which is amply surpassed by all of the Group's UGLs. At the Group level, throughout the year, the LCR has consistently been well above 100%. As at 31 December 2021, the LCR stood at 221% in the Group, 254% in Banco Sabadell Spain and 194% in the TSB UGL (as at 31 December 2020, 198% in the Group, 221% in Banco Sabadell Spain and 201% in the TSB UGL).

In terms of the NSFR, the regulatory minimum requirement, effective from June 2021, is 100%, a level that is amply surpassed by all UGLs of the Institution given its funding structure, in which customer deposits are predominant and where the majority of market funding is in the medium-/long-term. As at 31 December 2021, the NSFR stood at 141% for the Group, 137% for Banco Sabadell Spain and 149% for the TSB UGL.

3.4.3.2. Market risk

Market risk is defined as the risk of losses in the market value of financial instrument positions due to variations in risk factors affecting their quoted price or market performance, their volatility, or the correlation 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 balance sheet as at 31 December 2021 and 2020 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

	31/12/2021			
	On-balance sheet balance	Trading activity	Other	Main risk factor for balance sheet under "Other"
Assets subject to market risk	**197,187,820**	**1,791,687**	**195,396,133**	
Cash, cash balances at central banks and other demand deposits	42,305,858	—	42,305,858	Interest rate
Financial assets held for trading	1,765,884	1,754,670	11,214	Interest rate; credit spread
Non-trading financial assets mandatorily at fair value through profit or loss	76,832	11,942	64,890	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	5,856,546	25,075	5,831,471	Interest rate; credit spread
Financial assets at amortised cost	133,047,125	—	133,047,125	Interest rate
Derivatives – Hedge accounting	240,921	—	240,921	Interest rate
Investments in joint ventures and associates	5,358,076	—	5,358,076	Equities
Other assets	8,536,578	—	8,536,578	—
Liabilities subject to market risk	**185,884,573**	**1,180,734**	**184,703,839**	
Financial liabilities held for trading	1,189,494	1,180,734	8,760	Interest rate
Derivatives – Hedge accounting	354,769	—	354,769	Interest rate
Financial liabilities at amortised cost	182,745,169	—	182,745,169	Interest rate
Other liabilities	1,595,141	—	1,595,141	—
Equity	**11,303,247**	**—**	**11,303,247**	

Thousand euro

	31/12/2020			
	On-balance sheet balance	Trading activity	Other	Main risk factor for balance sheet under "Other"
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
Non-trading financial assets mandatorily 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	Equities
Other assets	9,419,073	—	9,419,073	—
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	—
Derivatives – Hedge accounting	521,384	—	521,384	Interest rate
Financial liabilities at amortised cost	172,930,575	—	172,930,575	Interest rate
Other liabilities	2,044,499	—	2,044,499	—
Equity	**11,096,422**	**—**	**11,096,422**	

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 always manage their positions within the limits established by the Board of Directors and the Technical Risk Committee.

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 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 VaR level, an exception occurs. In 2021, no exceptions occurred in the backtesting exercise, whereas in 2020 three exceptions occurred due to the impact of COVID-19 on sovereign bond spreads in the European periphery.

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.

The monitoring of market risk 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 supervisory bodies on the existing risk levels and on the compliance with the limits set forth by the Technical Risk Committee for each trading desk (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 2021 and 2020 was as follows:

Million euro

	2021			2020		
	Average	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Interest rate risk	0.88	1.86	0.55	1.42	2.71	0.60
Currency risk-trading	1.61	3.13	0.03	0.46	3.22	0.01
Equities	0.16	1.89	0.04	0.19	0.23	0.08
Credit spread	0.25	0.62	0.07	1.10	2.14	0.20
Aggregate VaR	**2.89**	**5.38**	**1.14**	**3.17**	**5.05**	**1.26**

During 2021, the overall VaR figures of the trading activity have remained at medium-low levels, the exchange rate being the main risk factor, as result of the impact that the pandemic had on the markets during the first quarter of 2020 and also due to a higher exposure of portfolios to this risk factor. There were also rises in interest rate curves and credit spreads and increases in equity indices, which did not significantly affect the portfolios 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 Interest Rate Risk in the Banking Book, or IRRBB).

- The Group identifies five interest rate sub-risks: Repricing risk: it is the risk arising from mismatches at the time the repricing of interest rate-sensitive instruments occurs, including those changes in the time structure of interest rates that occur consistently along the yield curve (parallel changes).

- Curve risk is the risk arising from mismatches at the time the repricing of interest rate-sensitive instruments occurs, including those changes in the time structure of interest rates that occur differently depending on the maturity (non-parallel changes).

- Basis risk includes the risk arising from the impact of relative changes in interest rates on instruments with similar maturities but whose repricing is determined using different interest rate indices.

- Automatic optionality risk comprises the risk arising from automatic options (e.g., floors and lending caps), both embedded and explicit, in which the UGB or its customer can alter the level and timing of their cash flows and in which the holder will almost certainly exercise the option when it is in their financial interest to do so.

- Behavioural optionality risk arises from the flexibility embedded within the terms of certain financial contracts, which allow variations in interest rates to cause a change in customer behaviour.

The Group's 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 on the following principles in particular, in line with the business model and the defined strategic objectives:

- Each UGB has appropriate tools and robust processes and systems in order to properly identify, measure, manage, control and report on IRRBB. The Group uses these to obtain information about all of the identified sources of IRRBB, assess their effect on the net interest margin and the economic value of equity and measure the vulnerability of the Group/UGB in the event of potential losses arising from IRRBB under different scenarios in the interest rate curves.

- At the corporate level, a series of limits are established for overseeing and monitoring IRRBB exposure levels, which are aligned with 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 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 various Balance Sheet Management Units (UGBs), which report to the various local Asset and Liability Committees. 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 the Group's structural interest rate risk are aligned with the market's best practices and are implemented consistently across all UGBs and by each of the local asset and liability committees. The diversification effect between currencies and UGBs is taken into account when presenting overall figures.

The metrics that the Group calculates on a monthly basis 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 impact of interest rate fluctuations at different time horizons. It is obtained by comparing the net interest margin over a time horizon in the baseline scenario, which would be the one obtained from implied market interest rates, against the one obtained in a scenario of instant disruption, always considering the result obtained in the least favourable scenario. This metric supplements the economic value of equity sensitivity.

– Economic value of equity sensitivity: static metric that measures the 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 least favourable 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 into account profit margins, in line with the Group's IRRBB management strategy. This metric supplements the net interest margin sensitivity.

In the quantitative interest rate risk estimations made by each UGB, 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 interest rate 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 bp for current maturities and increasing by 5 bp intervals, eventually reaching 0% after 20 years or more.

In addition, measurements are carried out that include assumptions on the balance sheet's performance based on forecasting scenarios of the Group's Financial Plan, referring to scenarios of interest rates, volumes and margins.

Furthermore, in accordance with the Group's corporate principles, all UGBs regularly carry out stress tests, which allow them to forecast high-impact situations with a low probability of occurrence that could place UGBs in a position of extreme exposure in relation to interest rate risk, and they also consider mitigating actions for such situations.

The following table gives details of the Bank's interest rate gap as at 31 December 2021 and 2020:

Thousand euro

	2021								
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	46,427,515	65,685	536,886	560,946	—	—	—	—	**47,591,032**
Loans and advances	12,988,079	16,966,019	38,437,099	13,996,053	6,629,018	5,333,052	3,995,440	16,456,783	**114,801,543**
Debt securities	982,561	123,296	137,269	1,351,555	1,514,715	1,378,681	1,309,007	9,208,183	**16,005,267**
Other assets	—	—	—	—	—	—	—	—	**—**
Total assets	**60,398,155**	**17,155,000**	**39,111,254**	**15,908,554**	**8,143,733**	**6,711,733**	**5,304,447**	**25,664,966**	**178,397,842**
Money Market	37,533,449	10,154	515,179	560,425	—	5,229	—	—	**38,624,436**
Customer deposits	107,472,796	1,838,637	3,957,112	1,292,156	1,216,439	114,277	816,153	129,868	**116,837,438**
Issues of marketable securities	934,160	2,649,284	2,426,220	2,577,337	3,529,309	2,668,804	2,464,779	3,373,358	**20,623,251**
Of which: Subordinated liabilities	—	—	1,150,000	500,000	—	300,000	1,500,000	765,025	***4,215,025***
Other liabilities	67,814	182,842	344,716	182,133	158,191	130,003	115,416	674,340	**1,855,455**
Total liabilities	**146,008,219**	**4,680,917**	**7,243,227**	**4,612,051**	**4,903,939**	**2,918,313**	**3,396,348**	**4,177,566**	**177,940,580**
Hedging Derivatives	**1,538,491**	**(2,514,023)**	**1,506,771**	**(601,913)**	**1,422,940**	**343,465**	**1,008,435**	**(2,704,166)**	**—**
Interest rate gap	**(84,071,573)**	**9,960,060**	**33,374,798**	**10,694,590**	**4,662,734**	**4,136,885**	**2,916,534**	**18,783,234**	**457,262**

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)**

The following table shows the interest rate risk levels in terms of the sensitivity of the Bank's main currencies, as at 2021 year-end, to the most frequently used interest rate scenarios in the sector:

	Instant and parallel interest rate increase	
	100 pb	**200 pb**
Interest rate sensitivity	**Impact on net interest margin**	**Impact on economic value of equity**
EUR	3.6%	-0.7%
GBP	0.4%	0.0%
USD	0.7%	0.0%
MXN	0.0%	0.0%

The metrics are calculated taking 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 contracts, 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 termination of term deposits (implicit options): in order to reflect customers' reactions to interest rate movements, prepayment/termination assumptions are defined, broken down by type of product. To this end, the Institution uses historical data to ensure it is in line with the market's best practices. The prepayment mainly affects fixed rate mortgages where their contractual interest rates are low compared to market interest rates.

- Modelling of demand deposits and other liabilities with no contractual maturity: a model has been defined using historical monthly data 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.

- Modelling of non-performing loans: a model has been defined that allows the expected payment flows associated with non-performing loans (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 Institution. 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 configured 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 interest rate curves on which the aforesaid scenarios are built.

Based on the balance sheet position and the market situation and outlooks, risk mitigation techniques are proposed and agreed upon to adjust this position to match the one desired by the Group. Interest rate instruments additional to the natural hedges of balance sheet items are used 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 a 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.

During 2021, the Bank's loan book has shifted towards a higher proportion of fixed rate transactions (mainly mortgages and business loans), while on the liabilities side demand deposits have increased. In addition, the main changes in the balance sheet in 2021 have been: the reduction of the fixed income portfolio on the assets side; and the 5 billion euro increase in access to TLTRO III, to a total of 32 billion euros. This leaves a higher balance of interest rate-sensitive assets.

In terms of interest rates, these have remained low throughout 2021. In this regard, the European Central Bank's marginal deposit rate has remained unchanged at -0.50%, while the BoE official rate has risen by 15 bp to 0.25%. Interbank rates on the currencies relevant to the Group have risen compared to 2021 year-end. The future scenario for the short to medium term is for EUR rates to remain at negative levels and for USD and GBP rates to rise, all of this conditional upon potential hikes due to the inflationary pressures that are becoming more relevant in the last period of the year.

On the other hand, the Group pays close attention to possible changes in customer behaviour deriving from a potential interest rate hike or changes in other economic variables (unemployment rates, GDP, etc.), in order to keep the behavioural 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 demand 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).

The Group's balance sheet management has enabled it to keep its IRRBB metrics within the risk appetite and below the levels considered significant under current legislation, taking into consideration the structural changes outlined previously as well as the episodes of market volatility and interest rate variations.

3.4.3.3. Structural foreign exchange risk

Structural foreign exchange risk occurs when changes in market exchange rates between different currencies generate losses 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 Institution's portfolio/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 are sent to supervisory bodies on existing risk levels and on compliance with the limits set forth by the Board of Directors. The main monitoring metric is currency exposure, which measures the maximum potential loss that the open structural position could cause over a 1-month time horizon, with a 99% confidence level and in stressed market conditions.

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.

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 overall position in this currency has gone from 1,039 million US dollars as at 31 December 2020 to 1,096 million US dollars as at 31 December 2021. In relation to this position, as at 31 December 2021, a buffer of 26% of total investment is maintained.

In terms of permanent investments in Mexican pesos, the capital buffer has gone from 8,583 million Mexican pesos as at 31 December 2020 (of a total exposure of 12,505 million Mexican pesos) to 9,583 million Mexican pesos as at 31 December 2021 (of a total exposure of 12,519 million Mexican pesos), representing 76.5% of total investment.

As regards permanent investments in pounds sterling, the capital buffer has remained stable at 213 million pounds sterling during 2021 (total exposure has gone from 1,713 million pounds sterling as at 31 December 2020 to 1,715 million pounds sterling as at 31 December 2021), representing 12% of the total investment made (excluding intangibles).

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 2021 and 2020, classified in accordance with their nature, is as follows:

Thousand euro

	2021			
	USD	**GBP**	**Other currencies**	**TOTAL**
Assets denominated in foreign currency:	**9,198,168**	**4,692,158**	**1,248,354**	**15,138,680**
Cash, cash balances with central banks and other demand deposits	294,699	54,557	76,729	425,985
Debt securities	1,133,691	896,356	268,566	2,298,613
Loans and advances	7,586,335	1,468,032	291,051	9,345,418
Central banks and Credit institutions	243,323	4,046	24,278	271,647
Customers	7,343,012	1,463,986	266,773	9,073,771
Other assets	183,443	2,273,213	612,008	3,068,664
Liabilities denominated in foreign currency:	**6,755,021**	**675,036**	**176,150**	**7,606,207**
Deposits	6,543,790	648,216	157,825	7,349,831
Central banks and Credit institutions	1,142,752	209,930	46,637	1,399,319
Customers	5,401,038	438,286	111,188	5,950,512
Other liabilities	211,231	26,820	18,325	256,376

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 at 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

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 2021, which amounted to 2,680 million euros, including 1,788 million euros corresponding to permanent equity holdings in pounds sterling, 720 million euros corresponding to permanent equity holdings in US dollars and 127 million euros to permanent equity holdings in Mexican pesos. Net assets and liabilities valued at historical 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 2021, the sensitivity of the equity exposure to a 1.3% exchange rate depreciation against the euro of the main currencies to which the Bank is exposed would amount to 35 million euros, of which 67% correspond to the pound sterling, 27% to the US dollar and 5% to the Mexican peso. This potential depreciation is in line with the historical quarterly volatility of recent years.

During 2021, the US dollar appreciated by 8.3%, the pound sterling appreciated by 7.0% and the Mexican peso appreciated by 5.5% against the euro. The Bank's strategy, consisting of protecting the capital ratio against exchange rate movements during this period, has remained unchanged from the previous year.

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 various 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 risk in terms of expected and unexpected losses 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 they could cause if they were to materialise.

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 the operational risks encountered by each business line as well as their causes, so as to be able to take action to minimise these risks and detect potential weaknesses in processes that require action plans to be drawn up aimed at mitigating the risks associated therewith. Recoveries are also recorded, which make it possible to reduce the extent of the 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: defined as the possibility, now or in the future, 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 defined therein.

- 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 either the environment or 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 due to either internal or external factors:

  - On one hand, the probability of failing to fulfil tax obligations, potentially resulting in a failure to pay taxes that are due, or the occurrence of any other event that could potentially prevent the Bank from achieving its goals.

  - On the other hand, the probability of paying taxes not actually due under 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.

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 those associated with technology, human error, conduct, processes, security and fraud) and reputational impacts that could potentially affect the Group's different stakeholders (employees and partners, customers, suppliers, supervisors). No significant impacts have been detected.

Detailed information on the risks that the Group deems most material is provided below:

3.4.4.1 Technology risk

Since 2020, the relevance, complexity and use of technology and data have increased even further in banking processes, especially in remote channels (online banking) arising from the impact of COVID-19; therefore, the reliance on information systems and their availability are undeniable, as the Bank is more exposed to cyberattacks just like the other operators in the sector. Furthermore, the Institution is undergoing a transformation process, based on digitisation and process automation, that increases the reliance on systems and the exposure to risks associated with this change. Therefore, technology risk remains as one of the focus areas in Banco Sabadell Group's risk management.

It should be mentioned that this risk is not only applicable to the Group'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.

In order to holistically and adequately manage all risks related to technology and data, the Institution classifies and categorises these risks into 8 categories, in line with the Guidelines on ICT and security risk management (EBA/GL/2019/04):

- IT security (cybersecurity): risk of unauthorised access to IT systems and the information (data and metadata) they contain (including cyberattacks).
- IT availability (technological resilience): risk that customer and employee services are affected by system failures.
- IT change: risk arising from errors in the change and development processes of information systems.
- Data integrity: risk that data stored and processed by IT systems are incomplete, inaccurate or inconsistent.
- IT outsourcing: risk that the outsourcing to a third party or to another Group entity (intra-group outsourcing) of IT systems, their management or IT-related services has a negative impact on the Institution's performance (including impact on customers, reputational, regulatory and financial impacts).
- IT governance: risk arising from inadequate or insufficient management and use of technology, as well as a poor alignment of these technologies and their intended uses with the business strategy.
- Technological transformation: risk associated with inappropriate adoption or inefficient use of technology within the organisation for the development of new value propositions.
- IT skills: risk arising from the insufficiency of adequate IT profiles (internal and/or external collaborators) to ensure effective and efficient coverage of technological activities, processes and services.

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 fostering 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 to be strategic or to have a particular tax risk due to their high monetary value 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 the Group's policy, and the foundation 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 failing 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 up-to-date oversight and control programme, with the appropriate tools and methodologies for control.
- Supervising the risk management activities carried out by the first 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 throughout 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.

- Disseminating, 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's Code of Conduct, Banco Sabadell Group's Internal Code of Conduct relating to the securities market, Banco Sabadell Group's General Policy on Conflicts of Interest and Banco Sabadell Group's Corporate Crime Prevention Policy.

Note 4 – Minimum own funds and capital management

As at 31 December 2021 and 2020, the Bank's eligible own funds exceeded those required by the current regulatory framework concerning capital (Directive 2013/36/EU and Regulation EU 575/2013).

Note 5 to Banco Sabadell Group's consolidated annual financial statements provides detailed 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, 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 risks 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 exactly 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. In the remaining cases, 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 payment 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 rate options (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	Discounted cash flow method	Calculation of the present value of future cash flows discounted at market interest rates adjusted for risk (CAPM method), taking into account: - An estimate of the company's projected 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 financial assets and liabilities are recognised on the accompanying balance sheets and their corresponding fair values is shown below:

Thousand euro

		2021		2020	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Cash, cash balances at central banks and other demand deposits	6	42,305,858	42,305,858	28,723,571	28,723,571
Financial assets held for trading	7, 9	1,765,884	1,765,884	2,434,831	2,434,831
Non-trading financial assets mandatorily at fair value through profit or loss	7, 8	76,832	76,832	70,236	70,236
Financial assets at fair value through other comprehensive income	7, 8	5,856,546	5,856,546	5,066,571	5,066,571
Financial assets at amortised cost	7, 10	133,047,125	138,280,555	137,243,172	144,813,375
Derivatives – Hedge accounting	11	240,921	240,921	393,702	393,702
Fair value changes of the hedged items in portfolio hedge of interest rate risk		126,152	126,152	369,688	369,688
Total assets		**183,419,318**	**188,652,748**	**174,301,771**	**181,871,974**

Thousand euro

	Note	2021		2020	
		Carrying amount	Fair value	Carrying amount	Fair value
Liabilities:					
Financial liabilities held for trading	9	1,189,494	1,189,494	2,316,140	2,316,140
Financial liabilities at amortised cost	17, 18, 19, 20	182,745,169	181,125,677	172,930,575	173,426,061
Derivatives – Hedge accounting	11	354,769	354,769	521,384	521,384
Fair value changes of the hedged items in portfolio hedge of interest rate risk		95,139	95,139	241,550	241,550
Total liabilities		**184,384,571**	**182,765,079**	**176,009,649**	**176,505,135**

In relation to financial instruments whose carrying amount 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 carrying amount, as these are mainly short-term balances.
- The fair value of the headings "Financial assets at amortised cost" and "Financial liabilities at amortised cost" has been estimated using the discounted cash flow method, applying 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 "Financial assets at amortised cost" are considered as Level 3. On the other hand, the majority of the valuations of "Financial liabilities at amortised cost" are considered as Level 2.
- Under the heading "Fair value changes of the hedged items in portfolio hedge of interest rate risk" of the accompanying balance sheets, adjustments (positive or negative) are recorded 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. The 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 to estimate their fair value:

Thousand euro

	Note	2021			
		Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		590,373	1,175,511	—	1,765,884
Derivatives	9	—	1,175,511	—	1,175,511
Equity instruments		—	—	—	—
Debt securities	7	590,373	—	—	590,373
Loans and advances – Customers		—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss		15,634	1,541	59,657	76,832
Equity instruments		14,544	38	—	14,582
Debt securities	7	1,090	1,503	59,657	62,250
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		4,804,977	625,220	426,349	5,856,546
Equity instruments	8	1,922	58,182	4,464	64,568
Debt securities	7	4,803,055	567,038	421,885	5,791,978
Loans and advances		—	—	—	—
Derivatives – Hedge accounting	11	—	240,921	—	240,921
Total assets		**5,410,984**	**2,043,193**	**486,006**	**7,940,183**

Thousand euro

	Note	2021 Level 1	2021 Level 2	2021 Level 3	2021 Total
Liabilities:					
Financial liabilities held for trading		56,662	1,132,832	—	1,189,494
Derivatives	9	—	1,132,832	—	1,132,832
Short positions		56,662	—	—	56,662
Deposits with credit institutions		—	—	—	—
Financial liabilities designated at fair value through profit or loss		—	—	—	—
Derivatives – Hedge accounting	11	—	354,769	—	354,769
Total liabilities		**56,662**	**1,487,601**	**—**	**1,544,263**

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	2020 Level 2	2020 Level 3	2020 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**

Derivatives with no credit support annexes (CSAs) include the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA) in their fair value, respectively. The fair value of these derivatives represents 6.11% of the total, and their adjustment for credit and debit risks represents 5.73% of their fair value (5.90% and 3.79%, respectively, as at 31 December 2020).

The movements in the balances of the financial assets and financial liabilities recognised at fair value and classified as Level 3, disclosed in the accompanying balance sheets, are shown below:

Thousand euro

	Assets	Liabilities
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**	**—**
Valuation adjustments recognised in profit and loss (*)	4,231	—
Valuation adjustments not recognised in profit and loss	(561)	—
Purchases, sales and write-offs	(17,018)	—
Net additions/removals in Level 3	415,117	—
Exchange differences and other	8,424	—
Balance as at 31 December 2021	**486,006**	**—**

(*) Relates to securities retained on the balance sheet.

Details of financial instruments that were transferred to different valuation levels in 2021 and 2020 are as follows:

Thousand euro

	2021					
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	540,129	415,117	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Liabilities:						
Financial liabilities held for trading	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	—	—	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Total	**540,129**	**415,117**	**—**	**—**	**—**	**—**

The transfers from Level 1 to Level 2 are due to the fact that these instruments (senior debt securities issued by TSB) are no longer considered to have an active market and their valuation is now calculated using valuation techniques in which all significant inputs are based on directly or indirectly observable market data.

The transfers from Level 1 to Level 3 are due to the fact that the markets in which these instruments (subordinated bonds issued by TSB and asset-backed securities) are traded are no longer considered as active markets and their valuation is now calculated using valuation techniques in which one of the main significant inputs (prepayment rate of securitised loans in the case of asset-backed securities, and risk premium, to calculate the discount rate, and IRR volatility, to value the call optionality of the instrument, in the case of the subordinated bond issued by TSB) is based on unobservable market data.

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**	**—**	**—**	**—**	**—**

As at 31 December 2021 and 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 year-end in 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 2021 and 2020, there were no loans or financial liabilities recognised at fair value through profit or loss.

Financial instruments at cost

As at the end of 2021 and 2020, there were no equity instruments valued at their cost of acquisition that could be considered significant.

Non-financial assets

Real estate assets

As at 31 December 2021 and 2020, the net carrying 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 on “Guarantees”, in Note 1.3.3. to 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, appraisal 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 appraisal companies, 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 status (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 2021 and 2020:

Thousand euro

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Housing	—	532,355	—	532,355
Offices, retail establishments and other real estate	—	626,255	—	626,255
Land and building plots	—	—	18,670	18,670
Work in progress	—	—	2,438	2,438
Total assets	**—**	**1,158,610**	**21,108**	**1,179,718**

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**

Significant unobservable variables used in valuations classed as Level 3 have been developed, not by the Group, but by the independent third party 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 appraisal companies. 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 selling 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 2021 and 2020 are shown below:

Thousand euro

	For house purchase	Offices, retail establishments and other real estate	Land
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**
Purchases	—	—	1,800
Sales	—	—	(4,575)
Net additions/removals in Level 3	—	—	(2,249)
Balance as at 31 December 2021	**—**	**—**	**21,108**

During 2021, 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 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 2021 and 2020:

Thousand euro

		2021				2020			
	Note	Carrying amount (*)	Impairment	Net carrying amount	Valuation amount	Carrying amount (*)	Impairment	Net carrying amount	Valuation amount
Investment properties	14	83,115	(8,187)	74,928	100,272	73,425	(4,739)	68,685	78,769
Non-current assets held for sale		778,029	(204,279)	573,750	904,020	891,428	(253,816)	637,612	1,040,938
Total		**861,144**	**(212,466)**	**648,678**	**1,004,292**	**964,852**	**(258,555)**	**706,297**	**1,119,707**

(*) Cost less accumulated depreciation.

The fair values 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 2021 are as follows:

Thousand euro

Appraisal firm	Non-current assets held for sale	Investment properties
Afes Técnicas de Tasación, S.A.	—	949
Alia Tasaciones, S.A.	64,455	10,715
CBRE Valuation Advisory SA	74,503	697
Eurovaloraciones, S.A.	7,699	9,860
Gestión de Valoraciones y Tasaciones, S.A.	14,721	6,123
Gloval Valuation, S.A.U.	231,976	9,423
Ibertasa, S.A.	397	—
Instituto de Valoraciones, S.A.	429	—
Krata, S.A.	167	1,803
Sociedad de Tasación, S.A.	55,497	4,850
Tabimed Gestión de Proyectos, S.L.	312	—
Tecnitasa Técnicos en Tasación, S.A	16,622	5,965
Tinsa Tasaciones Inmobiliarias, S.A.	61,690	17,195
Valoraciones Mediterráneo, S.A.	43,753	6,642
Other	1,529	706
Total	**573,750**	**74,928**

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 balance sheet heading as at 31 December 2021 and 2020 was as follows:

Thousand euro

	2021	2020
By nature:		
Cash	584,211	567,987
Cash balances at central banks	41,423,202	27,946,361
Other demand deposits	298,445	209,223
Total	**42,305,858**	**28,723,571**
By currency:		
In euro	41,879,873	28,441,543
In foreign currency	425,985	282,028
Total	**42,305,858**	**28,723,571**

Cash balances at central banks include balances held to comply with the central bank's mandatory minimum reserve requirement. Throughout 2021 and 2020, Banco Sabadell has complied with minimum requirements set out in applicable regulations regarding this ratio.

The increase during 2021 of the "Cash, cash balances at central banks and other demand deposits" heading is mainly due to the Bank's participation in the TLTRO III liquidity auctions (see Notes 01/03/2020 and 3.4.3.1).

Note 7 – Debt securities

Debt securities reported in the accompanying balance sheets as at 31 December 2021 and 2020 are broken down below:

Thousand euro

	2021	2020
By heading:		
Financial assets held for trading	590,373	287,718
Non-trading financial assets mandatorily at fair value through profit or loss	62,250	57,720
Financial assets designated at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	5,791,978	5,010,445
Financial assets at amortised cost	12,176,675	16,171,219
Total	**18,621,276**	**21,527,102**
By nature:		
Central banks	—	—
General governments	17,174,855	19,643,717
Credit institutions	44,187	136,470
Other sectors	1,196,375	1,521,960
Stage 3 assets	73	73
Impairment allowances	—	—
Other valuation adjustments (interest, fees and commissions, other)	205,786	224,882
Total	**18,621,276**	**21,527,102**
By currency:		
In euro	16,322,663	19,925,821
In foreign currency	2,298,613	1,601,281
Total	**18,621,276**	**21,527,102**

In May 2021, the Bank decided to sell debt instruments which had a carrying amount of 3,735 million euros and which were recognised on the balance sheet under the heading "Financial assets at amortised cost", by arranging forward sale contracts which were settled in the third quarter of 2021. These sales were carried out as part of a series of actions undertaken to improve the Bank's future profitability while preserving its solvency, including the restructuring announced in Spain in the third quarter of 2021 (see Note 28). The Bank considered that these sales, while not speculative in nature, do not fit into any of the categories that the regulations consider consistent with the business model under which these assets are managed (hold to collect contractual cash flows). For this reason, the Bank decided to refrain from classifying debt securities it acquires under the heading "Financial assets at amortised cost" on the balance sheet, until the conditions allowing debt instruments to be classified under this heading again are met.

In March 2020, the Bank sold Italian sovereign debt instruments which had a carrying amount of 2,835 million euros and which were recognised under the heading "Financial assets at amortised cost" of the balance sheet. These sales were executed with the aim of managing the increased credit risk associated with Italian debt instruments issued as a result of the impact of COVID-19 on the Italian economy. Consequently, following the sales, the carrying amount of Italian sovereign debt instruments recorded at amortised cost was reduced to 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 carrying amount of 4,032 million euros and which were recognised under the heading "Financial assets at amortised cost" of the balance sheet. These sales were carried out in order to preserve the Bank's solvency as part of a series of actions taken 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 considered that these sales were consistent with the business model under which these assets were managed (held to collect contractual cash flows) as they were sales made due to exceptional circumstances beyond the control of the Bank, that did not modify the criteria under which debt instruments classified in the amortised cost portfolio which had not been disposed of were managed.

The results obtained from these disposals were recognised under the heading "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 carrying amount of subordinated debt held by the Bank in this company was written down by 27 million 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 carrying amount to zero (see Note 28).

The breakdown of the debt securities classified based on their credit risk and the movement of impairment allowances 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, as at 31 December 2021 and 2020, are shown below:

Thousand euro

	2021	2020
Amortised cost	5,812,619	5,036,299
Fair value (*)	5,791,978	5,010,445
Accumulated losses recognised in equity	(65,226)	(87,335)
Accumulated capital gains recognised in equity	45,735	63,273
Value adjustments made for credit risk	(1,150)	(1,792)

(*) Includes net gains/(-) losses due to impairment in the profit and loss account for 2021 and 2020 of 701 thousand euros and 308 thousand euros, of which those due to provisions during the year amount to (673) thousand euros and (1,455) thousand euros, and those due to reversal of impairment amount to 1,374 thousand euros and 1,763 thousand euros in 2021 and 2020 (see Note 31).

Details of exposures held in public debt instruments included under the "Financial assets at fair value through other comprehensive income" heading, as at 31 December 2021 and 2020, are as follows:

Thousand euro

	2021	2020
Amortised cost	4,694,528	4,183,725
Fair value	4,656,501	4,155,766
Accumulated losses recognised in equity	(77,250)	(84,205)
Accumulated capital gains recognised in equity	39,329	56,355
Value adjustments made for credit risk	(106)	(109)

Details of the "Financial assets at amortised cost" portfolio as at 31 December 2021 and 2020 are shown below:

Thousand euro

	2021	2020
General governments	12,165,659	15,722,451
Credit institutions	11,016	11,014
Other sectors	—	437,754
Total	**12,176,675**	**16,171,219**

Note 8 – Equity instruments

Equity instruments reported as at 31 December 2021 and 2020 are broken down below:

Thousand euro

	2021	2020
By heading:		
Financial assets held for trading	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	14,582	12,516
Financial assets at fair value through other comprehensive income	64,568	56,126
Total	**79,150**	**68,642**
By nature:		
Resident sector	60,132	51,697
Credit institutions	6,659	5,081
Other	53,473	46,616
Non-resident sector	3,888	1,929
Credit institutions	—	—
Other	3,888	1,929
Participations in investment vehicles	15,130	15,016
Total	**79,150**	**68,642**
By currency:		
In euro	79,019	68,463
In foreign currency	131	179
Total	**79,150**	**68,642**

As at 31 December 2021 and 2020, 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.

In addition, as of the aforesaid dates, there were no Group 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

	2021	2020
Cost of acquisition	175,396	172,057
Fair value	64,568	56,126
Accumulated capital losses recognised in equity at reporting date	(143,594)	(146,416)
Accumulated capital gains recognised in equity at reporting date	32,766	30,485
Transfers of gains or losses within equity during the period	(3,022)	3,137
Recognised dividends from investments held at the end of the year	1,193	979
Recognised dividends from investments derecognised during the year	—	5

Note 9 – Derivatives held for trading

The breakdown by type of risk of derivatives held for trading as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021		2020	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Securities risk	29,019	30,165	151,419	149,448
Interest rate risk	777,185	728,018	1,247,375	1,198,362
Currency risk	219,541	224,989	502,005	506,121
Other types of risk	149,766	149,660	246,313	246,279
Total	**1,175,511**	**1,132,832**	**2,147,112**	**2,100,210**
By currency:				
In euro	1,069,273	1,031,127	1,923,361	1,894,716
In foreign currency	106,238	101,705	223,752	205,494
Total	**1,175,511**	**1,132,832**	**2,147,113**	**2,100,210**

The fair values of derivatives held for trading, broken down by type of derivative instrument as at 31 December 2021 and 2020, are shown below:

Thousand euro

	2021	2020
Assets		
Swaps, CCIRS, Call Money Swaps	899,808	1,464,171
Currency options	37,819	80,147
Interest rate options	27,143	29,015
Index and securities options	29,019	148,436
Currency forwards	181,722	421,858
Fixed income forwards	—	537
Equity forward	—	2,948
Interest rate forwards	—	—
Total derivatives on asset side held for trading	**1,175,511**	**2,147,112**
Liabilities		
Swaps, CCIRS, Call Money Swaps	858,771	1,417,685
Currency options	42,520	78,468
Interest rate options	11,644	20,915
Index and securities options	36,282	155,489
Currency forwards	182,469	427,653
Equity forward	1,146	—
Total derivatives on liability side held for trading	**1,132,832**	**2,100,210**

As at 31 December 2021, the Bank holds embedded derivatives that have been separated from their host contracts and recognised under the heading “Financial liabilities held for trading – Derivatives” of the balance sheet in the amount of 7,683 thousand euros. The host contracts of those embedded derivatives correspond to customer deposits and debt securities in issue and have been allocated to the portfolio of financial liabilities measured at amortised cost.

Note 10 – Loans and advances

Credit institutions

The breakdown of the heading "Loans and advances – Credit institutions" of the balance sheets as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021	2020
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	7,876,763	8,845,708
Total	**7,876,763**	**8,845,708**
By nature:		
Deposits with agreed maturity	2,729,339	3,304,208
Repos	4,938,372	5,424,127
Other	187,873	102,348
Stage 3 assets	1	5
Impairment allowances	(2,063)	(1,424)
Other valuation adjustments (interest, fees and commissions, other)	23,241	16,444
Total	**7,876,763**	**8,845,708**
By currency:		
In euro	7,605,116	8,356,508
In foreign currency	271,647	489,200
Total	**7,876,763**	**8,845,708**

Customers

The breakdown of the heading "Loans and advances – Customers" (General governments and Other sectors) as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021	2020
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	112,993,687	112,226,245
Total	**112,993,687**	**112,226,245**
By nature:		
Overdrafts, etc.	1,998,001	3,822,163
Commercial loans	5,908,387	4,890,861
Finance leases	2,097,078	1,924,820
Secured loans	51,765,501	51,497,125
Repos	—	63,494
Other term loans	51,943,610	50,540,880
Stage 3 assets	4,907,950	4,650,635
Impairment allowances	(5,524,960)	(5,048,425)
Other valuation adjustments (interest, fees and commissions, other)	(101,880)	(115,308)
Total	**112,993,687**	**112,226,245**
By sector:		
General governments	9,354,481	10,070,660
Other sectors	104,358,097	102,668,683
Stage 3 assets	4,907,950	4,650,635
Impairment allowances	(5,524,961)	(5,048,425)
Other valuation adjustments (interest, fees and commissions, other)	(101,880)	(115,308)
Total	**112,993,687**	**112,226,245**
By currency:		
In euro	103,919,916	103,757,434
In foreign currency	9,073,771	8,468,811
Total	**112,993,687**	**112,226,245**
By geography:		
Spain	103,237,104	101,782,221
United Kingdom	2,340,087	2,249,072
Rest of European Union	4,534,658	5,338,915
Americas	6,702,226	6,174,621
Rest of the world	1,704,572	1,729,841
Impairment allowances	(5,524,960)	(5,048,425)
Total	**112,993,687**	**112,226,245**

The "Loans and advances – Customers" heading on the balance sheets includes certain assets pledged in funding operations, i.e. they have been pledged as collateral or guarantees with respect to certain liabilities. For further information, see Note 3 "Risk Management", in the section entitled "Credit Risk".

Finance leases

Certain information concerning finance leases carried out by the Bank in which it acts as lessor is set out below:

Thousand euro

	2021	2020
Finance leases		
Total gross investment	2,306,566	2,106,507
Impairment allowances	(96,182)	(51,291)
Interest income	50,224	55,081

The increased balance of finance leases in 2021 is mainly due to the acquisition of assets pertaining to the equipment leasing business of Bansabadell Renting, S.L.U., prior to the sale of 100% of the share capital of this subsidiary to a third party (see Note 13).

As at 31 December 2021 and 2020, the reconciliation of undiscounted payments received on leases against the net investment in the leases is as follows:

Thousand euro

	2021	2020
Undiscounted lease receipts	2,130,070	1,942,846
Residual value	176,496	163,661
Unguaranteed residual value	159,203	163,661
Guaranteed residual value	17,293	—
Gross investment in the lease	**2,306,566**	**2,106,507**
Unearned financial income	(151,975)	(155,592)
Net investment in the lease	**2,154,591**	**1,950,915**

The table below shows a breakdown, by term, of the minimum undiscounted future amounts receivable by the Bank during the period of mandatory compliance (assuming that no extensions or existing purchase options will be exercised) as set out in the finance lease contracts:

Thousand euro

	2021	2020
Undiscounted lease receipts		
Up to 1 year	579,545	558,005
1-2 years	436,182	397,735
2-3 years	338,823	259,396
3-4 years	231,920	188,853
4-5 years	153,587	135,585
More than 5 years	390,013	403,272
Total	**2,130,070**	**1,942,846**

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 2021 amounted to 128,379 thousand euros (77,343 thousand euros as at 31 December 2020). Of this total, over 90% of the balance as at 31 December 2021 (80% of the balance as at 31 December 2020) was no more than one month past due.

Financial assets classified on the basis of their credit risk

The breakdown of the gross carrying amounts, excluding valuation adjustments, of financial assets classified on the basis of their credit risk as at 31 December 2021 and 2020 is as follows:

Thousand euro

Stage 1	**2021**	**2020**
Debt securities	18,415,417	21,297,650
Loans and advances	108,565,975	109,984,404
Customers	100,732,401	101,154,440
Central banks and Credit institutions	7,833,574	8,829,964
Total stage 1	**126,981,391**	**131,282,054**
By sector:		
General governments	26,525,280	29,687,574
Central banks and Credit institutions	7,877,760	8,966,434
Other private sectors	92,578,352	92,628,046
Total stage 1	**126,981,391**	**131,282,054**
Stage 2		
Debt securities	—	4,500
Loans and advances	13,002,190	11,585,626
Customers	12,980,179	11,584,907
Central banks and Credit institutions	22,011	718
Total stage 2	**13,002,190**	**11,590,126**
By sector:		
General governments	4,056	26,803
Central banks and Credit institutions	22,011	718
Other private sectors	12,976,123	11,562,604
Total stage 2	**13,002,190**	**11,590,126**
Stage 3		
Debt securities	73	73
Loans and advances	4,907,951	4,650,639
Customers	4,907,950	4,650,635
Central banks and Credit institutions	1	5
Total stage 3	**4,908,024**	**4,650,712**
By sector:		
General governments	9,632	10,231
Central banks and Credit institutions	1	5
Other private sectors	4,898,391	4,640,477
Total stage 3	**4,908,024**	**4,650,712**
Total stages	**144,891,605**	**147,522,892**

Movements of gross values, excluding valuation adjustments, of assets subject to impairment by the Bank during the years ended 31 December 2021 and 2020 were as follows:

Thousand euro

	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
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**
Transfers between impairment stages	(3,712,534)	2,521,185	1,191,349	—	—
To stage 1	2,501,515	(2,483,464)	(18,052)	—	(1)
To stage 2	(5,954,392)	6,246,545	(292,154)	—	(1)
To stage 3	(259,658)	(1,241,896)	1,501,554	—	—
Increases	40,653,643	726,670	456,444	—	41,836,757
Decreases	(41,642,593)	(1,881,988)	(1,016,216)	(2,781)	(44,540,797)
Transfers to write-offs	—	—	(383,765)	—	(383,765)
Adjustments for exchange differences	400,820	46,197	9,500	—	456,517
Balance as at 31 December 2021	**126,981,391**	**13,002,190**	**4,908,024**	***11,280***	**144,891,605**

The breakdown of assets classified as stage 3 by type of guarantee as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021	2020
Secured with a mortgage (*)	2,059,338	1,942,961
Of which: Stage 3 financial assets with guarantees covering all of the risk	*1,611,690*	*1,483,721*
Other collateral (**)	241,768	272,977
Of which: Stage 3 financial assets with guarantees covering all of the risk	*174,291*	*176,901*
Other	2,606,918	2,434,775
Total	**4,908,024**	**4,650,713**

(*) 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 geographical area of the balance of assets classed as stage 3 as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021	2020
Spain	4,720,531	4,391,945
United Kingdom	37,020	64,795
Rest of European Union	45,538	44,098
Americas	75,832	72,740
Rest of the world	29,103	77,134
Total	**4,908,024**	**4,650,712**

The movements in impaired financial assets derecognised due to the remote likelihood of their recovery during 2021 and 2020 are as follows:

Thousand euro	
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**
Additions	**788,879**
Use of accumulated impairment balance	383,765
Directly recognised on income statement	—
Contractually payable interests	138,621
Other items	266,493
Disposals	**(162,373)**
Collections of principal in cash from counterparties	(39,454)
Collections of interest in cash from counterparties	(1,799)
Debt forgiveness	(17,743)
Referrals	—
Sales	(100,264)
Foreclosure of tangible assets	(2,510)
Other items	(603)
Exchange differences	**—**
Balance as at 31 December 2021	**5,334,686**

Allowances

The values of financial asset impairment allowances under the different headings on the asset side, listed according to their risk, as at 31 December 2021 and 2020 are as follows:

Thousand euro

Stage 1	**2021**	**2020**
Debt securities	—	—
Loans and advances	256,074	316,212
Central banks and Credit institutions	2,041	1,032
Customers	254,033	315,180
Total stage 1	**256,074**	**316,212**
Stage 2		
Debt securities	—	—
Loans and advances	3,020,338	2,747,484
Central banks and Credit institutions	22	—
Customers	3,020,316	2,747,484
Total stage 2	**3,020,338**	**2,747,484**
Stage 3		
Debt securities	—	—
Loans and advances	2,250,612	1,986,153
Central banks and Credit institutions	—	392
Customers	2,250,612	1,985,761
Total stage 3	**2,250,612**	**1,986,153**
Total stages	**5,527,024**	**5,049,850**

Detailed movements in impairment allowances allocated to cover credit risk during 2021 and 2020 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 2019	**7,346**	**463,661**	**2,452,929**	**206,491**	**1,627,787**	**4,758,214**
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**
Scope additions / exclusions						
Movements reflected in impairment gains/ (losses) (*)	**(37,236)**	**123,829**	**(4,468)**	**160,949**	**565,619**	**808,693**
Increases due to origination	—	—	139,226	—	—	139,226
Changes due to credit risk variance	(45,173)	136,578	(78,415)	121,588	566,742	701,319
Changes in calculation approach	—	—	—	—	—	—
Other movements	7,937	(12,749)	(65,279)	39,361	(1,123)	(31,852)
Movements not reflected in impairment gains/(losses)	**235,249**	**(127,813)**	**(54,907)**	**(83,058)**	**(292,715)**	**(323,244)**
Transfers between impairment stages	(9,810)	22,675	(42,372)	(72,581)	102,088	—
To stage 1	(2)	1,886	39,475	(35,936)	(5,424)	—
To stage 2	614	(480)	(73,908)	125,660	(51,886)	—
To stage 3	(10,422)	21,269	(7,939)	(162,305)	159,398	—
Utilisation of allocated provisions	(360)	(150,488)	(12,469)	(10,438)	(365,987)	(539,742)
Other movements	245,419	—	(66)	(39)	(28,816)	216,498
Adjustments for exchange differences	**—**	**(4,103)**	**(765)**	**(3,030)**	**(377)**	**(8,275)**
Balance as at 31 December 2021	**2,641,563**	**552,364**	**256,072**	**378,795**	**1,698,229**	**5,527,024**

(*) 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 balancing entry 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)

The breakdown by geographical area of the balance of impairment allowances as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021	2020
Spain	5,264,498	4,860,607
United Kingdom	26,602	35,430
Rest of European Union	120,486	44,185
Americas	100,540	58,248
Rest of the world	14,898	51,380
Total	**5,527,024**	**5,049,850**

Sensitivity analysis of the key variables of macroeconomic scenarios

An analysis of the sensitivity of the expected loss and its impact by stage on impairment allowances 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:

Macroeconomic variables	Change in the variable (*)	Impact on Stage 1	Impact on Stage 2	Impact on Stage 3	Total impact
Deviation of GDP growth	- 100 pb	4.8%	3.3%	4.8%	4.6%
	+ 100 pb	-4.5%	-4.8%	-4.5%	-4.5%
Deviation in unemployment rate	+ 350 pb	6.3%	14.6%	6.7%	7.8%
	- 350 pb	-5.8%	-9.8%	-6.2%	-6.6%
Changes in housing prices	- 300 pb	7.0%	7.8%	4.9%	5.6%
	+ 300 pb	-6.1%	-8.1%	-4.5%	-5.2%

(*) Changes in macroeconomic variables reflect impacts, in absolute values, on the baseline macroeconomic scenario described in Note 1.3.3.

Other material disclosures

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 that had a gross value of 24,644 million euros as at 31 July 2011, the Deposit Guarantee Fund (hereinafter, DGF) bears 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.

In 2021, the guarantee granted by the DGF has expired, as the ten-year period mentioned above has elapsed; therefore, the Group does not hold any assets protected by the APS as at 31 December 2021, with only the final settlement in favour of the Bank of the final amount to be paid by the DGF pending. As at 31 December 2020, the portfolio of assets protected by the APS amounted to 2,582 million euros (including 529 million euros of write-offs), against which allowances for 953 million euros had been recorded.

The Bank has carried out two arbitration proceedings, jointly with the DGF, to settle the interpretation of certain clauses of the APS protocol. Both arbitration proceedings have concluded. The arbitration rulings were received on 14 July 2021 and 4 January 2022, respectively. The estimated end date for the APS is 4 October 2022, once the aspects subject to the arbitration proceedings are definitively settled in the APS.

On 15 September 2021, according to that set forth in the Protocol, the final APS settlement (albeit provisional) was filed, as it included the estimated settlement as a result of both arbitration proceedings, calculated following conservative criteria, which must be adjusted in accordance with the impact of the aspects that were subject to such arbitration proceedings. Even considering this pending adjustment, in Banco Sabadell's view, the maximum amount of collections to be received from the APS agreed with the DGF will be exceeded; therefore, the Bank maintains an account receivable recognised in the amount of 70.4 million euros as at 31 December for this item.

Note 11 – Derivatives - hedge accounting

Hedging management

The main hedges arranged by the Bank are described below:

Interest rate risk hedge

Based on the balance sheet position and the market situation and outlooks, interest rate risk mitigation strategies are proposed and agreed upon to adapt this position to the one 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 aforesaid document clearly identifies the item or items 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 funding operations in the capital markets.

  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 forwards. 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 in 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 in 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 forwards. 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 hedged 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 through its policies and procedures.

Hedging disclosures

The nominal values and the fair values of the hedging instruments as at 31 December 2021 and 2020, broken down by risk category and type of hedge, are as follows:

Thousand euro

	2021			2020		
	Nominal	**Assets**	**Liabilities**	**Nominal**	**Assets**	**Liabilities**
Micro-hedges:						
Fair value hedges	**6,253,987**	**90,016**	**83,334**	**4,874,975**	**37,219**	**12,057**
Exchange rate risk	667,550	—	14,952	866,531	2,025	8,259
For funding operations (A)	—	—	—	—	—	—
Of permanent investments (B)	*667,550*	—	*14,952*	*866,531*	*2,025*	*8,259*
Of non-monetary items	—	—	—	—	—	—
Interest rate risk	2,296,251	27,189	879	2,217,302	27,698	623
For funding operations (A)	*32,359*	*309*	*879*	*15,866*	—	*623*
For lending operations (C)	*2,263,892*	*26,880*	—	*2,201,436*	*27,698*	—
Risk associated with shares	3,290,186	62,827	67,503	1,791,142	7,496	3,175
For funding operations (A)	*3,290,186*	*62,827*	*67,503*	*1,791,142*	*7,496*	*3,175*
Cash flow hedges	**931,383**	**9,453**	**39,784**	**1,358,400**	**138,992**	**6,137**
Exchange rate risk	—	—	—	—	—	—
Of non-monetary items	—	—	—	—	—	—
Interest rate risk	134,000	3,305	3,890	—	—	—
Of future transactions	—	—	—	—	—	—
For funding operations (A)	*134,000*	*3,305*	*3,890*	—	—	—
For securitisation operations	—	—	—	—	—	—
Other	—	—	—	—	—	—
Risk associated with shares	23,383	—	187	3,400	—	11
For funding operations (D)	*23,383*	—	*187*	*3,400*	—	*11*
Other risks	774,000	6,148	35,707	1,355,000	138,992	6,126
For inflation-linked bonds (E)	*774,000*	*6,148*	*35,707*	*1,355,000*	*138,992*	*6,126*
Hedge of net investment in foreign operations	**247,219**	**71**	**3,660**	**122,239**	**1,538**	**—**
Exchange rate risk (B)	247,219	71	3,660	122,239	1,538	—
Macro-hedges:						
Fair value hedges	**11,948,500**	**141,381**	**227,991**	**12,538,500**	**215,953**	**498,155**
Interest rate risk	11,948,500	141,381	227,991	12,538,500	215,953	498,155
For funding operations (F)	*5,635,000*	*94,913*	*9,437*	*5,635,000*	*215,953*	—
For lending operations (G)	*6,313,500*	*46,468*	*218,554*	*6,903,500*	—	*498,155*
Cash flow hedges	**—**	**—**	**—**	**250,000**	**—**	**5,035**
Interest rate risk	—	—	—	250,000	—	5,035
For funding operations (H)	—	—	—	*250,000*	—	*5,035*
For lending operations	—	—	—	—	—	—
Total	**19,381,089**	**240,921**	**354,769**	**19,144,114**	**393,702**	**521,384**
By currency:						
In euro	18,015,028	228,669	351,421	18,109,520	393,236	520,891
In foreign currency	1,366,060	12,252	3,348	1,034,595	466	493
Total	**19,381,088**	**240,921**	**354,769**	**19,144,115**	**393,702**	**521,384**

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 the funding operations in capital markets and transactions involving term deposits opened by customers, recognised under the heading “Financial liabilities at amortised cost”.

B. Hedges against foreign exchange risk on permanent investments, recognised under the heading "Investments in subsidiaries, joint ventures and associates", currently cover 213 million pounds sterling and 9,583 million Mexican pesos corresponding to interests held in Group entities, considered as fair value hedges (213 million pounds sterling and 8,583 million Mexican pesos as at 31 December 2020); and 280 million US dollars corresponding to interests held in foreign branches (150 million US dollars as at 31 December 2020), 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" and those involving debt securities under the heading "Financial assets at fair value through other comprehensive income".

D. Micro-hedges of 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 heading "Financial assets at amortised cost". The Bank has arranged financial swaps to hedge future changes in cash flows that will be settled by inflation-linked bonds (ILBs). As at 31 December 2020, inflation-linked bonds recognised under the heading "Financial assets at fair value through other comprehensive income" were also hedged. The latter hedges expired during 2021.

F. Macro-hedges of the funding operations in capital markets and transactions involving term deposits opened by customers, recognised under the heading "Financial liabilities at amortised cost". The average rate of interest rate swaps used for this hedge was 0.22% as at 31 December 2021 and 2020.

G. Macro-hedges of debt securities classified under the headings "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost". The average rates of financial interest rate swaps used to hedge debt securities were 0.55% and 0.42%, respectively, as at 31 December 2021 and 2020.

H. Cash flow macro-hedges which were intended to reduce the volatility of the buy-sell spread as a result of interest rate fluctuations over a one-year time horizon. Thus, this macro-hedge covered future cash flows based on the net exposure of a portfolio consisting of floating rate liabilities recognised under the heading "Financial liabilities at amortised cost". This macro-hedge expired during 2021. The average rate of interest rate swaps used for this hedge was -0.54% as at 31 December 2020.

The maturity profiles of the hedging instruments used by the Bank as at 31 December 2021 and 2020 are shown below:

Thousand euro

	2021					
	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	304,396	610,373	—	—	—	914,769
Interest rate risk	—	—	500,000	5,189,614	8,689,137	14,378,751
Risk associated with shares	2,501	376,528	463,911	2,192,832	277,797	3,313,569
Other risks	—	—	—	449,000	325,000	774,000
Total	**306,897**	**986,901**	**963,911**	**7,831,446**	**9,291,934**	**19,381,089**

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**

In 2021 and 2020 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 arranged by the Bank:

Thousand euro

	31/12/2021					31/12/2020	
	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	667,550	—	—	—	—	588,454	—
Interest rate risk	2,025,745	9,689	(16,596)	425	3,206	1,944,618	67,598
Risk associated with shares	—	1,708,590	—	14,149	(7)	—	1,903,259
Total	**2,693,295**	**1,718,279**	**(16,596)**	**14,574**	**3,199**	**2,533,072**	**1,970,857**

In terms of fair value macro-hedges, the carrying amount of the hedged items recognised in assets and liabilities as at 31 December 2021 amounts to 14,536,679 thousand euros and 52,369,550 thousand euros, respectively (17,534,513 thousand euros and 54,170,421 thousand euros as at 31 December 2020, respectively). Similarly, fair value adjustments of the hedged items amounted to 126,152 thousand euros and 95,139 thousand euros as at 31 December 2021, respectively (369,688 thousand euros and 241,550 thousand euros as at 31 December 2020, respectively).

In relation to fair value hedges, the losses and gains recognised in 2021 and 2020 arising from both hedging instruments and hedged items are detailed hereafter:

Thousand euro

	2021		2020	
	Hedging instruments	Hedged items	Hedging instruments	Hedged items
Microhedges:	**(52,754)**	**53,413**	**73,123**	**(73,500)**
Fixed-rate assets	(656)	656	(9,408)	9,405
Capital markets and fixed-rate liabilities	(15,297)	15,910	1,739	(1,505)
Assets denominated in foreign currency	(36,801)	36,847	80,792	(81,400)
Macrohedges:	**177,262**	**(176,026)**	**(129,137)**	**133,494**
Capital markets and fixed-rate liabilities	(130,698)	130,462	84,849	(85,937)
Fixed-rate assets	307,960	(306,488)	(213,986)	219,431
Total	**124,508**	**(122,613)**	**(56,014)**	**59,994**

In cash flow hedges, the amounts recognised in the statement of equity during the year and the amounts derecognised from equity and included in profit and loss during the year are indicated in the statement of total changes in equity of the Bank.

Hedge ineffectiveness in the results for 2021 related to cash flow hedges amounted to losses of 4,127 thousand euros (losses of 1,154 thousand euros in 2020).

As at 31 December 2021, the Bank holds embedded derivatives that have been separated from their host contracts and recognised under the headings "Derivatives – Hedge accounting" on the asset side and on and liabilities side of the balance sheet in the amount of 43,707 thousand euros and 22,683 thousand euros, respectively. The host contracts of those embedded derivatives correspond to customer deposits and debt securities in issue and have been allocated to the portfolio of financial liabilities measured at amortised cost.

Note 12 – Non-current assets and disposal groups classified as held for sale

The composition of these headings in the balance sheets as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021	2020
Assets	**987,527**	**1,204,556**
Loans and advances	67	243,282
Credit institutions	—	—
Customers	67	243,282
Debt securities	—	—
Real estate exposure	827,607	949,474
Tangible assets for own use	44,944	53,074
Foreclosed assets	782,663	896,400
Equity interests	159,853	11,800
Impairment allowances	**(216,132)**	**(265,213)**
Non-current assets and disposal groups classified as held for sale	**771,395**	**939,343**

Tangible assets for own use relate mainly to commercial premises.

Regarding real estate assets obtained through foreclosures, 93.77% of the balance corresponds to residential properties, 5.62% to industrial properties and 0.61% to agricultural properties.

The average term during which assets remained within the category of "Non-current assets and assets and liabilities included in disposal groups classified as held for sale – Foreclosed assets" was 43 months in 2021 (35 months in 2020). The policies concerning the sale or disposal by other means of these assets is set out in Note 3.4.2.1.

The percentage of foreclosed assets sold with financing granted by the Bank to the buyer in 2021 was 4.2% (in 2020 it was 4.7%). On the date of sale, these properties had a gross asset value of 8.4 million euros in 2021 (6.5 million euros in 2020).

Movements in "Non-current assets and disposal groups classified as held for sale" during 2021 and 2020 were as follows:

Thousand euro

	Note	Non-current assets held for sale
Cost:		
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**
Additions		98,095
Disposals		(434,649)
Transfer of credit losses (*)		(28,921)
Other transfers/reclassifications		148,447
Balances as at 31 December 2021		**987,527**
Impairment allowances:		
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**
Impairment through profit or loss	34	68,293
Reversal of impairment through profit or loss	34	(51,533)
Utilisations		(16,454)
Other transfers/reclassifications		(49,386)
Balances as at 31 December 2021		**216,132**
Net balances as at 31 December 2020		**939,343**
Net balances as at 31 December 2021		**771,395**

(*) Allowance arising from provisions allocated to cover credit risk.

Most significant changes in non-current assets in 2021

The reduced balance of loans and advances recognised as non-current assets held for sale in 2021 occurred as a result of the closing of transfer transactions of two credit portfolios, which were agreed on 21 December 2020 and 30 December 2020, once the established conditions had been met (see section: "Most significant changes in non-current assets in 2020" of this note).

Furthermore, in 2021, the Bank recognised its 20% stake in the capital of associate company Promontoria Challenger I, S.A., which was recognised under the heading "Investments in subsidiaries, joint ventures and associates" of the balance sheet (see Note 13), as a non-current asset held for sale. The carrying amount of this investment amounts to 159,853 thousand euros as at 31 December 2021. With regard to this investment, the Bank also has an account receivable with Cerberus Capital Management L.P. amounting to 633 million euros in respect of a deferred collection on the sale, in 2019, of 80% of the business managed by Promontoria Challenger I, S.A., recognised under "Financial assets at amortised cost – Loans and advances – Customers" on the balance sheet as at 31 December 2021.

Most significant changes in investments during 2020

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 en bloc 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 carrying amount of 40 million euros as at 31 December 2019 and were 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 this transaction generated a profit of 36 million euros, which was recognised under the heading "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" of the income statement for the year 2020 (8 million euros after tax in the consolidated income statement) – see Note 34.

Additionally, on 21 January 2020, Banco Sabadell and Amundi Asset Management (Amundi) entered into a long-term strategic partnership to distribute Amundi products through the retail network of Banco Sabadell 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, SabAM's assets under management amounted to approximately 21.8 billion euros, excluding third party funds, and it earned net profit of 34 million euros (including, among other items, 65 million euros in net fee income and 17 million euros of operating and staff expenses). The sale of SabAM included its subsidiary Sabadell Asset Management Luxembourg, S.A. but did not include Sabadell Urquijo Gestión, S.A., S.G.I.I.C., Sociedad Unipersonal, which remains part of Banco Sabadell Group (see Note 13).

On 30 June 2020, having obtained all of the necessary authorisations, the Bank transferred 100% of the share capital of SabAM to Amundi.

This transaction will generate profit net of tax of 376 million euros (349 million euros in the consolidated income statement) for Banco Sabadell since the transaction closing date. Of this amount, 320 million euros has been recognised under the heading "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" of the income statement for the year 2020 (see Note 34). The remaining amount is subject to certain guarantees and is to be recognised over the length of the distribution agreement, which expires in June 2030.

The increase in the amount of loans and advances recorded as non-current assets held for sale was mainly due to the transfer of two credit portfolios agreed on 21 December 2020 and 30 December 2020. These loans and advances were reclassified as "Non-current assets and disposal groups classified as held for sale" at their net carrying amount until the closing of these transactions is completed, once the corresponding authorisations are obtained and the relevant conditions are met.

Note 13 – Investments in subsidiaries, joint ventures and associates

The composition of this heading in the balance sheets as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021		
	Group entities	**Associates**	**Total**
By nature:			
Credit institutions	703,695	—	703,695
Other resident sectors	2,296,231	101,356	2,397,587
Other non-resident sectors	2,237,650	19,144	2,256,794
Total	**5,237,576**	**120,500**	**5,358,076**
By quote:			
Quoted	2,559	—	2,559
Not quoted	5,235,017	120,500	5,355,517
Total	**5,237,576**	**120,500**	**5,358,076**
By currency:			
In euro	2,392,504	101,356	2,493,860
In foreign currency	2,845,072	19,144	2,864,216
Total	**5,237,576**	**120,500**	**5,358,076**

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**

Movements during 2021 and 2020 are shown below:

Thousand euro

	Group entities	Associates	Total
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**
Additions due to acquisition(s)	326	—	326
Contributions	3,132	1,187	4,319
Capital increases	—	—	—
Sale, dissolution, recovery of investment(s)	(26,598)	(397)	(26,995)
Transfers (*)	(161)	(206,614)	(206,775)
Exchange differences	36,847	—	36,847
Impairments	(7,474)	(36)	(7,510)
Balance as at 31 December 2021	**5,237,576**	**120,500**	**5,358,076**

(*) Corresponds, fundamentally, to reclassification of the stake held in Promontoria Challenger I, S.A. to the heading "Non-current assets and disposal groups classified as held for sale" (see Note 12).

The section of the cash flow statements relating to "Investing activities – Collections from investments in joint ventures and associates", shows a figure of 68,693 thousand euros, which correspond to "Sale, dissolution, recovery of investment(s)" amounting to 397 thousand euros, dividends received from associates amounting to 58,907 thousand euros and results of derecognitions of associates amounting to 9,389 thousand euros recorded under the heading "Gains or (-) losses on derecognition of non-financial assets, net".

The section of the cash flow statements relating to "Investing activities – Collections from investments in other business units" shows a figure of 155,709 thousand euros, which correspond to "Sale, dissolution, recovery of investment(s)" amounting to 26,598 thousand euros, dividends received from Group entities amounting to 12,468 thousand euros and results of derecognitions of Group entities amounting to 3,481 thousand euros recorded under the heading "Gains or (-) losses on derecognition of non-financial assets, net" and 113,162 thousand euros recorded under the heading "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations".

Most significant changes in investments during 2021

Group entities

– On 29 April 2021, Banco Sabadell and the ALD Automotive group entered into a long-term strategic partnership to offer vehicle leasing products, which will allow Banco Sabadell to improve its customer value proposition for mobility solutions, with a larger and more innovative range of vehicle leasing products.

  The agreement includes the sale of 100% of the share capital of Bansabadell Renting, S.L.U. for an amount of 59 million euros adjusted for the change in the company's net equity between the reference date used for the ALD Automotive group's offer (30 September 2020) and the closing date of the transaction. This transaction was closed on 30 November 2021 after obtaining the necessary authorisations. Prior to this transaction, on 4 June 2021, the Bank acquired the assets and liabilities corresponding to the equipment leasing business from Bansabadell Renting, S.L.U. for 255,960 thousand euros. The Bank obtained a profit of 61,310 thousand euros on this transaction, which has been recognised under the heading "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" of the income statement (see Note 34).

– On 5 October 2021, Banco Sabadell transferred to Mora Banc Grup, S.A. its entire stake in BancSabadell d'Andorra, S.A., which represents 50.97% of its share capital (and 51.61% including the proportional part of treasury stock) for 68,010 thousand euros. The Bank obtained a profit of 51,852 thousand euros on this transaction, which has been recognised under the heading "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" of the income statement (see Note 34).

Associates

In 2021, a contribution of 1,187 thousand euros was made to Promontoria Challenger I. S.A.

Most significant changes in investments during 2020

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., amounting to 19,225 thousand euros.

  – Sabcapital, S.A. de C.V., SOFOM, E.R., amounting to 4,710 thousand euros.

– In addition, in 2020 dividends were distributed that led to the recovery of the following investments:

  – Gestión Financiera del Mediterráneo, S.A.U., amounting to 12,183 thousand euros.

  – Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L., amounting to 9,500 thousand euros.

  – Guipuzcoano Valores, S.A., amounting to 6,651 thousand euros.

Associates

In 2020, a contribution of 62,061 thousand euros was made to Promontoria Challenger I. S.A.

Schedule I sets out details of the recognition and derecognition of equity interests in the years 2021 and 2020.

Note 14 – Tangible assets

The composition of this heading as at 31 December 2021 and 2020 was as follows:

Thousand euro

	2021				2020			
	Cost	Depreciation	Impairment	Net value	Cost	Depreciation	Impairment	Net value
Property, plant and equipment	**3,168,539**	**(1,340,500)**	**(65,873)**	**1,762,166**	**3,242,248**	**(1,255,979)**	**(5,548)**	**1,980,721**
For own use:	3,168,539	(1,340,500)	(65,873)	1,762,166	3,242,248	(1,255,979)	(5,548)	1,980,721
Computer equipment and related facilities	493,986	(353,907)	—	140,079	461,816	(329,817)	—	131,999
Furniture, vehicles and other facilities	872,661	(549,092)	—	323,569	926,722	(559,527)	—	367,195
Buildings	1,782,251	(437,501)	(65,873)	1,278,877	1,834,308	(366,635)	(5,548)	1,462,125
Work in progress	—	—	—	—	—	—	—	—
Other	19,641	—	—	19,641	19,402	—	—	19,402
Investment properties:	**97,515**	**(14,400)**	**(8,187)**	**74,928**	**81,485**	**(8,061)**	**(4,739)**	**68,685**
Buildings	97,515	(14,400)	(8,187)	74,928	81,485	(8,061)	(4,739)	68,685
Total	**3,266,054**	**(1,354,900)**	**(74,060)**	**1,837,094**	**3,323,733**	**(1,264,040)**	**(10,287)**	**2,049,406**

Movements in the balance under this heading during 2021 and 2020 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 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)
Balances as at 31 December 2020		**1,853,709**	**1,388,538**	**81,485**	**3,323,732**
Additions		41,949	70,057	276	112,282
Disposals		(86,771)	(91,948)	(3,464)	(182,183)
Other transfers		(6,995)	—	19,218	12,223
Balances as at 31 December 2021		**1,801,892**	**1,366,647**	**97,515**	**3,266,054**
Accumulated depreciation:					
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**
Additions		92,281	75,591	2,300	170,172
Disposals		(18,071)	(61,936)	(463)	(80,470)
Other transfers		(3,344)	—	4,502	1,158
Balances as at 31 December 2021		**437,501**	**902,999**	**14,400**	**1,354,900**
Impairment losses:					
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)
Balances as at 31 December 2020		**5,548**	**—**	**4,739**	**10,287**
Impairment through profit or loss	32	52,088	—	4,426	56,514
Reversal of impairment through profit or loss	32	—	—	(3,096)	(3,096)
Utilisations		—	—	—	—
Other movements		8,237	—	2,118	10,355
Balances as at 31 December 2021		**65,873**	**—**	**8,187**	**74,060**
Net balances as at 31 December 2020		**1,481,526**	**499,194**	**68,685**	**2,049,405**
Net balances as at 31 December 2021		**1,298,518**	**463,648**	**74,928**	**1,837,094**

Specific information relating to tangible assets as at 31 December 2021 and 2020 is shown hereafter:

Thousand euro

	2021	2020
Gross value of tangible assets for own use in use and fully depreciated	373,076	296,306
Net carrying amount of tangible assets of foreign operations	23,675	16,248

Lease contracts in which the Bank acts as lessee

As at 31 December 2021, the cost of property, plant and equipment for own use includes right-of-use assets corresponding to leased tangible assets in which the Bank acts as lessee, in the amount of 1,069,864 thousand euros, which have accumulated depreciation of 246,854 thousand euros and are impaired in the amount of 36,666 thousand euros as at the aforesaid date (1,060,754 thousand euros as at 31 December 2020, which had accumulated depreciation of 167,379 thousand euros as at that date).

The cost recognised in the income statement for 2021 for the depreciation of right-of-use assets corresponding to leased tangible assets in which the Bank acts as lessee amounted to 79,475 thousand euros (85,019 thousand euros in 2020). The total amount of impairments on these assets as at 31 December 2021 was recognised with a balancing entry in the income statement for 2021.

Information is set out below concerning the operating lease contracts in which the Bank acts as lessee:

Thousand euro

	2021	2020
Interest expense on lease liabilities	(14,404)	(15,709)
Expense related to short-term low-value leases (*)	(8,147)	(7,886)
Total lease payments in cash (**)	86,268	89,915

(*) Recognised in the "Administrative expenses" heading, in the item on "Of property, plant and equipment" (see note 30).

(**) 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 non-cancellable period for lease contracts in effect as at 31 December 2021 and 2020 are indicated below:

Thousand euro

	2021
Undiscounted future lease payments	
Up to 1 month	120
1 to 3 months	10,630
3 to 12 months	32,702
1 to 5 years	169,022
More than 5 years	389,324

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 2021 and 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, for the same properties, with the buyers (maintenance, insurance and taxes to be borne by the Bank). Their main features are set out below:

	2021			
Operating lease contracts	**No. properties sold**	**No. contracts with purchase option**	**No. contracts without purchase option**	**Mandatory term**
2009	63	26	37	10 to 20 years
2010	379	378	1	10 to 25 years
2011 (acquisition B.Guipuzcoano)	46	34	12	8 to 20 years
2012 (acquisition Banco CAM)	12	12	—	10 to 25 years
2012	4	4	—	15 years

Specific information in connection with this set of lease contracts is given below:

Thousand euro

	2021	2020
Undiscounted future lease payments		
Up to 1 month	583	7,434
1 to 3 months	19,393	14,063
3 to 12 months	56,853	60,513
1 to 5 years	268,486	343,229
More than 5 years	474,943	469,077

In 2021, gains from sale and leaseback transactions amounted to 25,281 thousand euros and were recognised under the heading "Gains or (-) losses on derecognition of non-financial assets, net" of the income statement. In 2020, no significant results were recorded for sale and leaseback transactions.

Note 15 – Intangible assets

The composition of this heading as at 31 December 2021 and 2020 was as follows:

Thousand euro

	2021	2020
Goodwill	**36,854**	**73,378**
Grupo Banco Guipuzcoano	—	11,889
BS Profesional, S.A.	49	148
From acquisition of Banco BMN Penedés assets	36,805	61,341
Other intangible assets:	**11,986**	**28,723**
With a finite useful life:	11,986	28,723
Private Banking Business, Miami	8,445	11,333
Administrative franchises	1,104	1,191
Computer software	2,354	16,116
Other	83	83
Total	**48,840**	**102,101**

Movements in the balance of goodwill and intangible assets during 2021 and 2020 were as follows:

Thousand euro

	Goodwill		
	Cost	Amortisation	Total
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**
Additions	—	(36,525)	(36,525)
Balance as at 31 December 2021	**1,005,530**	**(968,676)**	**36,854**

Thousand euro

	Other intangible assets		
	Cost	Amortisation	Total
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**
Additions	6,131	(11,991)	(5,860)
Disposals	(159,830)	147,894	(11,936)
Other	4,702	(3,642)	1,060
Balance as at 31 December 2021	**344,556**	**(332,571)**	**11,986**

The gross value of other intangible assets that were in use and had been fully amortised as at 31 December 2021 and 2020 amounted to 562,465 thousand euros and 409,863 thousand euros, respectively.

Goodwill

As set forth in the regulatory framework of reference, Banco Sabadell carried out an analysis in 2021 to evaluate the existence of any potential impairment of its goodwill.

Banco Sabadell Group has been monitoring the Group's total goodwill across the ensemble of Cash-Generating Units (UGEs, for their acronym in Spanish) that make up the Banking Business Spain operating segment.

The value in use of the Banking Business Spain operating segment is used to determine its recoverable amount. 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, plus an estimated terminal value.

The projections used to determine the recoverable amount are those set out in the Financial Projections approved by the Board of Directors. Those projections are based on sound and well-founded assumptions, which represent management's best estimates of overall upcoming economic conditions. To determine the key variables (basically net interest income, fees and commissions, expenses, cost of risk and solvency levels) that underpin the Financial Projections, management has used microeconomic variables, such as the existing balance sheet structure, market positioning and strategic decisions adopted, and macroeconomic variables, such as the expected evolution of GDP and the forecast evolution of interest rates and unemployment. The macroeconomic variables used for the baseline macroeconomic scenario, described in Note 1, were estimated by the Group's Research Department.

The approach used to determine the values of assumptions is based on the projections and on past experience. These values are compared against external information sources, if available.

In 2021, to calculate the terminal value, 2026 has been taken as the reference year, using a growth rate in perpetuity of 2.0% (1.6% in 2020), which does not exceed the long-term average growth rate of the market in which the operating segment is active. The discount rate used was 9.3% (9% in 2020), determined using the Capital Asset Pricing Model (CAPM); it therefore comprises a risk-free rate plus a risk premium which reflects the inherent risk of the operating segment being valued.

The recoverable amount obtained is higher than the carrying amount; therefore, there has been no impairment. The individual recoverable amount for each UGE at the end of 2021 and 2020, before allocating goodwill to the UGEs as a group, was above its carrying amount; therefore, the Group did not recognise any impairment at UGE level during the aforesaid years.

Additionally, the Group has carried out a sensitivity test, making reasonable adjustments to the main assumptions used to calculate the recoverable amount.

This test consisted of adjusting, individually, the following assumptions:

- 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 +/- 10 pb.

The sensitivity test does not alter the conclusions drawn from the impairment test. In all scenarios defined in that analysis, the recoverable amount obtained is greater than the carrying amount.

In accordance with the specifications of the restated text of the Corporation Tax Law, the goodwill generated is not tax-deductible.

Other intangible assets

Miami Private Banking Business

The recoverable amount obtained is higher than the carrying amount; therefore, there has been no impairment. The individual recoverable amount for each UGE at the end of 2021 and 2020, before allocating goodwill to the UGEs as a group, was above its carrying amount; therefore, the Group did not recognise any impairment at UGE level during the aforesaid years.

Computer software

Computer software costs include mainly the capitalised costs of developing the Bank's computer software and the cost of purchasing software licences.

R&D expenditure in 2021 and 2020 was not significant.

Note 16 – Other assets

The composition of this heading as at 31 December 2021 and 2020 was as follows:

Thousand euro

	Note	2021	2020
Insurance contracts linked to pensions	21	116,453	133,757
Rest of other assets		151,423	290,534
Total		**267,876**	**424,291**

The heading "Rest of other assets" mainly includes prepaid expenses, the accrual of fees and commissions and transactions in progress pending settlement.

Note 17 – Deposits of central banks and credit institutions

The breakdown of deposits of credit institutions and central banks in the balance sheets as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021	2020
By heading:		
Financial liabilities at amortised cost	39,873,130	37,918,708
Total	**39,873,130**	**37,918,708**
By nature:		
Demand deposits	553,717	386,159
Deposits with agreed maturity	34,260,634	30,561,030
Repurchase agreements	5,398,905	6,789,993
Other accounts	114,521	178,619
Valuation adjustments	(454,647)	2,907
Total	**39,873,130**	**37,918,708**
By currency:		
In euro	38,473,811	35,710,581
In foreign currency	1,399,319	2,208,127
Total	**39,873,130**	**37,918,708**

Note 18 – Customer deposits

The customer deposits heading on the balance sheets as at 31 December 2021 and 2020 breaks down as follows:

Thousand euro

	2021	2020
By heading:		
Financial liabilities at amortised cost	119,777,138	113,321,650
Total	**119,777,138**	**113,321,650**
By nature:		
Demand deposits	107,067,623	95,325,754
Deposits with agreed maturity	10,904,564	16,032,196
Fixed term	8,710,287	13,402,974
Non-marketable covered bonds and bonds issued	1,111,603	1,397,479
Other	1,082,674	1,231,743
Hybrid financial liabilities (see Notes 9 and 11)	1,680,942	1,847,448
Repurchase agreements	60,313	15,133
Valuation adjustments	63,696	101,119
Total	**119,777,138**	**113,321,650**
By sector:		
General governments	7,896,777	6,420,343
Other sectors	111,816,665	106,800,188
Other valuation adjustments (interest, fees and commissions, other)	63,696	101,119
Total	**119,777,138**	**113,321,650**
By currency:		
In euro	113,826,626	108,428,751
In foreign currency	5,950,512	4,892,899
Total	**119,777,138**	**113,321,650**

Note 19 – Debt securities in issue

The breakdown of the "Debt securities in issue" heading by type of issuance, recognised on the balance sheets as at 31 December 2021 and 2020, is as follows:

Thousand euro

	2021	2020
Straight bonds/debentures	7,139,915	6,915,615
Straight bonds	7,082,715	6,810,415
Structured bonds	57,200	105,200
Commercial paper	903,897	782,221
Covered bonds	6,540,400	8,041,000
Subordinated marketable debt securities	4,200,000	2,450,000
Subordinated liabilities	1,800,000	1,300,000
Preference shares	2,400,000	1,150,000
Valuation and other adjustments	47,072	29,981
Total	**18,831,284**	**18,218,817**

Schedule V shows details of the outstanding issues at year-end 2021 and 2020.

The remuneration for preference shares that are contingently convertible into ordinary shares amounted to 100,593 thousand euros in 2021 (73,250 thousand euros in 2020) 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 2021 and 2020 is as follows:

Thousand euro

	2021	2020
By heading:		
Financial liabilities at amortised cost	4,263,617	3,471,400
Total	**4,263,617**	**3,471,400**
By nature:		
Debentures payable	351,336	151,418
Guarantee deposits received	11,261	73,364
Clearing houses	672,355	607,792
Collection accounts	1,984,815	1,331,309
Lease liabilities	842,362	907,907
Other financial liabilities	401,488	399,610
Total	**4,263,617**	**3,471,400**
By currency:		
In euro	4,177,811	3,367,777
In foreign currency	85,806	103,623
Total	**4,263,617**	**3,471,400**

The following table shows information relating to the average time taken to pay suppliers (days payable outstanding), 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

	2021	2020
Days		
Average time taken to pay suppliers	11.35	15.72
Ratio of paid operations	11.35	15.72
Ratio of operations payable	—	—
Amount		
Total payments made	1,689,020	1,353,633
Total payments outstanding	—	—

Note 21 – Provisions and contingent liabilities

Movements during 2021 and 2020 under the "Provisions" heading 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 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:	**(8,575)**	**(2,316)**	**(22,795)**	**—**	**(28,913)**	**(62,599)**
Net contributions by the sponsor	(39)	1	—	—	—	(38)
Pension payments	(8,536)	(2,317)	—	—	—	(10,853)
Other	—	—	(22,795)	—	(28,913)	(51,708)
Other movements	**4,625**	**(26)**	**—**	**469**	**10**	**5,078**
Balance as at 31 December 2020	**94,463**	**1,228**	**114,089**	**421,572**	**393,598**	**1,024,950**
Scope additions / exclusions	**—**	**—**	**—**	**—**	**—**	**—**
Interest and similar charges - pension commitments	**451**	**4**	**—**	**—**	**—**	**455**
Allowances charged to income statement - staff expenses (*)	**525**	**6**	**—**	**—**	**274,290**	**274,821**
Allowances not charged to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Allowances charged to income statement - provisions	**1,305**	**17**	**39,608**	**99,400**	**56,500**	**196,830**
Allocation of provisions	39	—	41,093	574,981	56,500	672,613
Reversal of provisions	—	—	(1,485)	(475,581)	—	(477,066)
Actuarial losses / (gains)	1,266	17	—	—	—	1,283
Exchange differences	**—**	**—**	**—**	**206**	**—**	**206**
Utilisations:	**(7,914)**	**(921)**	**(76,856)**	**—**	**(32,746)**	**(118,437)**
Net contributions by the sponsor	281	—	—	—	—	281
Pension payments	(8,195)	(921)	—	—	—	(9,116)
Other	—	—	(76,856)	—	(32,746)	(109,602)
Other movements	**(9,255)**	**(37)**	**—**	**(243,290)**	**(286,104)**	**(538,686)**
Balance as at 31 December 2021	**79,575**	**297**	**76,841**	**277,888**	**405,538**	**840,139**

(*) 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 "Commitments and guarantees given" includes the amount of provisions for the coverage of commitments given and contingent exposures arising from financial guarantees or other types of contracts.

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" or "Other provisions". As at 31 December 2021 and 2020, 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 euros 114 million euros as at 31 December 2021 (85 million euros as at 31 December 2020). In the highly adverse scenario of potential additional claims being filed, both through the procedures established by the Institution, in accordance with that set forth in the aforesaid Royal Decree, and through court proceedings applying the percentages set forth in the current agreement, the maximum contingency would amount to 141 million euros.

  With regard to these provisions, the Bank considers its floor clauses to be transparent and clear to customers, and in general, these have not been definitively voided with a final ruling. On 12 November 2018, Section 28 of the Civil Division of the Provincial 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 de Sabadell are transparent and valid in their entirety. With regard to the rest of the clauses, the Bank still considers that it has legal arguments which should be reviewed in the legal appeal which the Institution presented to the Supreme Court, with regard to the ruling made by the Provincial Court of Madrid.

- Liabilities for legal contingencies amounting to 28 million euros as at 31 December 2021 (77 million euros as at 31 December 2020).

- Provisions to cover the anticipated costs relating to restructuring plans in Spain amounting to 274 million euros as at 31 December 2021 (286 million euros as at 31 December 2020) –see Note 30–.

- In addition, the Supreme Court ruling dated 4 March 2020, relating to revolving credit card contracts and/or contracts with deferred payment of a third-party institution, modifies the court's own previous doctrine 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 benchmark to determine the legal interest rate for the purposes of the Law on the Suppression 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 contract must be analysed on a case-by-case basis. Banco Sabadell considers that the Supreme Court ruling is unlikely to have a significant effect on its financial statements. As at 31 December 2021, provisions set aside to cover this contingency were not significant.

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 set aside.

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

	2021	2020	2019	2018	2017
Obligations arising from pension and similar commitments	732,658	811,819	796,260	762,853	787,671
Fair value of defined benefit plan assets	(652,786)	(716,128)	(697,621)	(667,835)	(692,537)
Net liability recognised on balance sheet	**79,872**	**95,691**	**98,639**	**95,018**	**95,134**

The return on the Banco Sabadell pension plan was 4.25% and that of the E.P.S.V. was 2.67% in 2021 (0.24% and 0.63%, respectively, in 2020).

Movements during 2021 and 2020 of obligations due to pensions and similar commitments and the fair value of the plan 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 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**
Interest costs	3,944	—	3,944
Interest income	—	3,489	(3,489)
Normal cost in year	531	—	531
Past service cost	—	—	—
Benefits paid	(47,354)	(38,238)	(9,116)
Settlements, curtailments and terminations	(13,352)	(14,618)	1,266
Net contributions by the Institution	—	(181)	181
Actuarial gains or losses from changes in demographic assumptions	—	—	—
Actuarial gains or losses from changes in financial assumptions	(42,683)	—	(42,683)
Actuarial gains or losses from changes in actuarial assumptions	2,702	—	2,702
Yield on defined benefit plan assets excluding interest income	—	(30,845)	30,845
Other movements	17,051	17,051	—
Balance as at 31 December 2021	**732,658**	**652,786**	**79,872**

The breakdown of the Bank's pension commitments and similar obligations as at 31 December 2021 and 2020, based on the financing vehicle, coverage and the interest rate applied in its calculation, is given below:

Thousand euro

		2021	
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension plans		**358,922**	
Insurance policies with related parties	Matched	33,404	1.00%
Insurance policies with unrelated parties	Matched	325,518	1.00%
Insurance policies		**372,859**	
Insurance policies with related parties	Matched	78,285	1.00%
Insurance policies with unrelated parties	Matched	294,574	1.00%
Internal funds	Without cover	**877**	**1.00%**
Total obligations		**732,658**	

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**	

The value of the commitments covered by matched insurance policies as at 31 December 2021 was 731,781 thousand euros (809,585 thousand euros as at 31 December 2020), therefore in 99.88% of its commitments (99.72% as at 31 December 2020) there is no mortality risk (mortality tables) or profitability risk (interest rate) for the Bank. Therefore, the evolution of interest rates in 2021 has not had an impact on the Institution's financial situation.

The sensitivity analysis for each key actuarial assumption, as at 31 December 2021 and 2020, shows how the obligation and the cost of the services during the current year would have been affected by changes deemed reasonably likely to occur as at that date.

%

	2021	2020
Sensitivity analysis	**Percentage change**	
Interest rate		
Interest rate -50 basis points:		
Assumption	0.50 %	0.00 %
Change in obligation	5.87 %	6.25 %
Change of service cost in current year	11.59 %	10.44 %
Interest rate +50 basis points:		
Assumption	1.50 %	1.00 %
Change in obligation	(5.36)%	(5.66)%
Change of service cost in current year	(10.33)%	(9.09)%
Rate of salary increase		
Rate of salary increase -50 basis points:		
Assumption	2.50 %	2.00 %
Change in obligation	(0.06)%	(0.17)%
Change of service cost in current year	(3.27)%	(2.69)%
Rate of salary increase +50 basis points:		
Assumption	3.50 %	3.00 %
Change in obligation	0.06 %	0.19 %
Change of service cost in current year	3.92 %	2.99 %

The estimate of probable present values, as at 31 December 2021, of benefits payable for the next ten years, is set out below:

Thousand euro

	Years										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Future benefit payments	8,340	7,929	7,650	7,391	7,120	6,851	6,568	6,274	5,970	5,658	**69,751**

The fair value of assets linked to pensions recognised on the balance sheet amounted to 116,453 thousand euros as at 31 December 2021 (133,757 thousand euros as at 31 December 2020) – see Note 16 –.

The main categories of the plan assets as a percentage of total as at 31 December 2021 and 2020 are listed below:

%

	2021	2020
Mutual funds	2.08 %	1.63 %
Deposits and guarantees	0.14 %	0.18 %
Other (non-linked insurance policies)	97.78 %	98.19 %
Total	**100 %**	**100 %**

The following financial instruments issued by the Bank as at 31 December 2021 and 2020 are included in the fair value of the plan assets:

Thousand euro

	2021	2020
Equity instruments	—	36
Deposits and guarantees	—	902
Total	**—**	**938**

Note 22 – Shareholders' equity

The breakdown of the balance of shareholders' equity on the balance sheets as at 31 December 2021 and 2020 is the following:

Thousand euro

	2021	2020
Capital	703,371	703,371
Share premium	7,899,227	7,899,227
Other equity	9,663	8,755
Retained earnings	4,486,020	4,402,722
Other reserves	(2,021,071)	(1,930,114)
(-) Treasury shares	(34,419)	(37,457)
Profit or loss attributable to owners of the parent	328,412	93,781
Total	**11,371,203**	**11,140,285**

Capital

The Bank's share capital as at 31 December 2021 and 2020 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 electronic market (Mercado Continuo) 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 the 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. The Articles of Association do not contain any provision for additional loyalty voting rights.

There were no changes in share capital in 2021 and 2020.

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 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 share capital of Banco Sabadell as at 31 December 2021:

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.	3.02%	0.41%	3.43%	Blackrock Inc.
Fintech Europe S.A.R.L.	3.45%	0.00%	3.45%	David Martínez Guzmán
Sanders Capital LLC	3.47%	0.00%	3.47%	Lewis A. Sanders and clients of Sanders Capital LLC who delegate their voting rights to others

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 2021 amounts to 7,899,227 thousand euros, remaining unchanged from the amount in 2020.

Retained earnings and Other reserves

The balance of these headings of the balance sheets as at 31 December 2021 and 2020 breaks down as follows:

Thousand euro

	2021	2020
Restricted reserves:	**206,665**	**195,966**
Statutory reserve	140,674	140,674
Reserves for treasury shares pledged as security	52,315	41,832
Canary Island investment reserve	10,561	10,345
Reserve for share capital redenomination in euro	113	113
Capital redemption reserve	3,002	3,002
Unrestricted reserves	**2,258,284**	**2,276,642**
Total	**2,464,949**	**2,472,608**

Other equity

Items incorporated under other equity include share-based remuneration pending settlement which as at 31 December 2021 and 2020 amounted to 9,663 thousand euros and 8,755 thousand euros, respectively.

Business involving own equity instruments

The movements of the parent company's shares acquired by the Bank during 2021 and 2020 are as follows:

	No. of shares	Nominal value *(in thousand euro)*	Average price *(in euro)*	% Shareholding
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**
Purchases	115,224,411	14,403.05	0.56	2.05
Sales	123,106,070	15,388.26	0.55	2.19
Balance as at 31 December 2021	**40,679,208**	**5,084.90**	**0.85**	**0.72**

Net gains and losses arising from transactions involving own equity instruments have been included under the heading "Shareholders' equity – 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 2021, the number of shares of the Bank pledged as collateral for transactions was 88,399,047 with a nominal value of 11,450 thousand euros (118,169,913 shares with a nominal value of 14,771 thousand euros as at 31 December 2020).

The number of Banco de Sabadell, S.A. equity instruments owned by third parties, yet managed by the different companies of the Group, amounts to 17,183,167 and 12,669,119 securities as at 31 December 2021 and 2020, with a nominal value of 2,148 thousand euros and 1,584 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 the statement of equity as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021	2020
Items that will not be reclassified to profit or loss	(74,402)	(83,433)
Actuarial gains or (-) losses on defined benefit pension plans	(179)	173
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	(74,223)	(83,606)
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	6,446	39,570
Hedge of net investments in foreign operations (effective portion) (*)	(2,915)	13,392
Foreign currency translation	44,138	(29,673)
Hedging derivatives. Cash flow hedges (effective portion) (**)	(20,235)	70,959
Amount deriving from outstanding operations	(57,265)	26,499
Amount deriving from discontinued operations	37,030	44,460
Fair value changes of debt instruments measured at fair value through other comprehensive income	(14,542)	(15,108)
Hedging instruments (not designated elements])	—	—
Non-current assets and disposal groups classified as held for sale	—	—
Total	**(67,956)**	**(43,863)**

(*) The value of the hedge of net investments in foreign operations is fully obtained from outstanding transactions (see note 11).

(**) 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 2021 and 2020, indicating their gross and net of tax effect amounts, is as follows:

Thousand euro

	2021			2020		
	Gross amount	**Tax effect**	**Net**	**Gross amount**	**Tax effect**	**Net**
Items that will not be reclassified to profit or loss	4,601	4,430	9,031	(12,988)	(4,270)	(17,258)
Actuarial gains or (-) losses on defined benefit pension plans	(503)	151	(352)	2,753	(826)	1,927
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	5,104	4,279	9,383	(15,741)	(3,444)	(19,185)
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	(70,046)	36,921	(33,125)	(95,192)	10,343	(84,849)
Hedge of net investments in foreign operations [effective portion]	(16,307)	—	(16,307)	13,613	—	13,613
Foreign currency translation	73,810	—	73,810	(76,248)	—	(76,248)
Hedging derivatives. Cash flow hedges reserve [effective portion]	(130,277)	39,083	(91,194)	(36,432)	10,929	(25,503)
Fair value changes of debt instruments measured at fair value through other comprehensive income	2,728	(2,162)	566	3,875	(586)	3,289
Hedging instruments (not designated elements])	—	—	—	—	—	—
Non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
Total	**(65,445)**	**41,351**	**(24,094)**	**(108,180)**	**6,073**	**(102,107)**

Note 24 – Off-balance sheet exposures

The composition of off-balance sheet exposures as at 31 December 2021 and 2020 was as follows:

Thousand euro

Commitments and guarantees given	Note	2021	2020
Loan commitments provided		**21,078,872**	**23,214,812**
Of which, amount classified as Stage 2		*926,191*	1,176,007
Of which, amount classified as Stage 3		*47,289*	*94,029*
Can be drawn by third parties		21,078,872	23,214,812
By credit institutions		193,349	273,364
By general governments		1,062,490	1,458,461
By other resident sectors		15,965,269	17,159,781
By non-residents		3,857,764	4,323,206
Provisions recognised on liabilities side of the balance sheet	21	154,899	312,469
Financial guarantees provided (*)		**8,966,917**	**2,404,071**
Of which, amount classified as Stage 2		*143,686*	136,415
Of which, amount classified as Stage 3		*116,373*	*108,143*
Provisions recognised on liabilities side of the balance sheet (**)	21	42,516	38,743
Other commitments provided		**7,425,425**	**7,617,470**
Of which, amount classified as Stage 2		*473,436*	479,396
Of which, amount classified as Stage 3		*358,184*	*349,677*
Other guarantees given		7,274,643	7,307,949
Assets earmarked for third-party obligations		—	—
Irrevocable letter of credit		967,766	760,160
Additional settlement guarantee		25,000	20,000
Other guarantees and sureties given		6,281,877	6,527,789
Other contingent risks		—	—
Other commitments provided		150,782	309,521
Financial asset forward purchase commitments		—	204,692
Conventional financial asset purchase contracts		50,116	—
Capital subscribed but not paid up		19	19
Underwriting and subscription commitments		—	—
Other loan commitments given		100,647	104,810
Provisions recognised on liabilities side of the balance sheet	21	80,473	70,360
Total		**37,471,214**	**33,236,353**

(*) Includes 68,837 thousand euros and 73,548 thousand euros as at 31 December 2021 and 2020, respectively, relating to financial guarantees given in relation to construction and real estate development.

(**) Includes 6,512 thousand euros and 3,909 thousand euros as at 31 December 2021 and 2020, respectively, in relation to construction and real estate development.

Total commitments drawable by third parties as at 31 December 2021 include home equity loan commitments amounting to 3,021,856 thousand euros (3,108,154 thousand euros as at 31 December 2020). 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.

Financial guarantees and other commitments provided classed as Stage 3

The movement of the balance of financial guarantees and other commitments given classed as stage 3 during 2021 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**
Additions	94,214
Disposals	(77,477)
Balances as at 31 December 2021	**474,557**

The breakdown by region of the balance of the financial guarantees and other commitments provided classed as stage 3 as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021	2020
Spain	469,444	456,808
United Kingdom	4	5
Rest of European Union	439	437
Americas	2,808	4
Rest of the world	1,862	566
Total	**474,557**	**457,820**

Credit risk allowances corresponding to financial guarantees and other commitments given as at 31 December 2021 and 2020, broken down by the method used to determine such allowances, are as follows:

Thousand euro

	2021	2020
Specific individually measured allowances:	**86,050**	**84,781**
Stage 2	424	2,753
Stage 3	85,626	82,028
Specific collectively measured allowances:	**36,939**	**24,322**
Stage 1	6,318	7,556
Stage 2	5,763	5,541
Stage 3	24,140	10,727
Allowances for country risk	718	498
Total	**122,989**	**109,103**

The movement of this coverage during the years 2021 and 2020, 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 2021 and 2020 are shown below:

Thousand euro

	2021	2020
Managed by the bank:	**5,160,075**	**5,461,582**
Investment firms and funds	1,364,922	2,342,138
Asset management	3,795,153	3,119,444
Sold by the bank:	**36,517,746**	**32,945,769**
Mutual Funds	23,228,405	19,545,317
Pension funds	3,524,786	3,349,080
Insurance	9,764,555	10,051,372
Financial instruments deposited by third parties	**48,875,715**	**70,088,149**
Total	**90,553,536**	**108,495,500**

The reduction in the balance of “Financial instruments deposited by third parties” in 2021 is due to the sale of the institutional depository business (see Note 33).

Note 26 – Interest income and expenses

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.

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

	2021	2020
Interest income		
Loans and advances	2,193,867	2,334,737
Central banks	113	680
Credit institutions	24,129	33,250
Customers	2,169,625	2,300,807
Debt securities (*)	192,018	248,000
Stage 3 assets	30,162	39,278
Correction of income from hedging operations	11,684	162,577
Other interest (**)	395,199	223,058
Total	**2,822,930**	**3,007,650**
Interest expense		
Deposits	(187,646)	(253,693)
Central banks	(1,048)	(3,168)
Credit institutions	(13,694)	(21,626)
Customers	(172,904)	(228,899)
Debt securities issued	(244,691)	(236,882)
Correction of expenses on hedging operations	(15,234)	(159,098)
Other interest (***)	(193,987)	(91,044)
Total	**(641,558)**	**(740,717)**

(*) Includes -32 thousand euro in 2021 and 92 thousand euro in 2020 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 2021 and 2020 of the indicated balance sheet headings is shown below:

%

	2021	2020
Assets		
Cash, cash balances at central banks and other demand deposits	(0.34)	(0.14)
Debt securities	0.69	0.94
Loans and advances		
Customers	1.98	2.13
Liabilities		
Deposits		
Credit institutions	0.88	0.61
Customers	0.03	(0.03)
Debt securities issued	(1.37)	(1.44)

Positive (negative) figures correspond to income (expenses) for the Group.

Note 27 – Fee and commission income and expenses

Income and expenses arising from fees and commissions on financial assets and liabilities and the provision of services are as follows:

Thousand euro

	2021	2020
Fees from risk transactions	**272,602**	**255,416**
Lending operations	166,267	156,272
Sureties and other guarantees	106,335	99,144
Service fees	**705,218**	**634,516**
Payment cards	161,677	154,157
Payment orders	71,674	54,160
Securities	62,062	64,423
Sight accounts	248,265	190,477
Other	161,540	171,299
Asset management fees	**304,359**	**253,589**
Mutual funds	114,920	85,560
Sale of pension funds and insurance products	153,157	146,849
Asset management	36,282	21,180
Total	**1,282,179**	**1,143,521**
Memorandum item		
Fee and commission income	1,447,682	1,279,947
Fee and commission expenses	(165,503)	(136,426)
Fees and commissions (net)	**1,282,179**	**1,143,521**

Note 28 – Gains or (-) losses on financial assets and liabilities (net) and exchange differences (net)

The composition of this heading of the income statement for the years ended 31 December 2021 and 2020 is as follows:

Thousand euro

	2021	2020
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	331,246	761,882
Financial assets at fair value through other comprehensive income	5,585	33,770
Financial assets at amortised cost	323,928	728,213
Financial liabilities at amortised cost	1,733	(101)
Gains or (-) losses on financial assets and liabilities held for trading, net	(162,522)	461,983
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	4,521	(8,999)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	—	—
Gains or (-) losses from hedge accounting, net	(2,230)	2,826
Total	**171,015**	**1,217,692**
By type of financial instrument:		
Net gain/(loss) on debt securities	336,923	774,545
Net gain/(loss) other equity instruments	357	318
Net gain/(loss) on derivatives	(166,677)	459,126
Net gain/(loss) on other items (*)	412	(16,297)
Total	**171,015**	**1,217,692**

(*) Mainly includes gains/(losses) on the sale of various loan portfolios sold during the year.

The breakdown of the heading "Exchange differences [gain or (-) loss], net" of the consolidated income statement for the years ended 31 December 2021 and 2020, are shown below:

Thousand euro

	2021	2020
Exchange differences [gain or (-) loss], net	184,214	(421,156)

During 2021, 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 5,585 thousand euros (33,770 thousand euros as at 31 December 2020).

In addition, during 2021 and 2020, the Bank sold certain debt securities held in the portfolio of financial assets at amortised cost in order to fortify the Bank's solvency as part of a series of actions taken to improve the future profitability and quality of its balance sheet (see Notes 7 and 30).

Meanwhile, 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 2021 and 2020 is as follows:

Thousand euro

	2021	2020
Contribution to deposit guarantee schemes	(116,341)	(110,587)
Contribution to resolution fund	(87,573)	(78,124)
Other items	(85,267)	(131,508)
Total	**(289,181)**	**(320,219)**

"Other items" includes expenses corresponding to Tax on Deposits of Credit Institutions, amounting to a 33,438 thousand euros in 2021 (32,369 thousand euros in 2020), as well as expenses associated with non-financial activities.

Note 30 – Administrative expenses

This heading of the income statement includes expenses incurred by the Bank corresponding to staff and other general administrative expenses.

Staff expenses

The staff expenses recognised in the income statement for the years ended 31 December 2021 and 2020 are as follows:

Thousand euro

	Note	2021	2020
Payrolls and bonuses for active staff		(748,461)	(791,356)
Social Security payments		(182,334)	(196,737)
Contributions to defined benefit pension plans	21	(531)	(1,461)
Contributions to defined contribution pension plans		(32,456)	(29,084)
Other staff expenses		(328,648)	(326,786)
Of which: collective dismissal procedure in Spain		*(274,301)*	*(286,112)*
Total		**(1,292,430)**	**(1,345,424)**

In October 2021, the Bank reached an agreement with all trade union sections involved in the negotiating committee representing workers, under the framework of a collective dismissal procedure in Spain which affects 1,605 employees (496 in 2021 and the rest during the first quarter of 2022). This agreement involved an expenditure of 274,301 thousand euros, which was funded with income from the sale of debt instruments recognised in the amortised cost portfolio (see Notes 7, 21 and 28).

In December 2020, the Bank reached an agreement with the trade unions in Spain on voluntary early retirement and incentivised redundancies, which involved expenditure of 286,112 thousand euros in 2020 and concerned approximately 1,800 employees, who left the Group in the first quarter of 2021 (see Notes 7, 21 and 28).

As at 31 December 2021 and 2020, the breakdown of the Bank's average workforce by category and sex is as follows:

Average number of employees

	2021			2020		
	Men	Women	Total	Men	Women	Total
Management staff	382	141	523	394	133	527
Middle management	1,844	1,106	2,950	2,062	1,097	3,159
Specialist staff	4,251	6,123	10,374	4,980	6,703	11,683
Total	**6,477**	**7,370**	**13,847**	**7,436**	**7,933**	**15,369**

The breakdown of the Bank's average workforce by category as at 31 December 2021 and 2020 with a reported disability of 33% or more is as follows:

Average number of employees

	2021	2020
Management staff	3	3
Middle management	14	21
Specialist staff	111	140
Total	**128**	**164**

As at 31 December 2021 and 2020, the breakdown of the Bank's workforce by category and sex is as follows:

Number of employees

	2021			2020		
	Men	Women	Total	Men	Women	Total
Management staff	407	164	571	394	134	528
Middle management	1,637	1,041	2,678	2,040	1,090	3,130
Specialist staff	3,990	5,903	9,893	4,947	6,651	11,598
Total	**6,034**	**7,108**	**13,142**	**7,381**	**7,875**	**15,256**

Of the total workforce as at 31 December 2021, 115 employees had informed the Bank that they had some form of recognised disability (167 as at 31 December 2020).

Long-term share-based complementary incentive scheme

Pursuant to the Remuneration Policy, the latest version of which was approved by the Board of Directors at its meeting of 16 December 2021, at the proposal of the Remuneration Committee, members of the Group's Identified Staff, with the exception of non-executive directors, will be allocated long-term remuneration through the schemes in effect during 2021, as described below:

Share-based complementary incentive scheme

At the Annual General Meeting of 19 April 2018, shareholders approved a long-term complementary incentive based on the increase in value of shares of Banco de Sabadell, S.A., which takes into account multi-year objectives, for members of the Group's Identified Staff with allocated variable remuneration (ICLP 2018). It consisted of assigning a specific number of stock options to the beneficiaries, carrying 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, and would be paid 55% in the form of Banco de Sabadell, S.A. shares and 45% in cash.

In April 2021, this scheme expired with no settlement since the strike price (1,841 euros) was above the listed share price.

Long-term remuneration scheme

The Board of Directors, in its meeting of 20 December 2018, at the proposal of the Remuneration Committee, approved Long-Term Remuneration for 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, which consists of the allocation of a certain amount to each beneficiary, 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 shares of the Bank (using the weighted average price of the last 20 trading sessions of December 2019 to calculate the number of shares) and 45% in cash. The incentive vesting period started on 1 January 2019 and ended on 31 December 2021, and consisted of two sub-periods:

- Individual annual targets measurement period: 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 (Liquidity Coverage Ratio) indicators.

- Group multi-year targets measurement period: this is the period from 1 January 2019 to 31 December 2021, in which multi-year Group targets were measured for the purpose of determining the final incentive, which was also subject to the Risk Correction Factor. The Group's multi-year targets were related 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%). The results were 0% relative to total shareholder return, 100% relative to the Group's liquidity coverage ratio, 100% relative to the CET1 capital ratio and 0% relative to the Group's return on risk-adjusted capital (RoRAC). Based on the above, a final pay-out of 50% of the Target was determined for management staff who had been allocated to receive this incentive.

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 2019-2021 Long Term Remuneration scheme.

Furthermore, the Board of Directors, in its meeting of 19 December 2019, at the proposal of the Remuneration Committee, approved Long-Term Remuneration for 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 shares of the Bank (using the weighted average price of the last 20 trading sessions of the month of December 2020 to calculate the number of shares) and 45% in cash. The incentive vesting period started on 1 January 2020 and ends on 31 December 2022, and comprises two sub-periods:

- Individual annual targets measurement period: this is the period from 1 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 (Liquidity Coverage Ratio) indicators.

- Group multi-year targets measurement period: this is the period from 1 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 2020-2022 Long Term Remuneration scheme.

Furthermore, the Board of Directors, in its meeting of 17 December 2020, at the proposal of the Remuneration Committee, approved Long-Term Remuneration for 2021-2023, 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 shares of the Bank (using the weighted average price of the last 20 trading sessions of the month of December 2021 to calculate the number of shares) and 45% in cash. The incentive vesting period started on 1 January 2021 and ends on 31 December 2023, and comprises two sub-periods:

- Individual annual targets measurement period: this is the period from 1 January 2021 to 31 December 2021, 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 (Liquidity Coverage Ratio) indicators.

- Group multi-year targets measurement period: this is the period from 1 January 2021 to 31 December 2023, 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 2021-2023 Long Term Remuneration scheme.

As regards the staff expenses associated with long-term complementary incentive schemes (see Note 1.3.14), the balancing entry for such expenses is recognised in equity in the case of stock options settled with shares (see statement of total changes in equity – share-based payments), while those settled with cash are recognised in the "Other liabilities" heading of the balance sheet.

Expenditure recognised in relation to incentive schemes and long-term remuneration granted to employees in 2021 and 2020 is shown below:

Thousand euro

	2021	2020
Settled in Shares	1,865	3,215
Settled in Cash	1,344	1,386
Total	**3,209**	**4,601**

Other general administrative expenses

The composition of this heading in the income statement for the years 2021 and 2020 was as follows:

Thousand euro

	2021	2020
Property, plant and equipment	(38,921)	(40,248)
Information technology	(388,031)	(344,046)
Communication	(6,232)	(7,418)
Publicity	(37,109)	(39,615)
Subcontracted administrative services	(96,046)	(104,475)
Contributions and taxes	(132,995)	(142,334)
Technical reports	(14,492)	(26,584)
Security services and fund transfers	(14,159)	(14,315)
Entertainment expenses and staff travel expenses	(2,597)	(3,501)
Membership fees	(2,109)	(2,566)
Other expenses	(40,942)	(26,355)
Total	**(773,633)**	**(751,457)**

Audit firm fees

The fees received by KPMG Auditores, S.L. In the years ended 31 December 2021 and 2020 for auditing and other services were as follows:

Thousand euro

	2021	2020
Statutory audit services (*)	**2,074**	**1,818**
Of which: Audit of the Bank's annual and semi-annual accounts	2,049	1,793
Of which: Audit of the annual accounts of foreign branches (**)	25	25
Audit-related services	**270**	**65**
Total	**2,344**	**1,883**

(*) Including fees corresponding to the year's audit, irrespective of the date on which that audit was completed.

(**) Corresponding to the branch located in London.

The fees received by other companies forming part of the KPMG network in the years ended 31 December 2021 and 2020 for auditing and other services were as follows:

Thousand euro

	2021	2020
Statutory audit services (*)	**482**	**280**
Of which: Audit of the annual accounts of foreign branches	302	280
Audit-related services	**46**	**—**
Other services	**211**	**214**
Of which: Other	211	214
Total	**739**	**494**

(*) Including fees corresponding to the year's audit, irrespective of the date on which that audit was completed.

The main items included under "Audit-related services" correspond to fees related to reports that the auditors are required to produce under the applicable regulations, the issuance of comfort letters and other assurance reports required. Furthermore, "Other services" mainly includes fees related to Reviews of the Pillar III Disclosures report and the Non-Financial Disclosures report provided by other companies of the KPMG network.

Finally, in foreign countries the Bank engaged auditors other than KPMG to carry out the audits of foreign branches. Audit and other services provided by those companies to the branches amounted to 19 thousand and 5 thousand euros in the year ended 31 December 2021, respectively (9 thousand euros and 5 thousand euros in the year ended 31 December 2020).

The information related to non-audit services provided by KPMG Auditores, S.L. to companies controlled by the Bank during 2021 and 2020 is set out in the Banco Sabadell Group consolidated annual financial statements as at 31 December 2021.

All services provided by the auditors and companies forming part of their network comply with the requirements for external auditor independence set forth in the Spanish Audit Law and do not, in any case, include work that is unrelated to auditing.

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 2021 and 2020 is as follows:

Thousand euro

	Note	2021	2020
Financial assets at fair value through other comprehensive income		701	308
Debt securities	7	701	308
Other equity instruments		—	—
Financial assets at amortised cost (*)	10	(844,719)	(1,825,422)
Debt securities		68	54
Loans and advances		(844,787)	(1,825,476)
Total		**(844,018)**	**(1,825,114)**

(*) 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 on non-financial assets

The composition of this heading of the income statement for the years ended 31 December 2021 and 2020 is as follows:

Thousand euro

	Note	2021	2020
Property, plant and equipment	14	(52,088)	—
Investment properties	14	(1,329)	(170)
Total		**(53,417)**	**(170)**

Impairment on property, plant and equipment recognised in 2021 is mainly due to the termination of commercial activity at premises belonging to the Bank's branch network.

Impairment allowances for tangible assets during 2021 and 2020 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 2021 and 2020 is as follows:

Thousand euro

	2021	2020
Property, plant and equipment	(356)	(5,982)
Intangible assets	(11,935)	—
Interests	12,870	1,762
Other items	102,354	9,650
Total	**102,933**	**5,430**

The sale of tangible assets under finance leases in which the Bank acts as the lessor did not have a material impact on the 2021 and 2020 income statements.

Agreement for the sale of the institutional depository business

On 4 June 2021, having obtained the relevant authorisations and after meeting all the conditions that needed to be met prior to closing the transaction set out in the agreement reached by the parties on 28 March 2020, Banco Sabadell has sold its institutional depositary business to BNP Paribas Securities Services S.C.A., Branch in Spain (BP2S) for 115 million euros.

The agreement envisages additional collections after closing, subject to the achievement of certain objectives linked to the volume of the assets deposited with BP2S and revenues from the deposit fees on these assets.

The transaction will generate a net profit of 75 million euros, of which 59 million euros has been recognised in the 2021 income statement (mainly, income of 84 million euros under the heading "Gains or (-) losses on derecognition of non-financial assets, net" and an expense of 25 million euros under the heading "Tax expense or income related to profit or loss from continuing operations"). The remaining 16 million euros will be accrued in the income statement over a period of 10 years from the date the transaction is closed.

Note 34 – Profit or (-) loss from 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 2021 and 2020 is as follows:

Thousand euro

	Note	2021	2020
Property, plant and equipment for own use and foreclosed		(60,868)	(166,697)
Gains/losses on sales		(44,108)	(15,111)
Impairment/Reversal	12	(16,760)	(151,586)
Investment properties		—	—
Intangible assets		—	—
Interests (*)		98,268	365,092
Other capital instruments		—	—
Other items		15,165	(23,479)
Total		**52,565**	**174,916**

(*) Corresponds, mainly, to the gains obtained on the sale of BanSabadell Renting, S.L.U. of 61,310 thousand euros and of BancSabadell d'Andorra of 51,852 thousand euros (see Note 13).

The impairment of non-current assets held for sale and disposal groups classified as held for sale excludes income from the increase in fair value less sale costs.

The total allowance for impairment in 2021 was calculated based on 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 the Bank 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, which will in turn settle the consolidated tax with the tax authority (Hacienda Pública).

Reconciliation

The reconciliation of the difference between accounting results and income subject to corporation tax is as follows:

Thousand euro

	2021	2020
Profit/(loss) before tax	377,254	10,147
Increases in taxable income	676,934	1,127,399
From profits	676,934	1,122,836
From equity	—	4,563
Decreases in taxable income	(614,243)	(798,832)
From profits	(513,650)	(725,605)
From equity	(100,593)	(73,227)
Taxable income	**439,945**	**338,714**
Tax payable (30%)	**(131,984)**	**(101,614)**
Deductions for double taxation, training and other	3,272	1,227
Tax payable (less tax credits)	**(128,712)**	**(100,387)**
Due to timing differences (net)	98,420	193,338
Other adjustments (net) (*)	(18,550)	(9,317)
(Tax expense or (-) income related to profit or loss from continuing operations)	**(48,842)**	**83,634**

(*) Includes -26.3 million euros (-15.6 million euros in 2020) 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

	2021	2020
Permanent difference	190,151	223,205
Temporary difference arising during the year	447,003	705,081
Temporary difference arising in previous years	39,780	199,113
Increases	**676,934**	**1,127,399**
Permanent difference	(455,526)	(465,872)
Temporary difference arising during the year	(3,022)	(73,227)
Temporary difference arising in previous years	(155,695)	(259,733)
Decreases	**(614,243)**	**(798,832)**

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 retain the State guarantee, these are subject to an annual capital contribution of 1.5% of their amount as of 2016.

The sources of the deferred tax assets / liabilities recognised in the balance sheets as at 31 December 2021 and 2020 are as follows:

Thousand euro

Deferred tax assets	2021	2020
Monetisable	**3,995,751**	**3,998,199**
Due to credit impairment	3,352,177	3,353,754
Due to real estate asset impairment	517,823	518,525
Due to pension funds	125,751	125,920
Non-monetisable	**1,006,747**	**833,471**
Tax credits for losses carried forward	**263,320**	**272,469**
Total	**5,265,818**	**5,104,139**

Deferred tax liabilities	2021	2020
Property restatements	55,838	56,678
Adjustments to value of wholesale debt issuances arising in business combinations	12,916	19,871
Other financial asset value adjustments	1,475	34,666
Other	2,347	6,943
Total	**72,576**	**118,158**

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 Bank 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 period of 10 years.

In addition, the Group performs a sensitivity analysis of the most significant variables used in the deferred tax asset recovery analysis, taking into consideration reasonable changes to the key assumptions on which the projected results of each entity or fiscal group are based and the estimated reversal of timing differences. With respect to Spain, the variables included are those used in the sensitivity analysis of the calculation of the recoverable amount of goodwill (see Note 15). The conclusions arising from that analysis are not significantly different from those reached without stressing the significant variables.

In 2021 and 2020, the Group has applied the same criteria and assumptions for the recognition and review of the recoverability of deferred tax assets generated in those years as a result of the COVID-19 pandemic as those applied to other deferred tax assets.

On 29 December 2021, the government published Law 22/2021, which sets forth the minimum tax rate for corporation tax in Spain, calculated for financial institutions, as 18% of the Taxable Base (provided this is positive), as from 2022. The change introduced by this tax regulation does not modify the recoverability period for the Group's deferred tax assets.

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

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. (formerly 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 the Canary Islands

As set out in Note 2 to these annual financial statements, the Annual General Meeting held on 26 March 2021 approved allocating a reserve for investments in the Canary Islands amounting to 216 thousand euros. This reserve was fully realised in 2020 through investments carried out in that same year in various items of property, plant and equipment classified as fixtures and fittings.

Years subject to tax inspection

As at 31 December 2021, Banco de Sabadell S.A.'s Corporation Tax liabilities for the years 2015 and following are subject to review and VAT liabilities for the years 2016 and following are open for review.

On 11 January 2022, the State Agency for Tax Administration (AEAT by its Spanish acronym) gave notice of the commencement of verification and investigation procedures in relation to the items and periods listed below:

Institution	Item	Period
Banco de Sabadell, S.A. (parent Company of the consolidated tax Group 16/91)	Value Added Tax (VAT)	January 2018 to December 2019
Banco de Sabadell, S.A. (parent Company of the VAT Group 74/08)	Withholdings/Payments on account on income from professional/business activities	January 2018 to December 2019
Banco de Sabadell, S.A.	Withholdings/Payments on account on income from financial investments	January 2018 to December 2019
Banco de Sabadell, S.A.	Tax on Deposits of Credit Institutions	2017 to 2019
Banco de Sabadell, S.A.	Corporation Tax	2015 to 2019

As at 31 December 2021 the main ongoing disputes related to tax are those described below:

- Administrative-financial claim lodged before the Central Tax Appeal Board on 25 March 2019 against the settlement agreement issued in relation to the disputed tax assessment concerning Value Added Tax (VAT) for the period 07/2012 to 12/2014 which contained an adjustment for a tax amount due of 5,638 thousand euros (6,938 thousand euros in total including late-payment interest) in relation to various sector-based issues. On 15 October 2019, the corresponding representations were submitted. As at 31 December 2021, the aforesaid board had not yet issued a ruling.

- Appeal for judicial review before the Spanish National Court in relation to the rebuttal of the settlement of the disputed VAT assessment for Banco Sabadell between 2008-2010 for an amount of tax due of 1,831 thousand euros (2,337 thousand euros in total including late-payment interest), after a tax settlement was issued in execution of a decision made by the Central Tax Appeal Board partially upholding the claim.

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

In accordance with the provisions of Chapter VII bis. Related Party Transactions, of the Capital Companies Act, introduced by Law 5/2021, of 12 April, amending the restated text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July, and other financial regulations, with regard to the promotion of long-term shareholder involvement in listed companies, there are no transactions with officers and directors of the company that could be considered relevant, other than those considered to be "related party transactions" in accordance with Article 529 *vicies* of the Capital Companies Act, carried out following the corresponding approval procedure and, where applicable, reported in accordance with Articles 529 *unvicies et seq.* of the aforesaid Capital Companies Act. Those that did take place were performed in the normal course of the company's business or were performed on an arm's-length basis or under the terms 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.

With regard to transactions, significant because of their size or relevant because of their purpose, carried out by the Bank with related parties, following a favourable report from the Audit and Control Committee on 18 November 2021, the Board of Directors approved a related party transaction consisting of a loan to Acerinox, S.A. in the amount of 205 million euros for a five year term (the first two years being arranged as a grace period), which was entered into on 23 December 2021. The transaction is considered a related-party transaction given that a director of Banco Sabadell is also an independent director of Acerinox, S.A. and sits on its Committees (member of the Executive Committee and Chairman of the Audit Committee of Acerinox, S.A.). As the transaction amount exceeded 2.5% of turnover as stated in the 2020 consolidated annual financial statements of Banco Sabadell, it was reported, together with the corresponding report of the Audit and Control Committee, to the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores* or CNMV) and published as Other Relevant Information on 23 December 2021 with registration reference number 13,328, in accordance with the provisions set forth in Article 529 *unvicies* of the Capital Companies Act.

The most significant balances held with related parties, and the effect on the income statement of related party transactions, are shown below:

Thousand euro

	2021					2020
	Subsidiaries	Associates	Key personnel	Other related parties (*)	TOTAL	TOTAL
Assets:						
Loans and advances – Credit institutions	1,851,465	37,625	—	—	1,889,090	2,011,092
Loans and advances – Customers	9,293,526	92,551	2,593	539,451	9,928,121	9,939,421
Liabilities:						
Deposits from credit institutions	18,809	5,578	—		24,387	45,246
Customer deposits	3,268,166	192,586	7,450	87,272	3,555,474	4,075,232
Debt securities issued	473,237	—	—	—	473,237	507.904 (*)
Off-balance sheet exposures:						
Financial guarantees provided	7,023,769	302	—	10,042	7,034,113	457,705
Loan commitments given	1,160,525	102	449	108,373	1,269,449	1,624,129
Other commitments provided	40,562	6,749	—	112,112	159,423	104,964
Income statement:						
Interest income	84,897	3,707	22	5,001	93,627	69,683
Interest expense	(79,886)	(73)	1	(20)	(79,978)	(80,635)
Fees and commissions (net)	143,171	3,624	48	1,444	148,287	136,212
Other general expenses	(435,187)	(4,811)	—	(2,522)	(442,520)	(422,137)

(*) Of which 5,000 thousand euro relate to subordinated bonds.

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 2021 and 2020, 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	
	2021	2020	2021	2020	2021	2020
Josep Oliu Creus (1)	1,259	234	—	35	1,259	269
Pedro Fontana García (2)	257	198	—	—	257	198
José Javier Echenique Landiríbar (3)	185	207	—	—	185	207
César González-Bueno Mayer (*) (4)	83	—	—	—	83	—
Jaime Guardiola Romojaro (5)	17	100	—	—	17	100
Anthony Frank Elliott Ball	162	150	—	—	162	150
Aurora Catá Sala	178	166	—	—	178	166
Luis Deulofeu Fuguet (6)	39	—	—	—	39	—
María José García Beato (7)	166	100	—	—	166	100
Maria Teresa Garcia-Milà Lloveras (8)	—	38	—	—	—	38
Mireya Giné Torrens	150	39	—	—	150	39
George Donald Johnston III	188	188	—	—	188	188
David Martínez Guzmán	100	100	—	—	100	100
José Manuel Martínez Martínez	167	138	—	—	167	138
José Ramón Martínez Sufrategui	135	140	—	—	135	140
José Luis Negro Rodríguez (9)	—	74	—		—	74
Alicia Reyes Revuelta	164	—	—	—	164	—
Manuel Valls Morató	145	160	—	—	145	160
David Vegara Figueras (*)	100	100	—	—	100	100
Total	**3,495**	**2,132**	**—**	**35**	**3,495**	**2,167**

(*) Perform executive functions.

(1) Non-Executive Chair (Other External Director) since 26 March 2021.

(2) Appointed Deputy Chair of the Board on 28 July 2021.

(3) Submitted resignation from position as Director on 28 July 2021.

(4) On 17 December 2020, the Board of Directors approved his appointment as Chief Executive Officer. He accepted the position on 18 March 2021.

(5) Submitted resignation from position as Chief Executive Officer on 18 March 2021.

(6) On 28 July 2021, the Board of Directors approved his appointment as member of the Board of Directors, in the capacity of Independent Director. He accepted the position on 26 October 2021.

(7) Other External Director, effective from 31 March 2021.

(8) Submitted resignation from position as Director, effective from 26 March 2020.

(9) Submitted resignation from position as Director, effective from 24 September 2020.

In 2021, following the changes to the Articles of Association introduced at the General Shareholders' Meeting of 26 March 2021, the directorship of the Chairman of the Board of Directors, Josep Oliu Creus, changed to non-executive status in the category of Other External Director.

The Chairman, through the performance of his duties, is ultimately responsible for the effective operation of the Board of Directors and, as such, he represents the Bank in all matters and signs on its behalf, convenes and chairs meetings of the Board of Directors, sets the meeting agenda, leads discussions and deliberations during Board meetings and ensures the fulfilment of the motions adopted by the Board of Directors. Due to the broad scope and particular nature of the duties assigned to him, the contract of the Chairman in his non-executive capacity provides for a fixed annual remuneration of 1,500 thousand euros, in addition to remuneration corresponding to him due to his membership of the Board. In 2021 he received a proportional amount in line with the date on which he assumed non-executive status.

The directorship of María José García Beato also changed to the category of Other External Director, effective as from 31 March 2021.

Aside from the items mentioned above, members of the Board of Directors received 124 thousand euros as fixed remuneration in 2021 (60 thousand euros in 2020) 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).

Remuneration corresponding to directors for discharging their executive duties amounted to 6,563 thousand euros in 2021.

In the case of the Chairman and the Directors who gave up their executive duties during 2021, the amounts correspond to the amounts earned in the period during which they performed those executive duties.

Thousand euro

	Fixed remuneration	Variable remuneration	Long-term remuneration	Total ordinary remuneration	Severance pay	Total 2021	Total 2020
Josep Oliu Creus	468	355	165	**988**	—	**988**	**1,752**
César González-Bueno Mayer	1,597	558	—	**2,155**	—	**2,155**	**—**
Jaime Guardiola Romojaro	304	264	129	**697**	—	**697**	**1,363**
María José García Beato	145	—	43	**188**	1,849	**2,037**	**511**
David Vegara Figueras	535	100	51	**686**	—	**686**	**455**
José Luis Negro Rodríguez	—	—	—	**—**	—	**—**	**507**
Total	**3,049**	**1,277**	**388**	**4,714**	**1,849**	**6,563**	**4,588**

For comparative purposes, it is important to note that in 2020, the Chairman and the Executive Directors voluntarily waived payment of their annual variable remuneration for 2020, and that no long-term remuneration allocation was made. Additionally, the figures in 2021 include extraordinary amounts in respect of severance payments, amounting to 1,849 thousand euros.

In 2021, pension rights were vested in favour of Directors for discharging their executive duties in the amount of 36,066 thousand euros, including 32,134 thousand euros corresponding to contributions made prior to 2021 (no pension rights were vested in 2020).

The contributions made in 2021 in this respect, insurance premiums covering pension contingencies, amount to 4,381 thousand euros (2,174 thousand euros in 2020), including 4,286 thousand euros corresponding to pre-existing legal or contractual obligations.

Total risk transactions granted by the Bank and consolidated companies to directors of the parent company amounted to 1,068 thousand euros as at 31 December 2021, of which 909 thousand euros corresponded to loans and receivables and 159 thousand euros related to loan commitments given (2,037 thousand euros as at 31 December 2020, consisting of 1,850 thousand euros in loans and receivables and 187 thousand euros in loan commitments given). These transactions form part of the ordinary business of the Bank and are carried out under normal market conditions. Liabilities amounted to 5,928 thousand euros as at 31 December 2021 (5,254 thousand euros as at 31 December 2020).

Total Senior Management remuneration earned during 2021 amounts to 11.578 thousand euros. Pursuant to applicable regulations, this amount includes the remuneration of Senior Management members plus the Internal Audit Officer. The total remuneration of Senior Management includes amounts received by all those who were members of Senior Management at any time during 2021, in proportion to the time they spent in that position.

Thousand euro

	Ordinary remuneration	Severance pay	Total 2021	Total 2020
Senior Management and Internal Audit remuneration	6,418	5,340	**11,758**	**5,077**

For comparative purposes, it is important to note that in 2020, Senior Management staff voluntarily waived payment of their annual variable remuneration for 2020, amounting to 1,223 thousand euros, and that no long-term remuneration allocation was made.

Additionally, for 2021, extraordinary amounts in respect of severance payments amount to 5,340 thousand euros and correspond to pre-existing legal or contractual obligations.

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 4,156 thousand euros as at 31 December 2021 (3,429 thousand euros in 2020), comprising 3,865 thousand euros in loans and receivables and 290 thousand euros related to loan commitments given (in 2020, 3,221 thousand euros related to loans and receivables and 208 thousand euros to loan commitments given). Liabilities amounted to 1,520 thousand euros as at 31 December 2021 (1,081 thousand euros as at 31 December 2020).

The accrued expenses corresponding to long-term remuneration schemes granted to members of Senior Management, including Executive Directors (see Note 33), amounted to 1 million euros in 2021 (2 million euros in 2020).

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 amounts included in the Annual Report on the Remuneration of Directors and in the Annual Report on Corporate Governance follow the criteria set forth in CNMV Circular 5/2013, amended by Circular 2/2018, of 12 June, CNMV Circular 1/2020, of 6 October and CNMV Circular 3/2021, of 28 September, therefore, those amounts accrued and not subject to deferral are reported. The amounts included in this Note follow the criteria set forth in the accounting standards applicable to the Bank, and therefore take into account the amounts accrued during 2021, irrespective of the deferral schedule to which they are subject.

The Executive Directors and Senior Management are specified below, indicating the positions they hold in the Bank as at 31 December 2021:

Executive Directors	
César González-Bueno Mayer	Sabadell Group CEO
David Vegara Figueras	Director-General Manager
Senior Management	
Leopoldo Alvear Trenor	General Manager
Miguel Montes Güell	General Manager
José Nieto de la Cierva	General Manager
Carlos Ventura Santamans	General Manager
Gonzalo Barettino Coloma	Secretary General
Marc Armengol Dulcet	Deputy General Manager
Xavier Comerma Carbonell	Deputy General Manager
Ana Ribalta Roig	Deputy General Manager

Other information relating to the Board

In accordance with the provisions of Article 229 of the Capital Companies Act in relation to the duty to avoid situations of conflict of interest, and without prejudice to the provisions of Article 529 *vicies et seq.* of the aforesaid Act[1], directors have reported to the Company that, during 2021, they or persons related to them, as defined in Article 231 of the Capital Companies Act:

- 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, or any operations carried out and considered to be "related party transactions" in accordance with Article 529 *vicies* of the Capital Companies Act, having applied with the corresponding approval procedure and reporting requirement, in accordance with Articles 529 *unvicies et seq.* of the aforesaid Capital Companies Act.

- Have not used the name of the Company or their position as administrator to unduly influence the performance of personal transactions.

- Have not made use of corporate assets, including the Company's confidential information, for personal purposes.

- Have not taken undue advantage of the Company's business opportunities.

- 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.

[1] The regulation of related party transactions is governed by its own special regime.

– 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 2021 that covers the Institution's Directors and Senior Management staff. The total premium paid was 5,420 thousand euros (2,651 thousand euros in 2020).

Note 38 – Other information

Transactions with significant shareholders

No major transactions with significant shareholders have been carried out during 2021 and 2020.

Environmental disclosures

The Group examines the materiality of ESG matters by adopting a double materiality approach. Specifically, it considers the main positive or negative impacts from two perspectives: the impact of environmental matters on the Group and that of the Group on its stakeholders, in line with the guidelines of the main bodies currently recommending this approach.

In the specific case of climate change and the environment, this dual perspective is reflected in the impacts set out below:

– Impact of the climate and the environment on Banco Sabadell Group

  The correct management of this aspect allows the Group to reduce its exposure to climate and environment-related risks in the future, improving the Bank's reputation and its relationship with its stakeholders, and allowing the Group to maintain its alignment with the regulatory requirements in this regard.

  The management of this aspect requires continuous investment by the Group so that it may continue to develop a high level of market monitoring with improvements to information systems, design of specialised continuous training plans for employees and the hiring of qualified profiles.

– Impact of Banco Sabadell Group on climate and the environment

  This aspect involves incentivising investment in sectors and products that are aligned with ecological transition, introducing new sustainable products for customers and generating greater confidence among investors and in society.

  The management of climate change and environmental risks may involve greater control and tougher funding conditions for those activities that carry a higher risk.

The Bank's activity is governed by compliance with the regulations in force with regard to environmental protection and health and safety in the workplace. Consequently, the Bank maintains procedures that are designed to foster and ensure compliance with the aforesaid regulations.

In this respect, the Bank measures and discloses its impacts on the environment in the form of Scope 1, 2 and 3 Greenhouse Gas (GHG) emissions, as well as other waste generated as a result of its activities. In this way, the Bank 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. In 2021, the Bank has continued to carry out plans related to waste treatment, recycling of consumables, energy saving, as well reducing its GHG emissions and, in that regard, it has set up GHG offset projects.

It was not considered 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, see the Non-Financial Disclosures Report, which is included as part of the consolidated Directors' Report.

Relationships with agents

In accordance with 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 have been 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, SAC as per its Spanish acronym) and its head, who is appointed by the Board of Directors, report directly to the Compliance Division and is independent of the Bank's business and operational lines. 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 financial practices and uses, 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.

On 21 July 2021, guidelines on the criteria for the organisation and operation of customer care services of institutions supervised by the Bank of Spain came into force, which provide control mechanisms for the SAC to evaluate all complaints and claims handled in the Institution. The implementation of these control mechanisms is planned during 2022.

A total of 49,720 complaints and claims were received in 2021, of which 2,489 were complaints (5.01%), and 47,231 were claims (94.99%), in addition to a further 1,143 cases that were pending as at 31 December 2020.

Of this total, 49,949 were processed in 2021, of which a total of 34,701 were accepted for processing and resolved, 15,248 were declined and 914 remained pending as at 31 December 2021.

The five products that received the most claims are detailed below:

Product	No. of claims	% of total received
Current accounts	18,198	36.60 %
Mortgage loans	15,530	31.23 %
Credit/Debit cards	6,305	12.68 %
Personal loans	2,168	4.36 %
Direct debits	878	1.77 %
Other	6,641	13.36 %
Total	**49,720**	**100.00 %**

Complaints and claims processed by SAC at first instance

During 2021 the SAC received 45,943 complaints and claims, of which 32,000 were accepted for processing and resolved, in accordance with the provisions of Order ECO 734/2004 of 11 March.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 15,328 (47.90%) were resolved in the customer's favour and 16,666 (52.08%) in the Institution's favour and in 6 cases (0.02%) the customer withdrew their complaint.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 16,435 (51.36%) were processed within a period of 15 working days, 14,110 (44.09%) within a period of less than 1 month and 1,455 (4.55%) within a period longer than 1 month.

Complaints and claims managed by the 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. The Ombudsman's decisions are binding on the Institution.

In 2021, the SAC received a total of 3,144 complaints and claims via the Customer Ombudsman, of which 2,063 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 118 (5.72%) cases, and in favour of the Institution in 726 (35.19%) cases, and 5 claims were withdrawn by the customer (0.24%). Furthermore, the SAC acquiesced to the claimant's request in 1,185 (57.44%) cases. The other 29 complaints and claims (1.41%) remained pending final resolution by the Ombudsman, following dispatch of arguments by the SAC.

Complaints and claims managed by the Bank of Spain and the CNMV

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 Funds, subject to the essential prerequisite of having previously addressed their complaint or claim to the Institution.

The SAC received a total of 633 claims referred by the Bank of Spain and the CNMV until 31 December 2021. This year, taking into account claims that remained pending at the end of the previous year, 639 claims were accepted and resolved.

Note 39 – Subsequent events

Since 31 December 2021, there have been no significant events worthy of mention.

Schedule I – Banco Sabadell Group companies

Banco Sabadell Group companies as at 31 December 2021 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L. en Liquidación (1)	Real estate	Alicante - Spain	100.00	—	100	339	(10)	—	427	10,538	(10,099)	(10)
Aurica Coinvestments, S.L.	Holding	Barcelona - Spain	—	61.76	50,594	(1,045)	1,880	1,043	51,459	31,247	(1,758)	(4,165)
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Nassau - Bahamas	99.99	0.01	1,598	709	(25)	—	3,001	2,439	(378)	(25)
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	—	—	703,371	10,271,463	328,412	—	197,187,820	—	12,378,089	366,036
Banco Sabadell, S.A., Institución de Banca Múltiple	Credit institution	Mexico DF - Mexico	99.99	0.01	573,492	(57,153)	(12,296)	—	3,851,192	576,941	(54,325)	(24,286)
BanSabadell Factura, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	100	(276)	157	—	2,602	299	(475)	157
BanSabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell - Spain	100.00	—	24,040	12,339	517	—	649,954	24,040	12,339	517
BanSabadell Inversió Desenvolupament, S.A.U.	Holding	Barcelona - Spain	100.00	—	16,975	103,159	(213)	—	198,505	108,828	19,810	(2,401)
Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del Grupo Banco Sabadell, S.A.	Other regulated companies	Alicante - Spain	—	100.00	301	59	8,232	9,288	53,763	524	(4,174)	10,809
Bitarte, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	6,506	(2,117)	(59)	—	4,416	9,272	(4,405)	(83)
BStartup 10, S.L.U.	Holding	Barcelona - Spain	—	100.00	1,000	3,768	384	—	9,605	1,000	(621)	(157)
Business Services for Operational Support, S.A.	Other ancillary activities	Sant Cugat del Valles - Spain	80.00	—	530	(8,052)	(1,938)	—	35,059	1,160	(6,290)	(1,372)
Compañía de Cogeneración del Caribe Dominicana, S.A.	Power generation	Santo Domingo - Dominican Republic	—	100.00	5,016	(4,606)	—	—	427	—	(312)	—
Crisae Private Debt, S.L.U.	Other ancillary activities	Barcelona - Spain	—	100.00	3	196	(14)	—	199	200	(1)	(15)
Desarrollos y Participaciones Inmobiliarias 2006, S.L.U. en Liquidación	Real estate	Elche - Spain	—	100.00	1,942	(90,935)	1,109	—	2	1,919	(90,912)	1,109
Duncan de Inversiones S.I.C.A.V., S.A.	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	99.81	—	7,842	(5,242)	(53)	—	2,553	2,887	(291)	(53)
Ederra, S.A.	Real estate	San Sebastián - Spain	97.85	—	2,036	34,219	(31)	—	36,331	36,062	(405)	108
ESUS Energía Renovable, S.L.	Power generation	Vigo - Spain	—	90.00	50	(727)	(44)	—	3,701	23	(1,367)	(173)
Europea Pall Mall Ltd.	Real estate	London - United Kingdom	100.00	—	20,843	(1,412)	633	—	24,194	20,843	(5,173)	347
Fonomed Gestión Telefónica Mediterráneo, S.A.U.	Other ancillary activities	Alicante - Spain	100.00	—	1,232	2,458	502	—	7,096	2,771	1,763	199
Fuerza Eólica De San Matías, S. de R.L. de C.V.	Power generation	Monterrey - Mexico	—	99.99	8,144	(10,146)	(3,981)	—	51,515	5,951	(4,845)	(4,688)
Galeban 21 Comercial, S.L.U.	Services	A Coruña - Spain	100.00	—	10,000	(4,292)	—	—	5,708	14,477	(8,769)	—

Banco Sabadell Group companies as at 31 December 2021 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Gazteluberri, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	53	(20,740)	(49)	—	1,695	23,891	(44,578)	(49)
Gest 21 Inmobiliaria, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	7,810	1,142	(34)	—	8,926	80,516	(46,718)	(8)
Gestión Financiera del Mediterráneo, S.A.U.	Other financial services	Alicante - Spain	100.00	—	13,000	2,551	12,043	2,789	27,903	66,787	(41,914)	3,614
Guipuzcoano Promoción Empresarial, S.L.	Holding	San Sebastián - Spain	—	100.00	53	(75,502)	(161)	—	6,774	7,160	(82,600)	(161)
Hobalear, S.A.U.	Real estate	Barcelona - Spain	—	100.00	60	61	11	—	135	414	61	11
Hondarriberri, S.L.	Holding	San Sebastián - Spain	99.99	0.01	41	18,545	(386)	—	59,216	120,669	95,578	(138)
Hotel Management 6 Gestión Activa, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	135,730	29,104	(835)	—	163,999	136,335	49,803	532
Hotel Management 6 Holdco, S.L.U.	Real estate	Sant Cugat del Valles - Spain	—	100.00	29,074	(22,041)	(2,093)	—	61,620	27,611	(20,405)	(2,266)
Interstate Property Holdings, LLC.	Holding	Miami - United States	100.00	—	7,293	(1,349)	5	—	5,951	3,804	6,387	1,462
Inverán Gestión, S.L. en Liquidación (2)	Real estate	Sant Cugat del Valles - Spain	44.83	55.17	90	(34)	(46)	—	70	45,090	(45,034)	(46)
Inversiones Cotizadas del Mediterráneo, S.L.	Holding	Alicante - Spain	100.00	—	308,000	198,920	3,717	—	727,461	589,523	(83,233)	(554)
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	Sant Cugat del Valles - Spain	—	100.00	252	(1,825)	1,229	—	3,012	6,484	(3,865)	(2,964)
Manston Invest, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	33,357	(12,930)	(665)	—	20,055	33,357	(12,930)	(665)
Mariñamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	62	(65,791)	(316)	—	6,661	55,013	(120,741)	(316)
Mediterráneo Sabadell, S.L.	Holding	Alicante - Spain	50.00	50.00	85,000	16,853	(171)	9	101,685	510,829	(408,829)	(171)
Paycomet, S.L.U.	Payment institution	Torrelodones - Spain	—	100.00	200	223	517	—	8,458	8,853	(275)	509
Plataforma de Innovación Sabadell, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	(1)	(3)	—	4	3	(1)	(3)
Puerto Pacific Vallarta, S.A. de C.V.	Real estate	Mexico DF - Mexico	—	100.00	28,947	(16,979)	(150)	—	11,820	29,164	(11,571)	(379)
Ripollet Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	—	20	(290)	(11)	—	356,364	20	(290)	(11)
Rubí Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	—	3	(24)	(6)	—	479,591	3	(24)	(6)
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Other financial services	São Paulo - Brazil	99.99	0.01	905	(845)	—	—	78	250	393	—
Sabadell Consumer Finance, S.A.U.	Credit institution	Sabadell - Spain	100.00	—	35,720	56,936	20,444	—	1,777,133	72,232	25,069	20,722
Sabadell Corporate Finance, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	70	8,078	(131)	—	8,134	9,373	(1,204)	(152)
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	—	100.00	12,036	22,563	(115)	—	61,548	41,296	(8,266)	(115)

Banco Sabadell Group companies as at 31 December 2021 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Sabadell Information Systems, S.A.U.	Provision of technology services	Sabadell - Spain	100.00	—	40,243	36,312	23,004	—	1,561,069	143,695	(67,662)	15,589
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	1,000	3,824	(2,073)	—	45,555	1,000	(2,651)	(600)
Sabadell Innovation Cells, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	(2,988)	169	—	2,929	3	(3,041)	(320)
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	30,116	813,910	(17,922)	—	888,175	863,895	(19,869)	(8,101)
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	100,060	235,327	(1,123)	—	334,842	500,622	(165,235)	(1,123)
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	15,807	(2,406,085)	(36,983)	—	1,151,093	2,147,442	(4,513,277)	(39,337)
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	2,073	122	(2,893)	—	25,235	14,292	(11,836)	(3,154)
Sabadell Securities USA, Inc.	Other financial services	Miami - United States	100.00	—	551	5,266	530	—	6,547	551	4,873	539
Sabadell Strategic Consulting, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	320	168	—	1,018	3	275	213
Sabadell Venture Capital, S. L.U.	Holding	Barcelona - Spain	—	100.00	3	12,061	1,763	—	56,417	3	2,964	582
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico DF - Mexico	49.00	51.00	164,828	20,841	24,759	4,826	1,493,425	151,709	55,610	24,779
Sinia Capital, S.A. de C.V.	Holding	Mexico DF - Mexico	—	100.00	20,830	6,542	(526)	—	75,454	18,150	6,538	(1,563)
Sinia Renovables, S.A.U.	UCITS, funds and similar financial corporations	Barcelona - Spain	100.00	—	15,000	1,338	505	—	60,915	15,000	3,400	718
Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.	Real estate	Alicante - Spain	100.00	—	3	9,893	70	—	11,707	3	10,026	(62)
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	60,729	(11,092)	(613)	—	49,496	60,729	(11,092)	(613)
Tasaciones de Bienes Mediterráneo, S.A. en Liquidación	Other ancillary activities	Alicante - Spain	99.88	0.12	1,000	1,416	—	—	2,420	5,266	(2,876)	26
Tenedora de Inversiones y Participaciones, S.L.	Holding	Alicante - Spain	100.00	—	296,092	(528,628)	(11,037)	—	351,343	2,564,914	(2,725,376)	(13,159)
TSB Bank PLC	Credit institution	Edinburgh - United Kingdom	—	100.00	90,710	1,981,428	149,533	—	55,583,840	1,814,636	193,342	137,490
TSB Banking Group PLC	Holding	London - United Kingdom	100.00	—	7,028	1,864,273	1,979	—	2,787,944	2,213,148	(189,474)	(38,646)
TSB Banking Group plc Employee Share Trust	Other ancillary activities	Saint Helier - Jersey	—	100.00	1	(12,225)	44	—	526	—	(11,183)	—
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	—	—	—

Banco Sabadell Group companies as at 31 December 2021 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
TSB Covered Bonds LLP	UCITS, funds and similar financial corporations	London - United Kingdom	—	100.00	1	14	3	—	61	—	14	3
Urquijo Gestión, S.A.U., S.G.I.I.C.	Funds management activities	Madrid - Spain	100.00	—	3,606	4,858	4,213	2,717	18,542	3,084	5,380	4,213
Urumea Gestión, S.L. en Liquidación	Other ancillary activities	San Sebastián - Spain	—	100.00	9	(13)	(1)	—	1	9	(12)	(1)
VeA Rental Homes , S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	5,000	(17,022)	1,380	—	44,202	5,000	(17,022)	1,380
Venture Debt SVC, S.L.U.	Holding	Barcelona - Spain	—	100.00	3	—	—	—	3	3	—	—
TOTAL								**20,672**		**13,418,379**	**4,004,030**	**439,553**

(1) Formerly, Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L.

(2) Formerly, Inveran Gestión, S.L.

Banco Sabadell Group companies as at 31 December 2021 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	Castellgalí - Spain	—	22.41	26,249	(11,299)	(1,380)	—	32,988	2,000	(854)	(1,146)
Aurica Capital Desarrollo, S.G.E.I.C., S.A.	Funds management activities	Barcelona - Spain	20.00	—	750	(79)	596	602	2,078	161	119	35
Aurica III, Fondo de Capital Riesgo	UCITS, funds and similar financial corporations	Barcelona - Spain	—	47.50	76,699	(8,760)	217	—	69,308	37,183	1,992	33,282
Aurica IIIB, S.C.R., S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	—	42.85	51,839	(5,990)	142	—	46,771	22,680	1,207	21,313
BanSabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	—	7,813	35,176	737	—	49,466	40,378	(18,913)	369
BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	10,000	77,263	22,658	5,000	297,303	34,000	9,311	11,330
BanSabadell Vida, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	43,858	537,011	92,570	52,500	10,418,907	27,106	236,190	49,328
Doctor Energy Central Services, S.L.	Other business management consulting activities	Granollers - Spain	—	24.99	7	(2)	1	—	23	12	(11)	—
Parque Eólico Casa Vieja S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	629	267	(15)	—
Parque Eólico Villaumbrales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	628	267	(15)	—
Parque Eólico Perales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	628	267	(15)	—
Parque Eólico Los Pedrejones S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	628	267	(15)	—
Energíes Renovables Terra Ferma, S.L.	Power generation	Barcelona - Spain	—	50.00	6	(55)	(13)	—	1,531	3	(3)	—
Financiera Iberoamericana, S.A.	Credit institution	Havana - Cuba	50.00	—	38,288	11,436	5,620	1,407	95,226	19,144	3,062	2,868
Flex Equipos de Descanso, S.A.	Manufacturing	Getafe - Spain	—	19.16	66,071	21,237	19,472	1,917	268,777	50,930	2,912	10,834
Gestora de Aparcamientos del Mediterráneo, S.L. en Liquidación	Services	Alicante - Spain	—	40.00	1,000	(10,551)	(207)	—	2,006	7,675	(7,675)	—
Murcia Emprende, S.C.R. de R.S., S.A.	Other financial services	Murcia - Spain	28.70	—	2,557	(316)	(169)	—	2,307	2,026	(1,337)	(103)
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	—	45.01	3	(15,260)	(25)	—	31,967	3,057	(3,057)	—
Portic Barcelona, S.A.	Data processing, hosting and related activities	Barcelona - Spain	25.00	—	291	1,754	131	—	2,392	486	506	33
Promontoria Challenger I, S.A.	Holding	Madrid - Spain	20.00	—	60	1,046,526	(180,635)	—	2,895,135	225,206	(18,446)	(46,907)
SBD Creixent, S.A.	Real estate	Sabadell - Spain	23.05	—	5,965	(1,168)	90	—	5,437	3,524	(2,414)	17
Solvia Servicios Inmobiliarios, S.L.	Real estate	Alicante - Spain	20.00	—	660	143,772	37,703	—	221,138	16,517	32,924	9,432
Total								**61,426**		**493,156**	**235,453**	**90,685**

(*) 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 by Annual General Meeting of Shareholders and Partners.

(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 709,825 thousand euros as at 31 December 2021. The balance of liabilities as at the end of 2021 amounts to 519,694 thousand euros.

Changes in the scope of consolidation in 2021

Additions to the scope of consolidation:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Fair value of equity instruments issued for the acquisition		% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
			Cost of acquisition	Fair value of equity instruments issued for the acquisition					
Parque Eólico Casa Vieja S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Parque Eólico Villaumbrales S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Parque Eólico Perales S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Parque Eólico Los Pedrejones S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Aurica Capital Desarrollo, S.G.E.I.C., S.A.	Associate	6/5/2021	248	—	20.00 %	20.00 %	Direct	Equity method	b
Doctor Energy Central Services, S.L.	Associate	5/10/2021	12	—	24.99 %	24.99 %	Indirect	Equity method	a
Portic Barcelona, S.A.	Associate	1/7/2021	486	—	25.00 %	25.00 %	Direct	Equity method	a
Venture Debt SVC, S.L.U.	Subsidiary	24/11/2021	3	—	100.00 %	100.00 %	Indirect	Full consolidation	c
Total newly consolidated subsidiaries			**3**						
Total newly consolidated associates			**1,814**						

(b) Acquisition of associates.

(b) Change in consolidation method.

(c) 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
Caminsa Urbanismo, S.A.U. en Liquidación	Subsidiary	20/1/2021	100.00%	0.00 %	—	Indirect	Full consolidation	b
Gestión de Proyectos Urbanísticos del Mediterráneo, S.L.U. en Liquidación	Subsidiary	19/1/2021	100.00%	0.00 %	—	Indirect	Full consolidation	b
Guipuzcoano Valores, S.A. en Liquidación	Subsidiary	8/2/2021	100.00%	0.00 %	(37)	Direct	Full consolidation	b
Tierras Vega Alta del Segura, S.L. en Liquidación	Subsidiary	19/1/2021	100.00%	0.00 %	—	Indirect	Full consolidation	b
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Subsidiary	2/6/2021	100.00%	0.00 %	(31)	Direct	Full consolidation	b
Verum Inmobiliaria Urbanismo y Promoción, S.A.	Subsidiary	14/5/2021	97.20%	0.00 %	(2)	Indirect	Full consolidation	b
Duncan Holdings 2020-1 Limited	Subsidiary	23/7/2021	100.00%	0.00 %	—	Indirect	Full consolidation	b
Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	Associate	5/8/2021	47.81%	0.00 %	(17)	Direct	Equity method	b
Termosolar Borges, S.L.	Associate	5/8/2021	47.50%	0.00 %	(13,920)	Direct	Equity method	a
Villoldo Solar, S.L.	Associate	5/8/2021	50.00%	0.00 %	52	Direct	Equity method	a
Aurica Capital Desarrollo, S.G.E.I.C., S.A.U.	Subsidiary	6/5/2021	80.00%	20.00 %	(99)	Direct	Full consolidation	c
Assegurances Segur Vida, S.A.U.	Subsidiary	5/10/2021	50.97%	0.00 %	—	Indirect	Full consolidation	a
BancSabadell d'Andorra, S.A.	Subsidiary	5/10/2021	50.97%	0.00 %	11,725	Direct	Full consolidation	a
Sabadell d'Andorra Inversions, S.G.O.I.C., S.A.U.	Subsidiary	5/10/2021	50.97%	0.00 %	—	Indirect	Full consolidation	a
Serveis i Mitjans de Pagament XXI, S.A.	Associate	5/10/2021	20.00%	0.00 %	—	Indirect	Equity method	a
BanSabadell Renting, S.L.U.	Subsidiary	30/11/2021	100.00%	0.00 %	41,907	Direct	Full consolidation	a
Duncan Holdings 2016 -1 Limited	Subsidiary	21/12/2021	100.00%	0.00 %	—	Indirect	Full consolidation	b
Duncan Holdings 2015-1 Limited	Subsidiary	21/12/2021	100.00%	0.00 %	—	Indirect	Full consolidation	b
Other					15,169			
TOTAL					**54,747**			

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Partial sale and change of consolidation method.

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					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	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.	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	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	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	—	—

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					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
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)
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	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)

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					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Paycomet, S.L.U.	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.	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)
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

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					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
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	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.	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)
TOTAL								**7,127**		**13,421,342**	**4,091,754**	**(30,221)**

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	Castellgalí - 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 by Annual General Meeting of Shareholders and Partners.

(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 balance of liabilities as at the end of 2020 amounts to 636,908 thousand euros. The key figures as at 2020 year-end for BanSabadell Vida and Promontoria Challenger I, S.A. are included in Notes 13 and 14 of the consolidated annual report for that year.

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	Fair value of equity instruments issued for the acquisition		% 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	1/1/2020	1,011	0.00	20.00 %	20.00 %	Indirect	Equity method	b
Serveis i Mitjans de Pagament XXI, S.A.	Associate	1/1/2020	12	0.00	20.00 %	20.00 %	Indirect	Equity method	b
Torenia Solar, S.L.	Subsidiary	21/2/2020	193	0.00	100.00 %	100.00 %	Indirect	Full consolidation	a
Gate Solar 21, S.L.	Subsidiary	21/2/2020	213	0.00	100.00 %	100.00 %	Indirect	Full consolidation	a
Crisae Private Debts, S.L.U.	Subsidiary	2/12/2020	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	29/5/2020	100.00%	—%	133	Indirect	Full consolidation	a
Gate Solar 21 S.L.	Subsidiary	29/5/2020	100.00%	—%	32	Indirect	Full consolidation	a
Inversiones Samiac 14 S.L.	Subsidiary	29/5/2020	100.00%	—%	25	Indirect	Full consolidation	a
Nueva Pescanova, S.L.	Associate	3/4/2020	25.00%	—%	25,272	Direct	Equity method	a
Sabadell Asset Management Luxembourg, S.A.	Subsidiary	30/6/2020	100.00%	—%	—	Indirect	Full consolidation	a
Sabadell Asset Management, S.A., S.G.I.I.C.	Subsidiary	30/6/2020	100.00%	—%	292,507	Direct	Full consolidation	a
Torenia Solar, S.L.	Subsidiary	29/5/2020	100.00%	—%	118	Indirect	Full consolidation	a
Gate Solar Gestión, S.L.	Associate	27/11/2020	50.00%	—%	516	Direct	Equity method	a
Hydrophytic, S.L.	Associate	23/12/2020	50.00%	—%	77	Indirect	Equity method	a
Sdin Residencial, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	28,947	Direct	Full consolidation	a
Promontoria Challenger Industrial Assets, S.L.U. en liquidacion	Subsidiary	26/8/2020	100.00%	—%	(3)	Direct	Full consolidation	b
Promontoria Challenger Land, S.L.U. en liquidacion	Subsidiary	26/8/2020	100.00%	—%	(3)	Direct	Full consolidation	b
Promontoria Challenger Real Estate, S.L.U. en liquidacion	Subsidiary	26/8/2020	100.00%	—%	(3)	Direct	Full consolidation	b
Promontoria Challenger Residential, S.L.U. en liquidacion	Subsidiary	26/8/2020	100.00%	—%	(3)	Direct	Full consolidation	b
Grecoholdco, S.A.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 1, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 2, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 3, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 4, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 5, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 6, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 7, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 8, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 9, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 10, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 11, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 12, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 13, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 14, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 15, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Hotel Value Added Primera, S.L.U. en liquidacion	Subsidiary	27/8/2020	100.00%	—%	(115)	Indirect	Full consolidation	b
Redes 2 Promotora Unica, S.L.	Associate	21/9/2020	20.00%	—%	412	Indirect	Equity method	a
Same Age Wallets, S.L.	Associate	16/7/2020	20.37%	—%	(935)	Indirect	Equity method	a
Sabadell BS Select Fund of Hedge Funds SICAV (Luxembourg) in Liquidation	Subsidiary	22/2/2020	100.00%	—%	(276)	Direct	Full consolidation	b
Xunqueira Eólica, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	366	Indirect	Full consolidation	a
Vitigudina FV, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	7,896	Indirect	Full consolidation	a
Orión Energía 1, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 2, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 3, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 4, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 5, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 6, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a

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
Orión Energía 7, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 8, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 9, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 10, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 11, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 12, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 13, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 14, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 15, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 16, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 17, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 18, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 19, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 20, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 21, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 22, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 23, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 24, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 25, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 26, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 27, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 28, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 29, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 30, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Sabadell Asabys Health Innovation Investments, S.C.R., S.A.	Associate	30/10/2020	-	—%	309	Indirect	Equity method	c
Parque Eólico Lecrín, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Direct	Full consolidation	a
Parque Eólico Las Lomas de Lecrín, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	123	Direct	Full consolidation	a
Parque Eólico Lomas de Manteca, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	373	Direct	Full consolidation	a
Parque Eólico Jaufil, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Direct	Full consolidation	a
Parque Eólico Zorreras, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	1,763	Direct	Full consolidation	a
Parque Eólico Tahuna, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	1,106	Direct	Full consolidation	a
Other (*)					(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).

Schedule II – Structured entities - Securitisation funds

Thousand euro

Year	Securitisation funds fully retained on the balance sheet	Entity	Total securitised assets as at 31/12/2021
2005	TDA 23, F.T.A	Banco Guipuzcoano	18,445
2005	TDA CAM 4 F.T.A	Banco CAM	144,740
2005	TDA CAM 5 F.T.A	Banco CAM	325,213
2006	TDA 26-MIXTO, F.T.A	Banco Guipuzcoano	54,766
2006	TDA CAM 6 F.T.A	Banco CAM	230,636
2006	FTPYME TDA CAM 4 F.T.A	Banco CAM	71,985
2006	TDA CAM 7 F.T.A	Banco CAM	360,160
2006	CAIXA PENEDES 1 TDA, FTA	BMN- Penedés	142,145
2007	TDA 29, F.T.A	Banco Guipuzcoano	74,442
2007	TDA CAM 8 F.T.A	Banco CAM	336,083
2007	TDA CAM 9 F.T.A	Banco CAM	337,662
2007	CAIXA PENEDES PYMES 1 TDA, FTA	BMN- Penedés	27,305
2007	CAIXA PENEDES 2 TDA, FTA	BMN- Penedés	111,476
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA	BMN- Penedés	43,501
2009	GAT-ICO-FTVPO 1, F.T.H (CP)	BMN- Penedés	2,636
2017	TDA SABADELL RMBS 4, FT	Banco Sabadell	4,288,843
2017	IM SABADELL PYME 11, FT	Banco Sabadell	380,668
Total			**6,950,706**

Thousand euro

Year	Securitisation funds fully derecognised from the balance sheet	Entity	Total securitised assets as at 31/12/2021
2006	TDA 25, FTA (*)	Banco Gallego	3,480
2010	FPT PYMES 1 LIMITED	Banco CAM	147,101
2019	SABADELL CONSUMO 1, FT	Banco Sabadell	365,772
Total			**516,353**

(*) 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

Details of the data from the special accounting register of the issuing entity Banco Sabadell, referred to in Article 21 of Royal Decree 716/2009, required by Bank of Spain Circular 5/2011, are given below:

A) Asset-side transactions

Details of the aggregate nominal values of mortgage loans and credit as at 31 December 2021 and 2020 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)		
	2021	**2020**
Total mortgage loan and credit portfolio	**50,225,414**	**50,756,669**
Participation mortgages issued	**1,535,765**	**1,918,951**
Of which: Loans held on balance sheet	*1,502,504*	*1,875,011*
Mortgage transfer certificates	**5,466,788**	**6,087,432**
Of which: Loans held on balance sheet	*5,219,354*	*5,855,389*
Mortgage loans pledged as security for financing received	**—**	**—**
Loans backing issues of mortgage bonds and covered bonds	**43,222,861**	**42,750,286**
Ineligible loans	8,794,185	10,169,340
Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009	8,429,918	9,603,831
Other	364,267	565,509
Eligible loans	34,428,676	32,580,946
Non-qualifying portions	59,146	91,307
Qualifying portions	34,369,530	32,489,639
Loans covering mortgage bond issues	—	—
Loans eligible as coverage for covered bond issues	34,369,530	32,489,639
Substitution assets for covered bond issues	**—**	**—**

A breakdown of these nominal values according to different attributes is given below:

Thousand euro

Analysis of total mortgage loan and credit portfolio backing mortgage market issues	2021		2020	
	Total	*Of which: Eligible loans*	Total	*Of which: Eligible loans*
Total mortgage loan and credit portfolio	**43,222,861**	***34,428,676***	**42,750,286**	***32,580,946***
Origin of operations	**43,222,861**	***34,428,676***	**42,750,286**	***32,580,946***
Originated by the institution	42,655,304	*34,016,806*	42,183,959	*32,174,163*
Subrogated from other entities	292,307	*256,014*	269,499	*233,253*
Other	275,250	*155,856*	296,828	*173,530*
Currency	**43,222,861**	***34,428,676***	**42,750,286**	***32,580,946***
Euro	43,173,341	*34,386,431*	42,695,243	*32,535,432*
Other currencies	49,520	*42,245*	55,043	*45,514*
Payment status	**43,222,861**	***34,428,676***	**42,750,286**	***32,580,946***
Satisfactory payment	39,681,234	*32,280,269*	38,634,588	*30,360,821*
Other situations	3,541,627	*2,148,407*	4,115,698	*2,220,125*
Average residual maturity	**43,222,861**	***34,428,676***	**42,750,286**	***32,580,946***
Up to 10 years	9,789,964	*8,350,104*	9,951,936	*8,286,771*
10 to 20 years	16,907,433	*13,923,891*	16,848,912	*13,429,613*
20 to 30 years	16,088,183	*11,979,015*	14,764,169	*10,498,681*
More than 30 years	437,281	*175,666*	1,185,269	*365,881*
Interest rate	**43,222,861**	***34,428,676***	**42,750,287**	***32,580,946***
Fixed	21,087,632	*17,206,952*	17,799,195	*14,337,428*
Variable	22,135,229	*17,221,724*	24,951,092	*18,243,518*
Mixed				
Borrowers	**43,222,861**	***34,428,676***	**42,750,287**	***32,580,946***
Legal entities and individual entrepreneurs	11,403,204	*8,578,554*	12,077,615	*8,481,935*
Of which: Real estate developments	*1,805,426*	*1,062,649*	*2,426,325*	*1,223,926*
Other individuals and NPISHs	31,819,657	*25,850,122*	30,672,672	*24,099,011*
Type of guarantee	**43,222,861**	***34,428,676***	**42,750,287**	***32,580,946***
Assets /finished buildings	42,517,282	*33,960,470*	41,869,228	*32,013,323*
Residential	*35,052,356*	*28,295,021*	*34,365,662*	*26,602,780*
Of which: Subsidised housing	*1,360,692*	*1,120,368*	*1,460,161*	*1,185,576*
Commercial	*7,238,866*	*5,491,003*	*7,300,429*	*5,258,460*
Other	*226,060*	*174,446*	*203,137*	*152,083*
Assets/ buildings under construction	139,896	*132,851*	193,026	*174,259*
Residential	*125,565*	*118,595*	*153,794*	*138,421*
Of which: Subsidised housing	*50*	*50*	*137*	*137*
Commercial	*13,977*	*13,902*	*38,991*	*35,598*
Other	*354*	*354*	*241*	*240*
Land	565,683	*335,355*	688,033	*393,364*
Developed	*68,582*	*22,181*	*127,609*	*52,908*
Rest	*497,101*	*313,174*	*560,424*	*340,456*

The nominal value of available funds (undrawn commitments) of mortgage loans and credit as at 31 December 2021 and 2020 is as follows:

Thousand euro

Undrawn balances (nominal value). Total mortgage loans and credit backing the issue of mortgage bonds and covered bonds	2021	2020
Potentially eligible	1,051,888	1,067,752
Ineligible	1,969,968	2,040,402

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 lending portfolio eligible for the issuance of mortgage bonds and mortgage covered bonds as at 31 December 2021 and 2020 is given hereafter:

Thousand euro

LTV ratio by type of security. Eligible loans for the issue of mortgage bonds and covered bonds	2021	2020
Secured on residential property	**28,408,838**	**26,756,164**
Of which LTV <= 40%	*8,015,059*	*7,774,941*
Of which LTV 40%-60%	*9,912,812*	*9,511,514*
Of which LTV 60%-80%	*10,480,967*	*9,469,709*
Of which LTV > 80%	—	—
Secured on other property	**6,019,838**	**5,824,782**
Of which LTV <= 40%	*3,666,010*	*3,488,807*
Of which LTV 40%-60%	*2,353,828*	*2,335,975*
Of which LTV > 60%	—	—

Changes during 2021 and 2020 in the nominal values of mortgage loans that secure issues of mortgage bonds and mortgage covered bonds (eligible and ineligible) are as follows:

Thousand euro

Changes in nominal values of mortgage loans	Eligible	Ineligible
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	—	—
Other	(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
Other	2,972,404	1,213,596
Balance as at 31 December 2020	**32,580,946**	**10,169,340**
Derecognised during the year	**(5,351,119)**	**(3,764,409)**
Terminations at maturity	(2,694,833)	(523,277)
Early terminations	(2,037,072)	(1,205,645)
Subrogations by other entities	(47,071)	(6,509)
Derecognised due to securitisations	—	—
Other	(572,143)	(2,028,978)
Additions during the year	**7,198,849**	**2,389,254**
Originated by the institution	4,816,896	1,835,061
Subrogations by other entities	56,991	2,358
Other	2,324,962	551,835
Balance as at 31 December 2021	**34,428,676**	**8,794,185**

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	2021	2020
Covered bonds issued	**14,986,254**	**16,653,854**
Of which: Not reflected under liabilities on the balance sheet	*7,315,000*	*7,182,000*
Debt securities. Issued through public offering	**4,100,000**	**5,450,000**
Time to maturity up to one year	—	1,350,000
Time to maturity from one to two years	1,000,000	—
Time to maturity from two to three years	1,000,000	1,000,000
Time to maturity from three to five years	—	2,100,000
Time to maturity from five to ten years	2,100,000	1,000,000
Time to maturity more than ten years	—	—
Debt securities. Other issues	**9,755,400**	**9,773,000**
Time to maturity up to one year	1,677,400	3,000,000
Time to maturity from one to two years	338,000	1,695,000
Time to maturity from two to three years	1,600,000	338,000
Time to maturity from three to five years	5,140,000	4,350,000
Time to maturity from five to ten years	1,000,000	390,000
Time to maturity more than ten years	—	—
Deposits	**1,130,854**	**1,430,854**
Time to maturity up to one year	694,444	300,000
Time to maturity from one to two years	100,000	694,444
Time to maturity from two to three years	—	100,000
Time to maturity from three to five years	336,410	336,410
Time to maturity from five to ten years	—	—
Time to maturity more than ten years	—	—

	2021		2020	
	Nominal value (thousand euro)	**Average residual maturity** (years)	**Nominal value** (thousand euro)	**Average residual maturity** (years)
Mortgage transfer certificates	**5,466,788**	**20**	**6,087,432**	**21**
Issued through public offering			—	—
Other issues	5,466,788	20	6,087,432	21
Participation mortgages	**1,535,765**	**12**	**1,918,951**	**12**
Issued through public offering			—	—
Other issues	1,535,765	12	1,918,951	12

Banco de Sabadell, S.A.'s overcollateralisation ratio (the nominal value of the full mortgage loans and credit portfolio backing the issuance of mortgage covered bonds, divided by the nominal value of issued mortgage covered bonds), stood at 288% as at 31 December 2021 (257% as at 31 December 2020).

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 declares 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 4.3 "General Principles of Risk Management"). In terms of credit risk, in particular, the Board of Directors confers powers and discretions to the Delegated Credit 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 mortgage covered bond issues, are described in detail below for each type of loan applicant.

Individuals

Loans to individuals 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.

Companies 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 individuals, a set of exceptional circumstances has been specified for borrowers and sectors, and these are provided in the Group's internal procedures.

As in the case of individuals, 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.

Companies related to 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 the evolution of the real estate market. Managing the risks in this portfolio is the responsibility of the Real Estate Risk Division, a specialist unit which forms 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 product, 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 loan, the 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, as established in internal regulations.

Loans are subject to the kind of continuous monitoring that asset management necessarily implies. For finished products, monitoring focuses on sales or rental figures; for those 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 other companies, 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 2021” in Note 3). As one element of the Group’s funding strategy, Banco de Sabadell, S.A. is an issuer of mortgage covered bonds. Mortgage covered bonds are issued with the portfolio of home equity loans granted by the issuer as collateral, adhering to 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 mortgage lending portfolio (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 mortgage 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. In 2021, all of the public sector covered bonds issued were redeemed early.

A) Asset-side transactions

Details of the aggregate nominal values of loans and credit with general governments as at 31 December 2021 and 2020 which are used as collateral for issues, their eligibility and the extent to which they qualify as collateral for public sector covered bonds are presented in the following table:

Thousand euro

	2021	2020
Central governments	—	219,036
Regional governments or governments in autonomous communities	—	3,108,232
Local governments	—	1,162,742
Social Security Trust Funds	—	—
Total loans and credit portfolio	**—**	**4,490,010**

The entirety of the portfolio of loans and credit with general governments used as collateral for issues, as well as their eligibility and qualifying amounts for the purpose of public sector covered bonds, corresponds to transactions granted to residents in Spain.

B) Liability-side transactions

The balance, as at 31 December 2021 and 2020, of issues carried out and secured with the Bank's portfolio of loans and credit to general governments is set out below, broken down according to whether or not they involved a public offering and by their residual maturity:

Thousand euro

Nominal value	2021	2020
Public sector covered bonds issued	**—**	**1,600,000**
Of which: Not reflected under liabilities on the balance sheet	—	*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**
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	—	—
Time to maturity from three to five years	—	1,200,000
Time to maturity from five to ten years	—	—
Time to maturity more than ten years	—	—

Banco de Sabadell, S.A.'s overcollateralisation ratio (the nominal value of the full portfolio of loans and credit to general governments backing the issuance of public sector covered bonds, divided by the nominal value of issued public sector covered bonds) stood at 280% as at 31 December 2020.

As required by Royal Decree 579/2014, the Board of Directors declares 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 Credit 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 subordinated liabilities

Debt securities in issue

The breakdown of the Bank's issues as at 31 December 2021 and 2020 is as follows:

Thousand euro

Issuer	Date of issue	Amount 31/12/2021	Amount 31/12/2020	Interest rate ruling as at 31/12/2021	Maturity/call date	Issue currency	Target of offering
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	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. (*)	29/06/2020	500,000	500,000	1.75%	29/06/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	11/09/2020	500,000	500,000	1.13%	11/03/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	15/10/2020	120,000	120,000	EURIBOR 3M + 0,646%	15/05/2024	Euros	Institutional
Banco de Sabadell, S.A. (*)	16/06/2021	500,000	—	0.88%	16/06/2027	Euros	Institutional
Banco de Sabadell, S.A.	29/11/2021	67,000	—	MAX(EURIBOR 12M; 0,77%)	30/11/2026	Euros	Institutional
Subscribed by Group companies		(25,000)	(30,300)				
Total straight bonds		**7,082,715**	**6,810,415**				

(*) "Maturity/call date" refers to the first call date.

Thousand euro

Issuer	Date of issue	Amount 31/12/2021	Amount 31/12/2020	Interest rate ruling as at 31/12/2021	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	ref . underlying assets	14/07/2021	Euros	Retail
Banco de Sabadell, S.A.	30/11/2016	—	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
Total structured bonds		**57,200**	**105,200**				

(*) Company merged with Banco Sabadell.

Thousand euro

Issuer	Date of issue	Amount 31/12/2021	Amount 31/12/2020	Average interest rate 31/12/2021	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A. (*)	12/05/2021	903,897	782,221	0.00%	Various	Euros	Institutional
Total commercial paper		**903,897**	**782,221**				

(*) Programme with issuance limit of 7,000,000 thousand euros, which can be extended to 9,000,000 thousand euros, registered with Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR).

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2021	Maturity date	Issue currency	Target of offering
		31/12/2021	31/12/2020				
Banco de Sabadell, S.A.	08/05/2009	—	100,000	EURIBOR 3M + 1	08/05/2021	Euros	Institutional
Banco de Sabadell, S.A.	13/07/2011	—	50,000	EURIBOR 3M + 2,60	13/07/2021	Euros	Institutional
Banco de Sabadell, S.A.	12/12/2011	—	150,000	EURIBOR 3M + 3,10	12/12/2021	Euros	Institutional
Banco de Sabadell, S.A.	05/10/2012	77,400	95,000	EURIBOR 3M + 4,80	05/10/2022	Euros	Institutional
Banco de Sabadell, S.A.	09/12/2013	—	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	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.	03/07/2015	50,000	50,000	EURIBOR 3 M + 0,20	03/07/2023	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	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 + 0,085	18/06/2021	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	—	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	1,000,000	0.13%	10/02/2028	Euros	Institutional
Banco de Sabadell, S.A.	23/06/2020	1,500,000	1,500,000	EURIBOR 12M + 0,080	23/06/2025	Euros	Institutional
Banco de Sabadell, S.A.	30/03/2021	1,000,000	—	EURIBOR 12M + 0,018	30/03/2026	Euros	Institutional
Banco de Sabadell, S.A.	08/06/2021	1,000,000	—	EURIBOR 12M + 0,012	08/06/2026	Euros	Institutional
Banco de Sabadell, S.A.	08/06/2021	1,000,000	—	EURIBOR 12M + 0,022	08/06/2027	Euros	Institutional
Subscribed by Group companies		(7,315,000)	(7,182,000)				
Total covered bonds		**6,540,400**	**8,041,000**				

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2021	Maturity date	Issue currency	Target of offering
		31/12/2021	31/12/2020				
Banco de Sabadell, S.A.	18/12/2018	—	800,000	EURIBOR 12M + 0.242	18/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	16/12/2019	—	400,000	EURIBOR 12M + 0.007	16/12/2022	Euros	Institutional
Banco de Sabadell, S.A.	16/12/2019	—	400,000	EURIBOR 12M + 0.104	16/12/2025	Euros	Institutional
Subscribed by Group companies		—	(1,600,000)				
Total public sector covered bonds		**—**	**—**				

Subordinated liabilities

Subordinated liabilities issued by the Bank as at 31 December 2021 and 2020 are as follows:

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2021	Maturity/call date	Issue currency	Target of offering
		31/12/2021	31/12/2020				
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	300,000	2.000%	17/01/2025	Euros	Institutional
Banco de Sabadell, S.A. (*)	15/01/2021	500,000	—	2.500%	15/04/2026	Euros	Institutional
Total subordinated bonds		**1,800,000**	**1,300,000**				

(*) "Maturity/call date" refers to the first call date.

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2021	Maturity/call date	Issue currency	Target of offering
		31/12/2021	31/12/2020				
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
Banco de Sabadell, S.A. (*)	15/03/2021	500,000	—	5.750%	15/9/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	19/11/2021	750,000	—	5.000%	19/11/2027	Euros	Institutional
Total preference shares		**2,400,000**	**1,150,000**				

(*) Perpetual issue. The date of the first call option is reported as the “maturity/redemption date”. The aforesaid subordinated securities and undated securities are perpetual, although they may be converted into newly issued Banco Sabadell shares, if either Banco Sabadell or its consolidated group has 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.

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 2021 and 2020, respectively, is as follows:

Thousand euro

	2021							
				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	**9,396,237**	**33,916**	**553,176**	**13,891**	**11,091**	**—**	**963**	**561,147**
Other financial corporations and individual entrepreneurs (financial business activity)	**3,684,126**	**188,756**	**351,771**	**394,035**	**118,821**	**24,373**	**800**	**2,498**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**59,172,273**	**13,064,488**	**4,237,491**	**6,755,320**	**4,538,181**	**2,552,784**	**1,604,757**	**1,850,937**
Construction and real estate development (including land)	3,534,836	1,574,855	178,333	714,339	497,318	254,913	143,644	142,974
Civil engineering construction	815,049	32,840	21,251	21,996	12,252	2,556	2,803	14,484
Other purposes	54,822,388	11,456,793	4,037,907	6,018,985	4,028,611	2,295,315	1,458,310	1,693,479
Large enterprises	23,306,434	1,701,503	1,448,881	1,912,703	326,359	293,941	419,821	197,560
SMES and individual entrepreneurs	31,515,954	9,755,290	2,589,026	4,106,282	3,702,252	2,001,374	1,038,489	1,495,919
Rest of households	**40,420,135**	**36,413,535**	**847,454**	**7,726,883**	**9,727,825**	**12,131,899**	**4,435,535**	**3,238,847**
Home loans	35,633,472	35,165,333	320,055	6,950,985	9,302,439	11,841,602	4,287,599	3,102,763
For consumption	1,850,892	48,559	156,930	37,384	40,607	55,245	42,441	29,812
Other purposes	2,935,771	1,199,643	370,469	738,514	384,779	235,052	105,495	106,272
TOTAL	112,672,771	49,700,695	5,989,892	14,890,129	14,395,918	14,709,056	6,042,055	5,653,429
MEMORANDUM ITEM Forbearance (refinanced and restructured loans)	**4,817,251**	**2,783,182**	**348,328**	**864,895**	**829,076**	**628,022**	**371,205**	**438,312**

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)	**58,477,951**	**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 land)	4,316,797	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	**39,362,377**	**35,206,179**	**548,129**	**7,414,676**	**9,347,779**	**11,001,935**	**4,394,821**	**3,595,097**
Home loans	34,377,598	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	**111,640,510**	**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**

In terms of risks with LTV >80%, these mainly correspond to transactions from acquired entities or business operations in which, as a supplement to the valuation of the transaction, a mortgage guarantee is available to cover that transaction. 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 refinancing and restructuring transactions as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021							
	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	171	35,379	*672*	30,588	**66,152**	—
Gross carrying amount	—	9,055	28,189	2,264,733	*83,276*	269,150	**2,571,127**	—
Secured with collateral								
Number of transactions	—	2	17	8,582	*1,361*	12,206	**20,807**	—
Gross carrying amount	—	203	2,492	2,244,577	*151,329*	1,238,923	**3,486,195**	—
Impairment allowances	—	1,255	16,211	934,432	*71,140*	288,107	**1,240,005**	—
Of which, non-performing loans								
Not secured with collateral								
Number of transactions	—	12	56	17,495	*406*	16,591	**34,154**	—
Gross carrying amount	—	8,133	17,716	957,784	*62,943*	153,676	**1,137,309**	—
Secured with collateral								
Number of transactions	—	1	9	5,421	*1,250*	6,607	**12,038**	—
Gross carrying amount	—	126	627	915,429	*78,500*	666,544	**1,582,726**	—
Impairment allowances	—	1,255	15,975	812,165	*68,246*	252,132	**1,081,527**	—
TOTAL								
Number of transactions	—	16	188	43,961	*2,033*	42,794	**86,959**	—
Gross amount	—	9,258	30,681	4,509,310	*234,605*	1,508,073	**6,057,322**	—
Impairment allowances	—	1,255	16,211	934,432	*71,140*	288,107	**1,240,005**	—

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**	—

The value of the guarantees received to ensure collection associated with refinancing and restructuring transactions, broken down into collateral and other guarantees, as at 31 December 2021 and 2020, is as follows:

Thousand euro

Guarantees received	2021	2020
Value of collateral	2,966,865	2,417,419
Of which: securing Stage 3 loans	*1,152,195*	*1,066,291*
Value of other guarantees	1,194,120	700,869
Of which: securing Stage 3 loans	*311,096*	*282,571*
Total value of guarantees received	**4,160,985**	**3,118,288**

Detailed movements of the balance of refinancing and restructuring transactions during 2021 and 2020 are as follows:

Thousand euro

	2021	2020
Opening balance	4,678,345	4,214,826
(+) Forbearance (refinancing and restructuring) in the period	2,856,496	2,039,288
Memorandum item: impact recognised on the income statement for the period	*183,320*	*218,408*
(-) Debt amortisations	(655,880)	(908,972)
(-) Foreclosures	(13,428)	(41,267)
(-) Derecognised from the balance sheet (reclassified as write-offs)	(128,912)	(153,706)
(+)/(-) Other changes (*)	(679,299)	(471,824)
Year-end balance	**6,057,322**	**4,678,345**

(*) 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 refinancing or restructuring, have been classified as stage 3 exposures during 2021 and 2020:

Thousand euro

	2021	2020
General governments	**—**	**—**
Other legal entities and individual entrepreneurs	**285,404**	**179,053**
Of which: Lending for construction and real estate development	15,855	*16,900*
Other natural persons	**166,543**	**56,296**
Total	**451,947**	**235,349**

The average probability of default on current refinanced and restructured transactions broken down by activity as at 31 December 2021 and 2020 is as follows:

%

	2021	2020
General governments (*)	**—**	**—**
Other legal entities and individual entrepreneurs	**13**	**8**
Of which: Lending for construction and real estate development	*12*	*9*
Other natural persons	**10**	**10**

(*) 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 2021.

Concentration risk

Geographical exposure

Global

The breakdown of risk concentration, by activity and at a global level, as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**57,850,425**	**44,527,085**	**4,452,044**	**1,565,114**	**7,306,182**
General governments	**26,813,979**	**22,563,517**	**2,856,899**	**1,174,117**	**219,446**
Central governments	19,199,080	14,949,026	2,856,895	1,173,884	219,275
Other	7,614,899	7,614,491	4	233	171
Other financial corporations and individual entrepreneurs	**8,230,307**	**2,583,534**	**785,391**	**1,744,405**	**3,116,977**
Non-financial corporations and individual entrepreneurs	**63,613,254**	**53,522,883**	**3,318,903**	**4,867,515**	**1,903,953**
Construction and real estate development	3,604,214	3,592,822	3,961	5,113	2,318
Civil engineering construction	912,339	872,392	19,718	5,013	15,216
Other purposes	59,096,701	49,057,669	3,295,224	4,857,389	1,886,419
Large enterprises	26,918,195	18,642,042	2,147,905	4,508,359	1,619,889
SMEs and individual entrepreneurs	32,178,506	30,415,627	1,147,319	349,030	266,530
Rest of households	**40,525,982**	**37,169,632**	**979,065**	**510,509**	**1,866,776**
Home loans	35,633,472	32,634,462	951,748	217,077	1,830,185
For consumption	1,850,892	1,827,372	6,812	5,257	11,451
Other purposes	3,041,618	2,707,798	20,505	288,175	25,140
TOTAL	**197,033,947**	**160,366,651**	**12,392,302**	**9,861,660**	**14,413,334**

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
Other	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 development	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**

By autonomous communities

The breakdown of risk concentration, by activity and at the level of Spanish autonomous communities, as at 31 December 2021 and 2020, respectively, is as follows:

Thousand euro

	2021									
	TOTAL	AUTONOMOUS COMMUNITIES								
		Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**44,527,085**	**5,610**	**8**	**2**	**—**	**2**	**261,670**	**1**	**—**	**1,939,435**
General governments	**22,563,517**	**350,471**	**119,243**	**310,309**	**383,630**	**299,697**	**6,647**	**105,290**	**709,478**	**904,436**
Central governments	14,949,026	—	—	—	—	—	—	—	—	—
Other	7,614,491	350,471	119,243	310,309	383,630	299,697	6,647	105,290	709,478	904,436
Other financial corporations and individual entrepreneurs	**2,583,534**	**4,708**	**2,765**	**3,622**	**1,308**	**635**	**276**	**736**	**14,561**	**858,561**
Non-financial corporations and individual entrepreneurs	**53,522,883**	**2,426,733**	**1,025,622**	**1,488,205**	**2,275,213**	**1,235,553**	**200,097**	**615,232**	**1,096,532**	**18,610,035**
Construction and real estate development	3,592,822	84,280	40,585	46,909	90,043	26,854	10,497	15,220	26,690	1,852,405
Civil engineering construction	872,392	33,172	9,461	20,230	7,502	3,639	5,580	6,740	17,163	143,110
Other purposes	49,057,669	2,309,281	975,576	1,421,066	2,177,668	1,205,060	184,020	593,272	1,052,679	16,614,520
Large enterprises	18,642,042	516,887	313,626	445,067	918,900	346,222	55,190	142,915	197,452	6,964,916
SMEs and individual entrepreneurs	30,415,627	1,792,394	661,950	975,999	1,258,768	858,838	128,830	450,357	855,227	9,649,604
Rest of households	**37,169,632**	**2,473,452**	**519,222**	**1,134,219**	**1,387,663**	**464,524**	**106,371**	**447,571**	**711,762**	**14,659,984**
Home loans	32,634,462	2,236,373	463,559	907,406	1,262,394	414,661	93,590	395,557	605,419	12,928,884
For consumption	1,827,372	104,066	22,678	82,284	51,770	25,668	4,528	21,573	38,289	673,548
Other purposes	2,707,798	133,013	32,985	144,529	73,499	24,195	8,253	30,441	68,054	1,057,552
TOTAL	**160,366,651**	**5,260,974**	**1,666,860**	**2,936,357**	**4,047,814**	**2,000,411**	**575,061**	**1,168,830**	**2,532,333**	**36,972,451**

Thousand euro

	2021								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**—**	**5,136**	**42,024,235**	**2**	**180**	**111,874**	**178,930**	**—**	**—**
General governments	**87,251**	**419,626**	**1,869,909**	**55,766**	**291,266**	**701,521**	**859,215**	**110,090**	**30,646**
Central governments	—	—	—	—	—	—	—	—	—
Other	87,251	419,626	1,869,909	55,766	291,266	701,521	859,215	110,090	30,646
Other financial corporations and individual entrepreneurs	**79**	**4,184**	**1,544,107**	**3,065**	**477**	**127,845**	**16,503**	**84**	**18**
Non-financial corporations and individual entrepreneurs	**171,826**	**2,337,923**	**12,060,239**	**1,128,835**	**600,716**	**5,940,379**	**2,102,023**	**187,386**	**20,334**
Construction and real estate development	2,071	64,311	1,023,028	35,361	20,977	147,474	96,077	9,698	342
Civil engineering construction	2,039	47,318	429,982	12,463	2,607	63,133	65,976	1,815	462
Other purposes	167,716	2,226,294	10,607,229	1,081,011	577,132	5,729,772	1,939,970	175,873	19,530
Large enterprises	19,967	732,143	4,516,853	235,642	205,908	2,242,942	741,046	46,124	242
SMEs and individual entrepreneurs	147,749	1,494,151	6,090,376	845,369	371,224	3,486,830	1,198,924	129,749	19,288
Rest of households	**116,058**	**797,772**	**4,798,884**	**1,991,705**	**164,434**	**6,018,347**	**1,223,580**	**78,259**	**75,825**
Home loans	102,871	653,530	4,254,796	1,722,280	135,172	5,223,510	1,105,175	58,017	71,268
For consumption	5,999	51,799	204,867	125,076	8,238	348,663	41,911	14,150	2,265
Other purposes	7,188	92,443	339,221	144,349	21,024	446,174	76,494	6,092	2,292
TOTAL	**375,214**	**3,564,641**	**62,297,374**	**3,179,373**	**1,057,073**	**12,899,966**	**4,380,251**	**375,819**	**126,823**

Thousand euro

	2020									
	TOTAL	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	—	—	—	—	—	—	—	—	—
Other	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 development	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	Navarre	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	—	—	—	—	—	—	—	—	—
Other	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 development	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**

Sovereign risk exposure

Sovereign risk exposures, broken down by type of financial instrument, as at 31 December 2021 and 2020, are as follows:

Thousand euro

	2021										
	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	74,979	(46,751)	—	3,583,246	9,476,971	10,486,567	15,323	(16)	23,590,319	—	84.7%
Italy	202,456	—	—	—	2,135,300	—	—	—	2,337,756	—	8.4%
United States	—	—	—	864,988	197,836	233	—	—	1,063,057	—	3.8%
United Kingdom	—	—	—	—	—	21	—	—	21	—	0.0%
Portugal	5	—	—	—	355,552	1,949	—	—	357,506	—	1.3%
Mexico	—	—	—	101,644	—	—	—	—	101,644	—	0.4%
Rest of the world	261,156	—	—	106,623	—	22,859	—	—	390,638	—	1.4%
Total	538,596	(46,751)	—	4,656,501	12,165,659	10,511,629	15,323	(16)	27,840,941	—	100.0%

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (1,084 million euros as at 31 December 2021).

(***) Relates to commitments for cash purchases and sales of financial assets.

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	(13)	26,547,359	—	84.5%
Italy	5,013	—	—	—	2,792,307	—	—	—	2,797,320	—	8.9%
United States	—	—	—	492,838	300,555	159	—	—	793,552	—	2.5%
United Kingdom	—	—	—	—	—	16	—	—	16	—	0%,0
Portugal	—	—	—	—	925,500	—	—	—	925,500	—	2.9%
Mexico	—	—	—	186,102	—	—	—	—	186,102	—	0.6%
Rest of the world	3,944	—	—	109,594	—	44,709	—	—	158,247	—	0.5%
Total	**70,827**	**(186,527)**	**—**	**4,155,767**	**15,722,452**	**11,622,200**	**23,390**	**(13)**	**31,408,096**	**—**	**100.0%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (1,477 million euros as at 31 December 2020).

(***) 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 lending items shown have been classified in terms of their intended purpose, rather than by the debtor's NACE code. 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, but where the loan is used for the financing of properties intended for real estate development, it is included in the table:

Million euro

	2021		
	Gross carrying amount	**Excess value of the collateral**	**Adjustments due to impairment (*)**
Lending for construction and real estate development (including land) (business in Spain)	**2,389**	**607**	**135**
Of which: non-performing	*218*	*93*	*111*

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*

(*) Allowances for the exposure for which the bank retains the credit risk. Does not include allowances for exposures with transferred risk.

Million euro

Gross carrying amount		
Memorandum item	**2021**	**2020**
Write-offs (*)	15	44

Million euro

Memorandum item	**2021**	**2020**
Loans to customers, excluding General Governments (business in Spain) (carrying amount)	94,554	92,499
Total assets (total business) (carrying amount)	197,188	188,909
Allowances and provisions for exposures classed as Stage 2 or Stage 1 (total operations)	3,437	3,064

(*) 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 2021	**Gross carrying amount 2020**
Not secured with real estate	**580**	**557**
Secured with real estate	**1,809**	**2,380**
Buildings and other finished constructions	835	883
Housing	596	630
Other	239	253
Buildings and other construction in progress	784	1,234
Housing	751	1,165
Other	33	69
Land	190	262
Consolidated urban land	154	225
Other land	36	37
Total	**2,389**	**2,937**

The figures presented do not show the total value of guarantees received, but rather the net carrying amount 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	2021	2020
Value of collateral	1,737	2,425
Of which: securing Stage 3 loans	*88*	*94*
Value of other guarantees	321	328
Of which: securing Stage 3 loans	*13*	*10*
Total value of guarantees received	**2,058**	**2,753**

The breakdown of lending to households for house purchase for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

	2021	
	Gross carrying amount	***Of which: Stage 3 exposures***
Lending for house purchase	**34,625**	**921**
Not secured with real estate	546	*45*
Secured with real estate	34,079	*876*

Million euro

	2020	
	Gross carrying amount	***Of which: Stage 3 exposures***
Lending for house purchase	**33,259**	**817**
Not secured with real estate	469	*41*
Secured with real estate	32,791	*777*

The tables below show mortgage-secured lending to households for house purchase broken down by the loan-to-value ratio of transactions recorded by credit institutions (business in Spain):

Million euro

	2021	
	Gross amount	***Of which: non-performing***
LTV ranges	**34,079**	***876***
LTV <= 40%	*6,411*	*120*
40% < LTV <= 60%	*8,978*	*180*
60% < LTV <= 80%	*11,564*	*208*
80% < LTV <= 100%	*4,288*	*160*
LTV > 100%	*2,838*	*208*

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*

Lastly, the table below gives details of assets foreclosed or received in lieu of debt by the Bank for transactions recorded by credit institutions within Spain:

Million euro

	2021	
	Gross carrying amount	Allowances
Real estate assets acquired through lending for construction and real estate development	**258**	**58**
Finished buildings	235	49
Housing	148	31
Rest	87	18
Buildings under construction	3	1
Housing	3	1
Rest	—	—
Land	20	8
Building land	10	4
Other land	10	4
Real estate assets acquired through mortgage lending to households for house purchase	**551**	**148**
Rest of real estate assets foreclosed or received in lieu of debt	**24**	**5**
Capital instruments foreclosed or received in lieu of debt	**3**	**—**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**5,548**	**5,145**
Financing to institutions holding assets foreclosed or received in lieu of debt	**4,270**	**2,608**
TOTAL	**10,654**	**7,964**

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**

Loans and advances subject to statutory and sector moratoria and financing granted subject to government guarantee schemes and operations modified in accordance with the Code of Good Practice

Information concerning loans and credit granted by the Group that are subject to statutory or sector moratoria, as well as 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, as at 31 December 2021 and 2020, is set out below:

Thousand euro

	31/12/2021						
	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	**74,964**	**73,501**	***52,126***	***53,820***	***1,463 (*)***	***1,394***	***1,394***
Of which: Households	*7,506*	*6,133*	*650*	*2,073*	*1,373*	*1,366*	*1,366*
Of which: Collateralised by residential immovable property	*2,804*	*1,549*	*528*	*977*	*1,255*	*1,255*	*1,255*
Of which: Non-financial corporations	*67,458*	*67,368*	*51,476*	*51,747*	*90*	*29*	*29*
Of which: Small and Medium-sized Enterprises	*67,458*	*67,368*	*51,476*	*51,747*	*90*	*29*	*29*
Of which: Collateralised by commercial immovable property	*51,936*	*51,875*	*40,532*	*40,649*	*61*	—	—

(*) Of which 1.4 million euro correspond to stage 3 transactions.

Thousand euro

	31/12/2021						
	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	**(2,371)**	**(2,223)**	**(2,172)**	**(2,187)**	**(147)**	***(131)***	***(131)***
Of which: Households	*(153)*	*(29)*	*(5)*	*(20)*	*(124)*	*(119)*	*(119)*
Of which: Collateralised by residential immovable property	*(129)*	*(14)*	*(1)*	*(14)*	*(115)*	*(115)*	*(115)*
Of which: Non-financial corporations	*(2,218)*	*(2,194)*	*(2,166)*	*(2,168)*	*(23)*	*(12)*	*(12)*
Of which: Small and Medium-sized Enterprises	*(2,218)*	*(2,194)*	*(2,166)*	*(2,168)*	*(23)*	*(12)*	*(12)*
Of which: Collateralised by commercial immovable property	*(1,634)*	*(1,622)*	*(1,603)*	*(1,604)*	*(11)*	—	—

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 euro 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)*

Thousand euro

	31/12/2021							
				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 subject to moratorium (granted)	**3,076,643**	**355,659**	**3,001,679**	**49,720**	**25,243**	**—**	**—**	**—**
Of which: Households	2,713,907	6,306	2,706,401	7,506	—	—	—	—
Of which: Collateralised by residential immovable property	*2,386,385*	*448*	*2,383,581*	*2,804*	—	—	—	—
Of which: Non-financial corporations	362,736	349,353	295,279	42,214	25,243	—	—	—
Of which: Small and Medium-sized Enterprises	*322,862*	*309,479*	*255,405*	*42,214*	*25,243*	—	—	—
Of which: Collateralised by commercial immovable property	*324,847*	*312,456*	*272,911*	*26,693*	*25,243*	—	—	—

Thousand euro

	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 subject to moratorium (granted)	**3,244,503**	**556,783**	**666,794**	**1,089,592**	**1,152,682**	**326,571**	**8,862**	**—**
Of which: Households	3,042,311	355,109	655,433	1,059,303	1,125,935	196,489	5,151	—
Of which: Collateralised by residential immovable property	*2,616,593*	*303,222*	*450,749*	*944,925*	*1,037,566*	*178,893*	*4,462*	—
Of which: Non-financial corporations	202,192	201,674	11,362	30,290	26,747	130,081	3,714	—
Of which: Small and Medium-sized Enterprises	*158,085*	*157,568*	*11,362*	*30,290*	*24,420*	*88,302*	*3,713*	—
Of which: Collateralised by commercial immovable property	*177,550*	*177,224*	*11,190*	*26,648*	*24,080*	*115,516*	*117*	—

Thousand euro

	31/12/2021		
	Gross carrying amount	*Of which: forborne*	Maximum amount of the guarantee that can be considered
			Public guarantees received
Newly originated loans and advances subject to public guarantee schemes	**8,710,852 (*)**	**909,595**	**6,537,730**
Of which: Households	794,971	—	—
Of which: Collateralised by residential immovable property	—	—	—
Of which: Non-financial corporations	7,915,881	859,645	5,942,435
Of which: Small and Medium-sized Enterprises	5,916,272	—	—
Of which: Collateralised by commercial immovable property	34,650	—	—

(*) Of which 309 million euro correspond to stage 3 transactions.

Thousand euro

	31/12/2020		
	Gross carrying amount	*Of which: forborne*	Maximum amount of the guarantee that can be considered
			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	—	—

(*) Of which 91 million euro correspond to stage 3 transactions.

As at 31 December 2021, in accordance with the Code of Good Practice, Banco Sabadell has modified a total of 718 transactions that had an outstanding principal amount of 127 million euros on the date of modification. The total amount corresponds to loan term extensions, with no conversion of profit participation loans and/or write-downs carried out.

Schedule VII – Detailed individual income statement - Business in Spain for the 2021 and 2020 financial years (Statement FI 2.E)

Thousand euro

	2021	2020
Profit or (-) loss for the year	**222,606**	**65,561**
Profit or (-) loss after tax from continuing operations	**222,606**	**65,561**
Profit or (-) loss before tax from continuing operations	**245,216**	**(29,444)**
Total operating income, net	**3,697,681**	**3,969,271**
Interest income	2,615,960	2,807,301
Financial assets held for trading	—	92
Non-trading financial assets mandatorily at fair value through profit or loss	487	502
Financial assets designated at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	40,822	27,204
Financial assets at amortised cost	2,170,144	2,396,922
Derivatives - Hedge accounting, interest rate risk	11,684	162,577
Other assets	161	7,178
Interest income on liabilities	392,662	212,826
(Interest expenses)	(625,262)	(725,077)
(Financial liabilities held for trading)	—	—
(Financial liabilities designated at fair value through profit or loss)	—	—
(Financial liabilities at amortised cost)	(431,641)	(492,387)
(Derivatives - Hedge accounting, interest rate risk)	(15,234)	(159,098)
(Other liabilities)	—	—
(Interest expense on assets)	(178,387)	(73,592)
(Expenses on share capital repayable on demand)	—	—
Dividend income	72,568	59,205
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	1,193	984
Investments in subsidiaries, joint ventures and associates accounted for using the equity method and others	71,375	58,221
Fee and commission income	1,386,806	1,227,552
(Fee and commission expenses)	(163,408)	(134,503)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	322,377	757,923
Financial assets at fair value through other comprehensive income	214	33,011
Financial assets at amortised cost	320,430	725,013
Financial liabilities at amortised cost	1,733	(101)
Other	—	—
Gains or (-) losses on financial assets and liabilities held for trading, net	(164,398)	460,392
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	4,521	(8,999)
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	(2,230)	2,826
Exchange differences [gain or (-) loss], net	180,642	(425,039)
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net	—	—
Gains or (-) losses on derecognition of non-financial assets, net	102,933	5,430
Other operating income	50,541	72,931
(Other operating expenses)	(83,369)	(130,671)

	2021	2020
(Administrative expenses)	(1,993,694)	(2,030,583)
(Staff expenses)	(1,239,260)	(1,295,141)
(Other administrative expenses)	(754,434)	(735,442)
(Cash contributions to resolution funds and deposit guarantee schemes) (*)	(203,832)	(188,607)
(Depreciation and amortisation)	(208,562)	(238,645)
(Property, plant and equipment)	(162,483)	(172,184)
(Investment properties)	(2,300)	(2,771)
(Goodwill)	(36,524)	(53,169)
(Other intangible assets)	(7,255)	(10,521)
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)	(201,518)	35,004
(Payment commitments to resolution funds and deposit guarantee schemes)	—	—
(Commitments and guarantees given)	(104,129)	156,262
(Other provisions)	(97,389)	(121,258)
(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)	(789,569)	(1,697,267)
(Financial assets at fair value through other comprehensive income)	646	281
(Financial assets at amortised cost)	(790,215)	(1,697,548)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	(54,438)	(48,513)
(Impairment or (-) reversal of impairment on non-financial assets)	(53,417)	(170)
(Property, plant and equipment)	(52,088)	—
(Investment properties)	(1,329)	(170)
(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	52,565	174,915
(Tax expense or (-) income related to profit or loss from continuing operations)	(22,610)	95,005
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	222,606	65,561

Directors' Report
for the financial year ended
31 December 2021

1 – BANCO SABADELL GROUP

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. 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 is made up of different financial institutions, brands, subsidiaries and investees that cover all aspects of financial business. It operates mainly in Spain, the United Kingdom and Mexico.

The Group was organised into the following businesses in 2021:

- Banking Business Spain, which groups together the Retail, Business and Corporate Banking business units, where Retail and Business Banking are managed under the same Commercial Network:

  - Retail Banking: it offers financial products and services to customers classed as natural persons. These include investment products and medium- and long-term finance, such as consumer loans, mortgages and leasing or rental services, as well as short-term finance. Funds come mainly from customer deposits and sight accounts, savings insurance, mutual funds and pension plans. The main services also include payment methods such as cards and insurance linked to consumer loans and mortgages.

  - Business Banking: this offers financial products and services to companies and the self-employed. These include investment and financing products, such as working capital products, revolving loans and medium- and long-term finance. It also offers customised structured finance and capital market solutions, as well as specialised advice for businesses. Funds mainly come from deposits, customer sight accounts and mutual funds. The main services also include collection/payment methods such as cards and POS terminals, as well as import and export services.

  - Corporate Banking (CIB): this unit is responsible for managing the segment of large corporations which, because of their unique characteristics, require a tailor-made service, supplementing the range of transaction banking products with the services of the specialised units, thus offering a single, all-encompassing solution to their needs, taking into account the features of the economic activity sector and the markets in which they operate. It has units that develop custom products for large corporations and financial institutions. The units responsible for developing customised products are horizontal to the entire Banco Sabadell Group and their capabilities also extend to the Corporate Banking and Institutional Banking segment. Through its international presence in 17 countries, with representative offices and operational branches, it offers financial and advisory solutions to large Spanish and international corporations and financial institutions. It has operational branches in London, Paris, Lisbon, Casablanca and Miami.

- Banking UK: the TSB franchise covers business conducted in the United Kingdom, which includes current and savings accounts, loans, credit cards and mortgages.

- Banking Mexico: offers the full range of banking and financial services via Corporate Banking and Commercial Banking.

Banco Sabadell is the controlling company of a group which, at 31 December 2021, comprised 96 companies, of which, apart from the parent company, 73 were classified as subsidiary institutions and 22 as associated companies (106 at 31 December 2020, of which 85 were subsidiary institutions and 20 were associated companies).

1.1 Mission, values and business model

Mission and values

Banco Sabadell helps 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 environmentally and socially responsible management.

This is Banco Sabadell's raison d'être: to help its customers make the best economic decisions to enable them to carry out their projects, whether they are personal or business projects. To this end, it offers its customers the opportunities offered by big data, digital capabilities and the expert knowledge of its specialists.

The bank and those who are part of it share the values that help to achieve this mission, no matter how, where or when.

Banco Sabadell fulfils its mission by being true to its values:

- Commitment and Non-Conformism, values that define the way we are.
- Professionalism and efficiency, values that define the way we work.
- Empathy and openness, values that define the way we relate to each other.

Business model, main objectives achieved and actions implemented

The Bank's business model is geared towards profitable growth that generates value for shareholders. This is achieved through a strategy of business diversification based on profitability, efficiency, sustainability and quality of service together with a conservative risk profile, while maintaining high standards of ethics and professional conduct combined with sensitivity to stakeholders' interests.

The Bank's management model focuses on a long-term vision of customers, through constant efforts to promote customer loyalty and by adopting an initiative-based, proactive approach. The Bank offers 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, more stringent provisioning requirements, the economic recession and the pressure of capital markets are some of the factors that have forced Spanish banks to merge and thus increase in scale, maximise efficiency and shore up their balance sheets.

During the last eleven 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 operations in 2013 in appropriate economic conditions within the framework of the financial reorganisation of the banking industry, such as the acquisition of Caixa d'Estalvis del Penedès, Banco Gallego and Lloyds España.

Thanks to these acquisitions and the organic growth seen in recent years, Banco Sabadell has been able 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 loans 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, 4% in securities trading and 16% in POS turnover.

Banco Sabadell also maintains its quality differential with respect to the rest of the industry and ranks as a leader among its peers in terms of customer experience (Net Promoter Score) in the areas of SMEs and Corporate Banking.

Banco Sabadell has always been a trailblazer on the international front. In 2021 this has continued to be the case and Sabadell has continued to be present in strategic locations and to accompany companies in their international activity. 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.

The Group has become one of the largest banks in Spain's financial system. It has a geographically diverse business (70% in Spain, 28% in the UK and 2% in Mexico) and its customer base is now six times larger than it was in 2008, and it has achieved all of this while safeguarding its solvency and liquidity.

After a 2020 heavily impacted by the COVID-19 crisis, 2021 has been a year of recovery, especially in developed countries. This recovery has been supported by the positive effects of the increased control of the pandemic, the reopening of economies and the high fiscal stimulus introduced. The latest contagion waves had a limited impact on demand. In contrast, zero-COVID policies in Asia – mainly in China – partially paralysed production and transport processes, which affected international production chains.

Meanwhile, the increase in inflation has been one of the most striking surprises of the year. The high levels of inflation eventually led to a shift in monetary policy, first in emerging and then in developed countries.

In this context, in year-on-year terms, Banco Sabadell significantly increased its net income, and found support both in TSB and in Spain. Of note was the year-on-year improvement in banking commission (Margin + Fees), the reduction in risk cost, the good commercial dynamics and the materialisation of the first cost savings from phase 1 of the efficiency plan launched in 2020.

In addition, Banco Sabadell has launched phase 2 of the efficiency plan in 2021. This second phase will be implemented before the first quarter of 2022 and will enable the bank to achieve expected annual savings of 130 million euros. The costs associated with this restructuring phase amounted to 331 million euros were recorded in the third quarter of 2021, and following the strategy implemented in 2020, were financed by sales of the ALCO portfolio.

Also noteworthy in 2021 was the closing of the sale of the depository business (with a net profit of 59 million euros), the sale to MoraBanc of Banco Sabadell's entire stake in BancSabadell d'Andorra (51.61%), with a net profit of 2 million euros, and the closing of the sale of Bansabadell Renting, with net profit of 42 million euros.

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 applicable regulations, 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.

1.2 2021-2023 Strategic Plan

The Strategic Plan 2023 was presented on 28 May 2021. This plan defines the Group's strategic priorities, which include (i) an increased focus on core businesses in Spain, with different levers of action for each business that will strengthen the Bank's competitive position in the domestic market, and (ii) a significant improvement in the profitability of international businesses, both in the UK and in the rest of the countries. The cost base will also be reduced during the plan to bring it in line with competitive realities. These changes will be implemented based on a more efficient allocation of capital, fostering the group's growth in those geographies and businesses that offer a higher capital-adjusted profitability.

In this way, the Strategic Plan sets out a specific strategic approach for each business:

In Retail Banking the approach is to undertake a major transformation, which will entail a profound change in the offer and the customer relationship model.

On the supply side, transactional servicing will be made available to customers in a simple and agile way through digital channels. As for the commercial offer of products and services, there will be a fundamentally digital and remote offer for those products in which the customer wants autonomy, immediacy and convenience, such as consumer loans, accounts and cards. On the other hand, for more complex products such as mortgages, insurance and savings/investment products, where customers require support, specialised product managers will be available and multi-channel support will be offered.

The objective in Retail Banking is to better respond to customers' needs and, at the same time, reduce the cost base of the business.

In Business Banking, the bank's notable franchise in this segment will be strengthened and specific levers have been established for profitable growth: launch of sectoral solutions for businesses, support for customers in their internationalisation process, expansion of specialised solutions for SMEs, and a comprehensive support plan for Next Generation EU funds. This will be reinforced by an optimal risk management framework, complementing the vision of risk and business experts with new business intelligence and data analytics tools.

The objective in Business Banking is to drive growth while preserving risk quality and boosting profitability.

The approach in Corporate Banking Spain is to develop plans to improve customer-to-customer profitability and increase the contribution of the specialised product units to income generation.

The objective in this business is to obtain an adequate profitability for each customer and to satisfy their needs.

TSB is going to focus on what it does best and what the market recognises: the retail mortgage market. TSB has an excellent platform, with a high operational capacity to manage mortgages and a well-established network of financial intermediaries, a key aspect in the UK market where a large proportion of new mortgages are granted through this channel.

TSB's objective is to increase its contribution to the group's profitability.

In the Group's other international businesses, the priority is to actively manage the capital that the Group allocates to these businesses. In addition, there are specific priorities in each geographic area: in Mexico, the focus is on rigorous cost management; in Miami the Private Banking business will be strengthened, and in the rest of the offices abroad priority will be given to accompanying Spanish customers in their international activity.

In just a few months after the launch of the plan, concrete progress has already materialised. For example, in Spain, the first phase of the roll-out of specialist mortgage and savings-investment managers has been completed, the digital registration for new digital customers and the 100% digital application for new cards have been launched and, in consumer affairs, the product offer has been expanded, with the capacity to offer a loan that is more adjusted to the risk profile and which allows price segmentation. Moreover, new vertical offers for specific sectors, a specific accompanying offer for Next Generation EU funds and new digital services for businesses have been launched.

In terms of cost reduction, the second phase of the expected efficiency plan was implemented in the last quarter of the year, and a workforce adjustment was agreed with the unions with the 100% support of the negotiating table. This agreement, together with other cost-cutting measures implemented, will result in savings of 130 million euros per year, on top of the 140 million euros annual savings from the first phase of the efficiency plan, implemented in the first quarter of 2021. The combination of the two phases involves reducing the workforce by more than 20% and closing around 25% of the branches.

In line with the strategic objectives, TSB significantly increased its contribution to the Group during the year, with significant growth in new mortgages, while deleveraging was recorded in the other international businesses.

By 2023, the main financial targets of the Strategic Plan are the following: a return on tangible equity (ROTE) above 6% in 2023, although this target is expected to be reached already in 2022, and to maintain a CET1 fully-loaded capital ratio above 12% throughout the Plan. Beyond 2023, the transformation undertaken will continue to deliver results and profitability will continue to improve.

On the other hand, the macroeconomic assumptions on which the financial projections of the plan are based have been constructed from a conservative point of view and in a context of pandemic control, accompanied by fiscal and monetary measures by governments and central banks, respectively.

As regards the growth of the system's lending, over the time horizon of the next three years, in Spain and the United Kingdom, positive cumulative growth is expected in all segments. In this regard, Banco Sabadell aims to grow above the market in the mortgage segment, both in Spain and in the UK, while in consumer loan the performance differs geographically for strategic reasons: higher growth than other banks in Spain and lower appetite in the UK, which reflects a lower commercial priority in this specific segment. As regards the corporate segment, the strategic focus is to continue to grow in Spain, while in international exposures the size of the loan book will decrease due to a more efficient allocation of capital by the bank.

Furthermore, with reference to the evolution of the different lines of the income statement, recurrent income is expected to increase throughout the plan: low single digit net interest income and mid-single digit net fee and commission income. In both cases, it will be driven by increased commercial dynamism of Banco Sabadell both in Spain and in the UK franchise, TSB. On the cost side, thanks to the efficiency plans being implemented in the Spanish and UK businesses, the group-wide cost base is expected to be reduced to 2.9 billion euros by 2023. And finally, the cost of credit risk is expected to trend downwards during the plan, supported by better risk management and a favourable macroeconomic situation.

In conclusion, the Strategic Plan was designed on the basis of immediate delivery as early as 2021. In this respect, all the objectives set at the end of the year were met: i) net interest income grew by +0.8% in the year, ii) commission income increased by +8.7%, iii) a cost of credit risk of 49 basis points which is in the range of the 2019-20 cost of credit risk and iv) finally, capital at 12.22% with an MDA buffer of 398 bp.

1.3 Banco Sabadell share performance and shareholders

The share capital of Banco Sabadell amounts to 703,370,587.63 euros, represented by 5,626,964,701 shares of a single class with a par value of 0.125 euros. The number of shares in the bank has remained unchanged for more than 4 years as the group has no remuneration policies that could have a dilutive effect on the current share capital and rights to convert preference shares issued as contingently convertible into newly issued ordinary shares of the bank (AT1) have not been exercised.

The 2021 financial year has continued to be marked by the evolution of the COVID-19 pandemic. In the first half of the year, the tone in financial markets was more positive thanks to the prospect of progress in vaccination against the coronavirus, although at the same time governments continued to impose various measures to contain its spread and extended the duration of the various financial aids to the real economy announced in the previous year. As a result of this improved outlook for the pandemic, macroeconomic indicators performed favourably, pointing to an imminent strong recovery of the global economy, leaving behind the economic and financial instability and uncertainty that the pandemic had generated during 2020.

However, as the year progressed, fears of an increase in inflation expectations were heightened, supported by rising energy and commodity prices. In addition, heightened uncertainty over supply chain disruptions was beginning to erode consumer confidence indicators and, as a result, cast doubt on the rapid economic recovery that macroeconomic indicators had been pointing to months earlier.

As a result of these higher inflation expectations, the banking sector benefited in the stock market from a more plausible interest rate hike scenario and the beginning of the reduction of the various asset purchase programmes.

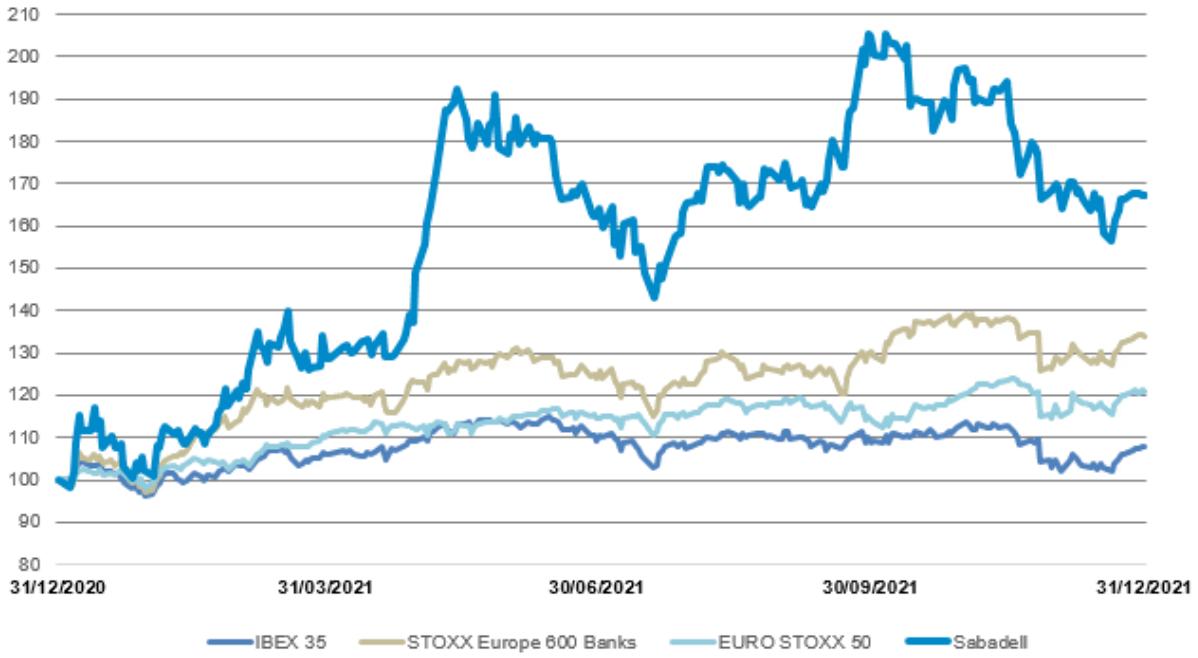
Banco Sabadell's share performance outperformed the rest of the Spanish banks with a revaluation of +67% in the year, +39% above the comparables, making it the best IBEX-35 stock in 2021 among the companies that made up the index since the beginning of the year. The systemic factors mentioned above have had a significant influence on the evolution of the share. Banco Sabadell's idiosyncratic factors include the launch of a new Strategic Plan, a new management team, better than expected results per annum and a higher contribution of the UK franchise, TSB, to the Group's results. This has been well received by financial analysts and the market in general.

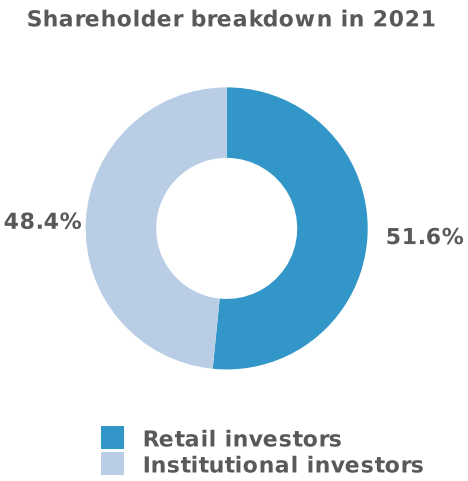
At the end of 2021, 77% of equity analysts covering Banco Sabadell had a Buy or Hold recommendation on the stock.

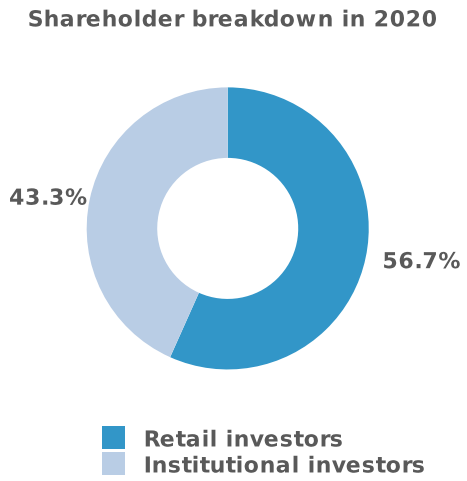
During 2021, institutional shareholders owned 48% of the stock, while retail shareholders owned 52%. Within the Bank's shareholding structure, at year-end 2021, three investor groups reported a holding of more than 3% according to figures reported to the CNMV. The aggregate holding of those three shareholders represents 9.94% of the total share capital; the remaining holdings are free-float capital. The members of the Board of Directors, one of whom is the indirect holder of the right of vote of one of the investors mentioned earlier, hold 3.67% of the bank's share capital.

Banco Sabadell's market capitalisation stood at 3,306 million euros at year-end, with a price-to-book ratio of 0.25.

The next figure shows the share's performance during the year:







Analysis of shareholdings at 31 December 2021			
No. of shares	**Shareholders**	**Shares in tranche**	**% of capital**
From 1 to 12,000	179,459	573,130,438	10.19%
From 12,001 to 120,000	45,899	1,427,423,280	25.37%
From 120,001 to 240,000	1,866	307,959,112	5.47%
From 240,001 to 1,200,000	1,039	469,333,426	8.34%
From 1,200,001 to 15,000,000	139	433,432,171	7.70%
More than 15,000,000	30	2,415,686,274	42.93%
TOTAL	**228,432**	**5,626,964,701**	**100.00%**

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%**

	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**
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
2021	5,586	530	0.080	13,357	2.39

Share performance

Below are a number of indicators of the Bank's share performance:

	2021	**2020**	**Year-on-year change (%)**
Shareholders and trading			
Number of shareholders	228,432	244,225	(6.5)
Average number of shares (million)	5,586	5,582	0.1
Average daily trading (million shares)	33	59	(44.2)
Share price (euro)			
Initial	0.354	1.040	-
High	0.743	1.080	-
Low	0.343	0.250	-
Closing	0.592	0.354	-
Market capitalisation (million euro)	3,306	1,976	-
Market ratios			
Earnings per share (EPS) (euro)	0.08	(0.01)	-
Book value per share (euro)	2.39	2.32	-
Price/Book value	0.25	0.15	-
Price/earnings ratio (P/E)	7.69	(27.75)	-

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 of Shareholders.

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.

On 21 July 2021, the European Central Bank issued a note informing that the period of recommendation not to pay or enter into irrevocable commitments to pay dividends would end on 30 September 2021. Afterwards, the Board of Directors, during its meeting that took place on 26 January 2022, proposed to the General Meeting of Shareholders the approval of the distribution of a gross dividend of 0.03 euros per share out of the 2021 results.

Credit rating

In 2021, the four agencies that assessed Banco Sabadell's credit quality were S&P Global Ratings, Moody's Investors Service, Fitch Ratings and DBRS Ratings GmbH.

On 20 May 2021, DBRS Ratings GmbH affirmed the short and long-term credit rating of Banco Sabadell at A (low) and R-1 (low) with a negative outlook, in light of the economic situation brought about by COVID-19. On 30 September 2021, DBRS published its full credit rating (A (low) and R-1(low)) with a negative outlook.

On 24 June 2021, S&P Global Ratings revised Banco Sabadell's long-term rating, placing it at BBB-, with a stable outlook, from BBB, to reflect the challenges of profitability, efficiency and digitisation facing the new management team. The short-term rating was changed from A-2 to A-3. In November, S&P again revised Banco Sabadell's rating. On 29 November it published a new report with an improved sentiment on Banco Sabadell but retaining the rating, outlook and challenges published in the first half of the year.

On 22 September 2021, Fitch Ratings affirmed Banco Sabadell's long-term rating at 'BBB-', with a stable outlook, reflecting the Group's sound capitalisation and diversification and its challenges in terms of profitability and constraining the cost of risk. The short-term rating remained at 'F3'.

On 15 July 2021 and in connection with a change to its methodology for credit rating for banks, Moody's Investors Service affirmed Banco Sabadell's long-term deposit and long-term senior debt ratings at 'Baa2' and 'Baa3', respectively, with a stable outlook, and upgraded the rating on long-term junior issues from Ba3 to Ba2. The agency reiterated the improvement in asset quality due to the significant reduction in NPAs and the bank's comfortable liquidity position.

During 2021, Banco Sabadell has maintained continuous interaction with the four agencies. In the virtual meetings with the agencies' analysts, issues such as the 2021-2023 strategic plan, TSB's evolution, results, capital, liquidity, risks and credit quality, and management of NPAs were discussed.

The table below details the current ratings and the last date on which any publication reiterating this rating was made.

	Long-term	Short-term	Outlook	Last updated
DBRS	A (low)	R-1 (low)	Negative	30/09/2021
S&P Global Rating	BBB-	A-3	Stable	29/11/2021
Moody´s Investors Service	Baa3	P-2	Stable	15/07/2021
Fitch Ratings	BBB-	F3	Stable	22/09/2021

1.4 Corporate governance

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 corporate website www.grupobancosabadell.com (See the "Corporate Governance and Remuneration Policy - Internal Governance Framework" section).

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 2021, which, in accordance with article 49 of the Commercial Code, is a part of this Directors' Report of the 2021 Annual Accounts 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.

Following the 2020 financial year, Banco Sabadell has once again opted to prepare the Annual Corporate Governance Report in free PDF format in order to explain and publicise, with maximum transparency, the main aspects contained therein and, in particular, the substantial changes made during the 2021 financial year to improve and strengthen corporate governance, in line with best practices.

General Meeting of Shareholders 2021

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 social 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 "Shareholders' General Meeting – General Meetings 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.

The Ordinary General Meeting of Shareholders held on 26 March 2021, at second call, approved all the items on the agenda, including the annual accounts and corporate management for the financial year 2020 and, as regards appointments, the ratification and appointment of Mr César González-Bueno Mayer as Executive Director and Ms Alicia Reyes Revuelta as Independent Director, as well as the re-election as members of the Board of Directors of Mr Anthony Frank Elliott Ball and Mr Manuel Valls Morató as Independent Directors.

In addition, the Board of Directors submitted to the General Meeting of Shareholders a proposal to amend certain provisions of the Articles of Association, which was approved on 26 March 2021, and which essentially entailed the following:

- Chairman with non-executive status, in line with the leading international banks and Corporate Governance best practice.
- A Strategy and Sustainability Committee increasing the focus point on strategic elements, sustainability and commitment to ESG (Environmental, Social & Governance) aspects.
- The Delegated Committee has been abolished and the Credit Delegated Committee has been set up to monitor and oversee credit risks on a weekly basis.
- The Appointments Committee has taken on all corporate governance functions and is now called the Appointments and Corporate Governance Committee, also focusing on ESG engagement.
- The powers of the Audit and Control Committee have been updated and revised.
- The possibility of holding the General Meeting of Shareholders telematically has been introduced, in line with the main Spanish listed companies.

Information regarding the General Meeting of Shareholders 2021 is published on the corporate website www.grupobancosabadell.com (see the website section "Shareholders and Investors-Shareholders' General Meeting").

Composition of the 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 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 Regulation of the Board of Directors (available on the corporate website under “Corporate Governance and Remuneration Policy-Regulations of the Board”), and it conforms to best practices in the area of corporate governance.

At the Board of Directors meeting held on 18 March 2021, Mr César González-Bueno Mayer accepted the position of Chief Executive Officer, once the corresponding regulatory authorisations had been received, and his appointment as Chief Executive Officer was ratified by the Board of Directors following his ratification and appointment as Director by the General Meeting of Shareholders on 26 March 2021.

Within the framework of the new corporate governance scheme reflected in the amendment to the Articles of Association approved by the General Meeting of Shareholders, the Board of Directors, at its meeting held on 26 March 2021, following the General Meeting of Shareholders, acknowledged the status of the Chairman, Josep Oliu Creus, as "Other External" Director, in accordance with the Capital Companies Act, as well as the status of the Director María José García Beato as "Other External" Director, in accordance with the Capital Companies Act, with effect as of 31 March 2021. The Board of Directors also appointed Gonzalo Barettino Coloma as Deputy Secretary of the Board of Directors.

The Board of Directors, at its meeting of 28 July 2021, appointed Mr Luis Deulofeu Fuguet as Independent Director to replace Mr Javier Echenique Landiríbar. In the same meeting, the Board agreed to appoint Mr Pedro Fontana García as Deputy-Chairman of the Board, replacing Mr Javier Echenique Landiríbar. Following receipt of the corresponding regulatory authorisations, Mr Luis Deulofeu Fuguet accepted the position on 26 October 2021.

The members of the Board of Directors as of 31 December 2021 were as follows:

Board composition

	Position
Josep Oliu Creus	Chair
Pedro Fontana García	Deputy Chairman
César González-Bueno Mayer	Sabadell Group CEO
Anthony Frank Elliott Ball	Lead Independent Director
Aurora Catá Sala	Director
Luis Deulofeu Fuguet	Director
María José García Beato	Director
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
Gonzalo Barettino Coloma	Non-Director Deputy Secretary

The Board of Directors consisted, as of 31 December 2021, of fifteen members: its non-executive Chairman, ten Independent Directors, two Executive Directors, one Other External Director and one Proprietary Director. 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 as well as in a participatory way. It features suitable diversity in terms of competency, professional background, origin and gender, as its members have extensive experience in banking, finance, digital transformation and IT, insurance, risk management and audit, in regulatory, legal and academic matters, as well as in human resources, consulting, and in the business and international arena. The Board's Matrix of Competencies can be consulted on the website under “Internal Governance Framework of Banco Sabadell” (See the corporate website “Corporate governance and Remuneration Policy – Internal Governance Framework ” section).

Since 2019, Banco Sabadell has had a competency and diversity matrix in place, which is revised annually by the Board of Directors. The latest review was carried out on 18 November 2021, in view of the changes that took place within the Board of Directors. The Board has increased its diversity, in relation to the category of Directors and the knowledge, skills and experience, which have been strengthened in the following areas: retail banking and digital transformation.

The Director Candidate Selection Policy, which was approved by the Board of Directors in 2016 and whose last update was performed in the Board meeting on 30 September 2021, 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.

At the end of financial year 2021, there were four female Directors: three female Independent Directors (out of a total of ten Independent Directors) and one female Other External Director.

The CEO, Mr César González-Bueno, brings together the knowledge, skills and experience 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. Having analysed his experience with regard to the Banco Sabadell Matrix of Competencies, his appointment was found to increase the diversity of the Board of Directors. 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 of Directors 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 updated in 2022 and, in practice, chairs any meetings with investors or proxy advisors.

For a better and more diligent performance of its general supervision function, the Board of Directors is obliged to directly exercise the following responsibilities stipulated by Law, amongst others:

- those that derive from good corporate governance rules which are generally applied;
- approval of the general strategy of the company.
- appointing and, as necessary, removing directors of the company's subsidiaries;
- identifying the company's main risks and implementing and monitoring suitable internal control and reporting systems;
- setting policy on the reporting and disclosure of information to shareholders, the markets and the general public;
- establishing the policy on treasury stock, which the General Meeting of Shareholders determines, where appropriate;
- approving the Annual Corporate Governance Report.
- authorising the company's operations with the Directors and relevant shareholders which might present conflict of interests; and
- generally deciding on business or financial transactions that are of particular importance for the company.

Board of Directors Committees

Following the amendment of the Articles of Association, a Strategy and Sustainability Committee and a Credit Delegated Committee were set up and the competencies of the Audit and Control Committee were updated, while the Appointments Committee was given additional competencies in the area of Corporate Governance and is now called the Appointments and Corporate Governance Committee.

In addition to the constitution of the new Board Committees, on 26 March 2021, the Board of Directors appointed Ms Mireya Giné Torrens as Chairman of the Audit and Control Committee and as a Member of the Appointments and Corporate Governance Committee, appointed Ms Alicia Reyes Revuelta as a Member of the Risks Committee and appointed Mr Gonzalo Barettino Coloma, General Secretary and Deputy Secretary of the Board, as Non-Director Secretary of the Credit Delegated Committee, the Remuneration Committee and the Risks Committee.

On 28 July 2021, the Board of Directors appointed Mr. Pedro Fontana García as Chairman of the Credit Delegated Committee and Mr. Luis Deulofeu Fuguet as Member of the Credit Delegated Committee and of the Strategy and Sustainability Committee, positions he accepted on 26 October.

In accordance with the Articles of Association, the Board of Directors has established the following committees:

- Strategy and Sustainability Committee.
- Credit Delegated Committee.
- Audit and Control Committee.
- Appointments and Corporate Governance Committee.
- Remuneration Committee.
- Risk Committee.

The organisation and structure of the Board Committees are set out in the Articles of Association and in their respective Regulations, which establish their rules of composition, functioning and responsibilities (see the section of the corporate website "Corporate Governance and Remuneration Policy-Regulations of the Committees"), and develop and complete the rules of operation and basic functions set out in the Articles of Association and in the Regulation 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 and number of meetings of these committees at 31 December 2021 is shown in the table below:

Composition of the Committees

Position	Strategy and Sustainability	Delegated Credit	Audit and Control	Appointments & Corporate Governance	Remuneration	Risk
Chair	Josep Oliu Creus	Pedro Fontana García	Mireya Giné Torrens	José Manuel Martínez Martínez	Aurora Catá Sala	George Donald Johnston III
Member	Luis Deulofeu Fuguet	Luis Deulofeu Fuguet	Pedro Fontana García	Anthony Frank Elliott Ball	Anthony Frank Elliott Ball	Aurora Catá Sala
Member	Pedro Fontana García	María José García Beato	José Ramón Martínez Sufrategui	Aurora Catá Sala	George Donald Johnston III	Alicia Reyes Revuelta
Member	María José García Beato	César González-Bueno Mayer	Manuel Valls Morató	Mireya Giné Torrens	José Ramón Martínez Sufrategui	Manuel Valls Morató
Member	César González-Bueno Mayer (*)	Alicia Reyes Revuelta				
Member	José Manuel Martínez Martínez					
Secretary non-member	Miquel Roca i Junyent	Gonzalo Barettino Coloma	Miquel Roca i Junyent	Miquel Roca i Junyent	Gonzalo Barettino Coloma	Gonzalo Barettino Coloma
Number of meetings in 2021	9	21	12	16	12	14

(*) Member for strategy matters only.

The Delegated Committee held 18 meetings in 2021 before it was disbanded.

Strategy and Sustainability Committee

The Strategy and Sustainability Committee, comprising five Directors, two Other External and three Independent Directors, and is chaired by the Chairman of the Board of Directors. In matters of strategy, the Chief Executive Officer shall participate in the meetings with the right to speak and vote, and, for this purpose, the Board shall be composed of six members.

In the area of strategy, the Committee's main responsibilities are to evaluate and propose to the Board of Directors strategies for growth, development, diversification or transformation of the company's business; to inform and advise the Board of Directors on the company's long-term strategy; identifying new opportunities for value creation and submitting to the Board of Directors proposals for corporate strategy in relation to new investment or divestment opportunities, financial operations with a material accounting impact and relevant technological transformations; studying and proposing recommendations or improvements to the strategic plans and their updates which, from time to time, are submitted to the Board of Directors; and issuing and submitting to the Board of Directors, on an annual basis, a report containing the proposals, evaluations, studies and work carried out during the financial year.

In the area of sustainability, the Committee has the following competencies: review the bank's sustainability and environmental policies; inform the Board of Directors of possible modifications and periodic updates of the sustainability strategy; review the definition and modification of diversity and integration, human rights, equal opportunity and reconciliation policies and periodically assess their degree of fulfilment; review the bank's social action strategy and its sponsorship and patronage plans; review and report on the bank's Non-Financial Disclosures Report prior to its review and report by the Audit and Compliance Committee and its subsequent formulation by the Board of Directors; and receive information relating to reports, letters or communications from external supervisory bodies within the scope of this Committee's competencies.

Credit Delegated Committee

The Credit Delegated Committee is made up of five Directors – one Executive, one Other External and three Independent – whose main functions are to analyse and, where appropriate, resolve credit operations in accordance with the assumptions and limits established by express delegation of the Board of Directors, and to prepare reports on those matters within its sphere of action that are required by the Board of Directors. It shall also have all those functions assigned to it by law, the Articles of Association and the Regulations of the Board of Directors.

Audit and Control Committee

The Audit and Control Committee comprises four Independent Directors and the Chairwoman is 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 accounts, 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 of Directors are duly implemented.

Appointments and Corporate Governance Committee

The Appointments and Corporate Governance Committee, of which four Independent Directors are members, has as its main responsibilities to ensure compliance with the qualitative composition of the Board of Directors, assessing the suitability, skills and experience required of the members of the Board of Directors; submitting proposals for the appointment of Independent Directors and reporting on proposals for the appointment of the remaining Directors; to report on proposals for the appointment and removal of senior executives and the Identified Staff; to report on the basic conditions of the contracts of Executive Directors and senior executives; and to examine and organise the succession of the Chairman of the Board and the chief executive of the Bank and, if appropriate, make proposals to the Board to ensure that such succession takes place in an orderly and planned manner. It also has to establish 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.

As regards Corporate Governance, its main powers are to report to the Board of Directors on the company's internal corporate policies and rules, unless they fall within the competence of other Committees; to supervise compliance with the company's corporate governance rules, excluding those corresponding to areas that fall within the competence of other Committees; to report to the Board of Directors the Annual Corporate Governance Report for its approval and annual publication; supervise, within the scope of its competence, the communications that the company makes with shareholders and investors, proxy advisers and other stakeholders, and report on these to the Board of Directors; and any other actions that may be necessary to ensure good corporate governance in all the company's actions.

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.

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, the Regulation of the Board of Directors and the Committee's own terms of reference.

Bank Chairman

Article 55 of the Articles of Association stipulates that the Chairman shall serve as a non-executive Director. He/she is the Bank's highest representative and has the rights and obligations inherent to such representation. In discharging his duties, the Chairman of the Board of Directors is the person with primary responsibility for the effectiveness of the Board of Directors and, as such, shall represent the Bank in any event, and have the power to sign on behalf of the company; he/she shall convene and chair meetings of the Board of Directors, setting the agenda, directing the debates and deliberations within the Board of Directors, and shall be responsible for ensuring compliance with the decisions adopted by the Board of Directors.

Chief Executive Officer

Under article 56 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 of Directors shall also permanently delegate to the CEO all legally delegable powers it deems appropriate.

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 the Annual Corporate Governance Report which includes detailed information on the bank's corporate governance, the Annual Report on Directors' Remuneration and the Non-Financial Disclosures Report, which are part of this Directors' Report, and can be found on the website of the National Securities Market Commission and on Banco Sabadell's corporate website www.grupobancosabadell.com.

1.5 Customers

Brand

"At Banco Sabadell we help people and companies make their projects a reality, looking ahead and ensuring that they make the best economic decisions. We do this through responsible stewardship that is committed to the environment and to society. We are non-conformist and committed. We work professionally and efficiently. And we relate to each other with 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 2021, Banco Sabadell showed that, despite the circumstances, its vision remains as valid as ever, and it is true to its values to support its customers and 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.

Supporting our customers

The way customers talk about Banco Sabadell, how the bank has accompanied them over time and the quality of the service they receive, is the result of a business model in which the customer is always the main focus of attention.

The COVID-19 crisis has accelerated changes in customer behaviour, particularly in terms of the adoption of new ways of interacting, and has consolidated an environment in which digitalisation and remote channels are becoming increasingly important. The current context highlights the need for transformation, which is why Banco Sabadell has redefined and accelerated the customer relationship model, responding to their new consumer habits.

With greater control of the pandemic, the macroeconomic context is improving and there is an important stimulus package and measures for economic recovery, and Banco Sabadell wants to continue to support and accompany customers on this path.

Furthermore, society is becoming increasingly socially and environmentally aware and Banco Sabadell has therefore taken the firm decision to accompany our customers in their transition towards a sustainable economy.

Private individuals

In Retail Banking, we are moving towards a relationship model that combines the personal support of specialised managers in branches with access to the digital offer of our products, thus offering a differential value proposition to customers, responding to current demand and accessing a greater number of customers in this segment.

Corporate Customers

The ability of our network to establish fruitful and long-lasting relationships with companies – the average length of service of our customers is 11 years – is one of the strengths of our Business Banking, which we will further enhance. At Banco Sabadell we have a good knowledge of our customers, which allows us to provide them with specialised solutions and accompany them in the development of their business.

Driving digitalisation

Banco Sabadell continues to develop a digitalisation plan to guarantee the most complete and satisfactory user experience possible. This plan involves expanding new digital features and services and assisting customers in the transition to digitalisation. Some examples of the improvements implemented are the unification of transfers, the elimination of manual verification of new accounts and the contractual simplification of funds and sight accounts, the ability to consult card liquidations from previous months and to claim incorrect charges through digital channels, and improvements in file management capabilities and usability.

Accompanying customers on this journey is vital to ensure that customers are aware of the bank's remote channel solutions and self-service operations and that they have sufficient information to use them. To support customers in their digitalisation process, Banco Sabadell has implemented a personalised Support Plan, segmented by type and adapted to each customer, with simple, user-oriented communications that help customers to familiarise themselves with the use of remote channels and carry out self-service operations conveniently, quickly and securely. 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.

Some of the lines of communication that have been carried out are:

- Working with customers from the outset, promoting the use of remote channels.
- Communicating with customers based on their degree of digitalisation, and a monthly newsletter to inform them of new digital features and highlight existing ones.
- Specifically communicating with senior customers, informing them how to carry out the most frequent operations through remote channels.
- 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.

Thanks to all the actions carried out at Banco Sabadell, 60% of our customers are now digital, an increase of 5% over the previous year.

Enhancing the customer experience

Continuous improvement

At Banco Sabadell we work from the perspective of continuous improvement, which is why we have developed a methodology that allows us to listen to the voice of the customer, measure and assess the main reasons for satisfaction and dissatisfaction and how close or far we are from meeting our customers' expectations. The ultimate goal is to implement lines of approach that will not only improve their experience, but also try to exceed their expectations.

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.

BS idea: pooling ideas for the Transformation of Banco Sabadell

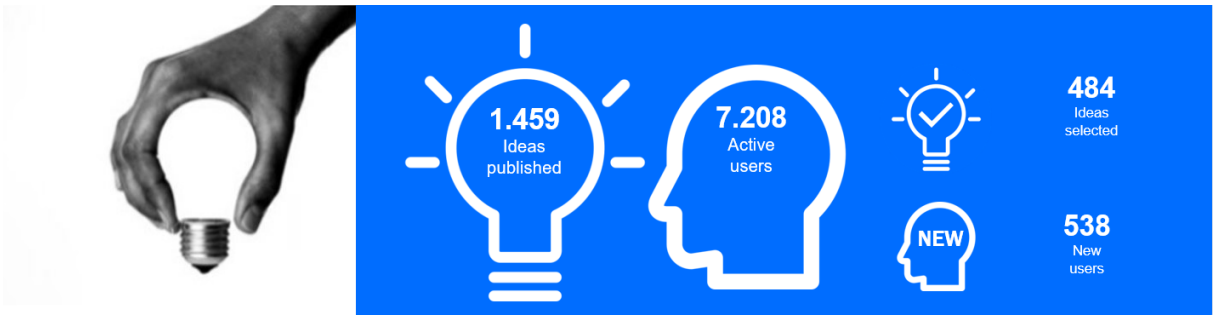
BS idea is a gamified open innovation programme, inspired by the design thinking methodology, which allows all Banco Sabadell employees to propose ideas for improvement in any area of the organisation. This is a model adapted to Banco Sabadell's strategy in which the talent of the participants helps the management to achieve its objectives.

BS idea is implemented through challenges, which are competitions focused on priority projects for the entity, selected by the BS idea Committee, made up of the entity's directors. In 2021, 12 different challenges have been launched with topics as relevant and diverse as the reduction of non-commercial tasks in offices, new ways of working (SmartWork), European funds, boosting the equity business, the mortgage business of the future and increasing the use of our digital channels, among others. Participation in these competitions has been a success, demonstrating once again the importance of listening to the voice of employees.

A specific jury for each challenge rewards those ideas that are most aligned with the bank's strategy, with the improvement of customer satisfaction and with the transformation process. It is also an excellent channel for innovation and communication between teams, enabling them to share opinions and experiences.

As a novelty, this year a new section dedicated to Testing with internal users has been launched.

In an environment of digitalisation and constant change, there is a need for a single space in which to carry out all types of user testing before launching products, services and processes. BS idea offers management and project teams the possibility to improve usability and user experience by testing with bank employees.



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.

Qualitative research

Qualitative measuring is based on different studies and research from diverse methodologies 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 used range from conventional in-depth interviews or focus groups by segments, to more innovative methodologies based on behavioural economics and the detection of consumers' deepest emotions and motivations.

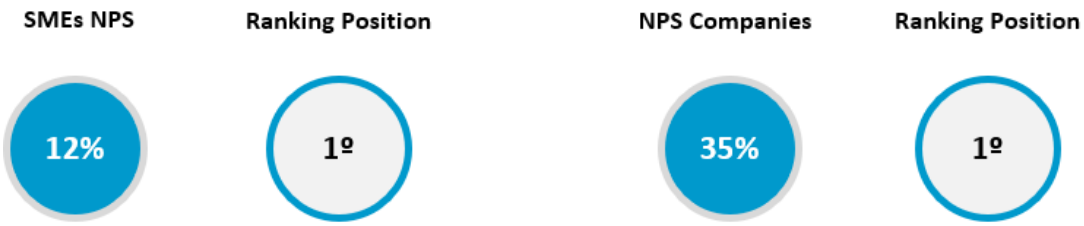
Quantitative research

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.

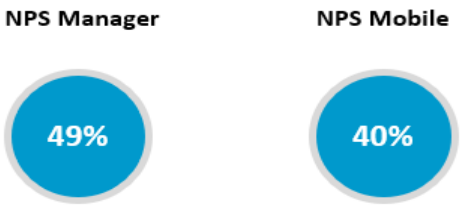
1. Net Promoter Score (NPS)

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. Of note were the results in the segments of companies and SMEs, segments in which Banco Sabadell has historically developed a greater specialisation, making it the bank most recommended by companies.



In recent years, as a result of the digital transformation, the measurement of digital channels that complement the traditional service channel (manager) has gained importance:



Source: Benchmark Accenture (cumulative data 2021). NPS Gestor and NPS Movil refer to retailbanking.

Position Ranking of the entities that form part of the peer group of Accenture's Bchk NPS study (BBVA, La Caixa, Santander and Banco Sabadell).

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.

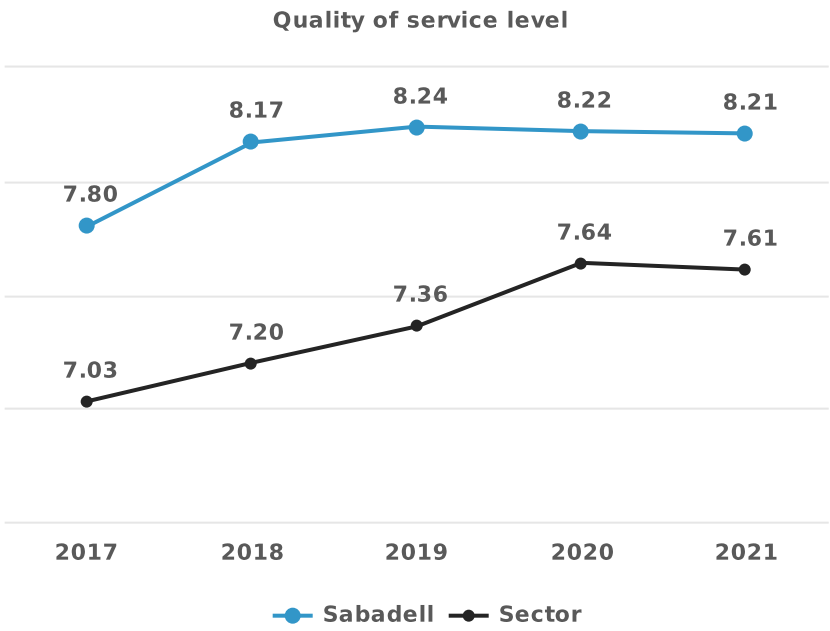
Banco Sabadell listens to its customers by conducting over 300,000 surveys per year and analysing more than 20 touch points.

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 Shopping, 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 Shopping technique. Banco Sabadell continues to maintain a quality differential with respect to the sector, which has increased in the last year.



Accolades

Banco Sabadell is a benchmark for organisations in Spain, due to its consolidated track record in quality management and its recognised management model.

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. This EFQM score has also enabled it to hold, since its creation, the title of Ambassador of European Excellence with special mention.

But for Banco Sabadell, internal accolade of excellence is also very important. In this regard, almost 20 years ago, it created awards to recognise the excellence of those branches (as a result of customer satisfaction surveys), corporate divisions and projects that are a benchmark for the rest of the entity.

One of the internal awards that the bank created in 2020, as a result of its firm commitment to sustainability, was the accolade of the best sustainability projects implemented in the organisation, with an impact on the bank's contribution to the Sustainable Development Goals and with ESG (Environmental, Social & Governance) criteria. In 2021, there has been an exponential increase in the number of applications submitted, one of which has also received external accolade. This is the Accompaniment Programme for the socio-economic improvement of vulnerable families, winner of the first prize for Good Management Practices, awarded by the Excellence in Management Club, in the category of Large Organisation.

In 2021, despite the context of restrictions due to COVID-19, Banco Sabadell continued to reward and make internal excellence visible, adapting the acknowledgements to virtual or hybrid formats, depending on the health restrictions at the time. In these adverse situations, accolade becomes even more important, as it is a motivational driver for employees, which is also reflected in the results externally.

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 Regulations for the Protection of Customers and Users of Financial Services. The most recent amendment to those Rules was approved by the Bank of Spain in June 2021.

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. The Regulations for the defence of customers and financial users of Banco Sabadell ensure compliance with the above-mentioned requirements.

In 2021, a total of 49,720 complaints and claims were received, 16.9% less than in 2020, in addition to 1,143 issues that remained unresolved at 31 December 2020. A total of 49,949 cases were processed in 2021.

See Note 38 to the 2021 annual financial statements for further details.

Multi-channel strategy

Banco Sabadell has a set of communication channels with its customers, both physical (national and international branch network and ATM network) and digital (BS Online, Sabadell Móvil, Direct Branch and social networks), responding to current customer demand.

The bank continues to seek to combine the best of traditional banking, such as the personal relationship, with the best of the digital world. The office is no longer the focal point of operations, but a wide range of touch points, where the customer is the protagonist. This requires simplifying processes as much as possible and changing the distribution model, something to which the bank is devoting a great deal of effort in order to respond to the ubiquity of our customers and offer them the best experiences.

Branch network

Banco Sabadell ended 2021 with a network of 1,593 branches (290 TSB branches), i.e., a net reduction of 490 branches with respect to 31 December 2020 (a reduction of 326 branches excluding TSB).

Of the total Banco Sabadell and Group branch network, 955 branches operate under the Sabadell brand (including 25 business banking branches and 2 corporate banking branches); 64 as SabadellGallego (including 3 business branches); 85 under the SabadellHerrero brand in Asturias and León (3 business branches); 66 as SabadellGuipuzcoano (5 business banking branches); 11 as SabadellUrquijo; 89 branches under the Solbank brand; and 323 offices that make up the international network, of which 290 are in TSB and 15 in Mexico.

Region	Branches	Region	Branches
Andalucía	111	C.Valenciana	224
Aragón	25	Extremadura	5
Asturias	68	Galicia	64
Balearic Islands	37	La Rioja	7
Canary Islands	28	Madrid	121
Cantabria	5	Murcia	71
Castilla-La Mancha	18	Navarra	10
Castilla y León	38	Basque Country	52
Catalonia	384	Ceuta and Melilla	2

Country	Branches	Representative Offices	Subsidiaries & Investees
Europe			
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

The number of self-service network devices in Spain as of December 2021 is 2,645 units, comprising 1,922 branch ATMs and 723 mobile ATMs. The decrease in the number of ATMs in branches and the increase in the number of displaced ATMs is due to the closure of branches during the year.

With regard to the operations carried out during the year 2021, a downward trend can be observed; a total of 87,407,601 transactions have been carried out, a decrease of 2% in the total number of operations. In terms of the types of transactions most used, cash dispensing recorded similar volumes to the previous year and cash income continued to rise, with a 21% increase in the number of transactions.

During 2021, we have focused our efforts on continuously improving the overall availability of the self-service devices and enhancing customer satisfaction.

In order to achieve this improvement during the year 2021, a series of initiatives have been implemented, of which we highlight the assistance of ATMs outside office working hours, including weekends and holidays, the improvement of ATM monitoring by creating new indicators and follow-up control panels, the new recycling functionality and modifications in the interaction of customers with the most critical operations used by customers.

Other initiatives during the year included the analysis and monitoring of the ATMs moved to ensure greater profitability, operational efficiency and the design of the ATM footprint, which will have an impact on the organisation and distribution of ATMs.

Sabadell Online and Sabadell Mobile

In 2021, 60% of our customers were classified as digital, achieving a 5% increase in the number of digital customers compared to 2020. The number of digital customers in the private customer segment grew 5% relative to 2020 and 2% in the business customer segment in the same period.

In addition to this growth in the digital customer base, the frequency of connection per customer, usage and contracting through digital channels has also continued to grow, as will be detailed below.

In 2021, we continued to push for the creation of new digital and remote capabilities to provide customers with better service from digital channels, offering greater convenience without having to travel to the branch network. Both the website and mobile devices have contributed to improving customer satisfaction and at the same time meeting the efficiency of the strategic plan.

Sabadell Online (la web bancosabadell.com)

Despite positive figures growth in mobile usage, Sabadell Online traffic and frequency remain high, and this service received an average of around 10 million visits per month in the year, primarily for operational and transactional purposes, particularly from business customers.

The number of transactions carried out through Sabadell Online continues to grow both in terms of contracting capacity and servicing operations, which have been reduced by around 62% in branches in favour of remote channels compared to 2020. Specifically, the number of transfers increased by 4% in Sabadell Online compared to the previous year.

In 2021, the customer satisfaction indicator in Sabadell Online Empresas increased to 7.3 points (+0.15 compared to the previous year) thanks to a series of improvements in this digital channel. Based on satisfaction surveys and interviews with customers, the focus was on perfecting daily operations and improving the digital experience of Business Banking customers through four main lines of approach:

- Enhance functionalities that customers use on a daily basis (e.g., simplified transfer operations and easier file management);
- Improve usability to increase the quality of the service (e.g., more functional and intuitive menus and new accesses between Sabadell Online Particulares and Sabadell Online Empresas);
- Facilitate customer-manager interaction to strengthen the relationship (e.g., secure video calls between customers and managers and online appointment management);
- Expand the digital offer to surprise customers (e.g., new interface in Sabadell Online Empresas to access PwC's advisory service for processing European Recovery Fund grants).

Sabadell Mobile, adoption and usage habit growth

Banco Sabadell's user adoption of the distance banking app solution continues to grow, rising from 2.8 million to 2.9 million users, an increase of 7% compared to the previous year.

In addition to this increase in users, the frequency of access increased by 5% in logins per user per month compared with the previous year, to an average of 20 logins per month per customer in the individual customer segment.

The focus this year has therefore been on reducing the barriers to entry and friction in the journeys to access digital channels, enabling new functionalities for obtaining distance banking credentials without having to go to the branch network, as well as optimising their recovery in the event of loss or forgetfulness.

In addition to this effort to facilitate access to our online office, we have worked to improve the depth of information available, enabling the consultation of account movements for up to 10 years. In addition, the logos of the main vendors originating the payments have been added to facilitate the understanding and identification of account movements. Thus, at a glance, the customer can recognise the payment source without having to read or delve into it.

Operational improvements such as the debit/credit card blocking flow or tax payments have also been made to offer customers greater clarity, simplicity and ease in the process, achieving a reduction in the abandonment rate of online operations and, at the same time, a decrease in the number of calls to Direct Branch.

With regard to the use of operations related to financial products, we would highlight the following developments:

Specifically, in relation to investment and savings, the use of digital channels for the purchase and sale of securities increased by 5% compared to 2020, with the increase in remote subscriptions of mutual funds accumulated over the year being 42% higher than in the previous period. Extraordinary contributions to remote Savings Plans have increased by 13% and extraordinary contributions to remote Pension Plans by 4% compared to 2020.

Developments in financing products were as follows:

In pre-approved lending, sales are finally returning to pre-COVID levels. The focus in 2021 has been to make larger concession amounts immediately available to users at the click of a button, increasing the average amount contracted online.

In the area of mortgage financing, efforts have been concentrated on continuing to deploy simulation tools to enable users to make progress in their home purchase and financing decisions. This is the first part of a plan to develop tools to facilitate remote mortgage lending, which will be rolled out throughout the fourth quarter and first half of 2022.

Finally, in the range of means of payment, the option for our customers to contract debit and credit cards digitally has been enabled. This process consists of a digital catalogue, selection and comparison of products, 100% online contracting and online activation of the card.

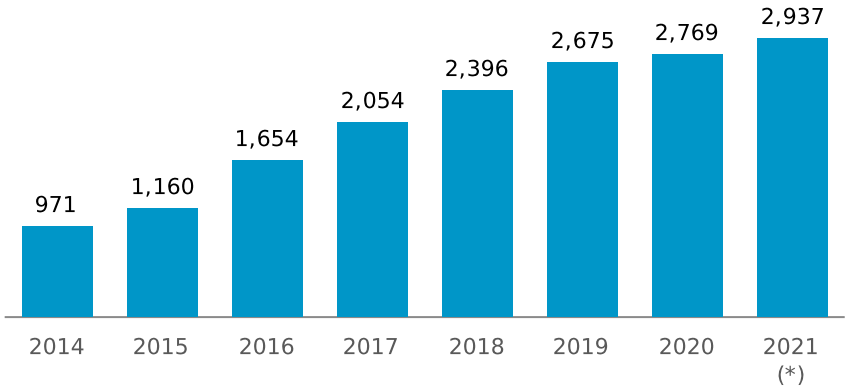
Sabadell Wallet

The trend in the use of Sabadell's mobile payments app continues to show positive growth, with a 58% increase in logins compared to the previous year, with an average of 6 logins per month per customer.

The most frequently used operations include the following:

Bizum sending, which grew by 142% compared to the previous year. The use of Instant Money (a service that enables cash pick-up at ATMs without the need for a card, with just a 6-digit code) grew by 30%. The last operational highlight is the adoption and use of mobile payments, which recorded an 86% increase in the volume of operations compared to the previous year.

Progress of active clients in Sabadell Mobile
(thousand clients)



(*) Latest information available as of November 2021.

Direct branch

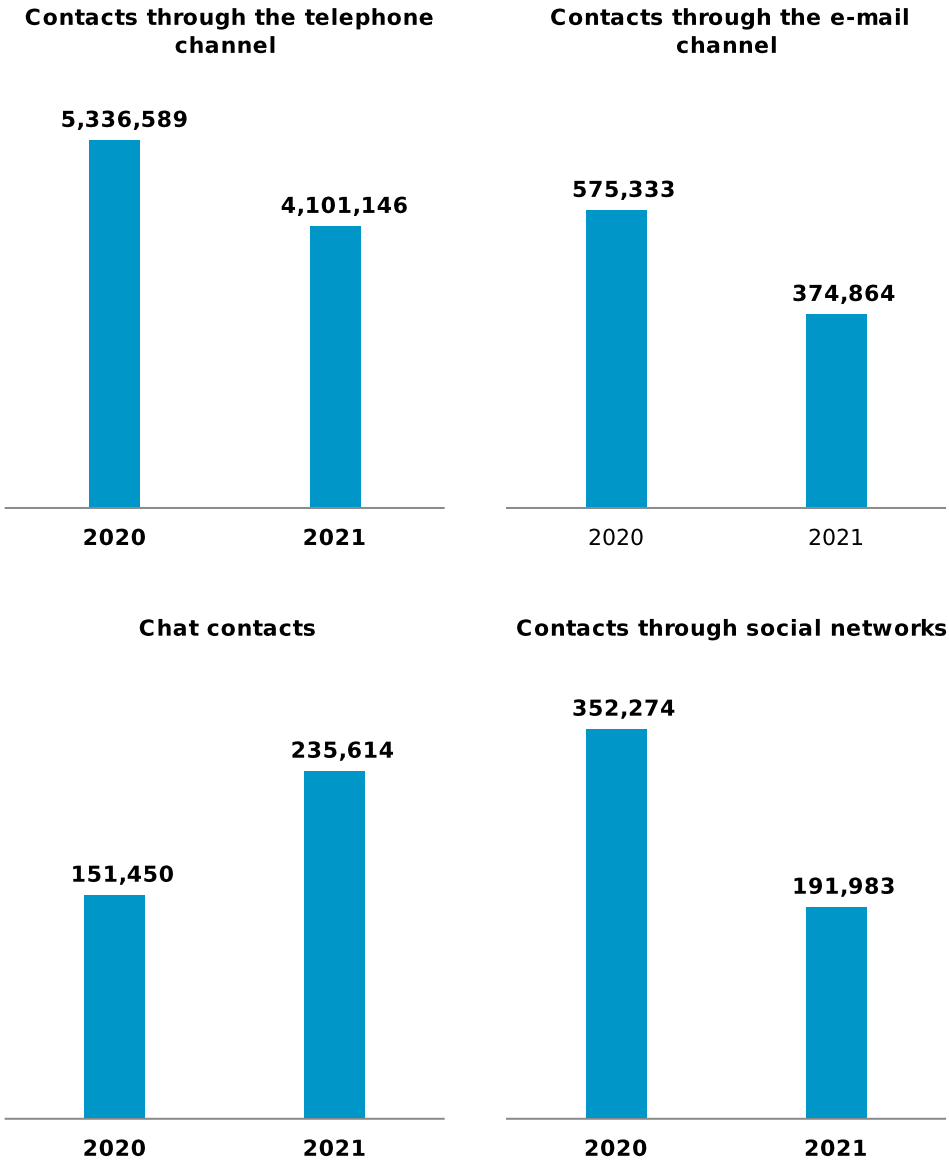
During 2021, contacts with Direct Branch decreased by over 24%, to 4.9 million, compared to 2020.

The service channel that has experienced the greatest growth this year has been chat. Telephone consultations accounted for 84% of the total, followed by e-mail, chat and social media. The following figure shows growth levels, by channel.

As regards service levels, the SLA (Service Level Agreement) ratio for telephone enquiries exceeded 93%, followed by chat (94.9%) and e-mail (91%). Banco Sabadell received 192,000 mentions in social media (SLA: 98%).

The decrease in volumes during 2021 is motivated by the following:

- The reduction of 290,000 calls due to process improvements and efficiency initiatives such as:
  - The activation of self-service locutions in the telephone channel, which help our customers to carry out their daily operations.
  - Implementation of the Virtual Assistant.
- Non-critical operating hours restriction (from 19:00 hours to 8:00 hours).



Social media

Banco Sabadell has been active in social media since 2007. The objective: 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 2021.

A key success factor is continuous tracking of interactions with followers and customers. One of the key performance indicators (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 Banco Sabadell plays an active role, and this became particularly important this year. 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 priorities in digital transformation, in line with the new Strategic Plan presented in 2021, include the implementation of new remote sales models for sophisticated products, the evolution of self-service purchasing of procurement products and continuing to improve and incorporate new operations, also in self-service, to make customers more autonomous in their daily lives. The acceleration required to drive these three levers of transformation has created the opportunity to review organisational, methodological and technological capabilities to improve productivity and user experience.

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 adds key capabilities for the group:

- 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.

- 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 2021

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.

Some recent examples of retail banking with a high impact on customer user experience are:

- Increasing the depth of the transaction query to 10 years: in March 2021 we will enable the visualisation of transactions older than 24 months and up to 10 years in BS Online (BSO) and BS Mobile (BSM), allowing customers to consult the corresponding transactions without the need to use assisted channels.

- Improvements to tax operations: in the first quarter of 2021 tax operations were improved by giving greater visibility on both the internet and mobile devices and improving the tax form experience.

- Online card purchase: as of July 2021, we allow customers to purchase a card via BSO and BSM. In addition, a catalogue is created to help our customers get a better understanding of the cards offered by the bank and see which ones are best suited to their needs.

- Improvements in card operations: between July and September 2021 we improved the service and experience in card operations with different initiatives, such as allowing customers to claim transactions from digital channels with a digital signature, providing greater detail when a payment is rejected, consulting card settlements or improving the visibility of card information in BSO and BSM.

- Web and mobile integration with Adobe Target: for both informational and transactional content, we enabled the integration with Adobe Target, which will allow the bank a greater degree of personalisation of the offers and promotions that we present to customers, also allowing changes to the information presented without the need for intervention by IT teams.

- SMS reduction: throughout 2021 we have been reducing the total number of SMS messages sent to customers from different BSM operations, replacing SMS messages with push notifications and encouraging customers to migrate to digital signatures, which has led to significant cost savings for the bank.

- CDD - KYC BSO: within the framework of the implementation of Continuous Due Diligence, a space is created in BSO where the customer can clearly identify the documentation that is required in order to continue to have an operational account. Similarly, a set of communications has been planned, which will ensure that the customer knows at all times what actions are pending and when they are required to carry them out.

- Virtual Assistant: Banco Sabadell's new Virtual Assistant, supported by the conversational platform and the Virtual Office, ready to incorporate the necessary conversational flows to reduce the volume of calls to the Direct Branch and encourage self-service.

- Improved service and operation of pre-approved loans by increasing the limit that can be contracted through digital channels so that customers can have access to a loan of up to 30,000 euros at any given moment. The contracting flows are improved in both self-service and assisted channels, providing more information to the customer on what is required to formalise the operation and optimising information to the customer service teams to improve the time required to manage requests.

- Improve access to contracting flows, offering a specific space in the global position for contracting products such as insurance and cards, which can also be customised (price, content, etc.) autonomously by marketing.

- Digital mortgage: deployment of new capabilities to start the process of capturing and managing the demand for mortgage products in the digital channel, through the deployment in October of a mortgage simulator that will enable our customers to assess their financing capacity and a first approximation of the resulting instalments, as well as enabling the bank to qualify digital leads according to their maturity in order to allocate commercial resources to manage those with the greatest possibility of conversion, as well as the pilot test in December 2021 of an accompanying portal that will enable and guide the customer to provide online the necessary documentation for the solvency study, while automating the consultation of bureaus and giving the manager better visibility of the status of operations at this phase of the process. This should result in an increase in the demand for mortgage products, better support for our customers, especially in remote

channels, and greater conversion of opportunities (reducing the commercial effort and, therefore, improving efficiency).

- CDD - National Identity Card update with Onfido: in December 2021 and within the framework of Continuous Due Diligence, access to available customer information and access to update flows is improved. This year, the possibility of updating the National Identity Card from the website through the provider Onfido is enabled, improving the experience and conversion of the current process with the provider Veridas (the possibility of updating the National Identity Card in BS Mobile has been available since January 2022).

- Digital onboarding: opening in December 2021 of the new 100% digital customer registration service, supported by Onfido's identity identification and validation solution, confirmed by digital signature and complying with legal and regulatory requirements, which will enable users to register as new customers of the bank without the need to visit a branch. In addition, an Expansion Account can also be set up as part of the process. The opportunity has also been taken to simplify the set of contractual documentation for a number of contract products.

- 5 Star Programme: Sabadell Mobile's experience improvement initiative has succeeded in moving key KPIs across the stability, performance and usability levers with continuous delivery of improvements through 2021. Some of the initiatives highlighted include improved display of information and details of account and card transactions, access to 90 days' transactions without additional signature, a new app version for Huawei devices without Google services, improved conversion of the PIN recovery process (from 24% to 54% conversion rate), reduction of app login time and resolution of principal bugs.

Recent examples with a significant impact on the customer satisfaction:

- Improvements in file operations: deployment of new capabilities to provide greater ease of use in one of the most important and recurring operations for business customers and thus improve the satisfaction of BSO Empresas users. In addition, with these initiatives we improve efficiency and increase self-service through improved experience and service. The most relevant initiatives are detailed below:

    - Multiple file signing: more efficient functionality by allowing multiple batches to be signed without the need to go through them one by one. This saves time and effort for our customers.

    - Facilitating the creation of files: enabling customers to retrieve information from previously sent file dispatches and allowing them to be edited, generated and sent, thus reducing management time in a more comfortable way.

    - File import improvements: increase the visibility of the file import initiative to improve onboarding for users who want to carry out this operation.

    - File control centre: creation of a new interface that centralises the most relevant information on file management and has a new space for consultation and monitoring of file status, with direct access to the signature, cancellation, reuse and details of the file.

- Transactional companies - New navigation menus: redesign of the navigation menus of BS Online Empresas and new organisation of the menus to facilitate the location and use of the operations. With this initiative we want to improve our customer satisfaction index in order to be more competitive with our peers and reduce the number of customers who say they leave BSO without finding the operation they were looking for.

- European Recovery Fund: creation of a new page on BSO Empresas providing personalised help to customers about the Economic Recovery Fund. In addition, this page provides our customers with access to PwC's external service that assists with the processing of the call they are interested in.

- Additional validations for international transfers: this project consists of applying a series of improvements to the international transfer screens in order to minimise the number of incidents due to errors in this type of transfer.

- MVP: Manager Area: the strategy in companies is to strengthen customer-manager communication, especially with value customers. With this project, we have created a new digital appointment flow accessible on the Home page and in the new Manager Area. With the proposed solution it will be possible to request appointments (commercial), checkout (servicing) and appointment management.

- Dual Login: functionality that allows you to switch from private to business account and vice versa in an agile way, without penalising the user to log out to access again. In this way, the customer will have a better digital experience with the aim of increasing the percent of logins in BSO Empresas and positively influencing the improvement of the NPS.

Additionally, InnoCells has executed, from the Collaboration area, both pilots and proofs of concept with third parties (seeking to accelerate the digital transformation of the business through the incorporation of products, services and differential third-party technologies, with the main focus on the Fintech ecosystem), as well as participation in projects framed within the strategic line of Financing.

We can highlight the following:

- Participation in the Request For Proposal for selection of a third-party platform (companies in the RFP: Cobee, in which the Group has stakes, and Compensa) for the digitalisation of the Group Pension Plan product offered to the Bank's corporate customers through the Joint Venture with Zurich, in which the Group has stakes. The solution developed together with Compensa is now deployed in production and active for contracting by corporate customers.

- Deployment of internal Speech Analysis capabilities: transcription and interpretation system with cognitive capabilities of manager-customer phone call recordings with different use cases (from regulatory to commercial). The pilot was carried out with Predictiva (a company in which the Group has a stake) and the Cognitive and Regulatory Compliance Departments, and offered insights on the comparison of the solution vs. the current solution and other providers (Telefónica Recordia).

- Deployment in the productive environment of Banco digital channels (BSMovil and BS Online, initially to employees and subsequently to end customers) of capabilities for detecting recurrent charges or subscriptions, offering the ability to change and cancel them. The pilot was conducted in collaboration with the startup Minna Technologies and provided insights for decision making in the Daily Banking project.

- Participation in the SmartPayments/SmartMoney pilot, through a collaborative action between different entities within the framework of Iberpay (BBVA, Caixabank, Banco Santander, Banc Sabadell and Bankia before the merger) to dynamise the transfer of money within the ECEC through tokenisation.

- Orchestration and active collaboration in two projects driven by the Funding strategic line (ongoing):

    - Digital Reactive Lending: offering identified customers in the individual segment the possibility to apply for a reactive loan in a 100% digital contracting process. Participation in the Request For Proposal for the selection of the third-party platform (selected company Indra-Minsait) and continuity in the project as orchestrator of the initiative.

    - Sabadell Consumer Finance-Instant Credit: definition of the strategy, evolution and strengthening of digital financing operations at points of sale (both e-commerce and physical).

In addition, the area of Collaboration with third parties maintains continuous interaction with the startup ecosystem (collaboration with BStartup and Sabadell Venture Capital and participation in various events: SouthSummit, 4YFN, Webinars, etc.) and has a specific portal (www.partnerships.innocells.io) to centralise and receive value proposals that may be of interest to the Group in an orderly fashion. In 2021, 27 contacts have been managed and some QuickWin initiatives have been executed for validation (e.g., collaboration with startup TaxDown, with a proposal for the creation of optimised tax returns).

1.6 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.

During the pandemic, Banco Sabadell has stood by its customers and society as a whole by offering financial support measures.

The bank continues to offer the business community measures to mitigate the lack of liquidity due to the pandemic, such as the renewal of policies and the extension of different products already contracted. Likewise, through the ICO Support Plan, applications for loans guaranteed by the State through the Official Credit Institute (Instituto de Crédito Oficial) have been managed.

In addition, the Bank has joined forces with the European Investment Bank to increase its capacity to lend to small and medium-sized enterprises (SMEs) and mid-caps affected by the economic impact of the COVID-19 pandemic.

Banco Sabadell continued to prioritise the protection of employees and customers as the main focus of its actions in the first half of the year. The protocols established in the commercial network have been activated depending on the incidence in each territory, although, thanks to the high level of personal responsibility of our employees and the effectiveness of the measures activated, there have been few occasions when this has been necessary.

As for corporate centres, they have remained largely open and, while teleworking has remained the main focus, they have responded to a growing need for the face-to-face dynamics necessary to realise the full potential of hybrid working. In this regard, the completion of the delivery of portable devices to almost 100% of the workforce in February 2021 has been decisive, which, together with the deployment of the capabilities of the Office 365 platform, is shaping a more secure, agile, flexible and connected organisation.

In terms of the group's financial metrics, after a year 2020 whose results were marked by the pandemic, this year Banco Sabadell has been able to generate 530 million euros of profit in the year 2021. In addition, it continued to increase its solvency level and strengthen its balance sheet, so that the group has solvency levels above its requirements, ample liquidity and a healthy balance sheet.

In this respect, the CET1 fully-loaded capital ratio stands at 12.22%. Notably, the ratio increased by 20 basis points year-on-year, demonstrating the group's commitment to a broad solvency position with a ratio above 12%. The Group also enjoys a comfortable capital position with respect to regulatory requirements, 395 basis points above them. The Tier 1 and Tier 2 capital issues in January (Tier 2) and March and November of this year (AT1), for an aggregate amount of 1,750 million euros, contributed to consolidating this total capital ratio.

The Group has a strong liquidity position, with 57,000 million euros in liquid assets, i.e., over 23% of its balance sheet, and a Liquidity Coverage Ratio (LCR) of 221%. Its balance sheet shows a healthy equilibrium between loans and deposits (loan-to-deposits ratio: 96%).

The Group also has a sound balance sheet. As a result of selling portfolios of NPAs in recent years and the ongoing organic elimination of NPAs, the Group's risk profile has improved significantly, so that net NPAs at year-end 2021 account for 1.4% of total assets, with an NPL ratio of 3.7%.

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.

Spain

In this respect, in Spain, some measures adopted in the context of the pandemic remained in place during 2021 and other new measures were promoted. Some of the most important ones are the following: (i) the legislative or sectoral payment moratoriums – both implemented in 2020 – were reactivated by Royal Decree-Law 3/2021 of 2 February, which extended the period for applying to 30 March 2021, stipulating a maximum duration of 9 months; (ii) the two ICO COVID-19 lines of guarantees launched in 2020 (of 100 billion and 40 billion, respectively, for liquidity and investment), whose period for applying was first extended to 31 December 2021 with the approval of Royal Decree-Law 05/2021 in March, and then extended for a further 6 months, until 30 June 2022, by Royal Decree-Law 27/2021, of 23 November; and iii) the Code of Best Practices, approved in May 2021, and which mainly envisages 3 possibilities to which debtors, if they

met a series of specific conditions (amount of public aid received, etc.), could avail themselves of: maturity extensions – up to 10 years – (which could be requested until 15 October 2021), conversion of debt into equity loans (which could also be requested until 15 October 2021) and debt reduction (whose maximum execution period is until 1 December 2022).

In addition, Royal Decree-Law 5/2021 approved by the Spanish Government envisaged a series of extraordinary measures to support business solvency of business in response to the COVID-19 pandemic, approving public investment of up to 11 billion euros through three funds: a fund of 7 billion euros for direct aid to the self-employed and companies, to reduce debt levels subscribed from March 2020; a fund of 1 billion euros for those viable companies that cannot access the fund managed by the State Industrial Ownership Corporation (SEPI for its acronym in Spanish); and, finally, a 3 billion euros fund for the restructuring of COVID-19 financial debt. The latter fund is implemented within the framework of a Code of Good Practice, approved by the Council of Ministers Agreement of 11 May 2021. This framework allows for extending the amortisation term of guaranteed loans, extending grace periods, converting loans into equity loans while maintaining the public guarantee and granting direct transfers for the reduction of the outstanding principal of guaranteed loans. Banco Sabadell adhered to the Code of Best Practices on 3 June 2021.

As regards moratoriums in Spain, the legal moratorium consisted of offering a 3-month grace period on mortgages and consumer loans, both in interest and principal payments, to customers who met certain vulnerability criteria. Additionally, the sector 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 sector moratorium. On 3 February 2021, RDL 3/2021 was approved, extending the period for applying for moratoriums until 30 March 2021, the duration of which was for a maximum period of 9 months, including, where applicable, the moratorium period already enjoyed.

Grace periods granted by Banco Sabadell during the year under the legal and sectoral moratorium covered loans amounting to 3,500 million euros. As of 31 December 2021, the total outstanding moratorium amounts to around 3 billion euros. It is worth noting that, of the total loans under moratorium, 75% are mortgages. In addition, about 12% of the total moratorium granted is in stage 3.

With the ICO lines of guarantees ascending to 140 billion euros, the ICO grants a state guarantee of between 60% and 80% of the loans, depending on whether the customer is self-employed, an SME or a large company. Banco Sabadell has granted, until 31 December 2021, 13.7 billion euros in this type of loans (benefiting from 10.5 billion euros in guarantees), of which 8.6 billion euros have been drawn down with an average guarantee of more than 75%.

United Kingdom

In the UK too, a number of measures have been implemented by the government and the regulator with the objectives of helping the economy and protecting customers of institutions that have been affected by COVID-19. In addition to the sectoral measures, TSB has taken a number of actions designed to protect customers affected by COVID-19.

On the part of the UK regulator, the Financial Conduct Authority (FCA), the measures taken are: (i) a statutory mortgage and consumer moratorium, (ii) exemption from interest payments on overdrafts, (iii) a government guarantee scheme for loans to businesses that have been disrupted by COVID-19 and have a turnover of up to £45 million (CBILS), (iv) a government guarantee scheme for loans from larger businesses that have also been disrupted by COVID-19 (CLBILS) and (v) an accelerated funding plan for all businesses (Bounce Back Loan scheme, BBLS), which is not cumulative with other schemes.

In relation to the statutory mortgage moratorium announced by the UK Government in March 2020 with a duration of 3 months for any customer who has experienced financial difficulties due to COVID-19, the FCA published its supervisory expectations specifying that the moratorium exempts customers from principal and interest payments. At the end of the moratorium period, entities and customers should agree how they intend to repay the remaining instalments, generally by increasing the remaining monthly instalments or by extending the term of the loan. On 2 June 2020, the period for applying for this moratorium was extended to 31 October 2020. Subsequently, in November 2020 the FCA announced a further extension of the application period until 31 March 2021.

In this regard, as of 31 December 2021, all of the £4,442 million of moratoriums granted in TSB have matured, both on mortgages and credit products (personal loans and credit cards).

As regards the overdraft interest exemption, the FCA has published guidance specifying that customers with overdrafts of up to £500 for a term of up to 3 months are exempt from interest and commissions. This measure was initially applicable to all customers until 9 July 2020. In addition, the deadline for this aid was extended until 31 October 2020 for those customers who applied for it. Finally, the guidance has been updated in September 2020 so that banks will continue to provide support to those customers who are in distress after 31 October 2021.

The Coronavirus Business Interruption Loans Scheme (CBILS) with turnover per annum of less than £45 million allows institutions to borrow up to £5 million in the form of loans, overdrafts, invoice finance and asset finance with a maximum term of 6 years. In this scheme the government provides an 80% guarantee for each loan and covers the first 12 months of interest payments.

The Bounce Back Loan Scheme (BBLS) is not cumulative with other schemes and is independent of turnover per annum. This scheme allows you to borrow up to 25% of your turnover up to a limit of £50,000. The government provides a 100 % guarantee and pays the interest for the first 12 months. The company starts repaying the loan after one year and the interest rate is 2,5%, determined by the government. In addition, no refunds will be made during the first 12 months.

The Winter Economy Plan, announced on 24 September 2020, introduces a number of changes to these guaranteed schemes, most notably the Pay As You Grow option, which allows for payment deferral from 6 to 10 years, interest-only payments for up to 6 months and full payment suspension for up to 6 months (this option can be used once during the life of the loan and only after 6 payments have been made). In addition, in February 2021, the UK Government announced a plan introducing greater flexibility for Pay As You Grow, which now allows the third option to be taken up directly in the first instalment, without the need to make the first 6 payments.

The launch of the Recovery Loan Scheme was announced at the Budget presentation on 3 March 2021, which replaces the BBL and CBIL schemes. This allows, from 6 April 2021, companies of any size to borrow between £25,000 and £10 million with an 80% guarantee until the end of the year.

TSB has granted, until 31 December 2021, a total of £546 million from both the accelerated funding plan for all businesses (BBLS) and the business loan guarantee scheme (CBILS).

In addition, TSB supports retail and business customers through the regulatory support measures mentioned above by offering interest-free or interest-refundable overdrafts, as well as through a number of customer service improvements. As an example, TSB employees have contacted the most vulnerable customers to offer assistance and ATM cards have been issued to customers who previously only used a savings book to enable them to better access cash without having to visit a branch. In addition, innovative ways have been put in place for TSB's telephony employees to work remotely to allow them to make large volumes of calls to avoid transactional fraud and bank operational phone calls. Finally, in partnership with IBM, TSB has developed the Smart Agent, has enhanced the website by providing customer support with a range of services without the customer having to phone or visit a branch.

2 – ECONOMIC, BUSINESS AND REGULATORY ENVIRONMENT

Economic and financial background

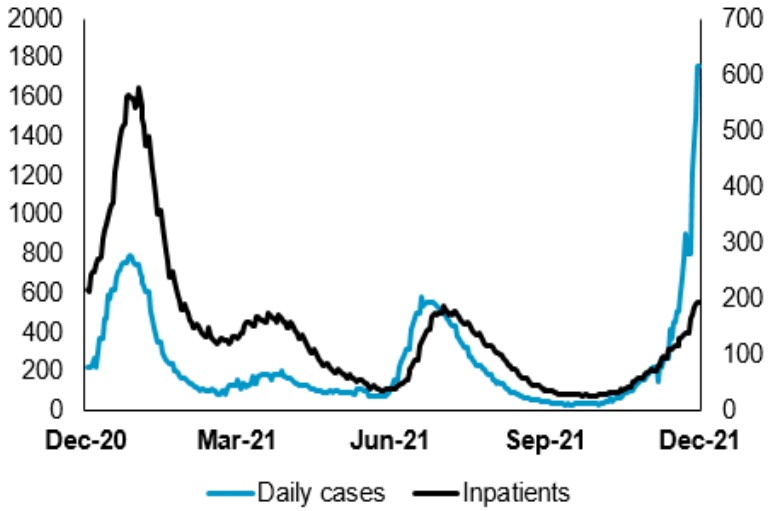
The year 2021 has continued to be marked by the COVID-19 pandemic, from the expansion of the alpha variant at the beginning of the year to the omicron in the final part of the year. In any case, COVID-19 has been losing its central role as a determinant of economic activity and financial markets. In terms of activity, developments have been generally favourable thanks to the process of economic reopening, albeit uneven at the global level. For its part, the pick-up in inflation has been one of the most notable surprises of the year and one of the most important market factors. The high levels of inflation eventually led to a shift in monetary policy, first in many emerging countries and later in developed countries. Overall, 2021 has been a positive year for financial markets.

Evolution of COVID-19

The pandemic has remained present throughout 2021. Countries faced successive waves of infections and the emergence of new variants of the virus, adding to uncertainty about the future evolution of the pandemic. Progress in the vaccination process, which gained momentum from the first quarter onwards, did not eradicate the pandemic, but it did have positive effects in reducing the rate of hospitalisations and deaths, making the consequences of the pandemic more manageable. Thus, the containment measures imposed were more limited as new waves occurred, although some measures aimed at the unvaccinated population were more restrictive in the last months of the year, with the aim of increasing the percentage of the population vaccinated.

The effectiveness of vaccines made them the main tool for controlling the pandemic, although their distribution around the world has been very uneven. While third booster doses were already being distributed in developed economies by the end of the year, in many emerging countries satisfactory percentages of the population had not been reached with the initial two-dose vaccination schedule. This left these countries vulnerable, and they were the origin of variants of the virus that later spread globally, such as Delta (India) or Omicron (South Africa). This last variant was the cause of a new wave of global infections in the final stretch of 2021, which brought the number of new daily cases detected to the highest levels of the entire pandemic, although the pressure on the health system remained more contained at the end of the year than in previous waves.

Evolution of daily COVID-19 cases and hospitalised patients in Spain. Source: Our World in Data.



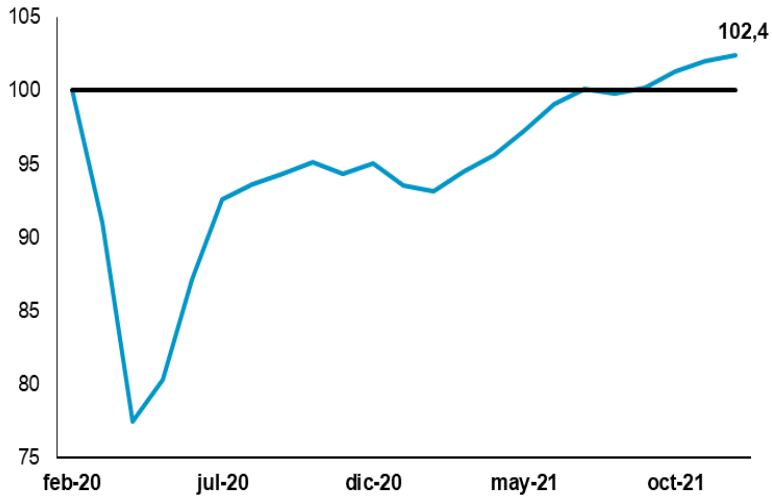
Economic activity and inflation

Global economic developments have been generally favourable in 2021, with developed countries standing out on the positive side. This has been due to the positive effects of the increased control of the pandemic, the reopening of economies and the high fiscal stimulus introduced. The latest contagion waves had a limited impact on demand. In contrast, zero COVID-19 policies in Asia – mainly in China – partially paralysed production and transport processes, affecting international production chains.

In the Eurozone, GDP will have grown by around 5.0% in 2021, around pre-COVID levels. In addition to the vaccination campaign, activity has been supported by favourable financing conditions and the expansionary fiscal policy stance, which has been helped by the implementation of the Next Generation EU (NGEU) programme. For their part, problems in global production chains and waves of contagion limited economic growth. In the political sphere, the arrival in power in Italy of M. Draghi, former president of the European Central Bank (ECB), and the formation in Germany of a new coalition government made up of the SPD, the Greens and the Liberals, with a more constructive approach to European integration than the previous government, stood out. In the United Kingdom, the economy also showed strong growth for the year as a whole, with the labour market and the real estate sector performing particularly well. Brexit accentuated the disruptions to supply chains caused by the pandemic. Following the trade agreement reached at the end of 2020 between the UK and the European Union (EU), tensions over the part affecting the Northern Ireland protocol required some relaxation of the terms of the agreement. The issues surrounding this protocol have not been resolved. In the United States, the extraordinary support from fiscal and monetary policy allowed the economy to experience a robust recovery and activity to return to the pre-COVID level in the second quarter. On the fiscal front, a new stimulus package was approved in the first quarter, equivalent to almost 9 % of GDP and including, among other things, direct aid to households and small businesses. Subsequently, the focus was put on promoting investment in infrastructure in order to boost potential growth.

In Spain, GDP will have grown by around 5% in 2021, after falling by more than 10% in the previous year. In the early part of the year, the economy showed weakness due to the restrictive measures taken to combat the third wave of COVID. The situation subsequently improved with the advancement of the vaccination process and the progressive opening of the economy. In the latter part of the year, rising energy prices, bottlenecks in global value chains and the spread of the Omicron variant of the coronavirus limited activity growth. With regard to the labour market, employment evolved favourably throughout the year and returned to pre-pandemic levels. In the area of economic policy, measures were approved in March to strengthen the solvency of companies to the tune of 11 billion euros (direct aid, aid for the restructuring of guaranteed financial debt and the creation of an SME recapitalisation fund). In the middle of the year, the European Commission (EC) approved Spain's Recovery Plan associated with the NGEU funds, from which it expects to receive around 70 billion euros in the form of transfers in the coming years. Finally, the new labour reform, which incorporates a new system of permanent Spanish furlough scheme (ERTE) and aims to limit temporary employment, stands out. There was also a reform of the pension system, from which the CPI is again used as the revaluation mechanism and incentives are introduced to delay the retirement age.

Effective affiliation without Spanish furlough scheme (ERTE) to Social Security in Spain. February 2020 = 100. Source: Ministry of Inclusion, Social Security and Migration.

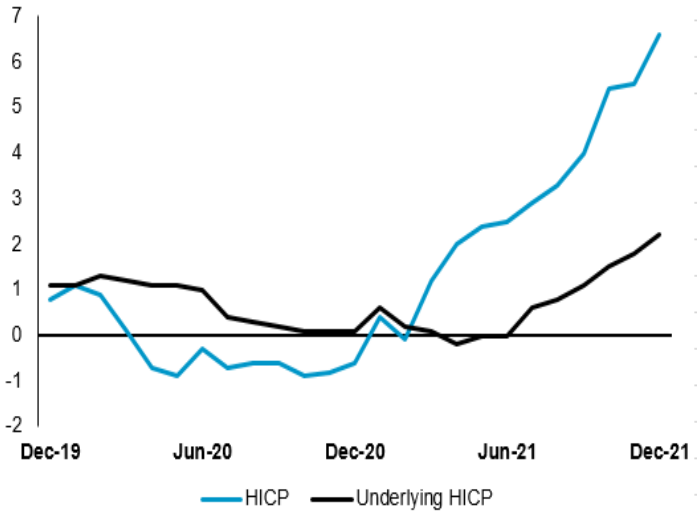


In emerging economies, some countries recovered pre-COVID GDP levels – including some Latin American countries – after China did so as early as the end of 2020. If anything, economic developments in many of these countries have been weak. This is because of poorer health conditions, the impact of the pandemic on the global tourism sector, the reduced capacity to perpetuate economic stimulus in these countries, and the impact in terms of poverty and inequality. Moreover, in the case of China, consumption has remained weak due to zero COVID-19 policies, compounded by the negative impact of the adjustment of the real estate sector and the regulatory tightening promoted by the authorities and aimed at reducing economic and financial imbalances. Faced with the threat that these developments could systemically affect the Chinese economy, and given the significant slowdown in the last part of the year, the authorities adopted a laxer discourse with the aim of "stabilising" the economy by 2022. Finally, Mexico has stood out positively for its low fiscal, financial and socio-political vulnerabilities compared to other Latin American countries, as well as for its high linkages with the United States.

Inflation became increasingly important in 2021. It surprised on the upside and reached very high levels in some cases. The price increase was the result of several forces. First, the rapid recovery in demand, channelled to a greater extent towards the purchase of goods, met with a relatively inelastic supply and difficulties to adjust, leading to the emergence of bottlenecks in some sectors (e.g., shipping and semiconductors). On the other hand, supply disruptions caused by production shutdowns in Asia, labour shortages in some areas (e.g., logistics and primary sector) and certain weather events led to supply problems and contributed to price increase. Finally, the contribution of commodities to inflation is noteworthy, having experienced the largest increase in commodity prices in 40 years. In the second part of the year, Europe experienced an energy shock due to high energy demand and geopolitical issues. As a result, the price of natural gas in Europe reached historically unprecedented levels. Meanwhile, oil stood out with a 50% increase per annum, the strongest gain since 2016, while industrial metals had their best performance since the financial crisis. Agricultural commodities also recorded decade-high gains, boosting global food prices.

In the Eurozone, inflation rose almost constantly throughout 2021 and the Harmonised Index of Consumer Prices (HICP) stood at 5.0% in December, the highest rate since the beginning of the series in 1997. Most of the increase was explained by the energy component, as a result of the sharp rise in the price of natural gas. The reversal of the VAT cut in Germany was also a contributing factor in keeping inflation at elevated levels. The underlying component also increased, albeit to a lesser extent. In Spain, the increase in inflation was also strongly determined by energy and, in particular, by the increase in electricity prices. Electricity accounted for about 40% of the increase in the HICP in 2021 and drove it to the highest rates since 1992 (Dec-21: 6.6% year-on-year). In the United States, inflation in December was at a 40-year high. Inflationary pressures have been very broadly based by item, with some of the most persistent effects such as rents standing out. In addition, significant wage pressures have started to emerge as a result of labour shortages.

HICP for Spain (year-on-year change in %). Source: Spanish National Statistics Institute.



Monetary policy

The major central banks have maintained an accommodative monetary policy, although they have started to move forward with their exit strategy from the stimulus measures implemented during the pandemic, especially in the second half of the year in the high inflation environment.

In the Eurozone, the ECB reduced the pace of asset purchases through the PEPP (a programme implemented during the pandemic) and confirmed that it will end in March 2022. Following the end of the PEPP, the ECB will temporarily increase traditional QE. The Bank also signalled that the special conditions applied to TLTRO III (minimum rate of -1.00%) will not be extended beyond June 2022. With regard to inflation, the central bank has maintained that its rise is temporary, although the growing concern was seen among its members. The ECB has thus insisted that it is unlikely to raise interest rates in 2022. Finally, the central bank presented its new monetary policy strategy. The ECB adopted a medium-term inflation target of 2% and acknowledged that it may temporarily allow for moderately higher inflation. It set a symmetrical target, which means that the ECB considers “negative and positive deviations of inflation from 2% to be equally undesirable”. The central bank also indicated that financial stability is a precondition for price stability.

In the United States, the Federal Reserve (Fed), having met its inflation target and given the robust recovery of the labour market, started tapering its asset purchases in November. Moreover, it announced an acceleration of the rate hike at its last meeting of the year and went on to forecast three rate hikes in 2022 and a total of eight by the end of 2024. All this in a context in which the Fed stopped describing inflation as a "transitory" phenomenon.

In the United Kingdom, the Bank of England (BoE) raised its benchmark interest rate in December by 15 basis points to 0.25%, in response to a significant increase in inflation and a tightening labour market. In addition, the BoE completed the implementation of its asset purchase programme in December. Finally, it announced that it will stop reinvesting the maturities of its asset programme when the policy rate reaches 0.50% and that it will start active sales when the policy rate reaches 1.00%.

In emerging countries, rate increases were aggressive and widespread, at rates of more than 100 basis points in some countries. This was a response to the increase in inflation and fears of a de-anchoring of inflation expectations. In the case of Mexico, the central bank raised the official rate by 150 basis points in total, accelerating the pace of hikes in the final part of the year to 5.50%. In some countries (e.g., Chile, Brazil), official rates ended the year clearly above pre-COVID levels. The main exceptions to this policy were China, where the authorities adopted a laxer tone in the face of the economic downturn, and Turkey, where the central bank cut the policy rate, ignoring rising inflation.

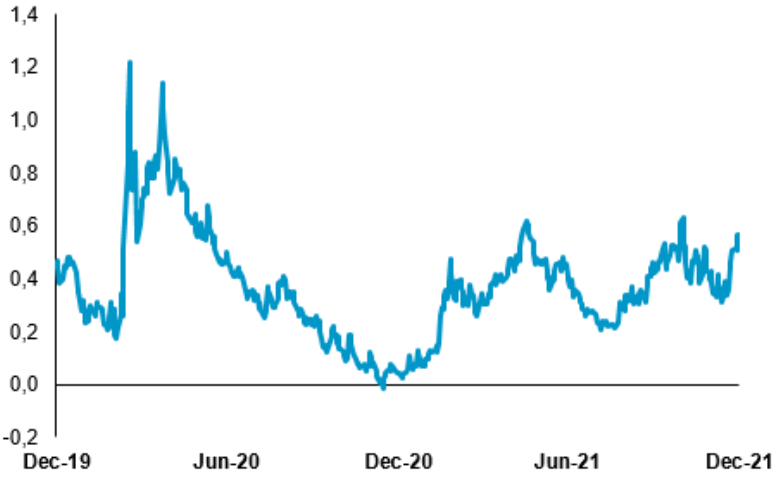
Financial markets

Global financial markets have continued to be supported by the economic measures implemented by the various authorities following the outbreak of the COVID-19 crisis, the implementation of the vaccination process and the economic recovery. Against this backdrop of lax financial conditions and increased pandemic control, risk assets generally performed well, and corporate spreads closed the year at levels close to or below those prior to the outbreak of the COVID-19 crisis. On the negative side, some Asian markets stood out in the face of increased regulatory scrutiny of some sectors by the Chinese authorities and problems in the Chinese real estate sector. Moreover, some vulnerabilities of capital markets were highlighted, such as reduced liquidity and depth in some markets at times of heightened uncertainty or excessive risk-taking, as evidenced, for example, by a high use of derivatives by retail investors.

Long-term government bonds in major developed countries experienced significant increases in 2021 (78 basis points in the UK, 60 basis points in the US and 39 basis points in Germany) on the back of the vaccination process, a higher inflation environment, central banks' pivoting and market recalibration of expectations of official interest rate hikes. Uncertainty caused by variants of the delta and omicron viruses and problems in China's real estate sector put a brake on the upward movement in profitability. Interest rates ended the year at levels still low by historical standards (1.51% in the US, -0.18% in Germany and 0.97% in the UK).

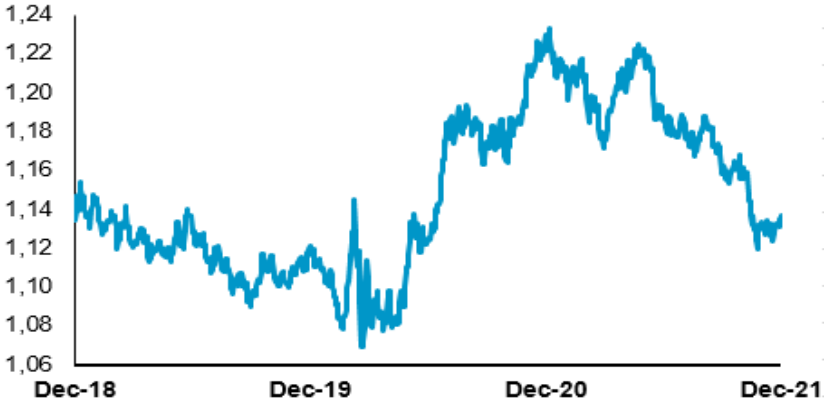
Periphery sovereign risk premiums ended 2021 at somewhat higher levels than the previous year, as the market recalibrated on future rate hikes by the ECB and the confirmation that the PEPP will end in March 2022. In any case, they remained at contained levels, supported by the ECB's asset purchases, the launch of the NGEU, the arrival of Mr Draghi in the Italian government and the upgrades to Italy's debt rating.

Spanish 10-year government bonds. In %. Source: Bloomberg.



With regard to the currencies of developed countries, the dollar was particularly strong, appreciating by almost 7% against the euro. This occurred against a backdrop of uneven and mismatched economic recovery due to vaccine shortages and the reduced capacity of emerging countries to procure vaccines. In addition, the new COVID-19 variants continued to raise fears in the markets about the impact they could have on the economic recovery. Finally, and especially from the summer onwards, the dollar was supported by the Fed's less accommodative tone and the prospect of greater divergence of its monetary policy compared to that of the ECB. The GBP, in its cross against the euro, appreciated by almost 6%. The rapid progress of the British vaccination programme, as well as the attitude and actions of the BoE, contributed to this. Tensions over Brexit and the Northern Ireland protocol possibly prevented further appreciation.

USD/EUR. Source: Bloomberg.



Equity markets in developed countries performed positively, supported by accommodative central banks and the economic recovery. Most European and US stock market indices ended the year with gains of between 15% and 30%, in many cases reaching new all-time highs. Despite widespread gains in the main indices, sectoral differentiation continued to exist, with those most affected by the pandemic performing even worse in relative terms. The IBEX 35 lagged behind, rising only 8% and still trading at levels below pre-pandemic levels.

In financial markets of emerging countries, sovereign risk premia moved upwards, especially in the last part of the year, in a context in which the relative position of these economies was evidenced by their weaker relative position: (i) the reduced control of the pandemic; (ii) aggressive interest rate hikes, which may threaten the incipient economic recovery; (iii) economic and financial weaknesses in China; and (iv) fiscal and/or financial vulnerabilities in emerging countries such as Brazil or Turkey. In addition, profitability on domestic debt rebounded and, with the exception of the yuan, currencies tended to depreciate, most notably the Turkish lira, which lost more than 40% of its value against the dollar.

Banking sector environment

Banking sector

The global banking sector has proved resilient to the COVID-19 crisis. Banks have remained well capitalised after the pandemic in aggregate terms. In major developed economies, the CET1 capital ratio would, according to the authorities, remain above the regulatory minimums, even in an adverse scenario. The favourable solvency situation and the reduced uncertainty regarding COVID-19 have led the Fed, the ECB and the BoE to allow banks to pay dividends and buy back shares again, after not being allowed to do so after the outbreak of the pandemic. The profitability of the banking sector has recovered to pre-pandemic levels, although it has remained at structurally low levels. In terms of liquidity, the TLTRO III have provided important support and have contributed to supporting lending to the real economy.

In this crisis, NPLs have not behaved as usual in a recessionary cycle, thanks, among other things, to the swift and decisive response of economic policy. The aggregate NPA ratio in the Eurozone declined in the first half of the year to 2.4% and the inflow of loans on special surveillance (stage 2) has been moderate during the year. Despite the resilience of asset quality, the sectors most affected by the pandemic, such as accommodation and catering and leisure, have seen the most significant deterioration. On the other hand, the pace of provisioning has moderated after the effort made in 2020, although the authorities have continued to advise caution. In any case, the release of provisions has been heterogeneous across countries and institutions, with Spanish, Italian and French banks being the most cautious. The impact in terms of non-performing loans with moratoriums or public guarantees has been limited.

Regarding the Spanish banking sector, the Bank of Spain (BdE) has pointed out that the pandemic has confirmed the need to address the sector's structural challenges: (i) the generation of profitable turnover in a low interest rate environment; (ii) increasing competition from technology companies; (iii) increasing cyber risks; and (iv) potential negative effects associated with climate risks.

Financial stability and macro-prudential policy

Over the course of 2021, financial authorities have stated that global financial stability risks have been diminishing thanks to the economic recovery. In any case, they argue that these risks remain elevated and centred on the incomplete recovery of some sectors, the persistence of global bottlenecks, an increase in inflation, high public and private debt levels, tight asset valuations and increased risk-taking by the non-bank financial sector.

The COVID-19 crisis has shown that the significant growth of the non-bank financial sector in recent years and the absence of regulation have led to a build-up of vulnerabilities in this sector. These structural vulnerabilities and the interconnections between the non-bank financial sector and the banking sector pose a risk to financial stability. This has led the main global and European regulatory authorities to focus during 2021 on developing the regulatory and macroprudential framework for the non-bank financial sector, focusing on liquidity, maturity, leverage and risk management duration.

In Europe, the authorities have begun to voice their concern about the dynamism of the real estate market in some countries. In the residential segment, this concern has been focused on countries with pre-pandemic vulnerabilities in that sector (e.g., Germany), and in the commercial segment the focus has been on the lack of recovery of lower quality assets. In this context, the ECB has recommended that national authorities adopt macro-prudential policies in the real estate sector. The Bank of England, meanwhile, has indicated that it will evaluate the possible withdrawal of one of the restrictive measures on mortgage loans in place since 2014.

COVID-19 has been a challenge for macro-prudential policy, which has also complemented fiscal and monetary policies. Once the outlook for economic recovery has turned favourable, several European macroprudential authorities have signalled their intention to start rebuilding the released capital buffers. The Bank of England has confirmed that it will increase the counter-cyclical capital buffer (CCyB) from 0% to 1% by the end of 2022, to provide room for manoeuvre in case downside risks crystallise and the economy needs support from the financial sector. In France, the financial stability authority has indicated that normalisation of the CCyB could start soon, while in Spain it has remained at 0%, because the BdE considers that cyclical systemic vulnerabilities are not increasing.

Still in Spain, the BdE has developed three new macroprudential tools for credit institutions aimed at mitigating systemic risk, which can be activated as of 2022: (i) sectoral component of the counter-cyclical capital buffer; (ii) sectoral concentration limits; and (iii) lending limits and conditions.

Banking Union and Capital Markets Union

Progress in terms of European integration has been limited in 2021, in a context of an election year in Germany. However, the new German government has been more open to moving forward with the completion of the Banking Union and the Capital Markets Union (CMU).

Access to European primary capital markets continued to expand in the first half of 2021, although the securitisation market has shrunk over the past three years. In parallel, the EC has adopted a legislative package including measures in the context of the CMU action plan presented in 2020. The main objectives are to improve access to finance for SMEs, expand investment opportunities for retail investors and enhance capital market integration.

Regulatory environment and supervision

In the second year of COVID-19, the authorities have been returning to regulatory and supervisory normality. Highlights include: (i) the start of the process, in October, for the transposition of Basel III into European regulation; (ii) the end of restrictions on the distribution of dividends and share buybacks by banks in the main developed economies; and (iii) the return to stress testing of the banking sector.

The authorities and the industry have been engaged throughout 2021 in ensuring that the transition of benchmark indices, following the cessation of publication of much of Libor and Eonia on 31 December, would not cause disruption in financial markets. In addition, it has been confirmed that the Libor benchmark administrator is to publish in 2022 the 1, 3 and 6-month sterling and Japanese yen Libor with synthetic methodology based on F&O risk-free rates. These six Libor adjustments will only be available for use in some existing (legacy) contracts and not for use in new contracts.

Brexit

On Brexit, limited progress has been made following the signing of the MoU (Memorandum of Understanding) in early 2021. The EU has maintained a position that equivalence in financial regulation will be maintained, while the UK has assumed that there will be no more ambitious deal and has begun to look at the possible review of its regulation, as well as increasing the focus on becoming a green and digital hub.

Challenges for the banking sector

In terms of sustainability, both market and regulatory scrutiny of the banking sector's incorporation of climate risks has continued to increase. At the same time, the development of the sustainable finance regulatory framework has continued, with a focus, for the time being, on disclosure. Thus, the financial sector will have to deal with the implementation of a significant amount of new regulation related to sustainable finance in the coming years. The adoption of the taxonomy of environmentally sustainable activities was an important milestone for the EU in 2021, as will be the completion of the ECB's climate stress test in 2022. With regard to Spain, the approval of the Climate Change and Energy Transition Law has reinforced the country's decarbonisation strategy and increased climate information requirements for the financial sector.

The pandemic has accelerated the processes of digitalisation, giving rise to several focus points. On the one hand, the entry of Bigtech into financial services is leading the banking sector to insist on regulation according to the principle of "same activity, same risk, same regulation". For their part, there is a widespread view that crypto-asset technologies have great disruptive potential and that, although they do not pose a systemic risk for the time being, their rapid growth means that efforts to regulate them need to be accelerated. Finally, authorities and the financial industry have warned that cyber-attacks have increased in both frequency and sophistication as a consequence of increasing digitalisation.

Outlook for 2022

Favourable global economic developments are to be expected in 2022 in a context where COVID-19 should continue to lose its centrality as a determining factor for economic activity and financial markets.

Inflation could remain elevated in the coming months, influenced by aspects such as the remaining disruptions in global production chains and energy prices. Greater control of the pandemic should alleviate some of the inflationary pressures.

In policy terms, central banks can be expected to move forward with their exit strategy. The Fed is expected to implement several rates hikes this year, while the ECB may wait a little longer.

Regarding financial markets, relatively loose financial conditions are expected to prevail. In any case, there may be occasional bouts of volatility in the face of upside risks to inflation and central banks' pivoting.

In Spain, the economy is also expected to perform well on the back of the progressive control of the pandemic, the use of European NGEU funds and a still low interest rate environment.

Within the financial environment, progress is expected on the global regulatory framework for crypto-asset-related activities.

3 – FINANCIAL INFORMATION

3.1 Key figures in 2021

The Group's main figures, including include key financial and non-financial indicators, are presented below:

		2021	2020	Year-on-year change (%)
Income statement (million euro)	**(A)**			
Net interest income		3,425	3,399	0.8
Gross income		5,026	5,302	(5.2)
Pre-provisions income		1,719	1,841	(6.6)
Profit attributable to the Group		530	2	–
Balance sheet (million euro)	**(B)**			
Total assets		251,947	235,763	6.9
Gross performing loans to customers		154,912	146,878	5.5
Gross loans to customers		160,668	152,265	5.5
On-balance sheet customer funds		162,020	150,778	7.5
Mutual funds		24,593	21,366	15.1
Pension funds and insurance brokerage		13,289	13,401	(0.8)
Funds under management and third-party funds		224,968	209,748	7.3
Off-balance sheet customer funds		41,678	38,064	9.5
Total customer funds		203,698	188,843	7.9
Equity		12,996	12,492	4.0
Shareholders' equity		13,357	12,944	3.2
Ratios (%)	**(C)**			
ROA		0.22	0.00	
RORWA		0.66	0.00	
ROE		4.05	0.02	
ROTE		5.05	0.02	
Cost-to-income		55.33	55.41	
Risk management	**(D)**			
Stage 3 exposures (million euro)		6,203	5,808	
Total NPAs exposures (million euro)		7,565	7,182	
NPL ratio (%)		3.65	3.60	
NPL coverage ratio of stage 3 with total provisions (%)		56.3	56.5	
NPA coverage ratio (%)		53.1	52.6	
Capital management	**(E)**			
Risk-weighted assets (RWA) (million euro)		80,646	78,858	
Common Equity Tier 1 (phase-in) (%)	(1)	12.50	12.57	
Tier 1 (phase-in) (%)	(2)	15.47	14.03	
Total capital ratio (phase-in) (%)	(3)	17.98	16.14	
Leverage ratio (phase-in) (%)		5.90	5.25	
Liquidity management	**(F)**			
Loan-to-deposit ratio (%)		96.3	97.6	
Shareholders and shares (as of reporting date)	**(G)**			
Number of shareholders		228,432	244,225	
Average number of shares (million)		5,586	5,582	
Share price (euro)		0.592	0.354	
Market capitalisation (million euro)		3,306	1,976	
Earnings (or loss) per share (EPS) (euros)		0.08	(0.01)	
Book value per share (euro)		2.39	2.32	
Price/Book value		0.25	0.15	
Price/earnings ratio (P/E)		7.69	(27.75)	
Other information				
Branches		1,593	2,083	
Employees		20,070	23,458	

(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 solvency 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).

3.2 Profit/(loss) for the year

Million euro

	2021	2020	Year-on-year change (%)
Interest income	4,148	4,324	(4.1)
Interest expenses	(722)	(925)	(21.9)
Net interest income	**3,425**	**3,399**	**0.8**
Fees and commissions (net)	1,468	1,350	8.7
Core revenues	**4,893**	**4,749**	**3.0**
Net trading income and exchange differences	344	800	(57.0)
Equity-accounted income and dividends	102	37	174.9
Other operating income and expenses	(313)	(284)	10.1
Gross income	**5,026**	**5,302**	**(5.2)**
Operating expenses	(2,781)	(2,938)	(5.4)
Staff expenses	(1,777)	(1,885)	(5.7)
Other general administrative expenses	(1,004)	(1,054)	(4.7)
Depreciation and amortisation	(527)	(523)	0.6
Total costs	(3,307)	(3,461)	(4.4)
Memorandum item:			
Recurrent costs	(2,988)	(3,058)	(2.3)
Non-recurrent costs	(320)	(403)	(20.7)
Pre-provisions income	**1,719**	**1,841**	**(6.6)**
Provisions for loan losses	(950)	(1,832)	(48.1)
Provisions for other financial assets	(97)	(188)	(48.7)
Other provisions and impairments	(178)	(254)	(30.1)
Gains on sale of assets and other results	126	313	(59.7)
Profit/(loss) before tax	**620**	**(121)**	**–**
Corporation tax	(81)	124	–
Profit or loss attributed to minority interests	8	1	–
Profit attributable to the Group	**530**	**2**	**–**
Memorandum item:			
Average total assets	245,313	227,639	7.8
Earnings per share (euros)	0.08	(0.01)	

The average exchange rate used for TSB's income statement is 0.8594 (0.8888 in 2020).

Net interest income

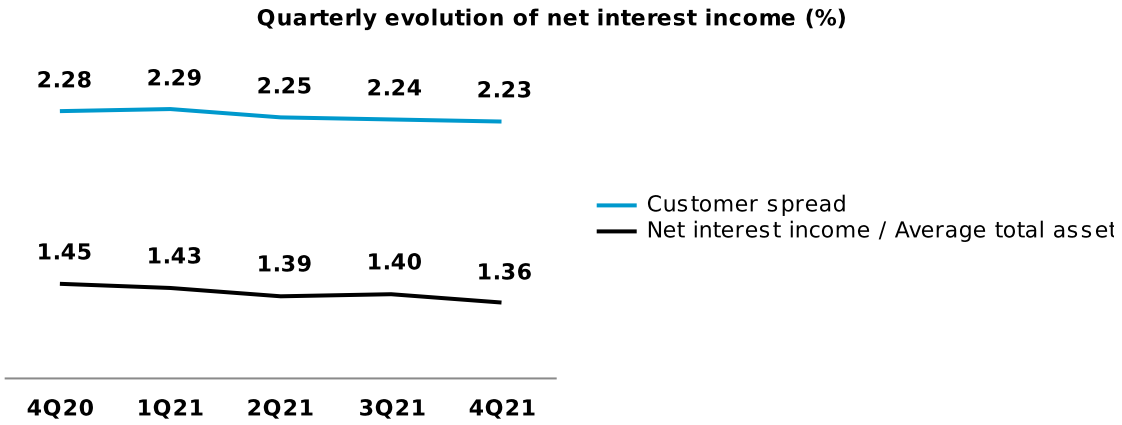
Net interest income in 2021 totalled 3,425 million euros, up 0.8% year-on-year, supported mainly by the growth in volumes, notably the increase in TSB's mortgage portfolio, higher revenues from TLTRO III, higher remuneration charged on corporate deposits, as well as the lower cost of capital markets, which neutralised the lower contribution from the ALCO portfolio following the sales in the previous year and the lower yields.

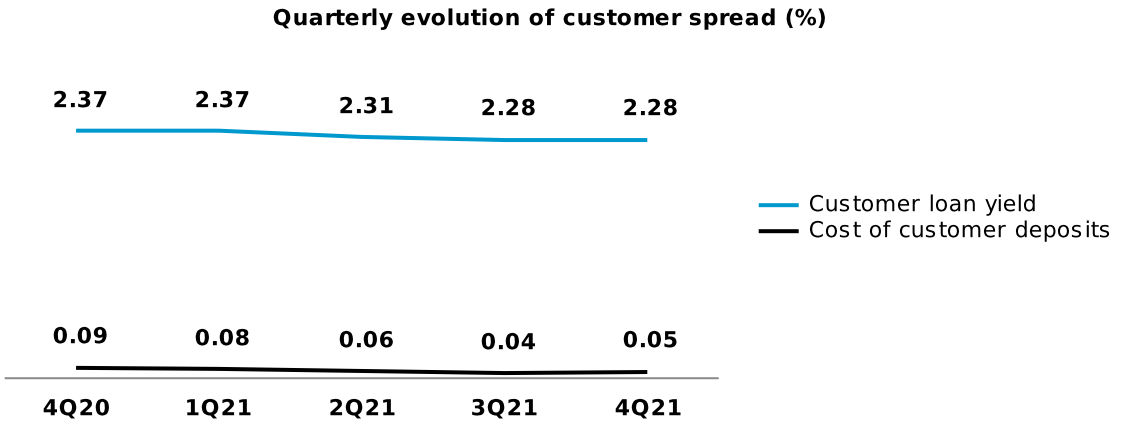
As a result, the return on average total assets was 1.40% in 2021 (1.49% in 2020).

Thousand euro

	2021			2020			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	48,693,390	(124,460)	(0.26)	32,280,072	(3,770)	(0.01)	16,413,318	(120,690)	(90,715)	(29,954)	(21)
Loans and advances to customers	152,176,194	3,513,182	2.31	144,206,662	3,627,861	2.52	7,969,532	(114,679)	(303,945)	195,793	(6,527)
Fixed-income portfolio	24,991,737	154,224	0.62	27,820,630	257,321	0.92	(2,828,893)	(103,097)	(86,973)	(15,360)	(764)
Subtotal	**225,861,321**	**3,542,946**	**1.57**	**204,307,364**	**3,881,412**	**1.90**	**21,553,957**	**(338,466)**	**(481,633)**	**150,479**	**(7,312)**
Equity portfolio	1,044,020	—	—	1,009,488	—	—	34,532	—	—	—	—
Property, plant and equipment and intangible assets	5,178,470	—	—	5,406,276	—	—	(227,806)	—	—	—	—
Other assets	13,229,640	39,565	0.30	16,915,746	159,052	0.94	(3,686,106)	(119,487)	—	(119,487)	—
Total capital employed	**245,313,451**	**3,582,511**	**1.46**	**227,638,874**	**4,040,464**	**1.77**	**17,674,577**	**(457,953)**	**(481,633)**	**30,992**	**(7,312)**
Central banks and credit institutions	38,104,600	280,623	0.74	28,776,209	116,074	0.40	9,328,391	164,549	88,413	76,335	(199)
Customer deposits	162,748,792	(87,596)	(0.05)	152,494,537	(223,310)	(0.15)	10,254,255	135,714	150,135	(14,976)	555
Capital markets	22,776,801	(265,876)	(1.17)	23,928,673	(310,324)	(1.30)	(1,151,872)	44,448	35,742	7,843	863
Subtotal	**223,630,193**	**(72,849)**	**(0.03)**	**205,199,419**	**(417,560)**	**(0.20)**	**18,430,774**	**344,711**	**274,290**	**69,202**	**1,219**
Other liabilities	8,953,529	(84,206)	(0.94)	9,621,529	(223,788)	(2.33)	(668,000)	139,582	—	139,582	—
Own funds	12,729,729	—	—	12,817,926	—	—	(88,197)	—	—	—	—
Total funds	**245,313,451**	**(157,055)**	**(0.06)**	**227,638,874**	**(641,348)**	**(0.28)**	**17,674,577**	**484,293**	**274,290**	**208,784**	**1,219**
Average total assets	**245,313,451**	**3,425,456**	**1.40**	**227,638,874**	**3,399,116**	**1.49**	**17,674,577**	**26,340**	**(207,343)**	**239,776**	**(6,093)**

Financial revenues or costs deriving from the application of negative interest rates are recognised as a function of the nature of the related asset or liability. The credit institutions line under liabilities refers to negative interest on the balance of liabilities with credit institutions, the most significant item being TLTRO II and TLTRO III revenues.





Gross income

Dividends received and results of companies accounted for using the equity method totalled 102 million euros, compared to 37 million euros in 2020, after recording higher results from renewable energy-related investees, which explains the variation with the previous year.

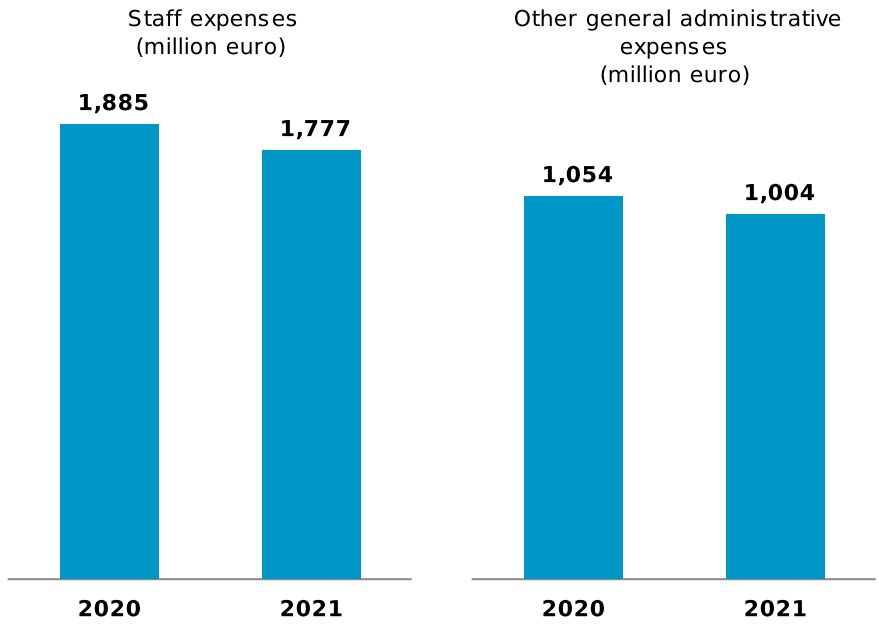
Net fees and commissions reached a figure of 1,468 million euros, representing an 8.7% growth year-on-year, mainly due to the good performance of commissions from services as well as asset management.

Gains on financial operations and exchange differences amounted to 344 million euros and mainly included 324 million euros of capital gains generated in September from the sale of the ALCO portfolio classified in the portfolio at amortised cost to finance the second phase of the efficiency plan in Spain. The year-end 2020 amounted to 800 million euros, as it also included sales of the portfolio at amortised cost to finance efficiency plans and part of the sales of NPAs portfolios in the previous year.

Other operating income and expenses amounted to 313 million euros, compared with 284 million euros in 2020. Of particular note under this heading are the contributions to the Deposit Guarantee Fund of 129 million euros (123 million euros in the previous year), the contribution to the Single Resolution Fund of 88 million euros (78 million euros in the previous year) and the payment of the tax on deposits at credit institutions (IDEC) of 33 million euros (32 million euros in the previous year).

Pre-provisions income

Total costs in 2021 amounted to 3,307 million euros, including 301 million euros of non-recurring costs arising from the second phase of the efficiency plan implemented in Spain in the third quarter of 2021 and 19 million euros from the closure of TSB's branches. Recurring costs represent a reduction of 2.3%, compared with the previous year, due to the improvement in personnel expenses, reflecting the savings from the first phase of the efficiency plan in Spain, as well as the reduction in TSB's general overheads. Total costs in 2020 totalled 3,461 million euros, of which 403 million euros related to non-recurring items, mainly 314 million euros related to the Spanish cost restructuring plan and 89 million euros of restructuring costs at TSB.



The cost-to-income ratio stood in 2021 to 55.3%, from 55.4% in 2020.

At the end of 2021, core profit (net interest income + net fees and commissions - recurring costs) was 1,905 million euros, 12.6% higher year-on-year as a result of the improvement in net interest income and the good performance of commissions, as well as cost savings.

Provisions and impairments totalled 1,225 million euros, compared with 2,275 million euros in 2020. The improvement in the year is mainly due to the fact that the previous year incorporated provisions from the COVID-19 environment which had a direct impact of around 650 million euros and provisions from the sales of NPA portfolios.

Profit from the sale of assets and other results stand at 126 million euros at 2021, mainly including 83 million euros from the sale of the depository business and 42 million euros from the sale of Bansabadell Renting. The previous year mainly incorporated the valuation gain from the sale of Sabadell Asset Management of 293 million euros.

Profit attributable to the Group

After income tax and the portion of the result corresponding to minority interests, net profit attributable to the Group would be 530 million euros at the end of 2021, a strong year-on-year growth mainly due to the improvement in the core revenues, the reduction in costs and the lower provisions recorded.

3.3 Balance sheet

Million euro

	2021	2020	Year-on-year change (%)
Cash, cash balances at central banks and other demand deposits	49,213	35,185	39.9
Financial assets held for trading	1,972	2,679	(26.4)
Non-trading financial assets mandatorily at fair value through profit or loss	80	114	(30.3)
Financial assets designated at fair value through profit or loss	—	—	–
Financial assets at fair value through other comprehensive income	6,870	6,677	2.9
Financial assets at amortised cost	178,869	174,488	2.5
Debt securities	15,190	18,091	(16.0)
Loans and advances	163,679	156,397	4.7
Investments in joint ventures and associates	639	780	(18.1)
Tangible assets	2,777	3,200	(13.2)
Intangible assets	2,581	2,596	(0.6)
Other assets	8,946	10,044	(10.9)
Total assets	**251,947**	**235,763**	**6.9**
Financial liabilities held for trading	1,380	2,654	(48.0)
Financial liabilities designated at fair value through profit or loss	—	—	–
Financial liabilities measured at amortised cost	235,179	217,391	8.2
Deposits	209,307	193,234	8.3
Central banks	38,250	31,881	20.0
Credit institutions	8,817	10,083	(12.6)
Customers	162,239	151,270	7.3
Debt securities issued	21,051	20,413	3.1
Other financial liabilities	4,822	3,743	28.8
Provisions	886	984	(9.9)
Other liabilities	1,505	2,244	(32.9)
Total liabilities	**238,950**	**223,272**	**7.0**
Shareholders' equity	13,357	12,944	3.2
Accumulated other comprehensive income	(386)	(524)	(26.4)
Non-controlling interests	25	72	(65.1)
Equity	**12,996**	**12,492**	**4.0**
Total equity and total liabilities	**251,947**	**235,763**	**6.9**
Loan commitments provided	28,403	29,295	(3.0)
Financial guarantees provided	2,034	2,036	(0.1)
Other commitments provided	7,385	7,595	(2.8)
Total memorandum accounts	**37,822**	**38,926**	**(2.8)**

The EUR/GBP exchange rate used for the balance sheet is 0.8403 as of 31 December 2021.

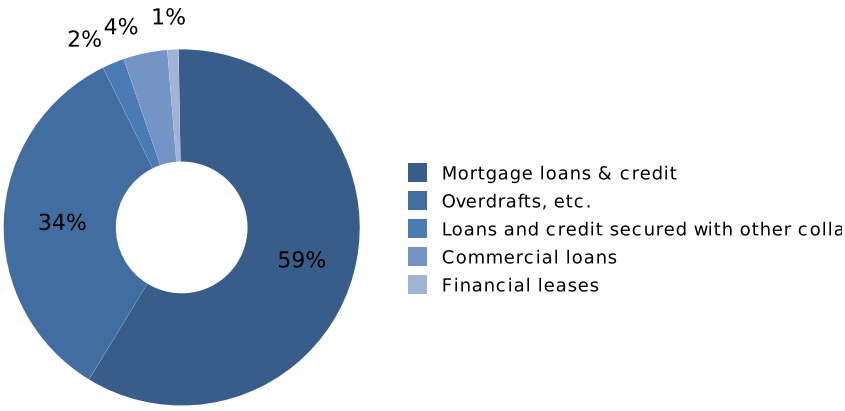
Gross performing loans to customers amounted to 154,912 million euros at 2021 year-end, a 5.5% year-on-year increase. The largest component of gross loans to customers was mortgage loans and credit, which amounted to 90,718 million euros as of 31 December 2021 and accounted for 59% of total gross performing loans to customers.

Million euro

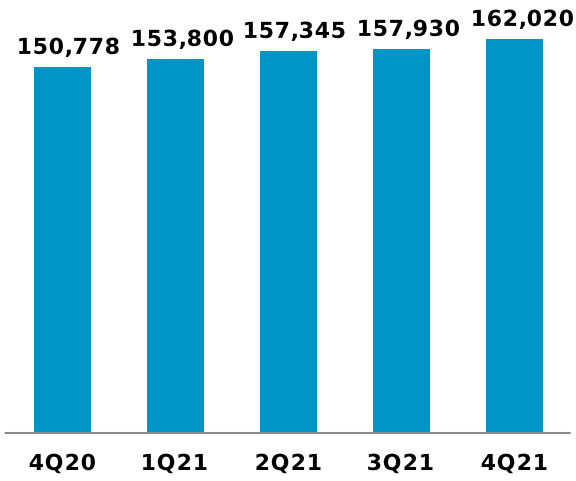
	2021	2020	Year-on-year change (%)
Mortgage loans & credit	90,718	83,573	8.5
Loans and credit secured with other collateral	3,596	3,698	(2.8)
Commercial loans	6,050	4,991	21.2
Financial leases	2,106	2,231	(5.6)
Overdrafts, etc.	52,443	52,386	0.1
Gross performing loans to customers	**154,912**	**146,878**	**5.5**
Assets classified as stage 3 (customers)	5,698	5,320	7.1
Accruals	58	3	–
Gross loans to customers, excluding repos	**160,668**	**152,201**	**5.6**
Repos	—	63	(100.0)
Gross loans to customers	**160,668**	**152,265**	**5.5**
NPL and country-risk provisions	(3,302)	(3,081)	7.2
Loans and advances to customers	**157,366**	**149,183**	**5.5**

The EUR/GBP exchange rate used for the balance sheet is 0.8403 as of 31 December 2021.

The composition of loans and advances to customers by type of product is shown in the following chart (excluding stage 3 assets and accruals):



On-balance sheet customer funds

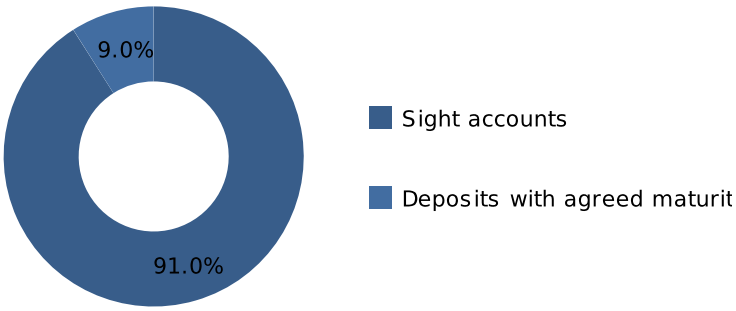


At 2021 year-end, on-balance sheet customer funds amounted to 162,020 million euros, a 7.5% increase on the figure of 150,778 million euros registered at the end of 2020.

The total off-balance sheet customer funds amounted to 41.678 million euros, representing a growth of 9.5% year-on-year due to the increase in mutual funds, mainly supported by the higher volume of inflows. Off-balance sheet customer funds were impacted by the sale of BancSabadell d'Andorra's balances.

The balance of sight deposits amounted to 147,268 million euros, 13.0% higher than the previous year.

The breakdown of customer deposits at 2021 year-end is as follows:



Total funds under management and third-party funds amounted to 224,968 million euros as of 31 December 2021, i.e., 7.3% more than on 31 December 2020 (209,748 million euros), due to the aforementioned increase in off-balance and on-balance sheet customer funds.

Million euro

	2021	2020	Year-on-year change (%)
On-balance sheet customer funds (*)	**162,020**	**150,778**	**7.5**
Customer deposits	162,239	151,270	7.3
Current and savings accounts	147,268	130,295	13.0
Deposits with agreed maturity	14,813	20,805	(28.8)
Repos	60	13	–
Accrual adjustments and hedging derivatives	98	157	(37.8)
Bonds and other marketable securities	16,822	17,510	(3.9)
Subordinated liabilities (**)	4,229	2,903	45.7
On-balance sheet funds	**183,290**	**171,683**	**6.8**
Mutual funds	24,593	21,366	15.1
Managed funds	—	443	(100.0)
Investment companies	1,365	1,295	5.4
UCITS sold but not managed	23,228	19,627	18.3
Asset management	3,795	3,298	15.1
Pension funds	3,525	3,349	5.2
Personal schemes	2,300	2,173	5.8
Workplace schemes	1,219	1,165	4.6
Collective schemes	6	11	(45.0)
Insurance products sold	9,765	10,051	(2.9)
Off-balance sheet customer funds	**41,678**	**38,064**	**9.5**
Funds under management and third-party funds	**224,968**	**209,748**	**7.3**

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: non-convertible bonds issued by Banco Sabadell, commercial paper and others.

(**) Refers to outstanding subordinated debt securities.

The EUR/GBP exchange rate used for the balance sheet is 0.8403 as of 31 December 2021.

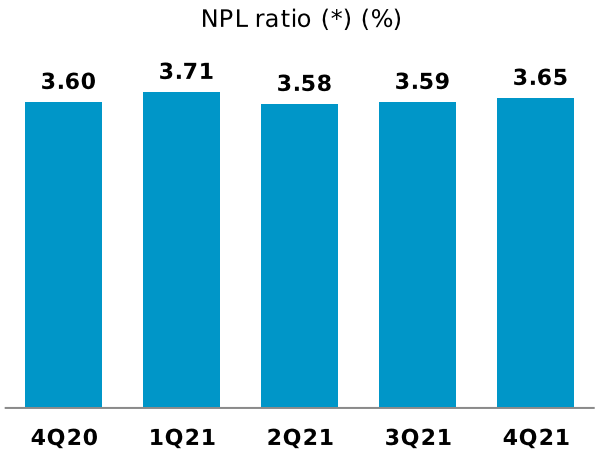
The volume of NPAs increased in 2021. The quarter-on-quarter performance of these assets in 2020 and 2021 is shown below:

Million euro

	2021				2020			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net ordinary increase in balance of stage 3 assets	415	1	139	287	71	361	(27)	(213)
Change in real estate assets	6	(9)	3	(11)	125	150	60	(147)
Ordinary net increase in NPAs + real estate	**420**	**(8)**	**142**	**276**	**196**	**511**	**33**	**(360)**
Write-offs	95	133	129	89	100	114	205	106
Ordinary quarter-on-quarter change in balance of stage 3 assets and real estate	**325**	**(142)**	**13**	**187**	**96**	**397**	**(172)**	**(466)**

Because of the increase in stage 3 exposures, the NPL ratio reached 3.65% at 2021 year-end, up from 3.60% a year earlier (a 5-basis point increase). The NPL coverage ratio of stage 3 with total provisions was 56.3% as of 31 December 2021, compared with 56.5% a year earlier, and non-performing real estate coverage ratio stood at 38.2% at 2021 year-end (from 36.6% a year earlier).

At 31 December 2021, the stage 3 exposures of the Banco Sabadell Group amounted to 6,203 million euros (including contingent risks). They have increased by 395 million euros in 2022, including an increase of around 190 million euros in TSB's mortgage portfolio due to changes in the criteria applied to estimate which financial assets are to be classified as stage 3, with a further increase of approximately 150 million euros in Spain, mainly due to adjustments between the agreement and the refinement of the perimeter of assets included in the sale of portfolios of non-performing assets.



(*) Calculated including contingent exposures.

The trend in the Group's coverage ratios is shown in the next table:

Million euro

	2020				2021			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Exposures classified as stage 3	6,112	6,359	6,127	5,808	6,127	5,995	6,004	6,203
Total provisions	3,228	3,537	3,460	3,279	3,453	3,378	3,477	3,495
NPL coverage ratio of stage 3 with total provisions (%)	**52.8**	**55.6**	**56.5**	**56.5**	**56.4**	**56.4**	**57.9**	**56.3**
Stage 3 provisions	2,359	2,578	2,451	2,272	2,335	2,374	2,513	2,553
NPL coverage ratio of stage 3 (%)	**38.6**	**40.5**	**40.0**	**39.1**	**38.1**	**39.6**	**41.9**	**41.2**
Non-performing real estate assets	1,310	1,460	1,520	1,373	1,379	1,370	1,373	1,362
Provisions for non-performing real estate assets	451	514	541	502	510	511	508	520
Non-performing real estate coverage ratio (%)	**34.4**	**35.2**	**35.6**	**36.6**	**37.0**	**37.3**	**37.0**	**38.2**
Total non-performing assets	7,422	7,820	7,647	7,182	7,507	7,365	7,377	7,565
Provisions for non-performing assets	3,680	4,051	4,001	3,781	3,963	3,889	3,985	4,014
NPA coverage ratio (%)	**49.6**	**51.8**	**52.3**	**52.6**	**52.8**	**52.8**	**54.0**	**53.1**

Includes contingent exposures.

3.4 Liquidity management

During 2021, the commercial GAP shows a positive evolution driven by a higher increase in customer funds than in lending. The volume of funding in capital markets was maintained because of the need to fulfil the regulatory requirements such as 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 at 31 December 2021 was 96.3%.

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 2,556 million euros matured or were repaid early in the year. Banco Sabadell issued mortgage ordinary, non-preferential bonds in capital markets under its Fixed Income Programme for a total of 67 million euros. In addition, under the EMTN Programme, Banco Sabadell made two issues for a total amount of 1,000 million euros. On 15 January 2021, it issued Tier2 subordinated debt for an amount of 500 million euros and a maturity of 10.25 years with an early cancellation option in favour of Banco Sabadell in the fifth year. In addition, on 16 June 2021, it issued an inaugural 7-year green non-preferred senior debt issue with an early redemption option in favour of Banco Sabadell in the sixth year for an amount of 500 million euros.

- As regards securitisation, Banco Sabadell cancelled the mixed TDA 14, FTA fund early, in January, on its clean-up call date. The IM SABADELL PYME 10 fund, TF whose bonds were fully retained by Banco Sabadell, was also cancelled early in February.
- The institution maintained a liquidity buffer in the form of liquid assets to meet any liquidity needs.
- In relation to the LCR ratio, since 1 January 2018 the minimum regulatory requirement is 100%, a level largely exceeded by all the entity's Liquidity Management Units (LMUs), with LMU TSB and Banco Sabadell Spain presenting a level of 194% and 254%, respectively, in December 2021. At Group level, the LCR remained well above 100% on a stable basis at all times and it ended 2021 at 221%. As for the Net Stable Funding Ratio (NSFR), which came into force on 28 June 2021, the entity has also remained stable at levels above the minimum requirement of 100% in all LMUs. At 31 December 2021, the NSFR ratio is 149% for the TSB CGU, 137% for Banco Sabadell Spain and 141% for the Group.

Key figures and basic liquidity ratios at the end of 2021 and 2020 were the following:

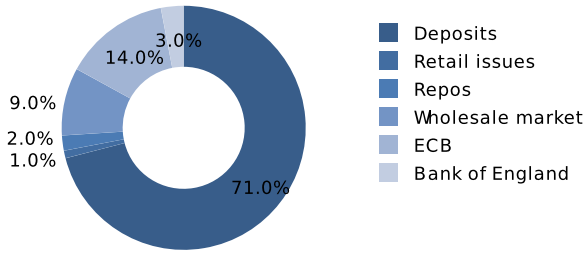
Million euro

	2021	2020
Gross loans to customers, excluding repos	160,668	152,201
Impairment allowances	(3,302)	(3,081)
Brokered loans	(1,290)	(1,977)
Net loans and advances excluding ATAs, adjusted for brokered loans	**156,076**	**147,143**
On-balance sheet customer funds	162,020	150,778
Loan-to-deposit ratio (%)	**96.3**	**97.6**

The EUR/GBP exchange rate used for the balance sheet is 0.8403 as of 31 December 2021 and 0.8990 as of 31 December 2020.

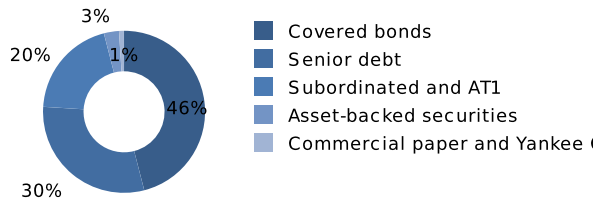
The breakdown of the main sources of funding by instrument and counterparty as of 2021 year-end is as follows (%):

Funding structure (*)



(*) Without adjustments for accruals or hedging.

Institutional emissions detail (*)



(*) Without adjustments for accruals or hedging.

For further details of the Group's liquidity management, liquidity strategy and liquidity performance during the year, see note 3 to the annual accounts for 2021.

3.5 Capital management

Key capital figures and solvency ratios

Thousand euro

	Fully-loaded		*Phase-in*	
	31/12/2021	**31/12/2020**	**31/12/2021**	**31/12/2020**
Common Equity Tier 1 (CET1) capital	9,859,600	9,486,723	10,079,533	9,911,107
Tier 1 (T1) capital	12,259,600	10,640,262	12,479,533	11,064,646
Tier 1 (T2) capital	2,021,270	1,910,186	2,021,270	1,664,708
Total Tier (Tier 1 + Tier 2) capital	14,280,869	12,550,449	14,500,802	12,729,354
Risk weighted assets	80,689,118	78,901,364	80,645,593	78,858,201
CET1 (%)	12.22%	12.02%	12.50%	12.57%
Tier 1 (%)	15.19%	13.49%	15.47%	14.03%
Tier 2 (%)	2.51%	2.42%	2.51%	2.11%
Ratio de capital total (%)	17.70%	15.91%	17.98%	16.14%
Leverage ratio	5.80%	5.06%	5.90%	5.25%

As of 31 December 2021, 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.

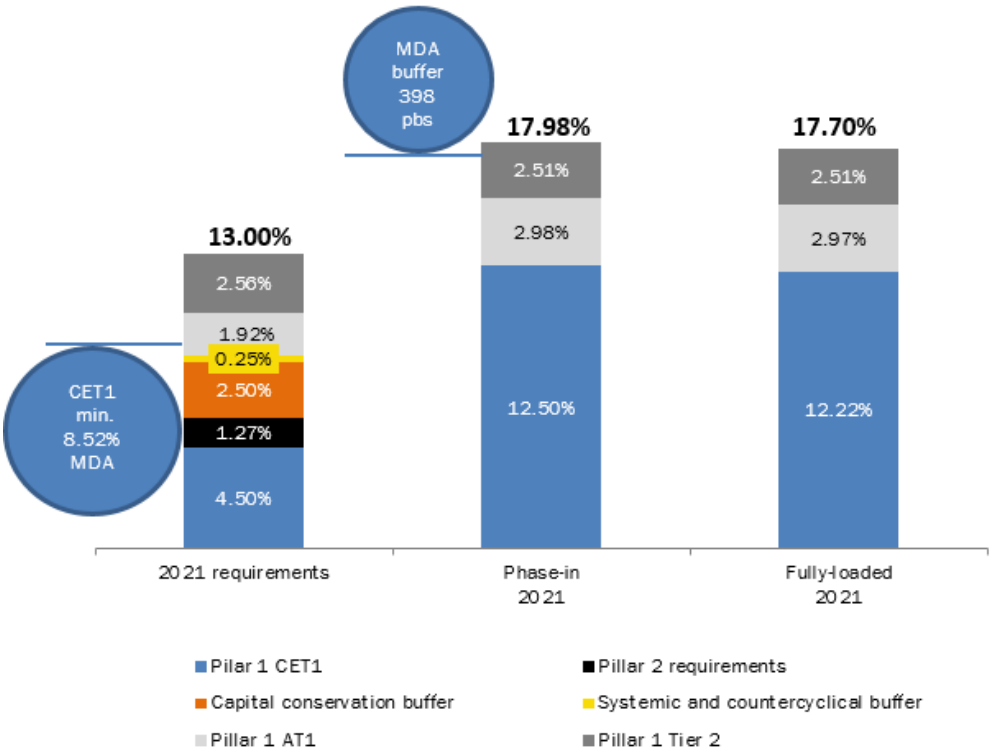
During 2021, the Group increased its total capital by over 1,730 million euros in fully-loaded terms.

In January 2021, the 500 million euros issue of subordinated bonds I/2021, the 500 million euros issue of preference shares I/2021 in March and the amortisation due to the exercise of the early redemption option of TSB's subordinated bond issue in March for 443 million euros were taken into account for the calculation of shareholders' equity in 2021. Finally, the AT1 2/2021 issue of 750 million euros was launched in November.

In terms of risk-weighted assets, a synthetic securitisation was carried out in the period (see note 3.4.2.4 to the Annual Accounts for 2021). Also noteworthy is the entry into force of the remaining CRR2 regulations on 28 June 2021, whose main changes are the new standardised exposure calculation framework for derivative exposures (SA-CCR) and the changes in the weighting applicable to exposures consisting of units in collective investment institutions.

As a result, the CET1 fully-loaded ratio stood at 12.22% at year-end 2021.

At 31 December 2021, the Group maintains a CET1 phased-in capital ratio of 12.50% —well above the requirements of the Supervisory Review and Evaluation Process (SREP), 8.52% for 2021 and for 2020 alike —and is therefore 398 bps above the minimum requirement.



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.

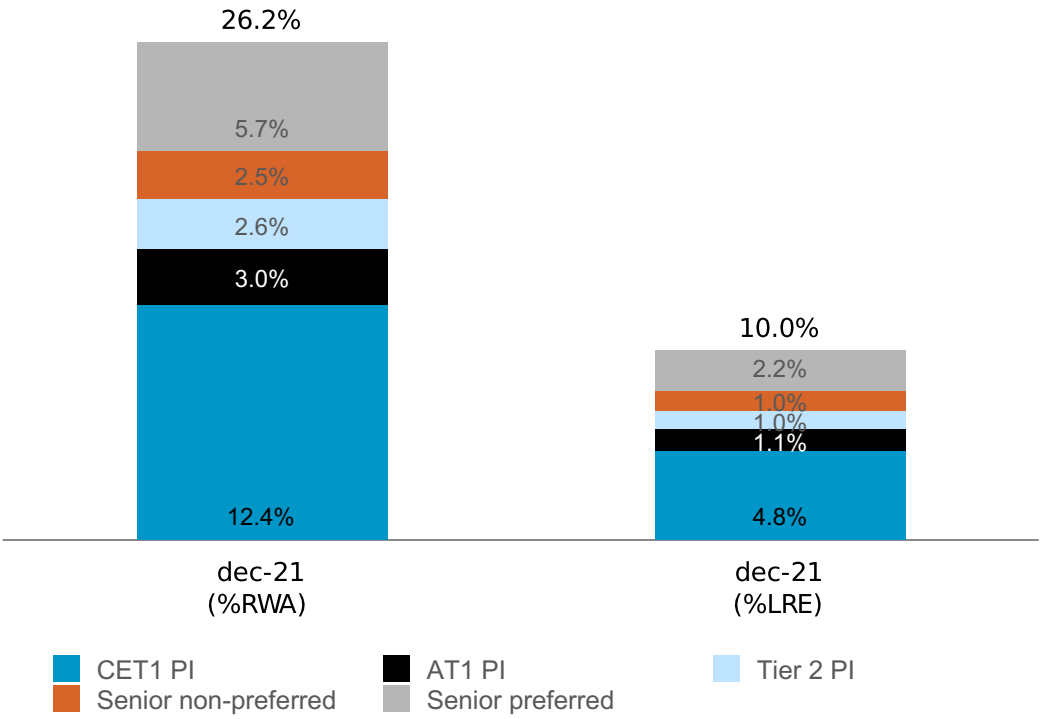
The decision set out the following intermediate requirements to be met from 1 January 2022:

- 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 counter-cyclical 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.

MREL of the group



The RWA percentage includes capital used to meet the CBR (2.75% RWA).

4 - BUSINESSES

Below are the key figures associated with the Group's main business unit levels, in accordance with the segment disclosures contained in note 38 to the 2021 consolidated Annual Accounts.

4.1 Banking business Spain

Key figures

At the end of the 2021 financial year, net profit amounted to 412 million euros, 89.0% higher year-on-year, mainly due to the good performance of fees and commissions, cost reductions and the recording of lower provisions in the year.

Net interest income amounted to 2,302 million euros, -4.1% lower than at the end of the 2020 financial year, mainly due to the lower contribution from the ALCO portfolio following the sales and lower yields on loans, offsetting the higher revenues from TLTRO III and the higher remuneration earned on corporate deposits.

Net fees and commissions stood at 1,336 million euros, 7.2% higher year-on-year, due mainly to the good performance of service fees and management fees.

Net trading income and exchange differences stood at 342 million euros and mainly included 324 million euros from sales of the portfolio at amortised cost to finance the second phase of the efficiency plan carried out in Spain in September, while at the end of the 2020 financial year they amounted to 770 million euros as they also included sales of the portfolio at amortised cost to finance the efficiency plans and part of the sales NPA portfolios carried out in the previous year.

Results under the equity method show strong growth due to higher earnings recorded by investees related to renewable energies in the first quarter.

Operating expenses show a year-on-year reduction of -3.8% reflecting savings in staff expenses from the first phase of the 2020 efficiency plan.

Provisions and impairments amounted to -1,193 million euros, representing a reduction of -40.6%, as the previous year included extraordinary provisions associated with the impact of COVID-19 and sales of problematic assets.

Gains on sale of assets and other results primarily included 83 million euros gross (58 million euros net) from the sale of the depository in the second quarter of 2021, 42 million euros gross (41 million euros net) from the sale of Bansabadell Renting and 12 million euros gross (2 million euros net) from the sale of BancSabadell d'Andorra in the fourth quarter.

Corporation tax is impacted by the treatment of results related to investee companies.

Million euro

	2021	2020	Year-on-year change (%)
Net interest income	**2,302**	**2,400**	**(4.1)**
Fees and commissions (net)	1,336	1,246	7.2
Core revenues	**3,638**	**3,646**	**(0.2)**
Net trading income and exchange differences	342	770	(55.6)
Equity-accounted income and dividends	102	37	174.9
Other operating income and expenses	(269)	(271)	(0.7)
Gross income	**3,812**	**4,182**	**(8.8)**
Operating expenses and depreciation and amortisation	(2,276)	(2,344)	(2.9)
Pre-provisions income	**1,536**	**1,838**	**(16.4)**
Provisions and impairments	(1,193)	(2,007)	(40.6)
Gains on sale of assets and other results	135	317	(57.5)
Profit/(loss) before tax	**478**	**147**	**224.4**
Corporation tax	(58)	71	(181.1)
Profit or loss attributed to minority interests	8	1	740.2
Profit attributable to the Group	**412**	**218**	**89.0**
Cumulative ratios			
ROE (profit / average shareholders' equity)	4.2 %	2.0 %	
Cost-to-income (general administrative expenses / gross income)	50.2 %	47.6 %	
NPL ratio	4.6 %	4.4 %	
NPL coverage ratio of stage 3 with total provisions	57.6 %	55.7 %	

Gross performing loans to customers increased year-on-year by 0.7%, despite the collection by the DGF of 1,691 million euros related to the APS. Growth in investment, isolating just the APS, is at 2.3%, driven by commercial loans to companies, SMEs and the self-employed, as well as by the growth in mortgages to individual customers, loans to the public sector and consumer loans.

On-balance sheet customer funds grew by 5.6% year-on-year, driven by sight deposits, partly as the result of funds shifting away from term deposits due to the low interest rate environment. Off-balance sheet funds increased by 9.5%, impacted by the sale of BancSabadell d'Andorra. Excluding that impact, growth of 11.6% due to higher net inflows to mutual funds.

Million euro

	2021	2020	Year-on-year change (%)
Assets	**191,162**	**183,896**	**4.0**
Gross performing loans to customers	107,089	106,327	0.7
Non-performing real estate assets (net)	842	871	(3.4)
Liabilities	**181,389**	**173,664**	**4.4**
On-balance sheet customer funds	116,788	110,572	5.6
Wholesale funding in the capital markets	18,090	18,332	(1.3)
Allocated capital	**9,773**	**10,204**	**(4.2)**
Off-balance sheet customer funds	**41,678**	**38,064**	**9.5**
Other indicators			
Employees	13,855	16,260	(14.8)
Branches	1,288	1,614	(20.2)

Within the banking business in Spain, the most relevant businesses, on which information is presented below, should be highlighted:

Retail Banking

Business overview

The Retail Banking business unit level offers financial products and services to natural persons with a particular purpose. These include investment products and medium- and long-term finance, such as consumer loans, mortgages and leasing or rental services, as well as short-term finance. Funds come mainly from customer deposits and sight accounts, savings insurance, mutual funds and pension plans. The main services also include methods of payment such as cards and insurance products in their diverse modalities.

Management milestones in 2021 and priorities for 2022

Efforts in 2021 focused on establishing the new strategic priorities of the Retail Banking business, such as: attracting additional demand in digital channels, fully digital and remote commercial activity for individual loans, accounts as well as cards and means of payment, and, lastly, the intervention of specialist managers in branches, focusing on mortgages, insurance and savings and investment products.

The business unit level focuses on distribution specialisation and the creation of the complete new digital relationship process, as well as deliveries aimed at significantly improving new production, optimising the customer satisfaction and reducing operational support.

Moreover, thanks to the digital evolution, it is possible to focus on the deployment of a new distribution model in terms of sales, servicing and customer support.

This distribution model is based on daily self-service operations, the attraction of digital demand as well as the development of digital sales capabilities in simpler products and specialised sales in products with a greater need for advice, such as mortgages, insurance and savings and investment products.

Lastly, the Retail Banking business is firmly committed to the Group's sustainability objectives, meets the Group's ambition in terms of sustainability and, in turn, contributes to achieving the key objectives of the business.

Main products

The main Retail Banking products are described below:

Mortgages

The performance of the mortgage market in 2021 is characterised by a significant recovery and record figures after the significant fall suffered by the COVID-19 crisis in year 2020. The new production in Banco Sabadell in 2021 has had a 38% increase compared to 2020, leading to an increase in our new production market share from up to 8.12% and in our stock instalment from up to 6.59% data to September 2021.

Progress is being made in the roll-out of the mortgage distribution model established in the Strategic Plan of the business, based on the deployment of specialists both in offices and in the remote management teams. There are already 140 of these specialists, and over the coming months more than 200 additional specialists will continue to be deployed to ensure customer satisfaction in the process of taking out a mortgage with Banco Sabadell.

In addition, the year ended with an important campaign to position the mortgage product in the market, focused on providing guidance to people who want to buy a home through a mortgage, helping them to overcome the lack of knowledge and insecurity caused by taking out this product.

Consumer loans

Consumer loans behaviour in 2021 has been marked by a gradual recovery in production, after the pandemic-induced drop in 2020. The increase occurred mainly from the second quarter onwards once the opening of pre-approved loans was completed and continued throughout the rest of the year.

In line with the Strategic Plan, 2021 was characterised by an increase in the use of digital tools and growth in online contracting, through all channels, but especially through BSMovil. This increase has been associated with an increase in pre-approved loans (up 21% compared to 2020 in number of operations and 42% in volume) and accompanied by improvements in contracting processes and customer satisfaction.

In terms of short-term individual financing solutions, the Expansion Line product has shown very good usage and acceptance among our customers, being a highly valued product due to its 100% online use.

Payment methods

During 2021, the trend towards the digitalisation of payments continued to accelerate. Electronic payments, after a stagnant 2020, have returned to double-digit growth of 19.42%, compared to cash payments. It has also been observed that digital payments continue to grow ahead of in-store payments, where mobile payments are also becoming more widespread, reaching 13.5% of transactions in December. Pre-pandemic growth has recovered with the exception of international payments, which have not yet recovered due to the lack of international mobility. New payment methods, such as Bizum, are growing strongly, with year-on-year increases of 121%.

In 2021 we have launched a new model of more secure and sustainable cards with a vertical design and full data on the reverse side. Degradable PVC materials have been incorporated to reduce the environmental footprint once they are no longer used. And we have taken a further step towards digitalisation with a new contracting capability in a 100% online process for adding debit and credit cards for pre-approved customers, in addition to the existing capabilities of turning the card on and off, managing limits, managing usage, personalising alerts and the ability to change the payment method via Sabadell Mobile.

Sight accounts

The core retail account offering is the Expansion range, which offers different benefits depending on the commercial and operational needs of customers, resulting in the Expansion Account, Premium Expansion and Expansion Plus. We also offer the Relationship Account for non-linked customers.

At the same time, we market specific accounts to meet the needs of specific customer segments, such as the Experience Account (seniors), First (children) and Key Account (foreigners).

The main milestone of 2021 was the launch of the bank's new Digital Onboarding process connected to the Digital Expansion Account, with no commissions and no linkage conditions. This has enabled us to lay the foundations for a new digital customer relationship model and the design of a new differential current account with high added value that is real and perceived by the customer.

Saving and Investment

In 2021, Savings and Investment activity has been boosted by a double effect:

- The excellent performance of the financial markets enhanced by the new management capabilities introduced by Amundi. The equity of mutual funds in Morningstar's first and second quartile is 53% with only 7% of assets in the fourth quartile at the end of November.

– The confirmation of the economic recovery that started in the second half of 2020, coupled with the ECB's willingness to keep benchmark rates negative, has accentuated the profitability-seeking movement among investors, leading to an increase in first-time mutual fund customers (up to almost 27,000 new mutual fund investors) as well as a movement of experienced investors towards products that can offer somewhat higher profitability.

As a result, we have seen strong growth in off-balance sheet Investment Savings Products (1,690 million euros at December 2021) focused exclusively on Mutual Funds, whose assets under management grew by 13.11% (equivalent to 1,694 million euros) to 14,612 million euros[1].

In Mutual Funds, the offer has been based on the following pillars:

1. Strengthening and organising the supply of mutual funds for retail individuals by incorporating:

   – Starter product: Sabadell Consolida 94, FI. It is especially designed for investors with no experience in financial markets, as it is a multi-asset fund with a global investment vocation and a low risk profile (2/7) that aims to generate profitability while offering a high level of capital guarantee: each year a guarantee of 94% of the previous year's closing net asset price is available.

   – Throughout 2021, progress has been made towards the strategic objective of having a sustainable supply in line with Articles 8 and 9 SFDRA[2]. In 2021 the Sabadell Acumula Sostenible, FI, Sabadell Crece Sostenible, FI, Sabadell Inversión Ética y Solidaria, FI, Sabadell EEUU Bolsa, FI and Sabadell Interés Euro, FI funds have been confirmed in accordance with article 8, which enables compliance with the target set of having 15% of assets under management that meet sustainability criteria and which in 2022 will be accelerated to have 75% of assets in ESG funds.

   – Rationalisation of existing supply. The strategic agreement with Amundi expands the investment capabilities available. The process began in 2021 and will continue over the next year with the merger of funds and the outsourcing of management mandates to the most specialised and capable teams. Along these lines, in 2021 the Sabadell Planificación 70, FI income fund was merged with Sabadell Planificación 50, FI; the funds with a high private fixed income component Sabadell Bonos Alto Interés, FI, Sabadell Financial Capital, FI and Sabadell Rentas, FI with Sabadell Euro Yield, FI; Sabadell Commodities, FI with Sabadell Selección Alternativa, FI and Sabadell Garantía Extra 22, FI and Sabadell Horizonte 2021, FI with Sabadell Interés Euro, FI.

   2. Development of support tools for managers by improving product explanatory support documentation or reinforcing training courses, and especially for customers. In this regard, the Support Plan was accelerated throughout 2021 with the preparation of product notes and videos reflecting the performance, the main investment decisions taken by professionals and the outlook for the coming months. More than 249,945 e-mails were sent, covering around 75% of the mutual fund assets, with an average e-mail open rate of 51%.

Within investment savings products, pension plans experienced a moderate increase in assets of 27 million euros at the end of the year to 3,174 million euros, impacted by the reduction in tax deductible amounts (from 8,000 euros in 2020 to 2,000 euros in 2021, which will be reduced to 1,500 euros in 2022). As a result, pension plan contribution estimates are 35% lower than in 2020, with much of the activity pivoting on external inflow mobilisations. As in the case of mutual funds, the excellent performance of financial markets has also helped the growth of assets where Life-Cycle Pension Plans, products that adapt their composition between defensive and risk assets depending on the age of retirement, have continued their excellent performance compared to the competition.

Finally, the offer of Structured Deposits and Products was maintained throughout the year. In the case of Structured Deposits, 7 illiquid 100% guaranteed products with 6 or 7 years to maturity have been issued, aimed at customers with a more conservative profile. In the case of Structured Products, 10 issues have been carried out with a 95/5 structure in which the capital at risk is a maximum of 5% over 5 years while 95% of the nominal amount matures after 6 months. This type of product is only available to Personal Banking, Private Banking and Corporate customers.

[1] Figures expressed in simple average balance at end-December 2021.
[2] Regulation (EU) 2019/2088 on sustainability disclosures in the financial services sector (Sustainable Finance Disclosure Regulation). Articles 8 and 9 define financial products that can be considered as sustainable, with article 8 being a financial product that promotes environmental, social or good governance features, and article 9 being a financial product that pursues sustainable objectives.

Insurance

The Group's insurance business is based on a comprehensive offering that covers the needs of both personal and property customers. The company's own underwriting is carried out through the insurance companies 50% owned by the agreement with the Zurich Group, Bansabadell Vida and Bansabadell Seguros Generales. The first of these, the largest in terms of business volume, occupies the top places in the ranking of insurers by premiums written.

In 2021, the business grew by 14%, with the main products contributing to the gross income being life, home and health insurance.

Of particular note was the strong growth in health insurance (77%), as a result of the recent agreement with Sanitas, one of the leading health insurers in the Spanish market. Also noteworthy was the positive evolution of Blink insurance (home and car), digital insurance, as well as the boost in the growth of the mortgage market in the sale of combined insurance.

The future strategy for the insurance business in Retail Banking is based on positioning the bank as the best insurance protection option for its customers. To this end, it plans, among other objectives, to advance in the digitalisation of solutions and processes in order to improve the customer satisfaction at every moment when interacting with the company and, at the same time, to adapt the offer to the needs of each customer profile, responding to the rapid changes experienced by the market due, among other factors, to the advance of technology and the appearance of new risks to be covered.

Private Banking

Banco Sabadell, through SabadellUrquijo Private Banking, offers comprehensive solutions to high-net-worth customers who require specialised advice and attention. The Division comprises 171 private bankers certified by the European Financial Planning Association, distributed over 31 branches and customer care centres to meet the needs of customers throughout Spain who have assets in excess of 500 thousand euros.

Two milestones marked 2021: on the one hand, the recovery of the impact that COVID-19 had in 2020 both in the markets and in the day-to-day relationship with customers. In this regard, SabadellUrquijo Private Banking continued to strengthen the digital approach of customers to banking services. On the other hand, the growth of investment solutions, mainly aimed at companies, as alternatives to account balances in the current scenario of negative interest rates.

From the point of view of the offer, SabadellUrquijo Private Banking has an open architecture with a robust product selection protocol that allows portfolios to be tailored to customers' objectives. In 2021, there has been a very significant increase in new mutual fund production, with several elements standing out. On the one hand, the strategic agreement signed with Amundi, Europe's leading mutual fund manager, makes all the capabilities and strengths of the Amundi group available to customers. Also noteworthy was the 48% growth in the bespoke discretionary portfolio management service offered by SabadellUrquijo Gestión, SGIIC, to which its excellent performance in terms of profitability undoubtedly contributed. Finally, alternative investments continue to have a high priority, with a rigorous screening protocol. In addition, and in view of the changes in the tax regime SICAV, the focus this year was on advising customers in order to offer them the best solutions.

SabadellUrquijo Private Banking continues to focus on a close relationship of trust between customers and the 171 private bankers, a relationship that is highly valued and which allows us to continue to enhance customer satisfaction and differentiate ourselves from the competition. At the end of the year, the number of customers to whom the Bank offered asset management advice was 27,610, with total business of 31,725 million euros, of which 28,612 million euros were in funds, 42% in mutual funds and SICAVs and 2,434 million euros under discretionary management contracts.

The challenges for 2022 in Private Banking remain focused on offering the best investment solutions and advice to our customers, enhancing digital capabilities and growing the business by taking advantage of market opportunities.

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.

Activity in 2021 saw a year-on-year recovery in lending of 9.22%, slowed by the lack of components in the automotive sector, which means a lack of supply in the market.

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 NPA ratio was 5.64%. Additionally, NPL coverage ratio of stage 3 with total provisions is 99.16%.

The company has successfully completed the acquisition of Instant Credit, which will enable it to increase its digital commercial offering by providing an efficient response to both prescribers and end customers.

For the coming year, following the principles of our own and the group's agreements, e-commerce actions will be strengthened, increasing the link with current prescribers, as well as expanding the plan for financing energy efficiency, mobility in buildings and improving works in communities, developing actions in their systems and processes focused on the digitalisation of the business, both for internal efficiency and in customer and commercial experience.

Overall, the company performed 196,935 new operations through more than eleven thousand points of sale distributed throughout Spanish territory, resulting in 979.9 million euros of new loan production in 2021, bringing the company's total outstanding exposure to above 1,792 million euros.

These improvements helped the company to keep its cost-to-income ratio to 33.26%.

Business Banking

Business overview

The Business Banking business unit level offers financial products and services to legal persons and natural persons with a business purpose, serving all types of companies with a turnover of up to 200 million euros as well as the institutional sector. The products and services offered to companies are based on short and long-term financing solutions, cash surplus treasury solutions, products and services to guarantee the daily operations of collections and payments through any channel and geographic area, as well as risk hedging and insurance banking products.

Banco Sabadell has a clearly defined relationship model for each business segment, innovative and differentiating it from the competition, which allows us to be very close to our customers, acquiring a broad knowledge of them and also a strong commitment.

Large companies (turnover > 10 million euros) are basically managed in specialised offices. The rest of the companies (SMEs, Businesses and Self-Employed) are managed from the offices. Both have managers specialised in the segment, as well as expert advice from product and/or sector specialists.

All this allows Banco Sabadell to be a benchmark for all companies and a leader in customer satisfaction.

Management milestones in 2021 and priorities for 2022

Management efforts in 2021 focused on the design and implementation of the priorities for action in the Business Banking business, within the framework of the new strategic plan, with all initiatives already scheduled and underway, in coordination with the rest of the bank and enhancing the value of the network.

All actions have been designed taking into account the opportunities offered by each segment. In this sense, the lines of work aimed at increasing revenues have been based on a much greater segmentation of our value proposition, in order to respond to the specific needs of each segment. In parallel, the design of a commercial productivity programme is being finalised for implementation as early as 2022. Cost optimisation efforts have also been more specific to each segment. Of note was the reduction and reorganisation of servicing operations in branches, various initiatives to improve the cost of risk thanks to data analytics models, and the development of tools and guidelines to optimise the consumption of capital by segment.

Management in Business Banking is very focused on the growth of the global business of companies, with a strong focus on profitability, in order to contribute decisively to the ROE objectives of the strategic plan.

Finally, the Business Banking business is committed to the Group's ambition in terms of sustainability and, in turn, contributes to the achievement of the key objectives of the business.

The various segments, specialists and commercial products within Business Banking are described below.

Customer segments

Large Companies

Banco Sabadell has been at the side of large companies, providing global management of its customers through specialised managers to help them make the best economic decisions and with a pool of specialists who, depending on the customers' business needs, have accompanied them.

In an economic context marked by the complicated health situation, this global customer management has made it possible to accompany companies according to the impact of the pandemic on their business. Thus, for those customers with liquidity needs, Banco Sabadell has made available both basic financing solutions and operations with ICO guarantees. And for those customers in a situation of growth, Banco Sabadell has been by their side with specialised financing operations, typical of Middle Market, either acting alone or in pool with other credit institutions.

With regard to sustainability, Banco Sabadell has participated in the market as a key agent in the drive towards a more sustainable economy, providing financing for projects developed by its customers for purposes directly or indirectly linked to environmental, social or governance improvements.

For 2022, the challenge in the segment is to continue strengthening specialisation, adding value to customers and accompanying them in their projects by acting as an essential player for them.

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. This year was once again atypical because of the health context and the impact it had on the global economy, on the commercial activity of companies and of Banco Sabadell itself. The needs of companies have largely been translated into two main blocks: on the one hand, the need for liquidity, and on the other hand, new investment projects to relaunch activity.

To provide liquidity, Banco Sabadell has made available to its customers the range of financing solutions in its catalogue, as well as operations with ICO guarantees. In addition, for those companies with current ICO COVID Liquidez operations, it has facilitated the possibility of increasing the grace periods and/or final maturities of these operations, in accordance with the provisions of Royal Decree 34/2020 on urgent measures to support the solvency of business. This commercial accompaniment by Banco Sabadell's network of managers has enabled more than 33,000 customers to take advantage of the measures envisaged in the aforementioned Royal Decree, with a volume of operations in excess of 3,910 million euros. In addition, for all those customers who did not have operations under the ICO COVID Liquidez lines, and who might have difficulties in meeting their payment obligations, Banco Sabadell has studied specific measures that would allow companies to maintain their commercial activity.

On the other hand, this year it was important to support customers who, having passed the most critical phase of their business, needed financing to adapt their production processes and commercial capacities to the new environment. To this end, Banco Sabadell has carried out specific commercial actions through its managers to offer financing to customers who were at this phase of the recovery process.

In both areas of commercial activity – the provision of liquidity and financing to relaunch economic activity – Banco Sabadell has demonstrated the attributes of anticipation, advice and support that define its relationship model.

Within the framework of the Next Generation EU Funds and the Spanish Government's Recovery, Transformation and Resilience Plan, Banco Sabadell has held numerous informative meetings for customers and has drawn up a training plan for its network of managers, which will make it possible during the year 2022 and beyond to provide information in a simple and agile manner on the aid for which a company may be eligible, in accordance with the calls for applications published by the different administrations. It has also reached a collaboration agreement with PwC so that customers can apply for the most appropriate aid through a specific application platform.

With regard to sustainability, Banco Sabadell has assumed its role as a key agent in promoting the transition to a more sustainable economy, developing specific products for its customers, with a specific focus on the purpose of self-consumption derived from the increase in energy costs. As in the previous year, the ESG vision was maintained this year in the commercial dialogue with customers to measure the sensitivity of SMEs and large companies to these aspects, with a specific focus on those customers in sectors with the greatest progress in a sustainable environment.

For 2022, the challenge in the segment is to continue to scale the Relationship Model, reinforcing our differentiation and specialisation, where the personal manager is the central element in the customer's relationship with the bank.

Business

Banco Sabadell continued to support self-employed customers, retailers and businesses in a year marked by the start of the post-COVID-19 de-escalation, which behaved unevenly depending on the customer's sector of activity. This has been done by adapting to the specific needs of each customer, both by providing information and processing direct aid for the most difficult customers, and by supporting the reactivation of activity and new projects for the most favoured sectors, through specific financing solutions.

On the other hand, and with the focus on the evolution of the customer value proposition, Banco Sabadell has made a firm commitment in 2021 to strengthen its positioning as a specialist for customers in this segment, based on the implementation of an offer designed specifically for each sector of activity, built on active listening to customers and network managers, professional groups and associations representing the sector. The aim is to be able to offer each customer the most suitable solutions based on an even better understanding of the specifics of their daily lives. Currently, the catalogue of specific solutions includes up to 32 sectors of activity, which have been prioritised according to the current economic context.

In line with the context of sector specialisation and in order to make this approach to customers and the market tangible, the campaign "From specialist to specialist" ("You are a specialist in your business. We accompany and advise you to offer you the solutions you need at every vital moment of your business") was launched in the second quarter of the year, with a continuous presence in the media and with its own space on the web where both customers and non-customers can access the proposed solutions for their sector.

In addition, during the past financial year 2021, the network figures specialised in the management of the self-employed, retailers and businesses increased by more than 20%, as a further vector for approaching a customer segment that particularly values proximity and the personalised treatment of an expert manager who understands their business, reinforcing capacities in territories with greater growth potential. These managers have also been provided with new support and training elements that allow them to know in detail the keys to each sector.

Finally, and in line with the evolution of our customers' new financial services consumption habits, Banco Sabadell continued to promote the digitalisation of customers in 2021, both in response to their needs for self-service operations and remote contracting and management.

For 2022, the challenges in the segment focus on further strengthening specialisation by incorporating new sectors and improving manager training, being key in channelling European Recovery Funds to customers, and strengthening digital capabilities, for example by enabling 100% bank digital onboarding for customers in this segment.

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.

2021 has been a special year for the activation of economic policies aimed at overcoming the damage caused by the pandemic. The result has been an increase in the credit needs of 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.

Public Institutions

The economic activity of Public Institutions during 2021 has been marked by the importance of the Administrations in the economic recovery after a complicated year 2020 that has been punished by the COVID-19 crisis. Administrations are essential for promoting and channelling the arrival of European Funds and implementing economic policies at each of the local, regional and national levels.

The result is an increase in assets, stemming from the needs to implement the investments to address the economic recovery, and an increase in liabilities, stemming from the additional funds related to the Recovery and Resilience Mechanism.

During this period, some Spanish regions are still authorised to loan refinancing operations they had arranged with the State, thereby lowering their funding costs as Spanish government bond profitability fell. As a result, banks have been granting these refinanced loans.

Banco Sabadell's market shares in lending and deposits were 10.59% and 7.49%, respectively (figures at end of October 2021). Investment reflects a year-on-year decline of -105 basis points, growing below the system. Deposits were up 40 basis points, a sharper increase than in the system as a whole.

Financial Institutions and Insurers

In 2021, 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 financial markets, deposit gathering continued to decline sharply, giving way to a wider range of value products in 2021, including both Amundi Asset Management's expanded range of mutual funds and the launch of Banco de Sabadell's first senior debt fund.

Customised franchise management has been carried out on a customer-by-customer basis with the aim of building customer loyalty and linking customers to value-added products. In this franchise management, the volume of franchises has been reduced to one third of the amount in 2020.

Religious Institutions

The Religious Institutions and Third Sector Division offers customers a range of products and services adapted to the singularity of these groups. They cover everything from transactions to specialised advice on financial assets.

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.

Secure donation collection facilities have been increased by 26% using the DONE donation collection lectern system. Banco Sabadell currently has 867 devices in the Done ecosystem, including donation lecterns, digital collection boxes and candle holders.

Segment specialists

Tourist Hotel Business

Banco Sabadell is the first financial institution to receive “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.

Within the value proposition, especially aimed at providing a specific solution for each customer, and taking into account the situation of absolute inactivity that the sector has gone through due to the health crisis caused by COVID-19, which forced the closure of all establishments by decree, a large part of the activity has been focused on the Support Plan, reviewing the entire hotel portfolio, identifying the specific situation of each customer and offering a specific solution for each need, providing a complete range of solutions, from the most basic ones such as grace periods and moratoriums, debt injection, ICO and ICO Investment Lines, to others of greater depth such as divestment in establishments, replacement of operators and sale of production units.

The Tourism Business Division also received institutional accolade 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.

As it does every year, Banco Sabadell was present at the main international tourism fair, FITUR, with its own stand. The fair welcomed 255,000 visitors and 11,040 companies.

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 segment

In 2021, Banco Sabadell's Agriculture segment, which includes the agricultural, livestock, fishing and forestry subsectors, and which has more than 325 specialised branches, has been recognised by Editorial Eumedia (Agribusiness) as the best Agro Financial Institution in Spain 2021.

The customer base has increased, as has the portfolio of specific financial products and services with features tailored to the requirements of customers in the sector.

Banco Sabadell's firm commitment to this sector, in particular through its personalised support for customers, led to a 7% increase in business volume compared to 2020. We continue to earn the trust of our customers, whose numbers increased by 5% compared to the previous year.

During the 2021 financial year, we reactivated the organisation of events and the usual sector trade fairs, such as Fruit Attraction, where Banco Sabadell was once again present.

Banco Sabadell Agro Segment has the clear objective of accompanying customers in the sector in digitalisation and sustainability, taking advantage of the efficient lever that will be the contribution of the European Union's Next Generation funds.

Employer Providential Schemes

By means of its Providential Schemes Division, Banco Sabadell Group 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.

During 2021, innovative, flexible and simple solutions were also implemented for small and medium-sized companies, such as the life-cycle joint promotion plans – with an investment profile adapted to age – and Sabadell Flex Empresa, a fully digital flexible remuneration platform that allows companies to optimise their remuneration model at a very low cost. Of particular note is the Flexible Remuneration Retirement Plan, a savings solution that allows executives or employees to maximise their savings and taxation.

Strong demand for such solutions is expected by 2022, as the bank is in a position to offer the most innovative solution on the market. In addition, a boost to company pension schemes is expected, along with the upcoming legislative amendments being considered by the government.

Real Estate Business

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.

The year 2021 has been marked by the situation arising from COVID-19 (travel restrictions, delays in licensing periods and, therefore, delays in the signing of contracts); however, the Investment Property Division has formalised around 1,805 million euros (an increase of 21.14% compared to the previous year) with a margin of over 50.5 million euros (similar to the previous year, with this year being a record year for the delivery of financed housing).

The Investment Property 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. This year 2021 we have participated in different Virtual Cafés with the AEF, we have maintained our presence in the Fairs that have been carried out on FranquiShop and different Virtual Fairs, being awarded as the first Financial Entity collaborator in the sector of the franchise by the Online Franchise Fair where we have actively participated, as well as sponsoring topics such as Women in Franchising, the Franchise Jurisprudence Observatory, interventions in specialised radio programmes, articles in the press and magazines, collaboration with different expert franchise consultancies and an endless number of actions that we have published on social networks that reinforce our notoriety and leadership in this business model.

The franchise market is a growing sector and is better able to withstand the impact of the health crisis due to the support of large franchisor brands, as demonstrated by maintaining default rates below 0.7%. Franchisee customers have a higher value (x2 in margin, x3 in linkage) and is a key segment in the growth strategy of the enterprise business. We have more than 1,000 brands with referral agreements and more than 7,700 franchise customers who contribute more than 20 million euros to the annual margin.

In 2021, the capacity to digitally sign collaboration agreements with franchisor brands has been included and the team has been reinforced with the incorporation of 2 new franchise managers and 4 risk analysts specialising in franchising.

BStartup

Banco Sabadell's BStartup is the pioneering and benchmark financial service in Spanish banking for startups and scaleups, providing specialised banking and equity investment.

Banking specialisation is based on exclusive managers for startups and scaleups in the Region with the highest concentration of this type of companies, as well as on a specific risk circuit and specific products.

As of December 2021, BStartup reached a record 3,978 startup customers, 14.7% more than the previous year. The average margin generated by BStartup customers remains higher than the average for global corporate customers, as well as their internationalisation operations and linkage. The accelerated growth of many of these companies reaffirms the thesis related to the launch of the service in 2013, i.e., that the great companies of the future would emerge from among these companies. The volume of business managed increased by 23.4% to 984 million euros (272 million euros of assets and 712 million euros of liabilities) and the business margin increased by 19.8%.

In 2021, BStartup's specialisation has been given a definite boost. While in 2020 the figure of the BStartup SME Director was created, a manager with extensive experience and knowledge of the sector and exclusively dedicated to managing technology companies, startups and scaleups, in 2021 a further step was taken towards specialisation in the Catalonia DT, concentrating the management of all Commercial Banking startup customers in the main office in Barcelona, in a hub that now concentrates 6 managers, a proxy and a risk analyst who work exclusively for startups and scaleups. In addition, the scaleups that are already in Business Banking have been concentrated in two Business Banking managers in order to be able to continue offering a specialised service in their specificities when these companies grow. By 2022, a new BStartup DPyme has been authorised in DT Centro (the fourth) and in DT Este (the second). In the remaining territories we maintain 25 BStartup offices that have continued to receive specialised training.

Equity investment targets early-stage digital and technology companies with strong growth potential and innovative, scalable business models. This year BStartup10 has launched the first BStartup Green call to invest in startups that, from technology or digitalisation, are able to facilitate the transition to a more sustainable world (from the perspective of energy transition, industry 4.0, smart cities and the circular economy). A total of 136 companies applied for this first call, from which 3 were selected for investment. On the other hand, the BStartup Health call has already established itself as a benchmark for investment in health startups in the early phase of transferring science to the market: the fourth call was launched in 2021, to which 121 projects were submitted. In addition to these sectoral calls for proposals, the work with the more digital ecosystem continues and, in total, BStartup10 closes 2021 with 7 new investments made. BStartup's portfolio totals 58 investees with a positive valuation and during 2021 there have been two partial divestments during the year, one of which has led to a multiplier of more than 10 times the money invested. Between them, they have more than 1,664 employees and have raised more than 178 million euros following BStartup's investment.

During the year, the Bank was very present at the main events of the entrepreneurial ecosystem. 115 entrepreneurship events have been organised or actively participated in. This, together with all the previous activity, continues to reinforce Banco Sabadell's reputation and positioning as a benchmark bank for scaleups and startups. As an indicator, BStartup has had 1,826 mentions in different media (offline and online press), has reached 13,589 followers on Twitter, and BStartup has been one of the main topics of discussion about the bank on social networks most months, and always with a positive sentiment.

Companies Hub

Companies Hub is Banco Sabadell's business connection centre, a hybrid model that combines:

- A digital space where companies can connect with everything that matters to them through workshops and webinars led by the Bank's experts and leading external figures; inspiring and participative meetings in which professional experiences, current content and the latest business trends are shared.

- A physical space in the centre of Valencia as a reference for companies, where they can meet and connect with other companies, receive knowledge and business advice from experts in areas such as digital transformation or sectorial economy, as well as other specialities such as financing, internationalisation or startups.

For all these reasons, Companies Hub is a service that contributes to the bank's positioning in the business segment (with a special focus on SMEs) as the bank that best understands their challenges and the one that can best accompany them along the way.

If 2020 was a year of great changes and challenges for Companies Hub because the pandemic forced the leap to virtuality, which allowed a leap of scale reaching companies all over Spain, 2021 has been a year of development of the new scope of the project: we have worked on the new definition and image and also launched a new website that reflects the reality and the current scope of the project, which prioritises giving visibility to the business content generated by Companies Hub, with a better design and user navigation experience to find content that is of interest to them.

Companies Hub is a tool that serves the purpose of establishing communication between the entity and SMEs, businesses and freelancers, under a single brand based on valuable business content, which is mainly materialised in webinars, but also generates content in other types of media such as articles, news or videos that entrepreneurs can view in the press and social networks. The contents generated around Companies Hub are an instrument for the dissemination of the knowledge and expertise of the entity with a conversation in networks with a 100% positive sentiment.

The main themes are: recovering from the crisis, transforming oneself to face the future, sector specialisation, as well as leadership, professional skills and trends. During the first half of the year, the Editorial Committee reformulated the editorial line of Companies Hub, adapting it to the Bank's current strategic plan. Meetings on international business, meetings related to some sectoral offers, and a specific cycle on the Next Generation EU funds aimed at helping companies to prepare strategically, among many others, would stand out in this regard.

During 2021, the project has continued to grow and increase both the number of webinars and the participation and impact generated by Companies Hub, because the change from face-to-face to online has meant a leap in scale that has allowed it to reach many more freelancers and companies throughout the country. In total, 111 webinars were held (76% increase compared to 2020) in which 49,026 companies and freelancers participated (180% increase compared to 2020), with an average participation of 442 attendees per meeting (12% increase compared to 2020). The evaluations of the sessions continue to reflect the great reception and acceptance of the contents by Spanish companies, with an overall rating of 8.86 out of 10, with 42% of the participants giving them a score of 10.

In addition, 75 videos summarising the sessions were made for dissemination on the bank's social networks, and more than 75 articles and news items were published in different branded content spaces in print and online media about Companies Hub and its support for companies, as well as the topics covered in the webinars.

All this has generated 1,624 mentions in social networks and offline and online media, reaching a total audience of 197,627,051 users, which represents an increase of 68,004,081 vs. 2020 (52.46%).

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.

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 3,541 collaboration agreements with active professional associations, enabling us to reach 3,300,000 professional association members, of whom 611,800 are customers of the Bank and benefit from our customised services. This channel accounts for more than 12% of the business segments.

Official Agreements and Guarantees

From the Official Agreements and Guarantees Department, we have managed new agreements with different bodies, both territorial and national and supranational, to help companies manage their financing and guarantee needs, with the clear purpose of adhering to our pacts to fight climate change and strengthen the digitalisation of companies.

To this end, new lines have been signed with the Official Credit Institute (ICO), such as the ICO Red.es, which aims to help both companies and study or research centres in digitalisation, the creation of new technologies and the application of Artificial Intelligence.

New European Investment Bank (EIB) lines have also been signed up, providing us with ECO Friendly lines, such as EIB Investment and Climate Change.

The current post-pandemic situation has not been neglected and that is why we are implementing lines such as EIB DRS and EIB LRS that serve to boost productivity and competitiveness.

In 2021, the main activity of the management team was to manage the ICO State COVID guarantee lines (ICO Liquidez and ICO Inversión), which provided aid to alleviate the impact of the COVID-19 crisis on the economy of the self-employed, SMEs and companies. In many cases, this has been so thanks to the additional guarantee provided by the Mutual Guarantee Societies.

In the third quarter of the year, the Code of Good Practice has been implemented for those companies that have needed additional aid, Banco Sabadell adhering to the extension for 2022.

Management's objective for 2022 is to increase the market share in the marketing of Official Agreements (ICO and EIB) and Guarantees (SGR) in order to contribute positively to the bank's profitability and investment ratio.

To this end, the main partners will be the Mutual Guarantee Societies (MGS), which will help to reduce endowments and lower capital consumption, as well as the different organisations that will help to obtain better conditions to help our customers.

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:

- Spread (Million euro): 243 (8.40% of the total).
- Mortgages (new contracts): 10,347 (29.48% of the total).
- Customer acquisition: 39,929 (11.50% of the total).
- AutoRenting vehicle lease (new contracts): 604 (10.53% of the total).
- Mutual funds (average balance in Million euro): 1,615 (6.66% of the total).

Five new branches were set up this year for top mortgage partners (a total of 5 offices), 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 line.

Commercial Products

Financial services

Digitalisation continues to be one of the major challenges that we have kept addressing in 2021 in order to provide the best service to our customers in their collection and payment management.

In order to adapt to the needs of business customers, the new maximum amount of 100,000 euros that European regulations allow for immediate payments has been incorporated. Banco Sabadell was also one of the first European banks to offer its companies the possibility of making transfers from their accounts in other banks, through the account aggregator service of our internet banking.

Payment Methods

The POS business has continued to be impacted by the crisis situation due to COVID-19. With the gradual improvement in consumption and domestic tourism, Banco Sabadell has achieved cumulative growth of 17.5% and made available to its customers more than 400,000 physical and e-commerce terminals. The bank has maintained its policy of offering an advanced and personalised service to its retail customers and, to this end, has reinforced its network of POS and e-commerce specialists. In addition, it has increased the platform's services through an integration agreement with American Express.

Through the subsidiary PAYCOMET, which specialises in digital payments, the launch of innovative products continued to be promoted, in particular a solution adapted to the collection of online hotel bookings, call centre payment management, etc.

Banco Sabadell was also the first Spanish financial institution to integrate the Click to Pay standard, demonstrating its leadership in the world of payment methods.

The use of corporate cards has intensified, with 25% more cards processed than in the previous year.

In order to adapt products to customers' needs, an analysis of the portfolio of services associated with corporate cards has been carried out in order to offer differentiated products that add value to our customers.

Cash Management Service

During the year, work continued on the optimisation and digitalisation of cash, to help shops, businesses and administrations in the management of both coins and banknotes.

In 2021, 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.

Funding Solutions

Working capital financing has been recovering throughout 2021 as business activity has picked up, especially from the second quarter onwards. This type of funding was particularly affected in 2020 by the COVID-19 crisis. The economic recovery has boosted the use of working capital lines and companies have continued to make active use of short-term financing products such as factoring and reverse factoring, and other more traditional products such as trade discounting and credit facilities.

The recovery in 2021 has led to a 7% increase in factoring activity. Reverse factoring performed better increasing by 19%.

Also noteworthy in 2021 was the significant use of solutions linked to the ICO guarantee lines through the offer of credit and confirming policies.

It is also worth highlighting the central role of financing solutions to help companies and the self-employed to face the economic effects of COVID-19, with an offer mainly linked to ICO lines and with special relevance during the first half of the year.

The volume of production in loans to companies, SMEs and the self-employed has been high during the first half of the year, still linked to the effects of the COVID-19 pandemic, while during the second half of the year there has been a lower demand for new loan production as a result of the start of the recovery of economic activity. However, overall, in 2021 loan demand has returned to pre-pandemic levels.

Financing for sustainable projects is one of our priorities and this year we have continued to formalise operations with ECO products and, in addition, we have incorporated a better offer for these operations, which will enable us to achieve our objectives of strengthening our commitment and will to accompany our customers in the transition to a more sustainable economy.

Renting and leasing

The year was marked by the effects of the pandemic and mobility restrictions, which led to a decrease in product activity. In addition to these factors, the semiconductor crisis has had a decisive impact on the lack of vehicle stocks, which further exacerbated recruitment difficulties despite the timid recovery in demand.

On the positive side, the focus since 2020 on the supply of sustainable vehicles has led to a considerable increase, with the result that currently 12% of all new hires are sustainable.

At the same time, the digital product range was reinforced in order to increase the uptake of online leads and sales through this channel.

At the corporate level, 2021 was closed with the sale of the renting subsidiary to ALD Automotive, Europe's number one operator, which will entail a leap in quality both in terms of supply and competitiveness, separating the industrial part of the product and focusing on the commercial activity of Banco Sabadell's network.

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 2021, Banco Sabadell increased its range of sustainable leasing products, including Eco Leasing Inmobiliario for financing properties with energy certificate A or B, Leasing Autoconsumo for financing photovoltaic installations and Eco Leasing Vehículos for vehicles with an ECO or Zero energy label.

In terms of leasing production in 2021, there was an increase in activity compared to December 2020 of 49% in volume and 46% in the number of contracts, with a notable increase in operations under official agreements and, specifically, the ICO state guarantee line.

Company Insurance

During the year 2021, we have worked on building a differential value proposition that will enable Banco Sabadell to be a benchmark for our customers in the world of business insurance. Improvements to the product and commercial proposition have begun to be defined and will start to materialise over the coming year.

The objective is to adapt the insurance offer to each segment of SME, retail, business and self-employed customers, seeking to offer a comprehensive product offering, with a competitive product accompanied by a quality service.

In order to meet the proposed challenges, the figure of the company insurance specialist will be strengthened to provide him/her with the tools and autonomy necessary to offer a quality service to customers.

International solutions

There has been a focus on implementing new solutions or services aimed at meeting the needs of International in a new scenario for post-COVID companies, reinforced by active support from the International Business Managers.

In terms of financing, the ICO Comex Lines have been launched to support companies with foreign trade business to help them with an active commercial distribution aimed at facilitating the growth of companies abroad.

At the same time, an agreement has been reached with Opportunity Network, a fully digital service, to jointly market the service to Spanish companies, so that they can include their products and services on this platform, seeking a commercial counterpart anywhere in the world.

Another differentiating element is the implementation of eUCPs at the guarantees level. The ICC published new guidance on the use of UCPs. As an entity, we have provided this information and training to interested companies, and we have also provided them with the published documentation. The specialist Managers of International Business have incorporated it into their discussions with customers and helped them to incorporate the new rules into the normal dynamics of the companies.

In terms of training, we continued with the 4th cycle of the Sabadell International Business Program for companies, dedicated to training companies in important aspects of foreign trade in order to be able to carry out an International Business Plan in the most professional and efficient way. In addition, the environment is conducive to completing this six-month training course with a university degree in a completely digital way.

The specialised monthly foreign trade newsletters continue, incorporating topics aimed at companies, talking about markets, international administrative procedures, specialisation by sector of activity, etc.

The specialised InCompany Training courses on international business have also been reactivated, coinciding with the needs of companies with new incorporations in the foreign trade departments, which make it necessary to be able to explain first-hand the technical tools to ensure maximum security for foreign operations.

In terms of shares of documentary operations, the most significant at the level of companies are the Export Letters of Credits (32%), increasing the positioning and validating the reference that one out of every three operations in Spain goes through Banco Sabadell, showing that the bank is an entity actively focused on Companies serving foreign trade.

Corporate & Investment Banking

Business overview

CIB (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.

This year, following the succession of the Group's governing bodies, a new structure of the Bank's businesses was established, with CIB becoming one of the three essential units of the Bank, together with Retail Banking and Business Banking, a division structured by differentiating the needs of customers and the capacities of each of the three different banks to provide the best service to them.

CIB structures its activity around two axes: the customer axis, whose objective is to provide service to its natural customers across the entire spectrum of their financial needs, delimited by their nature and which includes the large Corporate Banking corporations; financial institutions, Private Banking in the USA, and the venture capital business developed through BS Capital and, secondly, the Specialised Businesses area, which groups together the activities of Structured Finance, Treasury, Capital Markets and Contracting and Custody, whose objective is to provide advice, the aim is to advise, design and execute tailor-made operations that anticipate the specific financial needs of its customers, whether companies or individuals, extending its scope from large corporations to smaller companies and customers, insofar as its solutions are the best response to increasingly complex financial needs.

Management milestones in 2021 and priorities for 2022

During 2021, CIB has maintained its objective of prioritising the delivery of value to customers and thereby contributing to their future growth and performance. In this endeavour, it has continued to innovate and boost its specialist capabilities, especially in the areas of Capital Markets and Structured Finance, which are now able to meet 100% of its customers' financial needs. Our teams are also constantly expanding their international coverage, always focusing on those markets in which our customers invest or have commercial interests.

2021 has been characterised by the active accompaniment of customers in the recovery and normalisation of their business volumes and activity, as the health crisis triggered by the COVID-19 pandemic has been controlled and normalised, focusing on the search for optimal solutions to restore stability to their financial profiles, adapting them to the needs, demands and requirements arising as a result of the changes in the economy and mode of operation that the pandemic situation has brought with it.

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 different countries where we operate, have not only the specialisation of the large corporate segment but also the knowledge and penetration differentiated by sectors of activity in order to be able to better understand and serve customers according to their own and sector's singularities.

- 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 and transmitting value to our customers.

- Specialisation. CIB has units that develop tailor-made products for large corporations and financial institutions (Corporate Finance, Project Finance, Project Bonds, Operation Syndication, Commercial Paper Programmes, Debt Issuance, M&A, Asset Finance, Derivatives, Risk Hedging, etc.). The units responsible for developing these customised products have a transversal vocation across the entire Banco Sabadell Group, also extending their capacities to the Corporate 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 specialised financing and large corporates. In this sense, we create the necessary spaces and mechanisms for our teams to dedicate part of their time to innovation, understood in its broadest sense: innovation in products, in operations and also in the way we collaborate and interact.

As in previous years, the key figures that best define Corporate & Investment Banking's performance will continue to be total revenues, risk-adjusted profitability on capital (RAROC), strict risk monitoring and advance warning of potential impairments, as well as the NPS (customer satisfaction), which is the best measure of how our customers perceive the service.

Customer Axis

Corporate Banking Europe

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 transaction 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 economic activity and the markets in which they operate.

This unit also includes a series of branches and offices abroad, notably in London, Paris and Lisbon, from where the international activity of our domestic customers is supported and serviced, and the international business of Corporate Banking is developed.

In addition, this customer unit integrates the activity carried out by BS Capital, which carries out the Group's Venture Capital and Private Equity activities, managing the industrial (non-real estate) investees. Its activity is instrumented through the taking of temporary holdings in companies, with the aim of maximising the return on its investments.

2021 has been characterised by the active accompaniment of our customers in the recovery and normalisation of their business volumes and activity, as the health crisis triggered by the COVID-19 pandemic has been controlled and normalised, focusing on the search for optimal solutions to restore stability to their financial profiles, adapting them to the needs, demands and requirements arising as a result of the changes in the economy and the way of operating that the pandemic situation has brought with it and helping them to strengthen their financial situation.

This year, therefore, has been characterised by financial stability, in which large companies have benefited from comfortable levels of liquidity, a legacy of the previous year, which has materialised in a slight decrease of 4.95% in the lending levels over the course of the year, reaching 11,336 million euros, of which 34.29% correspond to credit positions outside Spain (the decrease in credit positions in the international sphere is

13.91%). In the international arena, the evolution of business was also marked by the focus on optimising the Group's capital consumption, combined with improved profitability. The volume of deposits grew by 25.44% in 2021, with a particular concentration in Eurozone geographies.

Earnings, in absolute terms and expressed as spread, declined by 7.94% over the year, mainly as a result of the aforementioned moderation in lending volumes. As regards profitability in RAROC terms, specifically in the EMEA region where its performance is closely monitored, was 12.92% at year-end, a very positive level, although it was influenced by an increase in marginal cost of customer deposits and a certain rise in the cost of credit risk, both of which were partly offset by the larger contribution from commissions and, in particular, those associated with value products (M&A, DCM, ECM, Structured Fin., Derivatives, etc.).

For its part, 2021 was an exceptional year for BS Capital, in which it divested several of its most significant investees, achieving a record result in its history. Thus, during the year, BS Capital has been very active in portfolio management, especially in the companies most affected by the impact of COVID-19. Among the year's milestones were the formalisation of the sale of the majority stake in Aurica Capital Desarrollo to its management team; the start of the fundraising process for Aurica IV, whose investors include Grupo Banco Sabadell as anchor investor, and the granting of the first industrial mezzanine loans.

Equally noteworthy is the signing of an agreement with the European Investment Fund (EIF) for a Pan-European Guarantee Fund guarantee programme (EGF) for venture debt and renewable loans; the EIB's approval of a co-financing agreement with Sabadell Venture Capital for granting venture debt loans to technology companies and the closing of the contractual structure of the Senior Debt Fund (Crisae) for financing Spanish mid-market companies, of which a first closing has already taken place, with the participation of Grupo Banco Sabadell and external investors, and the investment period has begun.

Lastly, milestones for 2021 include the approval of a new framework for renewable energy activities for 2021-2026 with a focus on Spain, for which the first investments have already been made, and the sale of the stakes in Termosolar Borges and Villoldo Solar.

The year 2022 presents a series of challenges, including finally leaving behind the effects of the pandemic that began in 2020 and fully recovering the economic and business levels of pre-pandemic activity, which Corporate Banking faces by reinforcing its strategy of focusing and improving the contribution of value to the segment of large corporations in the various markets in which they operate, with a range of services covering 100% of their financing needs, in both the short and long term, in the domestic market and supporting the international activity of its customers through its international network, being a financial provider of reference in all specialised areas.

The contribution of value to customers in the large corporations segment and the improvement in profitability for our shareholders are the two fundamental pillars of the management of this unit, which will also focus next year on optimising capital consumption, with the aim of increasing the return on capital consumed.

In the BS Capital area, priority will be given to equity and debt investments, with the support of international organisations such as the EIB and the EIF, while continuing to manage the current portfolio with the same standards as in previous years and with the clear objective of creating long-term value. As regards renewables, financing opportunities will continue to be sought, consistent with the new investment framework, and potential sales of assets in Spain and Latin America will be analysed. The venture debt activity and the rotation of the venture capital portfolio will be supported by seeking divestments with capital gains and Crisae will continue with the origination and execution of operations (mobilisation of funds raised) and a new external fundraising process will be carried out to increase the investment capacity of the vehicle.

Corporate and Private Banking USA

Banco Sabadell has been operating in the United States for more than 25 years through an International Full Branch managed from Miami and Sabadell Securities USA, set up in 2008 and operational since then. These business units together manage the international corporate banking and private banking business in the United States and Latin America.

Banco Sabadell Miami Branch is the largest International Branch in Florida. It is one of the few financial institutions in the area with the capacity and experience to provide all types of banking and financial services, from the most complex and specialised services for large corporations to international private banking products, including those products and services that may be required by professionals and companies of any size. To supplement its structure in Miami, the Bank has representative offices in New York, Peru, Colombia and the Dominican Republic.

Sabadell Securities USA, for its part, is a stockbroker and investment advisor in the securities market that complements and strengthens the business strategy aimed at Private Banking customers residing in the United States, responding to their needs by providing investment advice in the capital markets.

The 2021 financial year was characterised by the Branch's alignment with the priorities set out in the 2021-23 strategic plan. To this end, strategies were defined, and processes designed to improve the return on capital, develop the Private Banking business, reduce costs and control NPLs. Thus, different initiatives aimed at achieving each of these objectives have been carried out.

In the area of improving return on capital, it is worth mentioning the implementation of processes to improve the flow of data required for regulatory capital calculations, as well as the evolution and optimisation of profitability tools per customer, with the consequent review of operations to analyse and calibrate their return on capital consumption. The favourable market conditions also allowed the sale of certain proprietary portfolio positions whose capital consumption exceeded the optimum, generating significant capital gains in addition to the capital release resulting from the sale.

The Private Banking business continued to be boosted by upgrading the technological platform (Phase II of the Aspire Project) to improve customers' capabilities; the use of the products available was expanded, deepening the diversification of income sources, with particular emphasis on commissions generated from transactions; the profitability offered to customers was improved by rebalancing between traditional banking products and investment banking, which also boosted the generation of commissions for the unit and progress was made in coordinating the Private Banking infrastructure, enabling synergies to be exploited and offering a wider range of investment products to corporate customers.

In the area of costs, the efficiency plan initiated in 2020 continued, with particular emphasis on investments to improve the efficiency of processes and services to customers and, in the area of NPL control, the processes for detecting and monitoring credit operations affected by the negative consequences of the pandemic were further developed.

As mentioned above, during the year 2021, the upgrade of the technological platform (Aspire Project) continued to improve the capabilities available to customers and the business and support units, phase II of which is being completed and phase III is pending commencement, which is expected to be completed in 2023, and the project to migrate interest rates from LIBOR to RFR (Risk Free Rates) was launched. These two initiatives are part of the operational improvement plan to adapt the technological infrastructure to the new financial environment.

Turning to the financial figures, it is worth noting that during the 2021 financial year, the volume of business managed exceeded 14,500 million US dollars, an increase of 3.5%. Both the balance of loans and the volume of deposits remained stable, with the former at around 5,800 million US dollars and the latter at around 3,900 million US dollars. Off-balance sheet customer assets under management increased by 6.7% to close at almost 4,900 million US dollars.

Net interest income was 122 million US dollars, down 5.9% year-on-year, mainly due to lower official interest rates. Net fee income was 53 million US dollars, an increase of 16% compared to 2020. Gross income remained stable at around 175 million US dollars for the year, while administrative and amortisation expenses were up 2.4%, reflecting investments in the technology platform. Net profit for the year was 75 million US dollars, in line with the previous year's profit.

Specialised businesses

Structured finance

The Structured Finance Division 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.

The Structured Finance activity focuses on the study, design, origination and syndication of corporate finance products and operations, acquisitions, project & asset finance, global trade finance and commercial real estate, with the capacity to underwrite and syndicate operations at national and international level, as well as being active in the primary and secondary markets for 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 manages the commercial and operational relationship with the international banks with which Banco Sabadell has collaboration and correspondent agreements (some 3,000 correspondent banks around the world), thus guaranteeing maximum coverage for the Banco Sabadell Group's customers in their international transactions. Thus, it ensures optimal support of customers in their internationalisation processes, in coordination with the Group's international network of branches, subsidiaries and investees.

In 2021, Banco Sabadell, thanks to its policy of accompanying customers and adapting to their needs, to seek the best responses to their credit requirements within the possibilities offered by the credit markets in the specific macroeconomic environment, maintained its benchmark position in the Business Banking segment in Spain, good work that is being exported to other geographies. In this context, Financiación Estructurada ranked 4th in the MLA rankings for syndicated loans and 2nd in Project Finance in the Spanish market.

Syndicated loan MLAs – Spanish market 2021:

Million euro

Ranking	*Mandated Lead Arranger*	Deal Value	Number of operations
1	Santander	8,265	162
2	BBVA	5,230	123
3	CaixaBank	6,671	120
4	Banco de Sabadell	3,267	90
5	BNP Paribas	5,424	41
6	SG Corporate & Investment Banking	1,935	34
7	Credit Agricole CIB	1,964	29
8	ING	2,108	24
9	Deutsche Bank	1,528	23
10	Bankinter	665	22

Project finance MLA – Spanish market 2021:

Million euro

Ranking	*Mandated Lead Arranger*	Deal Value	Number of operations
1	Santander	985	20
2	Banco de Sabadell	397	11
3	BBVA	334	6
4	BNP Paribas	323	5
5	ING	309	5
6	Abanca Corporación Bancaria, S.A.	131	4
7	Bankinter	154	4
7	CaixaBank	202	4
7	SG Corporate & Investment Banking	245	4
10	Credit Agricole CIB	187	3

The 2021 financial year was characterised by the good performance of Specialised Financing (Project Finance, Acquisition Financing, Commercial Real Estate, etc.), which offset the lower demand for corporate financing following the liquidity injections received by the system in 2020, confirming the adaptation of the teams to remote work, combined with face-to-face work where possible. This adaptation has been successful in all geographies, without affecting the agility of the processes, thanks to the technology available and the quality and involvement of the human team.

At the end of the 2021 financial year, and looking ahead to 2022, which will still be marked by the effect of the pandemic that began in 2020, our top priority remains to support the customers by designing long-term financing structures for new projects, acquisitions, internationalisation, etc., as well as syndicated operations that guarantee a stable and complete debt for post-COVID-19 debt management, assessing the positive potential of possible solutions combined with capital market products.

Treasury and Markets

Treasury and Markets is responsible, on the one hand, for marketing Treasury products to the Group's customers, through the Group's units assigned for this purpose, both from commercial networks and through specialists and, on the other, for managing the Bank's current liquidity, as well as managing and complying with its regulatory coefficients and ratios. In the same way, it manages the risk of the portfolio activity itself, interest rate risk, and different types of exchange rates, mainly due to in and out flow operations with customers both internally and externally, coming from the activity of the distribution units itself.

In 2021, the Treasury and Markets Division further developed the digitalisation of its customer operations by improving the Sabadell Forex currency application, expanding its product catalogue and enhancing customer satisfaction. In particular, the range of products and solutions offered by management was increased to adapt to the changing market situation which has generated new customer needs, and the trading capacity to assume and control various risk factors such as currency, fixed income and interest rates was improved.

Looking ahead to the new financial year 2022, it is expected that the activity related to currency products will continue to be a central pillar of the strategy and, in this regard, projects related to the Sabadell Forex platform will be promoted to provide differential services of value to customers. As regards the institutional customer segment, work will continue to expand the international investor base for capital market products. 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.

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 (Mergers & Acquisitions) areas, it provides advice on company acquisitions and sales, mergers and the incorporation of new shareholders.

2021 has been the year of consolidation of the MMCC franchise for companies in Banco Sabadell, as well as the start of the commercialisation of several of the projects launched.

The team is once again one of the most active in the origination of public issues, having participated in more than 60 public issuances, most notably those of corporates and financial issuers. 2021 was another record year in terms of the Capital Markets Division's participation in commercial paper programmes, maintaining a market share of over 15%.

One of the basic pillars of activity is the closing of niche operations, such as Project Bonds, securitisations or Direct Lending, with a view to becoming a benchmark in the green world. Of particular note among the operations this year were the structuring of the financing of future credit rights through a securitisation fund and the design of derivatives for operation and maintenance contracts for power generation plants. The purchase of the credit rights has been financed with a long-term bond issue that has been listed on the MARF with an investment grade and green rating.

In renewable energy project bonds, a total of six operations were closed for an aggregate amount of 722 million euros, including two operations secured by a monoline with an S&P rating of AA, as well as three operations at Holdco level.

MMCC continues to focus on offering tailor-made financing solutions, in bond or loan format, in various sectors, from Real Estate to Infrastructure, especially in the domestic middle market segment.

The Equity Capital Markets team has strengthened its position with a number of operations, including being Bookrunner of the Cellnex capital increase and the IPO of Ecoener, as well as co-leads in the IPO of Acciona Renovables.

In Mergers and Acquisitions (M&A), the Bank advised the shareholders of the Castellón-based tile manufacturer Equipe on its merger with Italy's Italcer, as well as the Valencian pre-prepared convenience food company Foodiverse on the purchase of the healthy food wholesaler Comfresh; advised Alicante-based Chocolates Valor on the purchase of Portuguese chocolate and confectionery company Imperial; the shareholders of the hybrid plant Termosolar de Borges on its sale to Q Energy and the shareholders of a 14MW wind farm to Italy's PLT Energía. It has also advised the Gipuzkoan seafood products company Angulas de Aguinaga in the purchase of the Italian fish ready meals company Deligusti and the Navarre-based photovoltaic capital goods company STI Norland in its sale to the US company Array.

MMCC's strategy in 2022 is to consolidate, maintain and improve the quality standards in the activity, mainly in the process of channelling institutional financing to our SME customers, as well as to conclude the commercialisation of two large projects such as the Senior Debt Fund and the institutional factoring initiative.

Trading, Custody and Research

CCA is the unit responsible, as product manager, for the group's equities, performing the functions of execution in equities, through the trading desk, both in domestic markets, where it acts as a member, and in international markets, as a mere intermediary.

It has an Analysis Department whose objective is to guide and recommend investments in equity and loan markets for customers. To this end, they produce podcasts, webinars, videos, daily reports, sectoral reports, company reports, etc.

During the first half of 2021, the transfer of the institutional depository business' assets that Banco Sabadell had been carrying up until now was completed. The transfer marked the completion of the acquisition transaction signed on 28 March 2020 between Banco Sabadell and BNP Paribas Securities Services S.C.A., Sucursal en España.

Developments were also made to the online platforms throughout 2021, in line with the new strategic objectives of the Banco Sabadell Group, based on the pillars of sustainability, digitalisation and customer focus. These developments, which will continue over the next few years, will considerably increase the level of service offered to the customer, with better solutions in transaction processing and greater support in decision-making.

The renewal of the online platform, with a major qualitative leap in information service and market access compared to the previous one, has provided customers with quality solutions based on self-service, enabling them to make investment decisions with maximum efficiency.

Currently, 95% of orders are channelled directly by customers, using the tools that Banco Sabadell makes available to them, with the mobile application being the preferred channel for these operations.

For the 2022 financial year, the main objective is to increase brokerage volumes in the Spanish and international equity markets, based on three main lines of action: the continuous improvement of the customer satisfaction, adding value with the recommendations and investment ideas of our analysis service; the creation of new ways of investing in the stock market, with new products that meet the needs and expectations of the most advanced investors in the financial markets and, thirdly, the determined promotion of our international agent banking service for Spanish listed companies that seek financing in international regulated markets, both equities and fixed income.

4.2 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 model, including fully digital (internet and mobile), telephone and national branch banking service.

We believe that TSB's multi-channel offer creates an opportunity for TSB to serve customers better. Customers want a bank that gives them access to both skilled people and simple digital tools to meet their banking needs and this, in turn, improves their confidence in managing their money. TSB continues to invest in the development of digital products and services that meet current and future customer needs. Combined with the way that TSB serves its customers over the phone or in its network of branches across the whole of the country, TSB lives up to its purpose of "Money Confidence. For Everyone. Every day."

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 team priorities in 2021

While 2020 was defined by the response to the pandemic, 2021 was about getting back to growth and delivering the Money Confidence purpose. The three-year strategy, launched in 2019, is based on three pillars: customer focus, simplification and efficiency, and operational excellence. This strategy will be finalised next year when the Board and Executive Committee will incorporate our strategic developments and prepare the bank for even greater success in the future as we develop the next phase of the TSB story.

Executing Strategy

TSB's customer service is improving and customers have more ways of engaging with the bank than ever before. TSB is a simpler, more efficient and more resilient bank and has become more streamlined in how customers are supported with both modern digital services and reassuring personal support in branch or over the phone when life events demand it.

In 2021 TSB recorded:

- outstanding growth in mortgages, breaking all previous records for TSB, including helping more than 16,000 first-time buyers to get their foot on the first rung of the property ladder;
- the new Spend & Save Plus current account – with additional features to help customers manage their money;
- partnerships that increase customers' financial security, such as with Wealthify and Freedom Finance; and
- 135 branch upgrades, and over 40 new ‘pop-up’ services to enhance our service to customers.

The new Technology Hub in Edinburgh and cloud-based architecture has provided a robust and stable digital platform that offers customers more convenient services quickly and cost-effectively. The enthusiasm of TSB’s colleagues to adopt a digital-first approach has meant that better services can be provided more flexibly, including new video consultations for mortgage customers and chatbot TSB Smart Agent in the mobile app. Together, these have contributed to improved Net Promotor Scores (NPS) by customers for banking on mobile in the second half of the year.

TSB workers have taken ownership of the bank's purpose: “Money confidence. For Everyone. Every day” and find new ways to support customers, particularly through the continuing challenge of the COVID-19 pandemic.

Customers increasingly expect more from companies and want the brands they deal with to share their values. TSB’s responsible business strategy – the Do What Matters Plan – ensures that the bank continues to grow sustainably and do the right thing by customers, colleagues and the communities that TSB serves. For TSB, this means setting the gold standard for consumer protection through its industry-leading Fraud Refund Guarantee, paying suppliers promptly, ensuring there are more women in senior roles, working towards stretching diversity goals, and getting on with the vital work to achieve operational net zero by 2030.

Key figures

Net profit stood at 118 million euros as of the end of the 2021 financial year, representing an improvement on last year’s figure of -220 million euros, due to higher core revenues, lower costs and fewer provisions.

Net interest income amounted to a total of 1,011 million euros, 14.3% higher than in the previous year due to the strong growth of mortgage volumes.

Net fees and commissions increased by 24.9% year-on-year, mainly due to higher service fees, particularly card fees.

Operating expenses stood at -785 million euros and decreased by -10.3% year-on-year, due to the improvement of both staff expenses and general expenses. In 2021, -19 million euros of non-recurring costs are recorded as a result of office closures.

In 2021 the expense for provisions and impairments has been offset by the release of provisions for COVID-19 due to updated macroeconomic scenarios with minor unemployment and a higher house price index. The previous year incorporated extraordinary provisions associated with the impact of COVID-19.

Tax relief of 23 million euros is recorded under corporation tax in 2021 related to the UK parliament's enactment of a corporation tax increase from 19% to 25% to take effect as from April 2023.

Million euro

	2021	2020	Year-on-year change (%)
Net interest income	**1,011**	**885**	**14.3**
Fees and commissions (net)	121	96	24.9
Core revenues	**1,132**	**981**	**15.3**
Net trading income and exchange differences	2	25	(90.3)
Equity-accounted income and dividends	—	—	-
Other operating income and expenses	(33)	2	(2,096.3)
Gross income	**1,101**	**1,008**	**9.2**
Operating expenses and depreciation and amortisation	(942)	(1,035)	(9.0)
Pre-provisions income	**159**	**(27)**	**(685.4)**
Provisions and impairments	—	(240)	(100.0)
Gains on sale of assets and other results	(9)	(4)	120.6
Profit/(loss) before tax	**150**	**(271)**	**(155.4)**
Corporation tax	(32)	51	(162.6)
Profit or loss attributed to minority interests	—	—	-
Profit attributable to the Group	**118**	**(220)**	**(153.7)**
ROE (profit / average shareholders' equity)	4.5 %	— %	
Cost-to-income (general administrative expenses / gross income)	71.3 %	86.8 %	
NPL ratio	1.4 %	1.3 %	
NPL coverage ratio of stage 3 with total provisions	38.1 %	57.4 %	

In TSB, gross performing loans to customers has grown by 19.1% year-on-year, supported by the appreciation of sterling. At a constant exchange rate, this item increased by 11.3% year-on-year due to the growth of the mortgage portfolio.

On-balance sheet customer funds increased by 11.9%. At a constant exchange rate, there has been a growth of 4.6% year-on-year due to the increase in current accounts reflecting higher levels of consumer saving.

Million euro

	2021	2020	Year-on-year change (%)
Assets	**55,657**	**47,284**	**17.7**
Gross performing loans to customers	44,050	36,977	19.1
Liabilities	**53,012**	**45,566**	**16.3**
On-balance sheet customer funds	42,779	38,213	11.9
Wholesale funding in the capital markets	2,975	2,319	28.3
Allocated capital	**2,645**	**1,736**	**52.3**
Off-balance sheet customer funds	**—**	**—**	**-**
Other indicators			
Employees	5,762	6,709	(14.1)
Branches	290	454	(36.1)

4.3 Banking Business Mexico

Business overview

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

The business was established in Mexico through an organic project with the creation of two financial vehicles, starting with a SOFOM (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 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, 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 loans. By the end of 2021, the closure of the digital businesses began as a strategy to give greater impetus to traditional banking, which will be completed by the beginning of 2022.

Management priorities in 2021

During the year, the global COVID-19 pandemic continued to wreak havoc, affecting various sectors of the economy in Mexico and other countries, leading to the closure of businesses and hence a slowdown in lending and higher non-performing loans (NPLs). In this context, the Mexican subsidiaries (Banco Sabadell, IBM) performed well, since the numbers are above the budget for the year.

During 2021, 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 Fiduciary Division and the transaction of Derivative Financial Instruments were strengthened, enabling a more comprehensive service to be offered to the structured finance segment, which strengthens the link with customers.
- In Business Banking, we continued to enhance our transactional capabilities, an initiative that will continue in 2022. 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.
- In the Retail Banking segment, the decision was taken at the end of the year to start closing the digital businesses in order to focus on those businesses where there are greater competitive advantages that will improve the Bank's profitability.

Other horizontal initiatives implemented in the year include: 1) a delinquency prevention plan with restructuring support, 2) strengthening IT architecture, and 3) 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 2021 in line with that of Banco Sabadell Group to determine the main lines of strategic approach 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 income 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 customer onboarding platform.

On 6 July, HR Ratings ratified the long-term and short-term credit ratings in Mexican national scale, maintaining HR AA+ (long-term) with Stable Outlook and also maintaining HR1 (short-term) which is based on the financial and operational support from Banco Sabadell, and which continues to show low delinquency levels, in addition to solvency levels and the diversification of the loan portfolio per geographic area.

Key figures

Net profit at the end of the 2021 financial year amounted to 1 million euros, representing a decline in year-on-year terms, mainly due to reduced net interest income and increased costs and provisions.

Net interest income amounted to 113 million euros having fallen by -1.4%, affected by reduced volumes.

Net fees and commissions amounted to 11 million euros, 41.6% higher than the previous year due to one-off transactions and increased activity.

Operating expenses stood at -81 million euros having increased year-on-year, mainly due to higher staff and IT costs.

Provisions and impairment losses amounted to -32 million euros, higher than in the previous year mainly due to impairment and credit risk calculation models update.

Million euro

	2021	2020	Year-on-year change (%)
Net interest income	**113**	**114**	**(1.4)**
Fees and commissions (net)	11	7	41.6
Core revenues	**123**	**122**	**1.2**
Net trading income and exchange differences	—	4	(98.1)
Equity-accounted income and dividends	—	—	—
Other operating income and expenses	(10)	(14)	-
Gross income	**114**	**112**	**1.3**
Operating expenses and depreciation and amortisation	(89)	(82)	9.4
Pre-provisions income	**24**	**30**	**(20.5)**
Provisions and impairments	(32)	(28)	17.4
Gains on sale of assets and other results	(0.011)	—	-
Profit/(loss) before tax	**(8)**	**3**	**(382.0)**
Corporation tax	9	1	557.9
Profit or loss attributed to minority interests	—	—	-
Profit attributable to the Group	**1**	**4**	**(88.1)**
ROE (profit / average shareholders' equity)	0.1 %	0.8 %	
Cost-to-income (general administrative expenses / gross income)	71.1 %	64.3 %	
NPL ratio	1.0 %	0.5 %	
NPL coverage ratio of stage 3 with total provisions	265.7 %	231.6 %	

Gross performing loans to customers grew by 5.6% year-on-year, supported by the appreciation of the Mexican peso. At a constant exchange rate, this item fell by -1.3% due to a conservative policy for granting new loans.

On-balance sheet customer funds increased by 23.0% year-on-year, supported by the evolution of the Mexican peso exchange rate. At a constant exchange rate, this item increased by 16.2%.

Million euro

	2021	2020	Year-on-year change (%)
Assets	**5,128**	**4,584**	**11.9**
Gross performing loans to customers	3,773	3,574	5.6
Real estate exposure (net)	—	—	—
Liabilities	**4,550**	**4,041**	**12.6**
On-balance sheet customer funds	2,453	1,993	23.1
Allocated capital	**578**	**551**	**4.9**
Off-balance sheet customer funds	**—**	**—**	**—**
Other indicators			
Employees	453	489	(7.4)
Branches	15	15	—

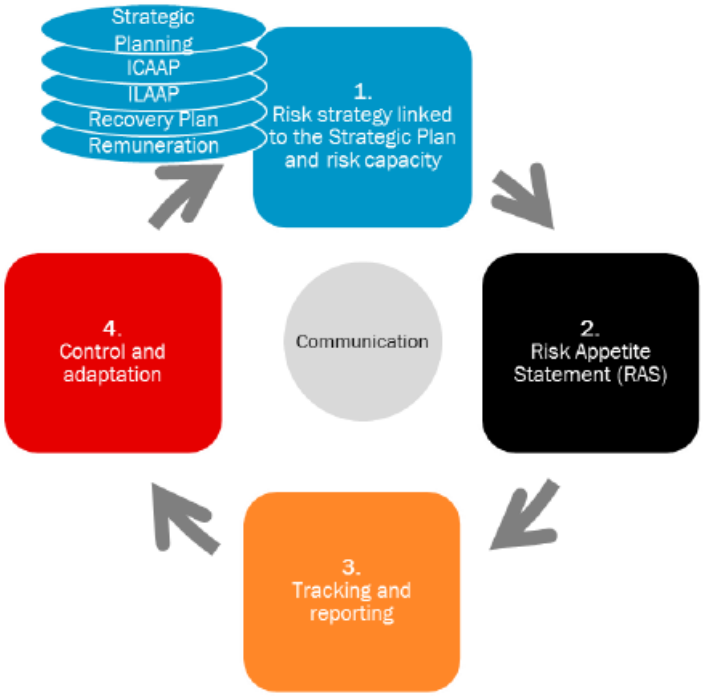
5 - RISKS

In 2021, Banco Sabadell Group continued to strengthen its Global Risk 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 2021 milestones in risk management and control

Below are the most noteworthy aspects in terms of their management and actions of the first-tier risks identified in Banco Sabadell Group's risk taxonomy in 2021:

Strategic risk

Definition: 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 to adapt the Group's business model to the evolution of the environment in which it operates.

Main milestones in 2021:

(i) Strategy and reputation

– An outstanding position supporting customers during the health crisis and in the transition towards a more digital model.

(ii) TSB

– Throughout 2021, TSB has been completing the actions of its Master Plan to improve profitability and efficiency.

(iii) Improvement of the capital position

– The CET1 ratio improved to 12.22% in fully-loaded terms at 2021 year-end, driven significantly by organic capital creation. Generalised capital compliance with regulatory requirements.

– Total capital also improved, ending 2021 at 17.65%, and the leverage ratio increased from 5.04% to 5.81% year-on-year (in fully-loaded terms).

(iv) Profitability

– Group net profit amounted to 530 million euros in 2021. The Group's banking revenues remain strong and are close to pre-crisis levels.

– Additionally, during 2021, a series of efficiency initiatives have been launched in Spain, which will help reduce recurrent costs and which include further digitalisation of customer services and process re-engineering.

Credit risk

Definition: credit risk refers to the risk of incurring losses as a result of borrowers' failure to comply with payment obligations, as well as experiencing a loss of value due to the impairment of borrowers' creditworthiness.

Main milestones in 2021:

(i) Non-performing assets

– Slight increase in the NPL ratio from 3.6% to 3.7%, mainly due to higher inflows from the regulatory changes in TSB and the repurchase of non-performing Spain portfolios.

(ii) Concentration

– From a sectoral point of view, diversified loan book with limited exposure to sectors with higher sensitivity to COVID-19 and with a downward trend.

– Also, in terms of individual concentration, the downward trend in the concentration risk metrics of large exposures continues, due to both a lower exposure (numerator) and an increase in capital (denominator). The credit rating of the largest exposures is affected, albeit not significantly, by a deterioration of balance sheets, resulting from the health crisis.

– In geographical terms, the portfolio is positioned in the most dynamic regions, both nationally and internationally. International lending continues to account for around a third of the loan book.

(iii) Lending performance

– Gross performing loans continued to grow year-on-year in all geographies with growth of +2.3% in Spain, +19.1% at TSB and +5.6% in Mexico per annum.

– In Spain, year-on-year growth was mainly supported by commercial loan to companies, SMEs and the self-employed as well as by the increase in individual mortgage. The project finance portfolio was also dynamic, with particular traction in sustainable projects.

(iv) TSB loan performance.

– At TSB, all loan categories showed solid growth, especially in mortgages. Growth in mortgages benefited from increased mortgage market activity as well as TSB's operational resilience to absorb the increase in demand. Consumer loans and personal loans increased once the lockdown was lifted.

Finance risk

Definition: possibility of obtaining insufficient profitability or having insufficient liquidity such as to prevent compliance with requirements and future expectations.

Main milestones in 2021:

(i) Robust liquidity position

– Solid liquidity position, where the LCR (Liquidity Coverage Ratio) stands at 221% at the end of 2021 at Group level (194% at MLU TSB and 254% at Banco Sabadell Spain) and the NSFR (Net Stable Funding Ratio) at 141% at Group level (149% at MLU TSB and 137% at Banco Sabadell Spain) both at the end of 2021, after having optimised funding sources with access to new long-term financing from the ECB (TLTRO III) for a total amount of 32,000 million euros and with the Bank of England (TFSME) for an amount of 6,545 million euros, as well as maintaining a growing generation of commercial gap in 2021.

– The loan to deposits ratio at the closure of September 2021 is 96.3% with a balanced retail funding structure.

– Moreover, as regards capital markets, in 2021, Banco Sabadell fulfilled its issuance plan, and its strong investor appetite enabled it to optimise the associated costs.

(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 portfolio 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 2021:

(i) Digital transformation

– Sustained increase in the use of digital/assisted channels both in terms of volume and type of transactions, mainly due to the effects of the COVID-19 pandemic and the change in the business model, mainly at the retail level. 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.

– The implementation and adoption of telework, also derived from COVID-19, also caused a change in the risk profile associated with the execution of internal processes and it was necessary to implement specific controls aimed at protecting employees and information, incorporating the massive adoption of secure corporate laptops which have proven to be effective, as no events or incidents related to this new situation and way of working have been detected.

(ii) Business model transformation

– As a result of the changes and adaptations made on the occasion of COVID-19 and within the new Strategic Plan, the process of change and transformation towards a digital business model has been accelerated, in which customer relations have evolved towards greater use of non-face-to-face channels and, consequently, a reduction in the branch network.

– This process of change has driven the adaptation of the entity's systems, processes and activities, ensuring the robustness of the existing control environment, minimising exposure to risks and developing and implementing new opportunities arising from the transformation associated with the new business model.

Compliance risk

Definition: compliance risk, which is part of operational risk, is defined as the possibility of incurring legal or administrative sanctions, significant financial losses or reputational losses due to non-compliance with laws, regulations, internal rules and codes of conduct applicable to the banking business, minimising the possibility of non-compliance and ensuring that any non-compliance that may occur is identified, reported and dealt with diligently.

Main milestones in 2021:

(I) Promoting a culture of ethics and compliance among employees

- Designing and approving the new Code of Conduct.
- Strengthening of the Regulatory School to cover the training needs of employees in a user-friendly way in each of its classrooms: Regulators and Supervisors Classroom, Ethics and Conduct Classroom, Sale and Contracting of Products and Services Classroom, Prevention of Money Laundering and Counter-Terrorist Financing Classroom, Data Protection Classroom and Customer Service Space.

(ii) Planning and monitoring

- The Compliance function establishes, applying the principle of proportionality in accordance with the nature, volume and complexity of its activities, a Compliance Programme which includes a detailed planning of its activities. This programme covers all services provided and activities carried out by the entity and defines its priorities based on the assessment of compliance risk and in coordination with the Risk Control function.
- In order to guarantee the effectiveness of the Programme, two half-yearly Monitoring Plans have been drawn up, which include two types of information: those that illustrate the activities developed from a quantitative perspective, with KPI linked to the operational execution of the programme, and those that deal with qualitative variables.
- The action plan required to implement in the Bank the new obligations of Royal Decree Law 7/21, which transposes the 5th EU directive on the prevention of money laundering and terrorist financing, has been carried out.

(iii) Relationship with supervisors

- Management maintains constant interaction with the main authorities supervising the Bank's activities.
- All requests received from the different supervisors have been dealt with within the established deadlines.

(iv) Incorporation of the Customer Service Department into the Compliance Division

- In May 2021, as a result of the new structure designed and aligned with the new Bank of Spain Banking Guidelines published in July 2021, the Customer Service Department will be incorporated into the Compliance Division, initiating a process of adaptation to its organisation and functioning.

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 3 "Risk management" in the Annual Accounts for 2021.

6 – OTHER MATERIAL INFORMATION

6.1 R&D and innovation

The Group's technological activities have responded to the particular needs of each geographic area, particularly in Spain, where digitalisation, the strengthening of the new technological platform and the implementation of new working methods for employees stood out, while maintaining the search for efficiency and productivity. At TSB, efforts were focused on improving business capabilities and new channels of communication with customers.

In the domestic market

During 2021, a key focus has been the search for increased operational efficiency, leveraging on digitalisation and data management. In addition, the resilience and innovation of the technology platform has been strengthened by adopting the latest market trends.

Within the Retail and Business Banking area, of note were the digitalisation initiatives such as a new online support channel with a virtual assistant based on conversational capabilities and machine learning that enables customers to obtain immediate answers, a new 100% digital on-boarding system that makes it easier to attract new customers without the need to visit one of our branches, the promotion of new card-related functionalities, such as online contracting with direct download to the mobile wallet, and the enhancement of the user experience by improving our mobile application, which stands out as one of the leaders in app shop ratings.

At the branch level, with the aim of enhancing customer self-service capabilities and seeking greater efficiency in employees' tasks, new state-of-the-art ATMs and recyclers have been added, as well as improvements in communications systems.

Additionally, in 2021, the evolution of the new architecture PROTEO4 has continued, which enables the deployment of container-based applications both on-premises and in the public cloud in a transparent manner. The use of the public cloud allows us to shorten the time to market and improve the resilience and scalability of our digital services to customers. In the same framework, the Discovery programme has consolidated the use of new data centres and made progress in the decommissioning of old data centres, improving application performance and simplifying infrastructure management.

Another notable area was the management, governance and use of data, including the Data1, Horus and DoD – Definition of Default – programmes, consolidating the initiatives already started in 2020, which aim to automate data processing, create self-service models and strengthen and increase agility in the preparation of financial and regulatory reporting.

Finally, in the first quarter of 2021, the Next Generation Workplace programme will be completed, with the aim of enabling new work models for employees, providing them with new equipment and capabilities to develop their day-to-day work in a more flexible and efficient way.

In the international context

At TSB, much of the focus has been on providing new digital products, as well as improving the user experience in digital channels. These include conversational banking programmes and PCA (Personal Current Account) enhancement. Initiatives have also been implemented to improve efficiency, notably the Automation Factory programme and to improve card operations by boosting self-service.

6.2 Acquisition and sale of treasury shares

See note 22 to the Annual Accounts

6.3 Average period of payment to suppliers

The average period of payment to suppliers by consolidated undertakings based in Spain was 27.30 days (11.35 days in the case of the Bank).

6.4 Material post-closing events

No material events meriting disclosure have occurred since 31 December 2021.

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 2021, which, in accordance with article 44 of the Commercial Code, is attached as a separate document to the 2021 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.

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 unaudited measures commonly used in the banking sector (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 in this section the definition, calculation and reconciliation for each APM.

Performance measure	Definition and calculation	Use or purpose
Gross performing loans to customers	Also known as outstanding loans, it 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 the yield and cost of customer-related assets and liabilities, i.e., the contribution to net interest income from customer-only business. 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 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.
Gains on sale of assets and other results	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. 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 at 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). The numerator takes into account the annualisation of the profit earned to date. 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 at credit institutions (IDEC), except at year-end. 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. The numerator takes into account the annualisation of the profit earned to date. 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 at credit institutions (IDEC), except at year-end. 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 profitability on the Group's own funds.
ROTE	Profit attributable to the Group/average own fund. The numerator takes into account the annualisation of the profit earned to date. 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 at credit institutions (IDEC), except at year-end. 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 profitability on own funds, but excluding goodwill from its calculation.
Cost-to-income ratio	Administrative expenses on adjusted gross income. The straight-line accrual and the contribution to the guarantee and settlement funds and the tax on deposits of credit institutions has been made, except on year-end.	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.	Key figure 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 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 credit risk (bps)	The ratio between provisions for loan losses / loans to customers and guarantees given. The numerator takes into account the linear annualisation of loan-loss provisions. 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 considers the straight-line annualisation of the profit (or loss) earned to date adjusted by the amount of the Additional Tier I coupon, after tax, recorded in own funds. 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 deposits at credit institutions (IDEC), except at year-end.	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 corresponds to the sum of shareholders' equity, adjusted for the relative accrual of contributions to the guarantee and resolution funds (DGF and SRF), and the tax on deposits at credit institutions (IDEC), except at year-	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. Tangible book value corresponds to the sum of shareholders' equity and adjusted for intangible assets and goodwill of investees, as well as for the relative accrual of contributions to the guarantee and resolution funds (DGF and SRF), and the tax on deposits at credit institutions (IDEC), except at year-end.	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.

Equivalence of headings from the income statement of businesses and management units that appear in the Note 38 on segmented 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 of investments in joint ventures and associates).
- Impairment or (-) reversal of impairment on non-financial assets.
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excludes gains or (-) losses from the sale of equity interests).
- Gains or (-) losses on derecognition of non-financial assets and interests, net (only includes gains or (-) losses from the sale of investment property).

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 of 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 from the sale of equity interests).
- Gains or (-) losses on derecognition of non-financial assets and interests, net (only includes gains or (-) losses from the sale of investment property).

Gains on sale of assets and other results:

- Gains or (-) losses on derecognition of non-financial assets and interests, net (excludes gains or (-) losses from the sale of investment property).
- 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 from the sale of equity interests).

(*) Sub-headings in the consolidated income statement expressed in brackets denote negative figures.

APMs reconciliation (data in million euros, with the exception of those shown in percentages).

BALANCE SHEET	31/12/2021	31/12/2020
Gross loans to customers/Gross performing loans to customers		
Mortgage loans & credit	90,718	83,573
Loans and credit secured with other collateral	3,596	3,698
Commercial loans	6,050	4,991
Financial leasing	2,106	2,230
Overdrafts, etc.	52,443	52,386
Gross performing loans to customers	**154,912**	**146,878**
Assets in stage 3 (customers)	5,698	5,320
Accruals adjustments	58	3
Gross loans to customers, excluding repos	**160,668**	**152,201**
Repos	-	63
Gross loans to customers	**160,668**	**152,265**
Impairment allowances	(3,302)	(3,081)
Loans and advances to customers	**157,366**	**149,183**
On-balance sheet customer funds		
Financial liabilities at amortised cost	235,179	217,391
Non-retail financial liabilities	73,159	66,612
Deposits - central banks	38,250	31,881
Deposits - credit institutions	8,817	10,083
Institutional issues	21,270	20,905
Other financial liabilities	4,822	3,743
On-balance sheet customer funds	**162,020**	**150,778**
On-balance sheet funds		
Customer deposits	162,239	151,270
Sight deposits	147,268	130,295
Deposits with agreed maturity, including deposits redeemable at notice and hybrid financial liabilities	14,813	20,805
Repos	60	13
Accrual adjustments and hedging derivatives	98	157
Debt securities in issue	16,822	17,510
Subordinated liabilities (*)	4,229	2,903
On-balance sheet funds	**183,290**	**171,683**
Off-balance sheet customer funds		
Mutual funds	24,593	21,366
Asset management	3,795	3,298
Pension funds	3,525	3,349
Insurance products sold	9,765	10,051
Off-balance sheet customer funds	**41,678**	**38,064**
Funds under management and third-party funds		
On-balance sheet funds	183,290	171,683
Off-balance sheet customer funds	41,678	38,064
Funds under management and third-party funds	**224,968**	**209,748**

(*) Subordinated liabilities in connection with debt securities.

BALANCE SHEET	31/12/2021	31/12/2020
Other assets		
Derivatives – Hedge accounting	525	550
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(4)	459
Tax assets	7,027	7,152
Other assets	620	908
Non-current assets and disposal groups classified as held for sale	778	976
Other assets	**8,946**	**10,044**
Other liabilities		
Derivatives – Hedge accounting	512	783
Fair value changes of the hedged items in portfolio hedge of interest rate risk	19	372
Tax liabilities	205	206
Other liabilities	768	883
Liabilities included in disposal groups classified as held for sale	-	-
Other liabilities	**1,505**	**2,244**

INCOME STATEMENT	31/12/2021	31/12/2020
Customer spread		
Loans and advances to customers (net)		
Average balance	152,176	144,207
Profit/(loss)	3,513	3,628
Rate (%)	2.31	2.52
Customer deposits		
Average balance	162,749	152,495
Profit/(loss)	(88)	(223)
Rate (%)	(0.05)	(0.15)
Customer spread	**2.26**	**2.37**
Other operating income and expenses		
Other operating income	155	225
Other operating expenses	(467)	(509)
Income from assets under insurance or reinsurance contracts	-	-
Expenses on liabilities under insurance or reinsurance contracts	-	-
Other operating income and expenses	**(313)**	**(284)**

	31/12/2021	31/12/2020
Pre-provisions income		
Gross income	5,026	5,302
Administrative expenses	(2,781)	(2,938)
Staff expenses	(1,777)	(1,885)
Other general administrative expenses	(1,004)	(1,054)
Depreciation and amortisation	(527)	(523)
Pre-provisions income	**1,719**	**1,841**
Total provisions and impairments		
Impairment or reversal of impairment on investments in joint ventures and associates	(9)	-
Impairment or reversal of impairment on non-financial assets, adjusted	(106)	(37)
Impairment or reversal of impairment on non-financial assets	(106)	(40)
Gains or losses on sales of investment properties	-	4
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, adjusted	(63)	(217)
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(7)	103
Gains or losses on sale of equity holdings	(55)	(320)
Other provisions and impairments	**(178)**	**(254)**
Provisions or reversal of provisions	(88)	(275)
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 gains or losses	(960)	(1,745)
Provisions for loan losses and financial assets	**(1,047)**	**(2,020)**
Total provisions and impairments	**(1,225)**	**(2,275)**
Gains on sale of assets and other results		
Gains or losses on derecognition of non-financial assets, net	71	(3)
Gains on sale of equity holdings	55	320
Gains or losses on sale of investment properties	-	(4)
Gains on sale of assets and other results	**126**	**313**

PROFITABILITY AND EFFICIENCY	31/12/2021	31/12/2020
ROA		
Average total assets	245,313	227,639
Consolidated profit or loss for the year	539	3
ROA (%)	**0.22**	**0.00**
RORWA		
Risk-weighted assets (RWAs)	80,646	78,858
Net profit attributable to the Group	530	2
RORWA (%)	**0.66**	**0.00**
ROE		
Average shareholders' equity	13,106	13,151
Net profit attributable to the Group	530	2
ROE (%)	**4.05**	**0.02**
ROTE		
Average shareholders' equity (excluding intangible assets)	10,508	10,558
Net profit attributable to the Group	530	2
ROTE (%)	**5.05**	**0.02**
Cost-to-income ratio		
Gross income	5,026	5,302
Administrative expenses	(2,781)	(2,938)
Cost-to-income ratio (%)	**55.33**	**55.41**

RISK MANAGEMENT	31/12/2021	31/12/2020
Stage 3 exposures		
Loans and advances to customers	5,729	5,351
Stage 3 guarantees given	475	457
Stage 3 exposures	**6,203**	**5,808**
NPL coverage ratio of stage 3 with total provisions		
Provisions for loan losses	3,495	3,279
Stage 3 exposures	6,203	5,808
NPL coverage ratio of stage 3 with total provisions (%)	**56.3 %**	**56.5 %**
NPL coverage ratio of stage 3		
Provisions for stage 3 loan losses	2,553	2,272
Stage 3 exposures	6,203	5,808
NPL coverage ratio of stage 3 (%)	**41.2 %**	**39.1 %**
NPA exposures		
Stage 3 exposures	6,203	5,808
Non-performing real estate assets	1,362	1,373
NPA exposures	**7,565**	**7,182**
NPA coverage ratio (%)		
Provisions for non-performing assets	4,014	3,781
Non-performing assets	7,565	7,182
NPA coverage ratio (%)	**53.1 %**	**52.6 %**
Non-performing real estate coverage ratio (%)		
Provisions for non-performing real estate assets	520	502
Non-performing real estate assets	1,362	1,373
Non-performing real estate coverage ratio (%)	**38.2 %**	**36.6 %**
NPL ratio (%)		
Stage 3 exposures	6,203	5,808
Loans to customers and guarantees granted	169,937	161,474
NPL ratio (%)	**3.7 %**	**3.6 %**
Cost of credit risk (bps)		
Loans to customers and guarantees given	169,937	161,474
Provisions for loan losses	(950)	(1,832)
NPL expenses	(118)	(117)
Provisions for institutional portfolio sales	-	(325)
Cost of credit risk (bps)	**49**	**86**

LIQUIDITY MANAGEMENT	31/12/2021	31/12/2020
Loan-to-deposit ratio		
Net loans and advances excluding ATAs, adjusted for brokered loans	156,076	147,143
On-balance sheet customer funds	162,020	150,778
Loan-to-deposit ratio (%)	**96.3 %**	**97.6 %**

SHAREHOLDERS AND SHARES	31/12/2021	31/12/2020
Average number of shares (million)	5,586	5,582
Share price	0.592	0.354
Market capitalisation (million euros)	**3,306**	**1,976**
Adjusted profit attributable to the Group	430	(71)
Profit attributable to the Group	530	2
Adjustment for accrued AT1	(101)	(73)
Average number of shares (million)	5,586	5,582
Earnings per share (euros)	**0.08**	**(0.01)**
Shareholders' equity	13,357	12,944
Average number of shares (million)	5,586	5,582
Book value per share (euros)	**2.39**	**2.32**
Shareholders' equity	13,357	12,944
Intangible assets	2,607	2,622
Tangible book value (adjusted shareholders' equity)	10,750	10,322
Average number of shares (million)	5,586	5,582
TBV per share (euros)	**1.92**	**1.85**
Share price	0.592	0.354
Book value per share (euros)	2.39	2.32
Price/Book value	**0.25**	**0.15**
Share price	0.592	0.354
Earnings or (-) loss per share EPS (euros)	0.08	(0.01)
Price / Earnings ratio (P/E)	**7.69**	**(27.75)**

Annual Corporate Governance Report for the year ended 31 December 2021

Banco Sabadell Annual Corporate Governance Report 2021

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[1] The letters used in the headings of the different sections of this report refer to the corresponding sections of the standardised model of the IAGC of the Spanish National Securities Market Commission (CNMV for its Spanish acronym).

Banco de Sabadell, S.A. (hereinafter, Banco Sabadell, the Bank, the Institution or the Entity) keeps, one more year, its commitment to strengthen and continuously improve its Corporate Governance, on which it has been working steadily in recent years. During financial year 2021, substantial improvements and progress have been made in the area of Corporate Governance, placing the Entity at the forefront of advanced corporate governance systems and aligned with best practices.

The Annual Corporate Governance Report (hereinafter ACGR) is drawn up with the information from the Bank at year-end 2021 and, together with the Annual Report on Director Remuneration, it forms part of the Directors' Report attached to the separate and consolidated Annual Accounts. It was approved unanimously by the Board of Directors at a meeting on 17 February 2022, in compliance with the provisions of article 540 of the Capital Companies Law and Circular 5/2013 of 12 June of the CNMV (Spanish National Securities Market Commission).

The preparation and format of the Report is governed by the provisions of Circular 5/2013, as amended by CNMV Circular 2/2018 of 12 June, CNMV Circular 1/2020 of 6 October and CNMV Circular 3/2021 of 28 September. Following the amendment introduced by the Circular 2/2018, of 12 June, the Annual Corporate Governance Report may be submitted in any PDF free format provided that it contains the disclosures defined in the regulations in force. Banco Sabadell, following the 2020 financial year, has once again opted for this format in order to explain and disclose, with maximum transparency, the main aspects contained therein. 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 2021

During the 2021 financial year, Banco Sabadell made substantial changes to improve and strengthen corporate governance, in line with best practices.

The Board of Directors submitted to the General Meeting of Shareholders a proposal to amend certain provisions of the Articles of Association, which was approved on 26 March 2021, and which essentially entailed the following:

— A Chairman with non-executive status, in line with the leading international banks and corporate governance best practices.
— A Strategy and Sustainability Committee to increase the focus of attention on strategic elements, sustainability and commitment to ESG (Environmental, Social and Governance) aspects.
— The Delegated Committee has been abolished and the Credit Delegated Committee has been set up to monitor and supervise credit risks on a weekly basis.
— The Appointments Committee has taken on all corporate governance functions and is now called the Appointments and Corporate Governance Committee, also focusing on the engagement on the ESG perspective.
— The functions of the Audit and Control Committee have been updated and revised.
— The possibility of holding the General Meeting of Shareholders online has been introduced, in line with the main Spanish listed companies.

Board of Directors

The composition of the Board of Directors during 2021 underwent the following changes:

— Following the amendment of the Articles of Association at the General Meeting of Shareholders held on 26 March 2021, the Chairman of the Board of Directors, Mr Josep Oliu Creus, became a non-executive Director and his status changed to that of Other External Director.
— Having obtained the relevant regulatory authorisations, Mr César González-Bueno Mayer Wittgenstein accepted the position of Chief Executive Officer on 18 March 2021.
— Mr Jaume Guardiola Romojaro resigned as a member of the Board of Directors on the same date being replaced as Chief Executive Officer.
— Director Ms María José García Beato became an Other External Director, effective 31 March 2021.
— Mr José Javier Echenique Landiribar tendered his resignation as Deputy Chairman and Independent Director of Banco Sabadell, for personal and professional reasons, at the meeting of the Board of Directors held on 28 July 2021 and was replaced as Deputy Chairman of the Board of Directors by Mr Pedro Fontana García on the same date.
— Mr Luis Deulofeu Fuguet was appointed Independent Director to fill the vacancy caused by the resignation of Mr José Javier Echenique Landiribar, by resolution of the Board of Directors on 28 July 2021, joining the Board for the first time at the meeting held on 27 October 2021, once the corresponding regulatory authorisations had been received.

Following these changes, the Board of Directors of Banco Sabadell is composed of its Chairman as a non-executive Director, ten Independent Directors, two executive Directors, one Other External Director and one Proprietary Director.

During the 2021 financial year, the Board of Directors of Banco Sabadell, together with its Appointments and Corporate Governance Committee, has had as a priority objective the increase of diversity within the Board. In this regard, the number of Executive Directors has decreased, the number of Independent Directors has been maintained, as well as the percentage of women, and the diversity of knowledge and experience has increased, in line with the recommendations of the CNMV.

On the other hand, during the financial year 2021, both the Board of Directors and the Appointments and Corporate Governance Committee have carried out an intense activity in order to adapt their composition and that of the Board Committees to the amendment of the Articles of Association approved by the General Meeting and the corresponding amendments to the Regulations of the Board of Directors and the Committees.

Committees of the Board of Directors

Changes in the Board Committees

Following the amendment of the Articles of Association, the following changes have been made to the structure of the Board of Directors Committees:

— A Strategy and Sustainability Committee has been set up comprising five non-executive Directors, the majority of whom are independent. The Chairman of the Committee shall be the Chairman of the Board of Directors. The Secretary of the Board of Directors shall be the Committee Secretary or, as appropriate, the person who acts as the Board's Deputy Secretary. In matters of strategy, the Chief Executive Officer shall participate in the meetings with the right to speak and vote, and, for this purpose, the Commitee shall be composed of six members. Its establishment enables the Board to handle matters of strategy thorough a prior analysis and to increase the focus on monitoring the strategic plan and to prioritise and drive sustainability and ESG engagement, while completing the adaptation of the Bank's governance system to the needs of the new sustainability-driven environment.

— A Credit Delegated Committee has been set up, comprising a maximum of five Directors, the majority of whom are independent, and who shall be appointed by the Board itself. The Board shall appoint one of the Committee members as its Chairman. The Secretary of the Board of Directors shall be its Secretary or, as appropriate, the person who acts as the Board's Deputy Secretary. The Committee analyses and, where appropriate, resolves credit operations in accordance with the assumptions and limits established by express delegation of the Board of Directors, and also emphasises the control of credit risks by means of weekly meetings on a detailed basis.

— The competences of the Audit and Control Committee in relation to the supervision of financial and non-financial information, the monitoring of the audit plan and internal audit services have been updated in the articles of association and regulations.

— The Appointments Committee has been given additional functions in the area of Corporate Governance and has therefore been renamed the Appointments and Corporate Governance Committee, and now has powers in relation to the reporting of internal corporate policies and standards, the supervision of corporate governance rules and relations with shareholders and investors, proxy advisors and other stakeholders.

Changes in the Composition of the Board Committees

As a consequence of the changes of the Committees due to the establishment of the new Board Committees and in order to maintain the due differentiation in their composition, on 26 March 2021, the Board of Directors:

— Appointed Ms Mireya Giné Torrens as Chairwoman of the Audit and Control Committee and as a member of the Appointments and Corporate Governance Committee.

— Appointed Ms Alicia Reyes Revuelta as a member of the Risk Committee.

— Appointed Mr Gonzalo Barettino Coloma, General Secretary and Deputy Secretary of the Board, as non-Director Secretary of the Credit Delegated Committee, the Remuneration Committee and the Risk Committee.

— It gave the newly constituted Strategy and Sustainability Committee the following initial composition: as Chairman, Mr Josep Oliu Creus and, as members, Mr José Javier Echenique Landiribar, Mr Pedro Fontana García, Ms María José García Beato, Mr José Manuel Martínez Martínez and Mr César González-Bueno Mayer Wittgenstein[2] , with the Secretary of the Board, Mr Miquel Roca i Junyent, as Secretary.

— It gave the new Credit Delegated Committee the following initial composition: as Chairman, Mr José Javier Echenique Landiribar and, as members, Mr Pedro Fontana García, Ms María José García Beato, Mr César González-Bueno Mayer Wittgenstein and Ms Alicia Reyes Revuelta, with the Deputy Secretary of the Board, Mr Gonzalo Barettino Coloma, as Secretary.

[2] In matters of strategy, the Chief Executive Officer shall participate in the meetings with the right to speak and vote, and, for this purpose, the Board shall be composed of six members.

On 28 July 2021, as a result of his resignation, Mr José Javier Echenique Landiribar ceased, to form part of the Credit Delegated Committee and the Strategy and Sustainability Committee, and Mr Pedro Fontana García is appointed Deputy Chairman of the Board as well as Chairman of the Credit Delegated Committee. On the same date, Mr Luis Deulofeu Fuguet is appointed member of the Credit Delegated Committee as well as the Strategy and Sustainability Committee. Mr Luis Deulofeu Fuguet accepts the positions as member of the Board of Directors and the respective Committees on 26 October 2021 after receiving the corresponding regulatory authorisations.

The current composition of the Board Committees is as follows:

Committee	Name	Position
Strategy and Sustainability	Josep Oliu Creus	Chairman
	Luis Deulofeu Fuguet	Member
	Pedro Fontana García	Member
	María José García Beato	Member
	César González-Bueno Mayer Wittgenstein*	Member
	José Manuel Martínez Martínez	Member
	Miquel Roca i Junyent	Non-member Secretary
Credit Delegated Committee	Pedro Fontana García	Chairman
	Luis Deulofeu Fuguet	Member
	María José García Beato	Member
	César González-Bueno Mayer Wittgenstein	Member
	Alicia Reyes Revuelta	Member
	Gonzalo Barettino Coloma	Non-member Secretary
Audit and Control	Mireya Giné Torrens	Chairman
	Pedro Fontana García	Member
	José Ramón Martínez Sufrategui	Member
	Manuel Valls Morató	Member
	Miquel Roca i Junyent	Non-member Secretary
Appointments and Corporate Governance	José Manuel Martínez Martínez	Chairman
	Anthony Frank Elliott Ball	Member
	Aurora Catá Sala	Member
	Mireya Giné Torrens	Member
	Miquel Roca i Junyent	Non-member Secretary
Remuneration	Aurora Catá Sala	Chairman
	Anthony Frank Elliott Ball	Member
	George Donald Johnston III	Member
	José Ramón Martínez Sufrategui	Member
	Gonzalo Barettino Coloma	Non-member Secretary
Risks	George Donald Johnston III	Chairman
	Aurora Catá Sala	Member
	Alicia Reyes Revuelta	Member
	Manuel Valls Morató	Member
	Gonzalo Barettino Coloma	Non-member Secretary

* Member on matters of strategy only.

Matrix of competencies and diversity in the Board of Directors

Since 2019, Banco Sabadell has had a competency and diversity matrix in place, which is revised annually by the Board of Directors. The latest review was carried out on 18 November 2021, coinciding with most recent appointment and the changes that took place within the Board of Directors.

As a result of this review, the competencies have been updated and standardised in the following areas: banking, retail and corporate; financial and capital markets; insurance; other financial competencies; accounting and auditing; risk management; planning and strategy; governance; risk control; anti money laundering and countering the terrorist financing; legal; digital and IT (digital transformation); human resources, culture, talent and remuneration; responsible business and sustainability; international experience; governing bodies; organisational management and leadership; business experience; governance and public policy; consulting; regulatory and supervisory bodies; academics; communication and institutional relations.

The Board has increased its diversity, in relation to the category of Directors and the knowledge, skills and experience, which have been strengthened in the following areas: retail banking and digital transformation.

The appointment of the Chief Executive Officer, Mr César González-Bueno Mayer Wittgenstein, brings to the Board someone with a profile with extensive experience in retail banking at the highest executive level, as well as experience in transformation and modernisation (digitalisation), highlighting his solid profile as Chief Executive Officer developed throughout his extensive career.

The appointment of Mr Luis Deulofeu Fuguet has leveraged the Board's expertise and experience, especially in retail banking and digital and IT (digital transformation) competence, IT risks and risk management, combined with the specific experience in the banking sector and the ability to apply such knowledge and skills to the banking business.

In terms of gender diversity, 27% of the Bank's Board in financial year 2021 were women, in line with the CNMV's general target of 30%. The Board and the Appointments and Corporate Governance Committee have made a commitment to ensure that the Board has a sufficient number of female Directors, promoting compliance with the objective of representing the under-represented sex.

New organisational structure

The Board of Directors at its meeting of 29 January 2021 appointed Mr Leopoldo Alvear Trenor as Chief Financial Officer, who has obtained the corresponding regulatory authorisation.

On 18 March 2021, the Board of Directors approved a new organisational structure to address the implementation of Banco Sabadell's new strategic plan. The Bank is structured into three large business units in Spain: Retail Banking, headed by Mr Miquel Montes Güell; Business Banking and Branches, headed by Mr Carlos Ventura Santamans; and Corporate Banking, headed by Mr José Nieto de la Cierva, where each unit is responsible for its income statement (income, expenditure, provisions and capital consumption). In this new organisational structure, Mr Gonzalo Barettino Coloma has been appointed General Secretary, Mr Marc Armengol Dulcet as Director of Operations and Technology and Ms Ana Ribalta Roig as Director of Sustainability, all of whom have obtained the corresponding regulatory authorisations.

The appointment of Ms Ana Ribalta as Director of Sustainability and the creation of this position in the structure with her inclusion as a member of the Management Committee represents a new step forward for the Entity in ESG matters.

The organisational structure is completed with the already existing Risk Regulation and Control unit, headed by Mr David Vegara Figueras, the Risk unit, headed by Mr Xavier Comerma Carbonell, and the Organisation and Resources unit, headed by Mr Miquel Montes Güell.

Sustainability as a key component of Corporate Governance

Sustainability has been a pivotal point during 2021 within Banco Sabadell's business purpose and strategy. In defining the Entity's overall strategy, business objectives and risk management framework, the Board of Directors takes climate and environmental risks into account and exercises effective oversight of these risks.

In July 2021, the Board of Directors updated its Sustainability Policy, which aims to provide a framework for all of the Institution's activities and organisation within ESG parameters, which incorporate environmental, social and corporate governance factors in decision-making and, at the same time, based on those parameters, seeks to respond to the needs and concerns of all of its stakeholders. The sustainability policy establishes the basic principles on which the Banco Sabadell Group is based to address the challenges posed by sustainability, and defines the parameters for managing them, as well as the organisation and governance structure necessary for their optimum implementation.

In 2021, following the amendment of the Articles of Association, a Strategy and Sustainability Committee was set up, which has the following remit with regard to sustainability:

— Review the Entity's sustainability and environmental policies.
— Advise the Board of Directors on any amendments and regular updates of the sustainability strategy.
— Review the definition and amendment of diversity and integration, human rights, equal opportunity and work-life balance policies and evaluate their degree of compliance on a regular basis.
— Review the Bank's social action strategy and its sponsorship and patronage plans.
— Review and report on the Entity's Non-Financial Disclosures Report before the Audit and Control Committee review and report thereon and its subsequent preparation by the Board of Directors.
— Receive information in connection with reports, written notices or communications from external supervisory bodies within the scope of this Committee's competences.

The Sustainability Committee, set up in 2020 and chaired from 2021 by the Deputy General Manager and head of the newly created Sustainability Division in 2021, Ms Ana Ribalta, is the body responsible for establishing the Bank's Sustainable Finance Plan and monitoring its implementation, defining and disseminating the general principles of action in the area of sustainability and promoting the development of projects and initiatives.

In addition, Banco Sabadell's Statement of Non-Financial Information (NFI) for financial year 2021, which forms part of the Consolidated Directors' Report for financial year 2021 and is attached to the Consolidated Annual Accounts as is this ACGR and is submitted for its approval by the Ordinary General Shareholders' Meeting as a separate item on the agenda, details the actions implemented in the area of sustainability and other non-financial information in accordance with Law 11/2018 in the area of non-financial information and diversity. Among the most relevant aspects of the NFI statement are the following:

— Progress in the Entity's commitment to sustainability and the Sustainable Finance Plan.
— The ESG commitments and initiatives to which the Bank has adhered (e.g. Principles for Responsible Banking, Net Zero Banking Alliance and the disclosure framework of the Task Force on Climate-related Financial Disclosures (TCFD)).
— The Entity's ESG materiality approach.
— The management of risks and opportunities linked to climate change.
— The contribution of business to sustainable financing.
— The Bank's commitment to the environment.
— Employee data including SmartWork, talent management, diversity, training and compensation.
— Commitment to society.
— The fight against bribery and corruption.
— Information regarding human rights.
— The actions carried out in terms of transparency and digitalisation.

Contents of the Annual Corporate Governance Report

1. Ownership structure (A)[3]

1.1. Share capital (A.1)

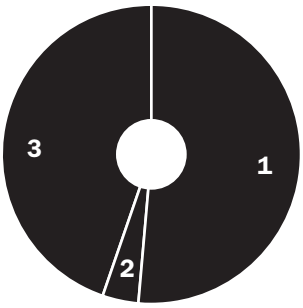
At 31 December 2021, the share capital of Banco Sabadell was 703,370,587.63 euros, represented by 5,626,964,701 registered shares, with a par value of 0.125 euros each, all fully subscribed and paid up, representing 5,626,964 voting rights, at a ratio of one right for every 1,000 shares. The share capital was last amended on 16 November 2017 and the Articles of Association do not contain any provision for additional loyalty voting rights.

Banco Sabadell's shares are in the form of book entries 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 has not issued securities that are not traded on a regulated market in the European Union.

Within the Bank's shareholding structure, at the close of the 2021 financial year, three investor groups reported a shareholding of more than 3% according to data reported to the CNMV; the aggregate shareholding thereof makes up 9.94% of the total share capital. The remaining shareholdings are free-float. The members of the Board of Directors, one of whom is an indirect holder of the voting rights attributed to the shares of one of the aforementioned investors, own 3.67% of the Bank's share capital.

There were 228,432 shareholders as at 31 December 2021, distributed in the following tiers:



1	Retail investors	51.60%
2	Board of Directors	3.67%
3	Institutional investors	44.70%

228,432

Number of shareholders as at 31 December 2021

Number of shares	No. of shares	Shares	% of capital
From 1 to 12,000	179,459	573,130,438	10.19
From 12,001 to 120,000	45,899	1,427,423,280	25.37
From 120,001 to 240,000	1,866	307,959,112	5.47
From 240,001 to 1,200,000	1,039	469,333,426	8.34
From 1,200,001 to 15,000,000	139	433,432,171	7.70
More than 15,000,000	30	2,415,686,274	42.93
Total	**228,432**	**5,626,964,701**	**100.00**

[3] The letters used in the headings of the different sections of this report refer to the corresponding sections of the standardised model of the ACGR of the Spanish National Securities Market Commission (CNMV in its Spanish initials).

1.2. Significant shareholders

(A.2, A.4, A.5, A.6, A.7 and A.8)

As at 31 December 2021, the direct and indirect holders of significant shareholdings, including Directors with a significant shareholding, in Banco Sabadell were:

Name or company name of shareholder	% of voting rights assigned to shares		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
Blackrock Inc.	0.00	3.02	0.00	0.41	3.43
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

BlackRock Inc. holds its indirect holding via a number of its subsidiaries.

Mr. David Martinez Guzman, 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 wholly owned by Fintech Investment Ltd., the mutual fund managed by Fintech Advisory Inc. (FAI). FAI is wholly owned by Mr. David Martínez Guzmán.

Mr Lewis A. Sanders is the controlling owner of Sanders Capital, LLC, which is a US registered investment advisor that provides discretionary investment management services to clients; in connection with this service, certain clients grant proxy voting rights to Sanders Capital, LLC.

The most significant movements in the shareholder structure during the financial year that were reported to the CNMV by the shareholders and whose disclosures are available on the CNMV's website are as follows:

Name or company name of shareholder	Transaction date	Description of the movement
Blackrock Inc.	22/03/2021, 31/05/2021 21/06/2021	Decreased below 3% of voting rights attributed to shares
	04/03/2021, 05/05/2021 03/06/2021, 22/06/2021	Exceeded 3% of voting rights attributed to shares
Norges Bank	01/02/2021	Exceeded 3% of voting rights attributed to shares
	19/01/2021	Decreased below 3% of voting rights attributed to shares
	27/09/2021	Exceeded 3% of voting rights attributed to shares and financial instruments
	28/04/2021, 29/09/2021	Voting rights attributed to shares and financial instruments decreased below 3%

Banco Sabadell is not aware of any family, commercial, contractual or corporate ties between the owners of significant holdings. Moreover, the Bank and the companies that make up Banco Sabadell Group do not have any family, commercial, contractual or corporate ties with the Entity's significant shareholders other than those arising out of ordinary business relations. The Bank has not been notified of any shareholders' agreements, nor is it aware of the existence of any concerted actions among its shareholders, or of the existence of any individual or legal entity that exercises or may exercise control over the Bank in accordance with article 5 of the Securities Market Act.

1.3. Board of Directors' stake in share capital (A.3)

The members of the Board of Directors own a total of 3.67% 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 by their nature are not likely to be exercised.

The information on the position of the Board of Directors in the share capital, excluding Mr David Martínez Guzmán, Proprietary Director, whose shareholding has been identified in the previous section, is detailed below:

Name or company name of shareholder	% of voting rights assigned to shares		% of voting rights through financial instruments		% of total voting rights	% voting rights that can be transferred through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
Josep Oliu Creus	0.07	0.05	0.01	0.00	0.13	0.00	0.00
Pedro Fontana García	0.00	0.00	0.00	0.00	0.00	0.00	0.00
César González-Bueno Mayer Wittgenstein	0.01	0.00	0.00	0.00	0.01	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
Luis Deulofeu Fuguet	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Maria José García Beato	0.01	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
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 treasury shares by a resolution adopted by the Ordinary General Meeting of Shareholders of Banco Sabadell 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 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 may hold, all in accordance with the provisions of articles 146, 509 and concordant articles of the Capital Companies Law.

The limits or 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 Banco Sabadell 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 in its portfolio, must not lead to net equity being less than the amount of share capital plus legal reserves and reserves that are designated as restricted under the Articles of Association.
— The shares acquired must have been fully paid up.
— 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 2021 year-end, Banco Sabadell directly held 40,679,208 own shares, representing 0.72% 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 percentage of share capital
16/02/2021	45,563,454	—	0.810
10/08/2021	38,717,784	—	0.688

1.5. Estimated free float capital (A.11)

At 2021 year-end, the estimated free float was 89.10%, i.e. the percentage of share capital not held by significant shareholders, members of the Board of Directors or as the Bank's 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 hinder 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, Law 10/2014, of 26, June, on the Regulation, Supervision and Solvency of Credit Institutions, establishes that in any acquisition of at least 10 per cent 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 not traded on a regulated market in the European Union were issued.

2. General Meeting of Shareholders (B)

2.1. Regulations of the General Meeting (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 thereto by article 10 of Royal Decree 84/2015, of 13 February, implementing Law 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, 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.

The General Meeting of Shareholders, held on 26 March 2021, approved the amendment of the Articles of Association and the Regulations of the General Meeting of Shareholders' with the aim, among other matters, of providing for the possibility of remote attendance at the General Meeting online and remote voting by any means, including exclusively in the event that the law so permits, in which case, and without prejudice to the terms set forth in the Regulations of the General Meeting of Shareholders, an express resolution of the Board of Directors shall be required authorising the systems and procedure necessary to enable remote attendance and remote voting, and this resolution must be expressly communicated in the announcement calling the General Meeting in question.

In line with best practices in corporate governance, Banco Sabadell broadcasts 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 accessing 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 2021 (B.4 and B.5)

Data on attendance at the General Meeting of Shareholders in recent years, and the percentages by which the resolutions were passed, 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 by proxy	% remote voting		Total
			Electronic voting	Other	
26/03/2021	0.16	60.98	0.00	0.00	61.14
Of which free float:	0.07	57.80	0.00	0.00	57.87
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

The estimated figures of free float capital 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 regulations, and it conforms to best practices in the area of corporate governance.

The General Meeting of Shareholders held on 26 March 2021 approved the amendment of the Articles of Association and the Regulations of the General Meeting of Shareholders, and took note of the amendment of the Regulations of the Board of Directors approved by resolution of the Board of Directors held on 18 February 2021.

3.1. Composition of the Board (C.1, C.1.2, C.1.8 and C.1.29)

At 31 December 2021, the Board of Directors comprised fifteen members, as shown in the following table:

Name or company name of shareholder	Director category	Board Committees	Board position	First appointment	Latest appointment	Election procedure
Josep Oliu Creus	Other External	◌ C	Chairman	29/03/1990	28/03/2019	Resolution of a General Meeting of Shareholders
Pedro Fontana García	Independent	◌ ● ● C	Deputy Chairman	27/07/2017	19/04/2018	Resolution of a General Meeting of Shareholders
César González-Bueno Mayer Wittgenstein	Executive	◌ * ●	CEO	17/12/2020	26/03/2021	Resolution of a General Meeting of Shareholders
Anthony Frank Elliott Ball	Independent	● ●	Lead Independent Director	30/03/2017	26/03/2021	Resolution of a General Meeting of Shareholders
Aurora Catá Sala	Independent	● ● ○ C	Director	29/01/2015	28/03/2019	Resolution of a General Meeting of Shareholders
Luis Deulofeu Fuguet	Independent	◌ ●	Director	28/07/2021	28/07/2021	Resolution of the Board of Directors
María José García Beato	Other External	◌ ●	Director	24/05/2018	28/03/2019	Resolution of a General Meeting of Shareholders
Mireya Giné Torrens	Independent	● ● C	Director	26/03/2020	26/03/2020	Resolution of a General Meeting of Shareholders
George Donald Johnston III	Independent	● ○ C	Director	25/05/2017	19/04/2018	Resolution of a General Meeting of Shareholders
David Martínez Guzmán	Proprietary		Director	27/03/2014	19/04/2018	Resolution of a General Meeting of Shareholders
José Manuel Martínez Martínez	Independent	◌ ● C	Director	26/03/2013	19/04/2018	Resolution of a General Meeting of Shareholders
José Ramón Martínez Sufrategui	Independent	● ●	Director	18/09/2010	28/03/2019	Resolution of a General Meeting of Shareholders
Alicia Reyes Revuelta	Independent	● ○	Director	24/09/2020	26/03/2021	Resolution of a General Meeting of Shareholders
Manuel Valls Morató	Independent	● ○	Director	22/09/2016	26/03/2021	Resolution of a General Meeting of Shareholders
David Vegara Figueras	Executive		Director	28/05/2015	28/03/2019	Resolution of a General Meeting of Shareholders

*Member on strategy issues only.

Committees of the Board of Directors

- ◌ Strategy and Sustainability Committee
- ● Credit Delegated Committee
- ● Audit and Control Committee
- ● Appointments and Corporate Governance Committee
- ● Remuneration Committee
- ○ Risk Committee
- C Chairman

11/15	15	15
Number of Directors in the Articles	**Directors set by the General Meeting**	**Members of the Board of Directors**

During the 2021 financial year, there have been changes in the category of the Directors Mr Josep Oliu Creus and Ms María José García Beato, who have become Other External Directors, their previous category being that of Executive Directors.

Of the fifteen members of the Board of Directors, two are Executive Directors (13.33 % of the total Board) and thirteen are Non-Executive Directors, of whom ten are Independent (66.67 % of the total Board), two are Other External (13.33 % of the total Board) and one is Proprietary (6.67 % of the total Board).

15

Members of the Board of Directors:

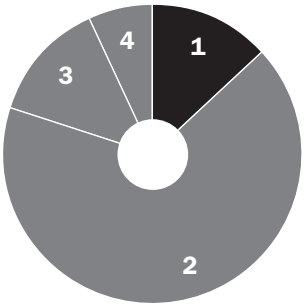
1 Non-Executive Chairman (Other external)

2 Executive Directors

10 Independent Directors

1 Other external Director

1 Proprietary Director



1	Executive Directors	13.33%
2	Independents	66.67%
3	Other External	13.33%
4	Proprietary	6.67%

Executive Director

Non-Executive Director

Mr Miquel Roca i Junyent, has been non-voting secretary since 13 April 2000. Mr Gonzalo Barettino Coloma was appointed Non-Director Deputy-Secretary on 26 March 2021. There have been no appointments of proprietary Directors at the proposal of shareholders owning less than 3% of capital.

The following resignations from the Board of Directors of Banco Sabadell took place in 2021 and have been duly reported to the CNMV in the form of other relevant information disclosures:

Mr Jaume Guardiola Romojaro, after obtaining the corresponding regulatory authorisations for the appointment of Mr César González-Bueno Mayer as Executive Director and CEO, tendered his resignation as a member of the Bank's Board with the category of Executive Director with effect from 18 March 2021, in a letter addressed to all the members of the Board of Directors, in which he expressed his deep satisfaction at having carried out this important stage of his career at Banco Sabadell.

Mr José Javier Echenique Landiribar tendered his resignation as Deputy-Chairman and Independent Director on 28 July 2021 by a letter addressed to all members of the Board of Directors, in which he stated that personal and professional commitments made it difficult for him to continue performing this role.

3.2. Director profiles (C.1.3)

Below is the Matrix of competencies and diversity of the members of the Board of Directors, which lists the horizontal and sectoral competencies of the Board of Directors. The Matrix is published in Banco Sabadell's Internal Governance Framework on the website www.grupobancosabadell.com, in the section "Corporate Governance and Remuneration Policy".

Sectoral competencies	**Chairman**	**Deputy Chairman**	**Chief Executive Officer**	**Director**
	Josep Oliu Creus	Pedro Fontana García	César González-Bueno Mayer	Anthony Frank Elliott Ball
	Ext. D.	**Ind. D.**	**Exec. D.**	**Lead. I.D.**
Banking Retail	●	●	●	
Corporate	●	●	●	
Financial and capital markets	●	●	●	●
Insurance	●	●	●	
Other financial competences	●	●	●	●
Accounting and auditing	●	●	●	
Risk Management	●	●	●	
Planning and strategy	●	●	●	●
Governance	●		●	●
Risk control	●	●	●	●
Anti-money laundering and countering the financing of terrorism.	●		●	
Legal	●		●	
Digital and IT (digital transformation)	●		●	●
Human resources, culture, talent and remuneration	●		●	●
Responsible business and sustainability	●		●	
International experience:				
Spain	●	●	●	●
United Kingdom	●		●	●
Mexico	●			●
Other	●	●	●	●
Cross-organisational competencies				
Governing bodies	●	●	●	●
Organisation management and direction	●	●	●	●
Business experience	●	●	●	●
Government and public policy	●		●	
Consultancy			●	
Regulatory and supervisory bodies	●		●	
Academic	●		●	
Communication and institutional relations	●		●	●

Sectoral competencies		Board Members										
		Aurora Catá Sala	Luis Deulofeu Fuguet	María José García Beato	Mireya Giné Torrens	George Donald Johnston III	David Martínez Guzmán	José Manuel Martínez Martínez	José Ramón Martínez Sufrategui	Alicia Reyes Revuelta	Manuel Valls Morató	David Vegara Figueras
		Ind. D.	**Ind. D.**	**Ext. D.**	**Ind. D.**	**Ind. D.**	**Prop. D.**	**Ind. D.**	**Ind. D.**	**Ind. D.**	**Ind. D.**	**Exec. D.**
Banking	Retail		●	●		●		●	●	●		
	Corporate	●		●		●				●		
Financial and capital markets		●		●	●	●	●	●		●		●
Insurance								●		●	●	
Other financial competences		●	●	●	●	●	●	●	●	●	●	●
Accounting and auditing		●		●	●			●	●	●	●	●
Risk Management			●	●		●	●	●		●	●	●
Planning and strategy		●	●	●	●	●	●	●	●	●	●	●
Governance		●	●	●	●	●		●		●		●
Risk control			●	●		●	●			●	●	●
Anti-money laundering and countering the financing of terrorism.				●		●				●		●
Legal				●						●		
Digital and IT (digital transformation)		●	●		●							
Human resources, culture, talent and remuneration		●	●	●	●	●		●	●	●		●
Responsible business and sustainability				●								
International experience												
	Spain	●	●	●	●	●	●	●	●		●	●
	United Kingdom			●		●	●			●		●
	Mexico						●					●
	Other		●	●	●	●	●	●		●		●
Cross-organisational competencies												
Governing bodies		●	●	●	●	●	●	●	●	●	●	●
Organisation management and direction		●	●	●	●	●	●	●	●	●	●	●
Business experience		●	●	●	●	●	●	●	●	●	●	●
Government and public policy			●	●							●	●
Consultancy		●	●		●							●
Regulatory and supervisory bodies				●				●		●	●	●
Academic				●	●					●		●
Communication and institutional relations			●	●				●		●		

Josep Oliu Creus Non-Executive Chairman	**Profile** Banking/Retail & Corporate Banking/ Financial/ Academic/ International	He holds a degree in Economics from the University of Barcelona and a PhD in Economics from the University of Minnesota. (USA). 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 Director 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.
César González-Bueno Mayer Wittgenstein Chief Executive Officer	**Profile** Banking/Retail & Corporate Banking/ Financial/ Regulatory/ International/ Digital and IT (digital transformation)	Double degrees in Law and Business Administration from ICADE, Madrid, and an MBA from Yale School of Management, Yale University, Connecticut (USA). Founder and CEO of ING Direct, N.V. Branch in Spain (1998-2010), General Manager for Spain, France, Italy and the United Kingdom of ING Direct, N.V. (2004-2010), Regional Head of Europe of ING Bank (2010-2011), CEO of Novagalicia Banco (now Abanca) (2011-2013), CEO of Gulf Bank (2014-2016), CEO of ING Spain and Portugal (2017-2019) and Non-Executive Director of TSB Bank, PLC and TSB Banking Group, PLC of the Banco Sabadell Group (2020-2021). Member of the Board of Trustees of the *Ciudad Escuela de los Muchachos* Foundation.
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. Former Secretary of State for the Economy in the Spanish government (2004-2009), Deputy Director of the International Monetary Fund (2010-2012) 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. and Trustee of the Pasqual Maragall Foundation. He is a non-executive Director of TSB Bank, PLC and TSB Banking Group, PLC of the Banco Sabadell Group.
David Martínez Guzmán Proprietary Director	**Profile** Business/ Financial/ International	Holds a degree in Electrical & Mechanical Engineering from the National Autonomous University of Mexico, Diploma in Philosophy from Universitas Gregoriana (Italy), and an MBA from Harvard Business School. Founder of Fintech Advisory in 1987, the fund management company of Fintech Investments Ltd. (New York and London). Director of listed companies Alfa, S.A.B., Vitro, S.A.B. and Cemex, S.A.B. Mr. David Martinez Guzman, 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 Martinez Guzman.
Pedro Fontana García Independent Deputy Chairman	**Profile** Banking/ Retail Banking/ Business	Holds a degree in Business Sciences from ESADE and an MBA from Harvard Graduate School of Business Administration, Boston, Massachusetts (USA). 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 representative of EMESA Corporacion Empresarial, S.L. on the board of the listed company Elior Group, S.A. (2018-2019). Independent Director of Grupo Indukern, S.L. and of Pax Equityco, S.A.R.L., Chairman 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.
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 and from Middlesex University. Former Chairman and CEO of Fox Sports International (1995-1996), CEO of Fox Liberty Networks LLC. (1996-1999), Chief Executive Officer of BSkyB Plc. (1999-2004), Chairman of Kabel Deutschland GmbH (2005-2013) and Independent Director of BT Group (2009-2018). Director of Ambassadors Theatre Group Ltd, Chairman of Bité Group and Proprietary Director of Masmovil Ibercom, S.A., companies in which Providence Equity Partners LLC has an interest.
Aurora Catá Sala Independent Director	**Profile** Business/ Consultant/ Financial/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. Chief Financial Officer of Nissan Motor Ibérica, S.A. (1991-1996), CEO of Planeta 2010 (1999-2002), Founder of ContentArena (2002-2003), General Manager of Audiovisual Media of Recoletos Grupo de Comunicación (2003-2008), Member of the Governing Board of the *Institut Català de Finances* (2014) and Independent Director of Atresmedia Corporación de Medios de Comunicación, S.A. (2019-2021). Formerly held a number of Directorships. Independent Director of Repsol, S.A. and Atrys Health, S.A. Chairman of Barcelona Global and Member of the Executive Committee of IESE alumni. Director of Sabadell Information Systems, S.A. (a technology subsidiary of Banco Sabadell).
Luis Deulofeu Fuguet Independent Director	**Profile** Banking/ Retail Banking/ Digital IT (Digital Transformation)/ Business/ Consultant	Qualified as an Advanced Telecommunications Engineer from the Polytechnic University of Catalonia, "Finance for Executives" at ESADE and PDG from IESE (Barcelona). Senior Manager at Andersen Consulting (1988-1994), Head of Technical Services & Development of New Projects at Acesa (1994-2001), Chief Technology Officer at La Caixa (2001-2011), Managing Director for Internal Resources and Efficiency at Abertis Infraestructuras (2011-2014). Managing Director of Sanef (2014-2018) and Deputy CEO of Cellnex Telecom (2018-2020). He has been Founder and Administrator of Acesa Telecom (today Cellnex Telecom), and Founder and Director of the *Parc Logístic de la Zona Franca* (Duty-Free Zone Logistics Park), as well as Vice-Chairman of the Catalan Research and Innovation Foundation and Trustee of the Barcelona Digital Foundation, and Board member of numerous entities such as e-La Caixa, Abertis Telecom, Invercaixa Gestión, Sanex, Xfera, Cellnex Telecom, Hispasat, DDST-Tradia, among others. Since 2020, Director of Sabadell Information Systems, S.A., a technology subsidiary of Banco Sabadell and Member of the Technology Committee (CATED). Senior Advisor at Cellnex Telecom and Chairman of the Cellnex Foundation.

Mireya Giné Torrens Independent Director	**Profile** Financial/ Academic/ Governance/Digital and 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). Member of the Board of Trustees of the Aula Escola Europea Foundation.
George Donald Johnston III Independent Director	**Profile** Banking/ Corporate Banking/ Internacional	Bachelor of Arts in Political Science from Middlebury College, Vermont, (USA). Master of Arts in International Economics and Latin American Studies from the Johns Hopkins University School of Advanced International Studies, Washington DC. (USA). 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/ Financial/ International	A Public Works Engineer, he obtained a degree in Economics and Actuarial Science at the University of Madrid. Former Chairman of MAPFRE (2001-2012), Chairman of Fundación MAPFRE (2007-2012) and former 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 specialising in urban development, he holds an Executive MBA from IE Business School, Madrid. Former 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., Produccion y Desarrollo, S.A., Títulos e Inversiones, S.A., and Villa Rosa, S.A.
Alicia Reyes Revuelta Independent Director	**Profile** Banking/Retail & Corporate Banking/ Financial/ International	Double 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), Chief Executive Officer (CEO) for the EMEA business (2016-2020) and Acting Chairwoman (2019) of Wells Fargo Securities International LTD. She is a guest lecturer at the Institute of Finance and Technology in the Engineering Faculty of University College London (UCL), and a trustee of the NGO, Fareshare. Independent Director of Ferrovial, S.A. and Non-Executive Director of TSB Bank, PLC and TSB Banking Group, PLC of the Banco Sabadell Group.

Manuel Valls Morató Independent Director	**Profile** Auditor/Financial	He holds a degree in Economics and Business Studies from the University of Barcelona and a post-graduate qualification in Business Administration from IESE/University of Navarre; he is a registered auditor and has been 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). He is Lead Independent Director of the listed company Renta Corporación Real Estate, S.A. and Chairman of the Audit, Control and Risk Committee at COBEGA. Director of Sabadell Information Systems, S.A., a technology subsidiary of Banco Sabadell.

María José García Beato Other External Director	**Profile** Banking/ Legal/ 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, Chief Legal Counsel at the Data Protection Agency, State Attorney as consultant to the Directorate of 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). She has been Head of the Legal Department (2005-2008), General Secretary (2008-2021) and Executive Director (2018-2021) of Banco Sabadell. Independent Director of the listed company Red Eléctrica Corporación, S.A. (2012-2021). Non-Executive Director of MdF, S.A., Member of the Board of Trustees of Fundación Banco Sabadell and of the Foundation of the Spanish Banking Association and member of the Advisory Board of the Board of Trustees of Fundación CajaSur.

3.3. Positions held by Directors in other Banco Sabadell Group companies and other listed and unlisted companies (C.1.10, C.1.11 and C.1.12)

3.3.1 Positions in other Group companies

Mr Josep Oliu Creus is non-executive Chairman of the subsidiary Sabadell Consumer Finance, S.A.U.;

Mr David Vegara Figueras and Ms Alicia Reyes Revuelta are non-executive Directors of TSB Bank, Plc and TSB Banking Group, Plc;

Ms Aurora Catá Sala, Mr Manuel Valls Morató and Mr Luis Deulofeu Fuguet are non-executive Directors of Sabadell Information Systems, S.A.U. (SABIS).

3.3.2 Positions in other listed and unlisted companies

The positions held by Banco Sabadell Directors in other entities, as well as, where applicable, the remunerated activities they perform are detailed in section C.1.11 of the Statistical Annex to the Annual Corporate Governance Report of Listed Companies 2021 appended to this Report.

3.3.3 Specific rules for credit institutions regarding the number of positions a member of the Board of Directors can hold.

In addition, in accordance with article 26 of Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions, the maximum number of positions on company boards of which Directors may form part is as follows:

— one executive Directorship and two non-executive Directorships.
— four non-executive Directorships.

For these purposes, executive or non-executive positions held within the same group shall be counted as a single position.

For the purpose of determining the maximum number of positions, positions held in non-profit or non-commercial organisations or entities shall not be counted.

3.4. Diversity Policy at Banco Sabadell (C.1.4, C.1.5, C.1.6, C.1.7, C.1.14 and C.2.2)

Banco Sabadell, in general terms, has policies governing diversity in terms of age, gender, disability, and professional training and experience.

The Banco Sabadell Director Candidate Selection Policy, approved on 25 February 2016 (most recently amended on 30 September 2021), 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 66 of the Articles of Association, the Appointments and Corporate Governance 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.

The Appointments and Corporate Governance Committee in fulfilling its duties has implemented the Policy and measures to increase the diversity of gender, age, background, knowledge and experience that contributes to the collective suitability of the Board, reporting favourably on the ratification and appointment of the Chief Executive Officer and proposing the ratification and appointment of one female Independent Director and the appointment of one Independent Director, as well as the re-election of two Independent Directors in 2021 who meet 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 and Corporate Governance Committee verified compliance with the Policy in the appointments and re-elections made in 2021 by the General Meeting of Shareholders and the Board of Directors. This verification proved compliance with 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 2021 favour an appropriate composition of the Board of Directors, by increasing its diversity in relation to the category of the Directors and the knowledge, competencies and experience which have been strengthened, thus complying with the mandate of the Board of Directors and the Appointments and Corporate Governance Committee itself to contribute to increasing competencies diversity within the Board. In particular, the areas of retail banking, digital competency and IT (digital transformation), IT risk and risk management have been strengthened.

To select candidates, the Appointments and Corporate Governance Committee drew on the Matrix of competencies and diversity of the members of the Board of Directors of Banco Sabadell, which defines the Directors' aptitudes and knowledge. In addition, the Committee has relied on external consultants who have provided it with profiles of candidates meeting the competency profiles prioritised by the Appointments and Corporate Governance Committee.

At the close of financial year 2021, there were four female Directors: three female Independent Directors (out of a total of ten Independent Directors) and one female Other External Director.

The trend in the number of female Directors in the Board of Directors and its committees in recent years is as follows:

4

female Directors

1 female Other External Director (out of 2)

3 female Independent Directors (out of 10)

	Number of female Directors				% of total Directors in each category			
	Financial year 2021	Financial year 2020	Financial year 2019	Financial year 2018	Financial year 2021	Financial year 2020	Financial year 2019	Financial year 2018
Executives	—	1	1	1	—	25.00	20.00	25.00
Proprietaries	—	—	—	—	—	—	—	—
Independents	3	3	1	2	30.00	30.00	12.50	20.00
Other Externals	1	—	1	—	50.00	—	100.00	—
Total	**4**	**4**	**3**	**3**	**26.67**	**26.67**	**20.00**	**20.00**

The presence of women on the Board of Directors' Committees is as follows: two female independent Directors are the Chairwoman of the Remuneration Committee and the Chairwoman of the Audit and Control Committee, respectively, as well as members of the Risk Committee and the Appointments and Corporate Governance Committee; another female independent Director is a member of the Credit Delegated Committee and the Risk Committee; and finally, the female other external Director is a member of the Credit Delegated Committee and the Strategy and Sustainability Committee. Thus, women chair two committees and are present in all Board Committees. Hence their presence reaches 16.67% (on strategy matters) and 20% (on sustainability matters) of the Strategy and Sustainability Committee, 40% of the Credit Delegated Committee, 25% of the Audit and Control Committee, 50% of the Appointments and Corporate Governance Committee, 25% of the Remuneration Committee and 50% of the Risks Committee.

Number of female Directors

	Financial year 2021		Financial year 2020		Financial year 2019		Financial year 2018	
	Number	%	Number	%	Number	%	Number	%
Strategy and Sustainability Committee	1	16.67*	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit Delegated Committee	2	40.00	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Audit and Control Committee	1	25.00	1	25.00	1	25.00	1	25.00
Appointments and Corporate Governance Committee	2	50.00	1	33.33	2	50.00	2	50.00
Remuneration Committee	1	25.00	1	25.00	1	25.00	2	50.00
Risk Committee	2	50.00	1	33.33	1	33.33	1	25.00

* 20% on Sustainability matter.

27 % of the Board members in Banco Sabadell were women in financial year 2021, in line with the general target set by the CNMV of 30 %. The Board and the Appointments and Corporate Governance Committee have committed to promoting the diversity of the Board, ensuring that it has a sufficient number of female Directors, promoting compliance with the objective of representing the under-represented gender.

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 regulations, which are applicable to the entire organisation, guarantee an increase in its diversity.

The percentage of women in senior management is 10%. The percentage of female executives at Banco Sabadell is 29.3%, having increased by 3.5 percentage points with respect to 2020 (25.8%).

+3.5p.p.

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, 59 and 66 of the Articles of Association, of articles 17, 23 and 24 of the Board of Directors Regulations, the Banco Sabadell Director Candidate Selection Policy, dated on 25 February 2016, (most recently amended on 30 September 2021), in the renewal Plan of the Board of Directors of Banco Sabadell for financial years 2021-2024, and in 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 and Corporate Governance 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 has the remit to assess the skills, knowledge and experience required for the appointment of members of the Board of Directors in advance and, for this purpose, it shall take into account the balance of knowledge, ability, diversity and experience of the members of the Board of Directors and, for these purposes, it shall define the duties and skills required of the candidates who will fill each vacancy and it shall assess the time and dedication required for them to perform their duties effectively.

For candidate selection, the Appointments and Corporate Governance Committee may, if it sees fit, commission a consultancy firm of recognised standing in the field of personnel selection to initiate a process to search for candidates who match the desired profile. Additionally, any Director may suggest candidates for Director provided they meet the requirements laid down in the Policy.

Suitability assessment

Once a candidate has been selected, the procedure for assessing the suitability of Board members and key function holders must be applied; on this basis, the Appointments and Corporate Governance Committee analyses the information about the selected candidates and the reports submitted to it 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 taking due account of 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 to assess the suitability of members of management bodies and key office holders (EBA/GL/2017/12 and EBA/GL/2021/05 from 31 December 2021). The Appointments and Corporate Governance Committee checks that candidates meet the requirements as to integrity, knowledge, experience and good governance laid down in the applicable regulations and draws up its suitability assessment report of the candidates. In addition, candidates for Directorships must be vetted in terms of their suitability by the European Central Bank.

The Appointments and Corporate Governance Committee is also entrusted with assessing Director suitability on an ongoing basis, as well as 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 the candidate for Director, the Appointments and Corporate Governance Committee is entrusted, among its basic responsibilities in accordance with Article 66 of the Articles of Association, with making proposals to the Board for the appointment of Independent Directors either by co-opting or for submission to a vote by the General Meeting of Shareholders, and must advise on the proposals to appoint other Director categories by co-opting or by submitting the selection to the General Meeting of Shareholders to decide.

Members of the Board of Directors are appointed by the General Meeting of Shareholders. Likewise, any vacancies arising on the Board of Directors are filled by the General Meeting of Shareholders unless the Board of Directors decides, in the interests of the Bank, to act in accordance with the provisions of the Capital Companies Law. Directors appointed by co-optation hold office until the next General Meeting of Shareholders.

The Appointments and Corporate Governance Committee ensures that the appointment process favours both diversity and an appropriate balance in the composition of the Board, between the different types of Directors, Independent, Proprietary and Executive.

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 integrity, 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 be able to demonstrate a professional track record 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 of office ends if they are not re-appointed, or when the General Meeting of Shareholders or the Board of Directors so decides using the powers vested in them by law or the Articles of Association. The Appointments and Corporate Governance 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 the 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 with 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 business activities due to their position.
— Government officials whose duties are related to, or have a bearing on, the Banks business activities.
— 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 1.37)

Under article 50 of the Articles of Association and article 24 of the Regulations of the Board of Directors, and in compliance with the Banco Sabadell Group Code of Conduct and its Policy on Conflicts of Interest of Directors and Senior Management, they 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 are disqualified on the grounds of incompatibility, prohibition or limitation as laid down in the applicable regulations.

Additionally, in accordance with article 24 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 are disqualified by any of the conditions of incompatibility or prohibition by law or the Articles of Association.
— If they are arraigned for an alleged crime or are the subject of disciplinary proceedings by the supervisory authorities for a serious or very serious infringement.
— Where their continuance on the Board may jeopardise the company's interests.

During financial year 2021, 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 record any such case.

3.7. Workings of the Board

(C. 1.9, C.1.20, C.1.24 and C.1.35)

3.7.1. Proxies

Directors must attend meetings of the Board of Directors in person. However, when they can not attend in person, they may grant proxy to another Director. Article 60 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 financial years 2021, 2022 and 2023, approved by the Shareholders' Meeting on 26 March 2021, 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 by the Board

The Chief Executive Officer Mr César González-Bueno Mayer Wittgenstein has all the powers of the Board - except those that cannot be legally delegated - necessary for the effective management of the Institution as its first executive. The Chief Risk Officer, Mr David Vegara Figueras, has general powers of attorney necessary for the exercise of his executive functions in the Entity.

The Credit Delegated Committee has been delegated powers by the Board of Directors to analyse and, where appropriate, resolve credit transactions in accordance with the assumptions and limits established by express delegation of the Board of Directors, as set out in the Regulations of the Credit Delegated Committee and detailed in section 4.2.

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 21.1 of the Regulations of the Board of Directors establishes that the notice of the meeting shall always include its agenda, which must contain, among other items, those that concern information about subsidiary companies and Board Committees, as well as the proposals and suggestions made by the Chairman and the other members of the Board and by the General Managers of the Bank, provided that notice is given at least five business days prior to the date of the Board Meeting, as well as proposals that must be supported by any relevant material for their distribution to the Directors.

Additionally, article 25 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 operations and to inspect all of its facilities and 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 manner, 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 2021:

Number of meetings							
15	**0**	**9**	**21**	**12**	**16**	**12**	**14**
Board of Directors	Board of Directors meetings without the attendance of the Chairman	Strategy and Sustainability Committee	Committee Credit Delegated Committee	Audit and Control Committee	Appointments and Corporate Governance Committee	Remuneration Committee	Risk Committee

Additionally, the Lead Independent Director held 1 meeting with the other Directors which no executive Directors attended either in person or by proxy.

Data on attendance at Board of Directors meetings is shown in the following table:

Number of meetings		%	
15/15	**15/15**	**99.10%**	**100%**
Number of meetings in which at least 80% of Directors were present in person	Number of meetings with attendance of all Directors either in person or by proxies, given specific instructions	Attendance in person as a % of total votes during the year	Votes cast in person and by proxies with specific instructions, as a % of total votes during the financial year

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. Assessment of the Board and its Committees (C.1.17 and C.1.18)

Every year since 2007, the Bank has evaluated the performance of the Board of Directors and its committees (currently the Strategy and Sustainability Committee, the Credit Delegated Committee, the Audit and Control Committee, the Appointments and Corporate Governance Committee, the Remuneration Committee and the Risk Committee). In compliance with the provisions of Recommendation 36 of the Good Governance Code of Listed Companies (revised in June 2020), at least 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 and Corporate Governance Committee.

It was decided that the performance assessment of the Board of Directors and its committees for 2021 will be performed internally by the Entity in the first quarter of financial year 2022. The internal assessment methodology is based on two main elements: (i) input from the Directors, and (ii) analysis of significant corporate documentation of Banco Sabadell relating to significant aspects of the Bank's corporate governance system.

In accordance with the recommendations of the Code of Good Governance for listed companies (revised in June 2020), the evaluation of the performance of the Board of Directors, its Committees and the Chief Executive Officer, as well as the Secretary and the Deputy Secretary, is organised and coordinated by the Chairman of the Board of Directors, with the Lead Independent Director leading the evaluation of the Chairman.

The areas to be evaluated are those indicated in the CNMV's Technical Guide on Appointments and Remuneration Committees, which extends the scope of the evaluation provided for in Recommendation 36 of the Good Governance Code of Listed Companies (revised in June 2020): 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 deliberations; and training.

On 18 February 2021, the Board of Directors, following a report from the Appointments Committee, approved the 2020 evaluation carried out internally by the Entity, with satisfactory results.

As a result of the evaluation, in 2021 (i) the systems and procedures have been strengthened to ensure that the documentation of the Board meetings is available to the Directors sufficiently in advance and in an appropriate and comprehensible manner; (ii) a new profile has been incorporated, which provides different and complementary skills to those already existing on the Board of Directors, specifically targeting persons with sectoral knowledge and experience in retail banking; (iii) special monitoring of the adaptation of the Bank's remuneration policies to the measures derived from new regulations on remuneration, as well as their effective implementation; (iv) reinforcement and continuation of the training programmes for Directors on matters related to their specific needs and corporate governance, within the framework of the Training Programme for Directors approved by the Board of Directors for this financial year; and (v) monitoring of compliance with the specific action plans approved by the various Committees for the financial year 2021.

On 17 February 2022, the Board of Directors, following a report from the Appointments and Corporate Governance Committee, approved the evaluation of 2021, carried out internally by the Entity, with a satisfactory result.

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 financial year 2021, 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, in the section "Corporate Governance and Remuneration Policy".

Remuneration accrued in favour of the Board of Directors in the financial year (thousands of euros)	44,604
Amount of funds accumulated by current Directors for long-term savings schemes with vested financial rights (thousands of euros)	4,696
Amount of funds accumulated by current Directors for long-term savings schemes with non-vested financial rights (thousands of euros)	2,471
Amount of funds accumulated by former Directors for long-term savings schemes (thousands of euros)	3,703

The remuneration accrued in the financial year in favour of the Board of Directors incorporates the amounts corresponding to 2021 of everyone who was a member of the Board of Directors in that year. Some of the amounts correspond to extraordinary events that happened during 2021 concerning the Executive Directors who make the bases non comparable to 2020 and with significant differences. These events are the consolidation of economic rights of long-term savings plans whose contributions have been made during the previous years and the severance pay amounts for the executive Directors, in the terms of this section 3 of the Annual Report on Directors' Remuneration. If these events did not happen and only the amounts arising from the regular activity were considered, the amount of the remuneration accrued in companies of the group in 2021 would amount to 7,179 thousands of euros instead of the 44,604 thousands of euros.

Additionally, in 2020, as a responsibility measure against the crisis brought about by COVID-19, the Chairman and the executive Directors voluntarily waived their variable annual remuneration for 2020. If this had not happened, the amount of the remuneration accrued in companies of the group in 2020 would amount to 7,644 thousands of euros.

The comparable ordinary remunerations in 2021 decreased 465 thousand of euros (-6,1%) regarding remunerations in 2020.

	2021	2020
Summary of the Directors' comparable remunerations (thousands of euros)	**7,179**	**7,644**
Extraordinary events in each year		
Consolidation of Directors' severance pay and pensions	37,425	
Directors' waiver of the variable remuneration payment for 2020		865
Total amounts published in the statistical annex, including extraordinary events	44,604	6,779

The members of Banco Sabadell's Senior Management and the Head of Internal Audit, excluding executive Directors, as at 31 December 2021, are as follows:

Senior Management:

General Manager
Leopoldo Alvear Trenor
Miquel Montes Güell
José Nieto de la Cierva
Carlos Ventura Santamans

General Secretary
Gonzalo Barettino Coloma

Deputy General Manager
Marc Armengol Dulcet
Xavier Comerma Carbonell
Ana Ribalta Roig

Deputy Chief Executive Director of Internal Audit
Nuria Lázaro Rubio

Total remuneration of Bank's Senior Management and the Head of Internal Audit (thousands of euros)	9,253
Combined contributions to pension plans, structured through insurance policies, in financial year 2021 (thousands of euros)	1,426

The total remuneration of the Bank's Senior Management includes the amounts received by all members who were senior managers at any time during 2021, in proportion to their time in the position. It includes accrued and not subject to deferral amounts.

3.12. Severance pay, guarantee clauses and golden handshakes agreed between the Bank and its Directors, executives or employees (C.1.39)

— 35 beneficiaries
— Description of beneficiaries:
Chairman, Chief Executive Officer, Director General Manager, and 32 Executives.
— Description of agreements:
The Chairman's contract of employment contains an early termination clause with two years' remuneration for non-voluntary eventualities linked to no-compete.

The Chief Executive officer's contract contains a post-contractual non-compete clause with two years' salary starting from the date of unfair dismissal or change of control and one year's salary in all other cases. The Director General Manager contract contains a post-contractual non-compete clause lasting two years which would be applied at most until the first date of ordinary retirement in the amount of two years' salary of fixed remuneration.

There are 20 executives whose contracts have a clause providing indemnity in the amount of 2 years' fixed remuneration for cases of unfair dismissal or some limited cases of change of control. A further 12 executives have a post-contractual no-compete clause, 10 of them for a duration of two years, at the latest until the first date of ordinary retirement for an amount of two years' fixed remuneration, and 2 for a duration of one year from the date of unfair dismissal or due to some limited cases of change of control, at the latest until the first date of ordinary retirement for an amount of one year's 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 individual and consolidated Annual Accounts of Banco Sabadell for the financial year 2021 are certified in advance by the Chief Executive Officer and the Chief Financial Officer.

The Bank's internal services draw up the financial statements so 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 of Directors, 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 Annual Accounts are prepared. The auditors attend the Board of Directors meeting to report on the degree to which the Annual Accounts conform to the accounting standards.

If the discrepancies cannot ultimately be resolved before the Annual Accounts 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 individual and consolidated Annual Accounts for financial year 2021 were unqualified.

Additionally, a certification process is carried out on the financial and non-financial information reported in the Annual Accounts, to provide greater robustness to the control framework of the preparation of accounts. This process is based on 3 levels of certification and it flows hierarchically along the organisation to the members of the Management Committee.

In connection with the external auditors, article 65 of the Articles of Association provides that the Audit and Control Committee has the following competencies:

— "4. To propose to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment or re-election of the external auditors, establishing the conditions for hiring them, the scope of their professional mandate and, if appropriate, their revocation or non-renewal; to review compliance with the audit contract, and regularly obtain information from them on the audit plan and its execution, in addition to preserving their independence in the performance of their duties, ensuring that the opinion on the Annual Accounts and the main contents of the audit report are drafted clearly and accurately.

— 6. To establish the appropriate relationships with the external auditors, in order to receive information on any issues which may jeopardize their independence, so that they may be examined by the Committee, and any other information or communications related to the process of the conduct of the account auditing and in the auditing standards."

The Regulations of the Board of Directors state in similar terms whose article 34 provides that: "Relations between the Board and the company's external auditors will be channelled through the Audit and Control Committee".

The Audit and Control Committee consisted of four independent Directors during the financial year 2021. The Committee's Regulations, in force in 2021, include the provisions of the Articles of Association and the Regulations of the Board of Directors; article 8.4 provides that, as Directors and members of the Committee, the said members must act with independence of judgment and action from the rest of the organisation (...).

On 19 April 2016, in conformity with Law 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 on 26 January 2022 by the Board of Directors on 26 January 2022, following a recommendation by the Audit and Control Committee. The policy is implemented through procedures that make provision for measures to preserve auditors' independence by monitoring possible incompatibilities arising from personal circumstances, prohibited services, staff turnover 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 27 July 2021 and 24 January 2022. 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 said advice, 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, where applicable, and ensure that others comply with them also.

Additionally, Banco Sabadell conforms to the rules set out in its General Policy on Conflicts of Interest 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 recording and addressing them immediately.
— Whenever possible, 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. External audit

During the 2021 financial year Banco Sabadell has been audited by KPMG Auditores, S.L. for a second year, after the Board of Directors, following a reasoned recommendation by the Audit and Control Committee, at a meeting held on 20 December 2018, and as communicated in significant event number 273,045, agreed to select KPMG as auditor of the accounts of Banco Sabadell and of the consolidated Annual Accounts of the Banco Sabadell Group for the 2020, 2021 and 2022 financial years. 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. Following a proposal by the Board of Directors, the Ordinary General Meeting of Shareholders approved that appointment on 28 March 2019.

The audit firm has carried out other non-audit work for Banco Sabadell, the fees for which and the amount they represent of the fees billed for audit work for the Company and the Group were as follows:

	Individual	Consolidated	Total
Amount invoiced for non-audit services (thousands of euros)	211	46	**257**
Amount invoiced for non-audit work/Amount for audit work (in %)	8.88%	0.70%	**2.86%**

The amount of fees for non-audit work does not include audit-related services for a total of 502 thousand euros (316 thousand euros in respect of the Company and 186 thousand euros in respect of Group subsidiaries), since they are independent assurance services, some of which are required by law.

The number of consecutive years that the current audit firm has been auditing the individual and consolidated Annual Accounts of Banco de Sabadell, and the percentage that the number of years audited by the current audit firm represents of the total number of years in which the Annual Accounts have been audited, are as follows:

	Individuals	Consolidated
Number of consecutive financial years	2	2
Number of years audited by the current audit firm/number of years in which the company has been audited (in %)	4.88	5.41

4. Board of Directors Committees (C) (C.2.1 and C.2.3)

There are currently six operational Board Committees with the functions defined in the Articles of Association and the Regulations of the Board of Directors, which are implemented and complemented by the committees' own regulations. 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 assessment report on their activities, which is submitted to the Bank's Board of Directors for evaluation. This assessment is carried out, at least, every three years with the help of an external consultant. The last assessment carried out with the support of an external consultant was performed in 2019. Additionally, the Audit and Control Committee, Appointments and Corporate Governance 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".

Finally, before going into detail on the current Board Committees, it should be noted that, once the regulatory authorisations to the amendment of the Articles of Association approved by the General Meeting of 26 March 2021 had been received, on 10 June 2021 the Delegated Committee was removed, and the first meeting of the Credit Delegated Committee was held.

4.1. Strategy and Sustainability Committee

Membership and attendance at meetings

Chairman	Josep Oliu Creus	Other External	9/9
Members	Luis Deulofeu Fuguet*	Independent	2/2
	Pedro Fontana García**	Independent	8/9
	María José García Beato	Other External	9/9
	César González-Bueno Mayer***	Executive	9/9
	José Manuel Martínez Martínez**	Independent	8/9

* Number of meetings which the Director attended with respect to the number of meetings held during the period in 2021 in which he/she was a member.
** Both Directors gave specific instructions to a proxy for meetings from which they were absent.
***Member on strategy issues only. The Strategy Committee is composed of 6 members, 50% of whom are independent Directors.

On 26 March 2021, at a meeting of the Board of Directors following the General Shareholders' Meeting held on the same date, the establishment of the Strategy and Sustainability Committee was approved, which held its first meeting on 22 April 2021. Its initial composition was as follows: Chairman, Mr Josep Oliu Creus; Members: Mr Javier Echenique Landiribar, Mr Pedro Fontana Garcia, Ms María José García Beato, Mr José Manuel Martínez Martínez and Mr César González-Bueno Mayer (on strategy issues only).

As a result of his resignation as Director, on 28 July 2021, Mr José Javier Echenique Landiribar stepped down as Director and Mr Luis Deulofeu Fuguet was appointed in the same category. On 26 October 2021, after obtaining the relevant regulatory approvals, he accepts the position.

Regulation and operation

The Strategy and Sustainability Committee is expressly regulated by article 63 of the Articles of Association and article 14 of the Board of Directors Regulations, and it has its own regulations approved by the Board of Directors on 27 May 2021 that govern its organisation and functioning.

In accordance with the Regulations of the Board of Directors, the Strategy and Sustainability Committee shall be composed of a maximum of five Directors appointed by the Board of Directors, all of them non-executive, the majority of them being independent. The Chairman of the Committee shall be the Chairman of the Board of Directors. In matters of strategy, the Chief Executive officer shall participate in the meetings with the right to speak and vote, and, for this purpose, the Board shall be composed of six members. The Secretary of the Board of Directors shall be the Committee Secretary or, as appropriate, the person who acts as the Board's Deputy Secretary.

The Regulations of the Strategy and Sustainability Committee stipulate that the members of the Committee shall have overall expertise and experience appropriate to the functions they are called upon to perform, taking into account that some of them have specific experience in the following areas: strategy, banking business, digital transformation, international and sustainability. Efforts will be made to promote diversity, both in terms of gender, professional experience, skills, sectoral knowledge, international experience and geographical origin in the appointment of members of the Committee. The Committee shall meet as often as necessary and at least once every three months, when convened by its Chairman, at his own initiative or at the initiative of any member of the Committee, or whenever the Board or its Chairman requests the issuance of a report or the adoption of proposals and, in any case, whenever it is appropriate for the proper performance of its functions.

Functions

Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors, the Board of Directors Regulations or its own regulations, the Strategy and Sustainability Committee has the following basic duties:

On Strategy:

1. To evaluate, propose and recommend to the Board of Directors actions of strategic relevance in matters of growth, development, diversification, business transformation and technology of the Company.

2. To inform and advise the Board of Directors on the long-term strategy of the Company, identifying new opportunities for value creation and submitting to the Board of Directors corporate strategy proposals in relation to new investment or divestment opportunities, financial transactions with a material accounting impact and relevant technological or organisational structural transformations. To study and propose recommendations or improvements to the strategic plans and their updates

that are submitted to the Board of Directors from time to time.

3. To issue and submit to the Board of Directors, on an annual basis, a report containing the proposals, evaluations, studies and work carried out by the Committee in relation to the foregoing matters.

On Sustainability:

1. Reviewing the Company's sustainability and environmental policies, and advising the Board of Directors on possible amendments and regular updates of the sustainability strategy.

2. Reviewing the definition and amendment of diversity and integration, human rights, equal opportunity and work-life balance policies and evaluating their degree of fulfilment on a regular basis.

3. Reviewing the Bank's social action strategy and its sponsorship and patronage plans.

4. Reviewing and reporting on the Non-Financial Disclosures Report before the Audit and Control Committee reviews and reports on it and it is subsequently authorised by the Board of Directors.

5. Receiving information in connection with reports, written communiqués or communications from external supervisory bodies within the scope of this Committee's competencies.

6. To oversee the model for identifying, monitoring and managing sustainability risks and opportunities, including, where appropriate, environmental and climate change risks.

Activities carried out during the financial year

The main issues that arose in relation to the matters within the Committee's remit and the main activities carried out by the Committee since it was constituted are described below:

In the area of strategy, the Committee reviewed, evaluated and reported to the Board on corporate projects and operations of strategic importance in the areas of growth, development, diversification, as well as business transformation and technological transformation projects implemented by the Bank. It also reported favourably to the Board on the approval of Banco Sabadell's 2021-2023 Strategic Plan, monitoring it, and informed the Board of the relevant changes in the organisational structure.

In Sustainability, the Committee reported to the Board for approval of the Sustainability Plan, the creation of the Group's sustainability policy and the review of the Policy for the Integration of ESG Risks in Banco Sabadell's savings-investment products. Moreover, it submitted the Non-Financial Disclosures Report for financial year 2021 before the Audit and Control Committee's review and report on it and its subsequent drafting by the Board of Directors. It has also been informed and has analysed communications from supervisory bodies within the scope of its competences.

Within the framework of the Bank's social action strategy, the Committee reported favourably to the Board of Directors on the approval of the contribution to the Banco Sabadell Private Foundation to carry out its Action Plan for 2022.

In addition, in 2022 it carried out a self-assessment of its performance for the 2021 financial year with a satisfactory result.

4.2. Credit Delegated Committee

Membership and attendance at meetings

Chairman	Pedro Fontana Garcia	Independent	21/21
Members	Luis Deulofeu Fuguet*	Independent	7/7
	María José García Beato**	Other External	20/21
	César González-Bueno Mayer	Executive	19/21
	Alicia Reyes Revuelta	Independent	21/21

* Number of meetings which the Director attended with respect to the number of meetings held during the period in 2021 in which he/she was a member.
** The committee member gave specific instructions to a proxy for meetings from which she was absent.

On 26 March 2021, at a meeting of the Board of Directors following the General Meeting of Shareholders held on the same date, the new competencies of the Delegated Committee, which was later replaced by the Credit Delegated Committee, were established, following regulatory approvals. Subsequently, it held its first meeting on 10 June 2021.

Regulations and operation

The Credit Delegated Committee is expressly regulated by article 64 of the Articles of Association and article 15 of the Board of Directors Regulation, and it has its own regulations approved by the Board of Directors on 27 May 2021 that govern its organisation and functioning.

In accordance with the Regulations of the Board of Directors, the Credit Delegated Committee shall be composed of a maximum of five Directors, the majority of whom shall be independent, and who shall be appointed by the Board of Directors itself with the favourable vote of two thirds of its members. The Board shall appoint one of the Committee members as its Chairman. 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 performed those roles at the meeting in question.

It is also established that it shall meet as often as called by its Chairman, and that its meetings may be attended, in order to be heard, by any person, whether or not they are an officer or employee of the Company, who is called for this purpose, by resolution of the Committee itself or of its Chairman, for such purposes as may be determined, in view of the purpose of the matter in question; and that the Secretary of the Committee shall be the person who is Secretary of the Board of Directors or, where appropriate, the person acting as Deputy Secretary thereof.

Functions

The duties and responsibilities of the Credit Delegated Committee are to analyse and, where appropriate, terminate credit operations in accordance with the assumptions and limits established by express delegation of the Board of Directors. In particular, the following are included:

1. Risk admission decisions: Operations of 80 million euros or more at Operation level and up to a maximum of 350 million euros. For the General State Administration, Autonomous Communities and Local Bodies, operations of an amount equal to or greater than 150 million euros and up to a maximum of 350 million euros. Risks of an amount of 125 million euros or more at Group level and up to a maximum of 500 million euros.

2. Within the limits of the previous point, decisions to refinance and restructure risks with gross write-offs of 15 to 40 million euros.

3. Decisions to sell foreclosed assets with a gross asset value (GAV) of 50 million euros or more and 15 million euros and up to 40 million euros gross loss per transaction.

4. Exceptionally, decisions exceeding the above thresholds, whenever necessary for reasons of urgency, shall be submitted for subsequent ratification by the Board of Directors.

5. To report to the Board of Directors on all credit operations that must be approved by the Board.

6. To be informed of transactions approved by the relevant credit committees and to be submitted to the Board for information.

7. To report on and monitor those matters within the competence of the Board of Directors relating to credit risk.

The Board may also require the Committee to prepare reports on matters within its sphere of action.

Activities carried out during the year

The main issues that arose in relation to the matters within the Committee's remit and the main activities carried out by the Committee since it was constituted are described below:

In the course of 2021, the Credit Delegated Committee approved decisions on risk acceptance, refinancing and restructuring of risks and the sale of foreclosed assets within the above assumptions and limits set by the Board of Directors.

The Committee also reported favourably to the Board of Directors on all credit transactions whose approval is within the Board's competence, including credit transactions granted to members of the Board and the Bank's senior management, as well as on the transactions of persons related to them.

The Committee has been informed of the transactions approved by the relevant lower credit committees and which must be submitted to the Board for information, and has also reported and followed up on those matters within the competence of the Board of Directors in relation to credit risk.

In addition, in February 2022, the Credit Delegated Committee carried out a self-assessment of its functioning for the 2021 financial year, with satisfactory results.

4.3. Audit and Control Committee

Membership and attendance at meetings

Chairman	Mireya Giné Torrens	Independent	12/12
Members	Pedro Fontana Garcia	Independent	12/12
	José Ramón Martínez Sufrategui	Independent	12/12
	Manuel Valls Morató	Independent	12/12

On 26 March 2021, the Independent Director Ms Mireya Giné Torrens was appointed Chairman of the Committee, replacing the Independent Director Mr Manuel Valls Morató, who continued as a member of the Committee once the maximum period as Chairman of the Committee permitted by Spanish law had expired.

Regulation and operation

The Audit and Control Committee is expressly regulated by article 65 of the Articles of Association and article 16 of the Board of Directors Regulation, and it has its own terms of reference that regulate its organisation, functioning and governance. The last amendment of this Regulation, approved by the Board of Directors during a meeting, took place on 27 May 2021.

The members of the Audit and Control Committee and, in particular, its Chairwoman, have knowledge and experience in accounting, auditing or both.

In accordance with the Regulations of the Board of Directors, the Audit and Control Committee shall 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 at least one of them must be appointed on the basis of their knowledge and experience of accounting and/or auditing, and it shall be ensured that, as a whole, the members have the necessary knowledge not only in accounting and auditing, but also in finance, internal control, information technology, risk management and the banking business.

The Board will appoint its Chairman from among the independent Directors that form part of it, with the vote in favour of two thirds of its members. The Secretary of the Board of Directors shall be its Secretary or, as appropriate, the person who acts as the Board's Deputy Secretary. The Chairman of this Committee will exercise his post for a maximum term of four years and may only be re-elected after one year has elapsed since ceasing to hold his/her office. 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 shall meet at least once every three months and whenever convened by its Chairman whether at the latter's own initiative or by a member of the Committee, or at the request of the Board of Directors or external auditors.

Functions

The functions of the Audit and Control Committee, among others, include those defined in article 65 of the Articles of Association of Banco Sabadell, those defined in Article 16 of the Regulations of the Board of Directors, as well as all the functions set out in the Regulations of the Audit and Control Committee and those attributed to it by law.

The Audit and Control Committee has the following responsibilities in accordance with the Articles of Association and notwithstanding their further elaboration as a result of the Board of Directors Regulation:

1. Reporting to the General Meeting on all issues raised by shareholders that are within its remit, particularly about the outcome of the audit, and describing how the audit contributed to the integrity of financial reporting and the function that the Committee played in this process.

2. To supervise the effectiveness of the company's internal control, the Internal Audit and the risk management systems, including those related to taxes, as well as to discuss the significant weaknesses of the internal control system detected in the performance of the audits with the account auditors or audit companies, without any of the foregoing affecting their independence. To that end, presenting any recommendations or proposals to the Board of Directors and the corresponding period for follow-up.

3. To supervise the process of preparation and presentation of regulated financial and non-financial information and submit recommendations or proposals to the Board of Directors aimed at safeguarding its integrity.

4. To propose to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment or re-election of the external auditors, establishing the conditions for hiring them, the scope of their professional mandate and, if appropriate, their revocation or non-renewal; to review compliance with the audit contract, and regularly obtain information from them on the audit plan and its

execution, in addition to preserving their independence in the exercise of their functions, ensuring that the opinion on the Annual Accounts and the main contents of the audit report are drafted clearly and accurately.

5. To report, beforehand, to the Board of Directors on the financial information and the management report, which shall include the mandatory non-financial information that the Company must periodically publish, as well as the quarterly and half-yearly financial statements and the prospectuses that must be submitted to the regulatory or supervisory bodies, monitoring compliance with legal requirements and the correct application of generally accepted accounting principles, as well as reporting on proposals to amend these principles.

6. To establish the appropriate relations with the external auditors in order to receive information on matters that may jeopardise their independence, the declaration at least once a year of their independence from the entity or entities related to it, directly or indirectly, and detailed and individualised information on additional services of any kind rendered and the corresponding fees received from these entities by the external auditor, or by persons or entities related to the latter in accordance with the provisions of the regulations governing the auditing of accounts, for examination by the Committee, and any other information or communications related to the process of auditing accounts and auditing standards, as well as, where appropriate, authorisation of services other than auditing and not categorised as prohibited, in accordance with the regulations on auditing of accounts.

7. To annually issue, prior to the issuance of the audit report, a report expressing an opinion on whether the independence of the auditors or audit firms is compromised, with a reasoned evaluation of the provision of each and every one of the additional services referred to in the previous item, individually considered and as a whole, other than the statutory audit and in relation to the independence regime or to the regulations governing the activity of auditing accounts.

8. To supervise the internal audit services, their independence and budget, reviewing their action plans and resources in order to ensure that they are appropriate for the Company's needs; to propose, where appropriate, the appointment and replacement of the head of internal audit; and to verify that the Bank's senior management takes into account the conclusions and recommendations of its reports.

9. To report on all matters which, within the framework of its powers, are submitted to it for consideration by the Board of Directors and, in particular, on the creation or acquisition of holdings in special purpose vehicles or entities domiciled in countries or territories considered tax havens and related party transactions.

10. To perform its own functions for those subsidiaries of the Entity which, by application of their specific regulations at any given time, must have such bodies.

11. The Board may require the Committee to prepare reports on matters within its sphere of action.

12. All the other issues which are attributed to it by law or by the articles and regulations that implement them, and any resulting from the generally applied standards of good governance, and any resulting from regulations and codes of good governance applicable to the Company.

Activity carried out during the financial year

The main issues that arose in relation to the matters within the Committee's remit and the main activities carried out by the Committee in 2021 are described below:

Functions related to financial and non-financial reporting

During this financial year, in accordance with the functions entrusted to the Committee, the sufficiency, clarity and integrity of all the financial and related non-financial information that the Bank has published was supervised and analysed prior to its submission to the Board of Directors and its dissemination to the market and supervisory bodies and the Committee has followed the most significant aspects.

Among these, the most significant aspects, namely the significant judgements and estimates and measurement bases used by the Group in the preparation of the financial state ments, as well as the accounting standards and criteria of corporate transactions carried out during 2021.

The scope of the Committee's oversight included the Annual Corporate Governance Report, the prudential relevant information prepared and published, in compliance with the Pillar III Disclosures rules, the ICAAP and ILAAP, and the Universal Share Prospectus, covering specific aspects relating to the impacts of the COVID-19 pandemic, before they were released to the market, the monthly reports of the Bank's treasury stock progress, as well as the development and updating of the accounting policies, prior to submission to the Board of Directors for approval.

In regard to the supervision of effectiveness of the internal control system over financial reporting in accordance with the requirements established by the applicable regulations, the reports from those responsible for its design, implementation, management and operation, from the internal control functions, as well as from the external auditor, have been assessed.

The Committee carried out a review to verify that banking and accounting best practices are being applied at all levels of the organization, assuring, on the basis of reports from the persons in charge of internal control at the Bank and from the external auditor, that suitable steps

were being taken at General Management level and by other executive directions to ensure that the Group's main risks were being appropriately identified, measured and controlled.

During 2021, the Committee also received periodic information about messages received and sent to Group undertakings by national and international supervisors, as well as the half-yearly reports of the Group's Corporate Ethics Committee and the Group's tax affairs, on a half-yearly basis.

Functions related to external audit

The auditor of Banco Sabadell and its consolidated group is KPMG Auditores, S.L. (hereinafter, KPMG) following its appointment for the financial years 2020, 2021 and 2022 at the General Shareholders' Meeting held on 28 March 2019.

During the year, the Committee has established the appropriate relations with the Group's external auditors in order to receive detailed information on their strategy, planning, audit work plan for both the annual and half-yearly accounts, the degree of progress and main conclusions and any issues that could jeopardise its independence.

In relation to the independence requirements established by the regulations governing the auditing of accounts and the Group's policies, the contracting of non-audit services to be provided by KPMG to Banco Sabadell and the companies linked to it by a control relationship has been submitted for approval by the Group's Audit Committee, assessing the permissibility of the services as well as the possible threats and the safeguard measures, if any. Likewise, KPMG confirmed independence for Banco Sabadell and its group

The Committee has issued a report expressing a favourable opinion on the independence of the external auditor, following the relevant verifications, prior to the issuance of the audit report on the Annual Accounts for the year, stating the reasons for the provision of each and every one of the services considered individually and as a whole, other than the statutory audit and in relation to the independence regime or the regulations governing the auditing of accounts and the performance of KPMG as auditor during the financial year 2021, and has assessed the audit fee proposal for the financial 2022, ensuring that the auditor's remuneration does not compromise the quality of its work or its independence.

Lastly, the Committee was informed of the results of other verification work carried out by KPMG or companies in its network, such as the report on information relating to ICFR, the annual and half-yearly Information of Prudential Relevance and the Customer Asset Protection Report of Banco Sabadell.

Functions related to the internal audit

The Committee assessed in detail the annual plan of internal audit activities, together with the associated budget, ensuring that it has the material and human resources to perform its duties, and decided to report favourably to the Board of Directors on both the plan and its budget.

It has regularly followed up on the audits and reports issued as foreseen in the business plan and on the evolution of the recommendations identified. It reviewed the update of the audit plan following prioritisation to adapt it to the Group's new strategic plan, supervisory requirements and corporate operations for the year. It has also been informed of the new Internal Audit Strategic Plan for the financial years 2021-2023.

The Committee has reviewed and agreed to report favourably to the Board of Directors on the updated Internal Audit policies for approval.

The Committee has been presented with the annual report on Internal Audit activities for the 2021 financial year, with details of all the activities and reports carried out during the year and an inventory of the recommendations and action plans contained in the various reports, as well as the results of the Internal Audit Quality Assurance and Improvement Programme, including the implementation of the action plans derived from the external evaluations of the function. Following the review, it decided to approve the fulfilment of internal audit objectives and projects during the said financial year.

Based on all of the above, the Committee has been able to assess the adequacy and effectiveness of the internal audit function, as well as the performance of its executive officer, which has been reported to the Appointments and Corporate Governance Committee and the Board of Directors for the determination of her variable remuneration.

Other functions

The Committee approved the prior reports of the Audit and Control Committee on two transactions with related parties that met the terms and conditions established in prevailing regulations for consideration as related parties and for requiring the authorisation of the Board and, in the case of one of them, were actually entered into, for publication on the corporate website and communication to the CNMV. Based on their basic terms and conditions and other information received and sufficient in the opinion of the Committee, it is considered that these are fair and reasonable transactions from the point of view of the company and, if applicable, of the shareholders other than the related party.

The Committee also reviewed the information on related-party transactions that was disclosed in the Annual Accounts.

In addition, in February 2022, the Audit and Control Committee carried out a self-assessment of its functioning for the 2021 financial year, with satisfactory results.

For further information, please refer to the Audit and Control Committee's activity report for the financial year 2021, available in the section "Corporate Governance and Remuneration Policy/Reports of the Committees" on the Bank's corporate website(www.grupobancosabadell.com).

4.4. Appointments and Corporate Governance Committee

Membership and attendance at meetings

Chairman	José Manuel Martínez	Independent	16/16
Members	Anthony Frank Elliott Ball	Independent	16/16
	Aurora Catá Sala	Independent	16/16
	Mireya Giné Torrens*	Other External	12/12

* Number of meetings which the Director attended in relation to the number of meetings held during the period in 2021 in which she was a member.

The Independent Director, Ms Mireya Giné Torrens, was appointed Member of the Committee in March 2021. The Appointments and Corporate Governance Committee is regulated by article 66 of the Articles of Association, article 17 of the Regulations of the Board of Directors and its own Regulations approved by the Board of Directors on 27 May 2021, which regulate the basic rules of organisation and operation.

Regulation and operation

In accordance with the Regulations of the Board of Directors, the Appointments and Corporate Governance Committee shall comprise a maximum of five members nominated by the Board of Directors, all non-executive, two of whom, at least, must be independent Directors, and in any event the Chairman of the Committee will always be appointed from among the independent Directors that are members thereof . The Secretary of the Board of Directors shall be its Secretary or, as appropriate, the person who acts as the Board's Deputy Secretary.

The Regulations of the Appointments and Corporate Governance Committee stipulate that the Committee shall meet as often as necessary and at least once every three months, when convened by its Chairman, at his own initiative or at the initiative of any member of the Committee, or whenever the Board or its Chairman requests the issuance of a report or the adoption of proposals and, in any case, whenever it is appropriate for the proper performance of its functions. In any case, it must meet once per year to provide advice in advance on the Board's performance evaluation.

Functions

Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors, the Board of Directors Regulations or its own regulations, the Appointments and Corporate Governance Committee has the following basic duties:

1. Making proposals to the Board of Directors for the appointment of independent Directors, for appointment by co-optation or for referral to the General Meeting of Shareholders, and for the re-appointment or removal of the said Directors,

2. To report on proposals for the appointment of the remaining Directors, proprietary, other external or executive members, for appointment by co-optation or for submission to the decision of the General Meeting, as well as proposals for their re-election or removal;

3. To ensure compliance with the qualitative composition of the Board of Directors, in accordance with the provisions of article 53 of the Articles of Association, assessing the balance of knowledge, capacity, diversity and experience of the Board of Directors. 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 perform their duties;

4. Ensuring that, when filling new vacant positions or appointing new Directors, the selection procedures favour diversity of experience and knowledge, facilitate the selection of female Directors and, in general, are not affected by implicit biases that could result in any discrimination;

5. To assess the suitability, competences, knowledge and experience required of the members of the Board of Directors and their dedication regarding the authorisation of their appointment by the competent authorities.

6. To report on proposals for the appointment and removal of senior executives and members of the Identified Group and assess their suitability.

7. To report on the terms and conditions of the contracts of the executive Directors, which must be approved by the Board and recorded as a schedule to the minutes;

8. To examine and organise the succession plans for the Chairman of the Board and the Chief Executive Officer of the Bank and, where appropriate, to make proposals to the Board and, where appropriate, to comply with the provisions of the duly approved and published Succession Plan;

9. To establish a target for representation of the gender that is less represented on the Board of Directors and draw up guidelines on how to achieve that target;

10. To periodically, and at least once a year, assess the structure, size and composition of the Board of Directors and its Committees, and to advise the Board on the most appropriate configuration, reporting on proposals regarding the appointment or removal of members of such Committees;

11. To propose to the Board of Directors the assignment of Directors to the corresponding category, their continuance in this category in the event of re-election or their amendment when appropriate; to annually review the category of Directors and report to the Board of Directors for their inclusion in the Annual Corporate Governance Report;

12. To report to the Board of Directors on proposals for the appointment of the Deputy Chairman or Deputy Chairmen, as the case may be;

13. To report to the Board of Directors on proposals relating to the appointment and removal of the Secretary and, where appropriate, the Deputy Secretary of the Board of Directors, who may or may not be Directors;

14. To make proposals to the Board of Directors for the appointment, removal or re-appointment of the Lead Independent Director;

15. To develop and regularly update a competency matrix of the Board of Directors, assessing the knowledge, skills and experience of the members of the Board of Directors and the Board as a whole, for approval thereby;

16. To periodically review and make proposals to the Board for the amendment of the policies regarding the selection and diversity of the members of the Board of Directors, and verify compliance with them annually, informing the Board of Directors as to the degree of compliance;

17. To design and organise regular refresher programmes for Directors;

18. To report on the terms and conditions of senior executive contracts, without prejudice to the remuneration powers of the Remuneration Committee;

And, in terms of corporate governance, they are:

1. To advise the Board of Directors on the Company's internal corporate policies and regulations, except in matters that are the responsibility of other Committees;

2. To supervise compliance with the Company's corporate governance rules, excluding those in respect of spheres that are the responsibility of other Committees;

3. To report to the Board of Directors, for its approval and annual publication, the Annual Corporate Governance Report, except in matters that fall within the scope of other Committees;

4. To supervise, within the scope of its responsibilities, the Company's communications with shareholders and investors, proxy advisors and other stakeholders, and inform the Board of Directors in this regard.

5. To provide 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;

6. To submit to the Board of Directors the evaluations of the Board Committees with the results of their evaluation together with a proposal for an action plan or with recommendations to correct possible deficiencies detected or to improve the functioning of the Board and its Committees;

7. To propose amendments to these Regulations and report on proposals to amend these Regulations and on proposals to amend the Regulations of the General Meeting of Shareholders of Banco Sabadell;

8. To ensure that the composition of the Board Committees is appropriate, especially the Audit and Control Committee and the Risk Committee;

9. Any other actions that may be necessary to ensure good governance of all the Company's activities.

Activities carried out during the year

The main issues that arose in relation to the matters within the Committee's remit and the main activities carried out by the Committee in financial year 2021 are described below:

In the area of Appointments, the Committee has analysed, proposed, reported on and assessed the suitability for ratification, appointment and re-election of members of the Board and its committees, changes in the category of Directors and the new appointments of the Deputy-Chairman and Deputy Secretary of the Board. In equivalent terms with regard to proposals for the appointment of senior management and issues concerning the Identified Staff.

During 2021, the Appointments and Corporate Governance Committee and the Board of Directors as part of the ongoing evaluation of the Directors have carried out a continuous assessment of the Proprietary Director due to the imposition of an administrative sanction by the CNMV, in relation to the communication of significant shareholdings in Banco Sabadell shares. The assessment concluded that the Director's suitability to hold the position and exercise the function of Director with the qualification of Proprietary Director is maintained. The Board submitted the suitability assessment before the European Central Bank on 11 October 2021.

In relation to the Group's organisational and governance structure, the Committee has informed the Board of Directors of proposed changes to the Group's organisational and governance structure and to the structure of the Group's management committees.

In the area of corporate governance, it verified compliance with Banco Sabadell's Director Candidate Selection Policy and reported on its modification; verified compliance with Banco Sabadell's Chairman and CEO Succession Plan for the orderly succession of the CEO, and assessed the structure, size and qualitative composition of the Board and the Committees. It also reported favourably to the Board of Directors on the approval of the update of the Matrix of competencies and diversity of the members of the Board of Directors and the update of the Internal Governance Framework of Banco Sabadell.

In February 2022, the Committee carried out a self-assessment of its performance for the 2021 financial year, with satisfactory results, and reported on the annual assessment of the performance of the Board of Directors and the other Committees, the Chairman of the Board and the Chief Executive Officer.

It also reported favourably to the Board on the proposal to amend the Articles of Association, the Regulations of the General Shareholders' Meeting and the Regulations of the Board of Directors, as well as its own Regulations.

For further information, please refer to the Report on the activities of the Appointments and Corporate Governance Committee for the financial year 2021, available in the section "Corporate Governance and Remuneration Policy/Reports of the Committees" on the Bank's corporate website (www.grupobancosabadell.com).

4.5. Remuneration Committee

Membership and attendance at meetings

Chairwoman	Aurora Catá Sala	Independent	12/12
Members	Anthony Frank Elliott Ball	Independent	12/12
	George Donald Johnston III*	Independent	10/12
	José Ramón Martínez Sufrategui*	Independent	10/12

100%
Independent Directors

* The committee member gave specific instructions to a proxy for meetings from which he was absent.

The Remuneration Committee is expressly regulated by article 67 of the Articles of Association and article 18 of the Board of Directors Regulation, and it has its own regulations approved by the Board of Directors on 27 May 2021 that regulate its organisation and functioning.

Regulation and operation

In accordance with the Regulations of the Board of Directors, the Remuneration Committee shall comprise a maximum of five members nominated by the Board of Directors, all non-executive, two of whom, at least, must be independent Directors, and the Chairman of the Committee will always be appointed from among the independent Directors who are members thereof. The Secretary shall be the Secretary of the Board of Directors or, as the case may be, the Deputy Secretary of the Board of Directors. The Regulations of the Remuneration Committee stipulated that it shall meet as often as necessary and at least once every three months, when convened by its Chairman, at his own initiative or at the initiative of any member of the Committee, or whenever the Board or its Chairman requests the issuance of a report or the adoption of proposals and, in any case, whenever it is appropriate for the proper performance of its functions. In any event, the Committee must meet once a year to prepare the information on Directors' remuneration that the Board of Directors must approve and include in its annual public documentation.

Functions

Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors, the Board of Directors Regulations or its own regulations, the Remuneration Committee has the following basic duties:

1. To propose to the Board of Directors, for submission to the General Meeting of Shareholders, the remuneration policy for Directors, and to submit the corresponding report, all in accordance with the terms established from time to time in the applicable regulations.

2. To determine the remuneration of non-executive Directors, in accordance with the provisions of the Directors' remuneration policy, submitting the corresponding proposals to the Board.

3. To determine, so that they may be contractually agreed, the extent and amount of individual remuneration, rights and compensation of a financial nature, as well as the other contractual conditions of executive Directors, in accordance with the Directors' remuneration policy, submitting the corresponding proposals to the Board of Directors;

4. To propose to the Board of Directors the remuneration policy for General Managers or those who perform senior management functions under the direct supervision of the Board, the Delegated Committee or Chief Executive Officers;

5. To report on share-based and/or option-based remuneration schemes;

6. To periodically review the general principles of remuneration as well as the remuneration schemes of all employees, assessing their compliance with these principles;

7. To annually review the remuneration policy to ensure that it is aligned with the Bank's short, medium and long-term strategy and situation and market conditions and to assess whether it contributes to long-term value creation and adequate risk control and management. Furthermore, to inform the Board of Directors via the Annual Report on Director Remuneration;

8. To ensure that the Bank's remuneration policy and practices are up to date, proposing any necessary changes, and that they are subject to a central and independent internal review at least once a year;

9. To verify that the remuneration policy is properly applied and that no payments are made to Directors that are not provided for in the policy;

10. To evaluate the mechanisms and systems in place to ensure that the remuneration system takes due account of all types of risks, liquidity and capital levels and that the remuneration policy promotes and is consistent with

sound and effective risk management, and that it is in line with the business strategy, objectives, corporate culture and values and the long-term interests of the Bank;

11. To review the various possible scenarios to analyse how remuneration policies and practices react to internal and external events, and back-test the criteria used to determine vesting and ex ante risk adjustment based on actual risk outcomes.

12. To review the conditions of the contracts with executive Directors and the Bank's senior management and provide advice in this connection to the Board of Directors, and verify that they are consistent with the current remuneration policy;

13. To assess the degree of compliance with the criteria and objectives established in relation to the previous financial year, which should determine the proposal on the individual remuneration of Directors, especially executive Directors, and the Bank's Senior Management and members of the Identified Staff, including the variable components in the short, medium and long term, involving, where appropriate, the external adviser.

14. To propose to the Board of Directors the determination of the remuneration accrued by the Directors and the Bank's Senior Management;

15. To propose to the Board of Directors the determination of the bonus for the Bank's senior management and that of its subsidiaries;

16. Verify whether the circumstances justifying the application of malus and clawback clauses to variable remuneration have arisen, and propose the appropriate measures to recover any amounts that may apply;

17. To approve the appointment of external remuneration consultants that the Committee may decide to contract for advice or support;

18. To ensure that potential conflicts of interest do not impair the independence of external advice;

19. To ensure that remuneration is transparent;

20. To verify the remuneration information contained in the various corporate documents, including the annual and half-yearly financial reports, the Annual Directors' Remuneration Report, the Annual Corporate Governance Report and the Non-Financial Disclosures Report.

21. To review that the information that the Bank disseminates on its website on matters within the competence of the Committee on Directors and members of the Bank's senior management is sufficient and appropriate and follows the applicable Good Corporate Governance recommendations.

Activity carried out during the financial year

The main issues that arose in relation to the matters within the Committee's remit and the main activities carried out by the Committee in financial year 2021 are described below:

The Committee reported favourably to the Board of Directors to propose to the General Meeting of Shareholders, held on 26 March 2021, the Remuneration Policy for Directors of Banco Sabadell for the financial years 2021, 2022 and 2023, submitting, for this purpose, the corresponding report. The Remuneration Committee also reported favourably to the Board of Directors on the submission for approval by the General Meeting of Shareholders 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 annual fixed remuneration assigned to each of them.

The Committee reviewed and reported on the terms and conditions of the contracts of executive Directors and the Bank's senior management, the modification thereof and/or exit conditions, verifying that they are in line with the entity's remuneration policy. The Committee reported favourably to the Board of Directors on the degree of compliance with the 2020 objectives for the Executive Directors, the Bank's Senior Management, Internal Audit and the entire Group, assessing the possible application of ex ante adjustments for risks to the 2020 variable remuneration and the non-application of malus and clawback clauses, as well as their fixed and variable remuneration for the 2021 financial year. It reported the approval of the individual objectives of the CEO and executive Directors, the members of the Bank's senior management and the members of the Group's Identified Staff, comparing the remuneration benchmark with reports from external consultants and analysing the Risk Committee's report on the consistency of these objectives with the level of risk appetite. It also reported on the fixed remuneration for Group's entire workforce and the increase in the total salary expense for the financial year 2021.

The Remuneration Committee reviewed and reported favourably to the Board of Directors on Banco Sabadell's remuneration policies, as well as those of the Group. To this end, the Committee analysed the independent report issued by a consultant on the Prudential Evaluation of Remuneration 2020, which was carried out in order to analyse whether Banco Sabadell's remuneration policy and remuneration practices were in line with the requirements and recommendations of the supervisory bodies, and which concluded that the aforementioned Policy and practices are in line with current prudential remuneration requirements and follow best practices in Good Corporate Governance and Transparency. It also examined the report submitted annually by the Human Resources Division in order to provide the Remuneration Committee with the basic elements that enable it to perform the functions entrusted to it. It analysed the Annual Internal Audit Report on the Remuneration Policy of the Group and

Subsidiaries, the purpose of which is to review the alignment of the guidelines of the European Banking Authority (EBA) and the applicable regulations with respect to the remuneration policies of the organisation (Group and subsidiaries), adequately monitoring its recommendations and ensuring their implementation.

Throughout the year, the Committee analysed the impact of Covid-19 on variable remuneration, with a detailed study and analysis of simulations of possible target achievement.

The Committee actively collaborated in the Corporate Governance Roadshow held in 2021, with proxy advisors and the most significant shareholders, explaining the most relevant issues related to the Remuneration Policy and ensured the correct dissemination of information on remuneration through the corporate website, in accordance with the applicable regulations and Good Corporate Governance recommendations.

In addition, in February 2022, the Remuneration Committee carried out a self-assessment of its performance for the 2021 financial year, with satisfactory results.

For further information, please refer to the Committee's Activity Report for the financial year 2021, available in the section "Corporate Governance and Remuneration Policy/Reports of the Committees" on the Bank's corporate website www.grupobancosabadell.com.

4.6. Risk Committee

Membership and attendance at meetings

Chairman	George Donald Johnston III	Independent	14/14
Members	Aurora Catá Sala*	Independent	12/14
	Alicia Reyes Revuelta**	Independent	10/10
	Manuel Valls Morató	Independent	14/14

* The committee member gave specific instructions to a proxy for meetings from which she was absent.

** Number of meetings which the Director attended with respect to the number of meetings held during the period in 2021 in which she was a member.

The independent Director, Ms Alicia Reyes Revuelta, was appointed member of the Risk Committee on 26 March 2021. The Risk Committee is regulated by article 68 of the Articles of Association, article 19 of the Board of Directors' Regulations and its own Regulations, approved by the Board of Directors on 27 May 2021, which govern the basic rules of organisation and operation.

Regulation and operation

In accordance with the Regulations of the Board of Directors, the Risk Committee shall comprise a maximum of five members nominated by the Board of Directors, all non-executive, who have the appropriate knowledge, ability and experience to fully understand and control the risk strategy and possible risks of the Entity, two of whom, at least, must be independent Directors, and the Chairman of the Committee will always be appointed from among the independent Directors who are members thereof. The Secretary shall be the Secretary of the Board of Directors or, as the case may be, the Deputy Secretary of the Board of Directors. In the exercise of its duties, the Risk Committee may directly request the information it considers relevant both from the Director General Manager of Risks and from the various Directorates reporting to him/her, including the Internal Control Directorate and the Credit Risk Control Directorate; and in accordance with its Regulations, the Committee shall meet as often as necessary and at least once every two months, when called by its Chairman, at his own initiative or at the initiative of any member of the Committee, or whenever the Board or its Chairman requests the issuance of a report or the adoption of proposals and, in any case, whenever appropriate for the proper performance of its duties.

Functions

Its functions are focused on supervising and exercising oversight to ensure that all the risks of the Bank and its consolidated Group are assumed, controlled and managed appropriately, and reporting to the Board on the performance of its duties and responsibilities, in accordance with the law, the Articles of Association, the Board of Directors Regulations and its own regulations. The main functions of the Risk Committee are as follows:

1. To supervise implementation of the Global Risk Policy.

2. To report each quarter to the Board in plenary session 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.

3. To monitor and detect any excess above the approved tolerance thresholds, and oversee the activation of the contingency plans established for this purpose.

4. To advise the Remuneration Committee as to whether the employee compensation programmes are consistent with the Bank's levels of risk, capital and liquidity.

5. To advise and support the Board of Directors on the monitoring of the Bank's risk appetite and overall risk strategy, taking into account all types of risks, to ensure that they are in line with the Bank's business strategy, objectives, corporate culture and values.

6. To assist the Board of Directors in monitoring the implementation of the Bank's risk strategy and the corresponding limits set.

7. To monitor the implementation of the Bank's capital and liquidity management strategies, as well as all other relevant risks, to assess their alignment with the approved strategy and risk appetite.

8. To recommend to the Board of Directors any adjustments to the risk strategy deemed necessary as a result of, inter alia, changes in the Bank's business model, market developments or recommendations made by the risk control function.

9. To advise on the appointment of external consultants in the field of the Bank's supervisory activity.

10. To analyse a range of possible scenarios, including stress scenarios, to assess how the Bank's risk profile would react to external and internal events.

11. To monitor consistency between all major financial products and services offered to customers and the Bank's business model and risk strategy. The Risk Committee 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 returns obtained.

12. To assess internal or external auditors' recommendations and verify proper implementation of any measures that are adopted.

13. To coordinate with the Audit and Control Committee in relation to the latter's functions relating to supervising and assessing the effectiveness of the internal control and risk management policies and systems as a whole, covering financial and non-financial risks relating to the Entity, including operational, technological, legal, social, environmental, political, reputational and corruption-related risks, and to ensure that the main direct or indirect risks are reasonably identified, measured and controlled, as well as to discuss with the auditor any significant weaknesses in the internal control system detected during the course of the audit. To this end, meetings may be held with senior managers of the Bank's business units to explain business trends and associated risks and, where appropriate, to submit recommendations or proposals to the Board of Directors and the corresponding timeframe for their follow-up.

14. To report to the Board in plenary session regarding the performance of its functions under this article and other applicable legislation and the provisions of the Articles of Association.

Activities carried out during the year

The main issues that arose in relation to the matters within the Committee's remit and the main activities carried out by the Committee in financial year 2021 are described below:

The main function of the Risk Committee is to ensure that all risks are adequately assumed, controlled and managed in accordance with the Group's Risk Appetite Statement (RAS). Therefore, the main activities of the committee during 2021 included regular monitoring of the evolution of all risks through the monitoring of the SAR, with special emphasis on those most affected by the pandemic, such as the evolution of problem assets, ICO-guaranteed operations and those granted in the framework of moratoriums, and Leveraged Transactions. The committee was also informed about the situation and management of the different types of risks through specific studies on technological risks, operational risk and structural balance sheet risks, among others.

It also reviewed various aspects of regulatory compliance (such as the review of the MiFID report and the annual report of the Expert on the Prevention of Money Laundering and Terrorist Financing) and reported to the Remuneration Committee on the consistency of the remuneration schemes with the Bank's risk, capital and liquidity levels. It also supervised the capital adequacy (ICAAP) and liquidity (ILAAP) processes and the risk assessment on the financial projections reflecting the core elements of the Bank's strategic plan.

In addition, in February 2022, the Risk Committee carried out a self-assessment of its functioning for the 2021 financial year, with satisfactory results.

For further information, please refer to the Committee's Activity Report for the financial year 2021, available in the section "Corporate Governance and Remuneration Policy/Reports of the Committees" on the Bank's corporate website www.grupobancosabadell.com.

5. Related party and intra-group transactions (D) (D.1, D.2, D.3, D.4, D.5, D.6 and D.7)

5.1. Procedure and competent bodies and officers for the approval of related-party and Intragroup transactions (D.1, D.2, D.3, D.4, D.5 and D.7)

Law 5/2021, of 12 April, amending the revised text of the Corporate Companies Law, approved by Royal Legislative Decree 1/2010, of 2 July, and other financial regulations, with regard to the promotion of long-term shareholder involvement in listed companies, established a new set of rules that applies to related party transactions, by means of Chapter VII second. Related Party Transactions, of the Capital Companies Law.

In accordance with the regulations mentioned, the power to approve related party transactions whose amount or value is equal to or over 10% of the total of the company's assets according to the last annual balance sheet approved by the Company shall correspond to the General Shareholders' Meeting. The power to approve the remaining related party transactions will be entrusted to the Board of Directors, and this power shall be non-transferable.

Approval of a related party transaction by the General Meeting or the Board must be subject to prior reporting before the Audit and Control Committee. The Committee must include in its report an assessment of whether the transaction is fair and reasonable from the point of view of the organisation and, if applicable, of the various shareholders different from the related party. Likewise, the report must include the estimates it was based on as well as the methods used.

However, in accordance with the aforementioned regulations, the Board of Directors may delegate approval of the following related party transactions if they meet the following conditions:

(i) transactions between companies in the same group carried out in the ordinary course of business and on an arm's length basis and

(ii) transactions based on contracts with standardised conditions applicable en masse to a large number of customers, carried out at prices or rates generally established by the supplier of the good or service and for an amount not exceeding 0.5% of the company's net turnover.

The Board of Directors of Banco Sabadell, pursuant to the provisions of the Capital Companies Law, approved the delegation to the Bank's Regulatory Compliance Division to be the body that reviews whether transactions with related parties should be considered as related party transactions for the purposes of the Capital Companies Law and, if so, to approve them if they meet the aforementioned conditions.

The approval of these operations by the Regulatory Compliance Division on the basis of the Board's delegation does not require a prior report from the Audit and Control Committee.

On an annual basis, the Regulatory Compliance Division shall report to the Audit and Control Committee the result of the review of related-party transactions, for the purpose of verifying the fairness and transparency of such transactions and, where appropriate, compliance with the applicable legal criteria for their delegated approval by the Regulatory Compliance Division, giving details of:

— Number of transactions reviewed.
— Related-party transactions approved by the Regulatory Compliance Division in exercise of the powers delegated by the Board of Directors.
— Related party transactions escalated to the Board of Directors for approval.
— Other information to enable verification and compliance as indicated.

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 amount or nature between the Bank or any Group undertaking and the Bank's significant shareholders.

There are no transactions with Directors and executives of the Bank that could be considered relevant, other than those considered "related-party transactions" in accordance with article 529 twentieth of the Capital Companies Law, and carried out with the application of the corresponding approval procedure and, if applicable, publicity established in accordance with articles 529 twenty-first et seq of the Capital Companies Law. Those that did take place were in the normal course of the company's business and were conducted at market prices or under the terms normally applicable to employees. The Bank is not aware of any transactions carried out at non-market prices with any persons or entities related to the Bank's Directors or Senior Management staff.

In relation to significant transactions due to their amount or relevant due to their subject matter carried out by the Bank with other related parties, on 18 November 2021, the Board of Directors, following a favourable report from the Audit and Control Committee, approved a related party transaction consisting of a loan to Acerinox, S.A. for an amount of 205 million euros, with a term of five years (the first two years of grace period), which was formalised on 23 December 2021. The transaction is considered a related party transaction, since Acerinox, S.A. is a company in which a Director of Banco Sabadell is also an independent

Director and on whose committees he holds positions (member of the executive committee and chairman of the audit committee of Acerinox, S.A.).

As its amount exceeds 2.5% of the turnover of the consolidated Annual Accounts of Banco Sabadell for the financial year 2020, it was published as Other Relevant Information together with the corresponding report of the Audit and Control Committee in the CNMV on 23 December 2021 with registry number 13,328, in accordance with the provisions of article 529 twenty-first of the Capital Companies Law.

The balances of transactions with related parties are disclosed in note 40 to the Group's consolidated Annual Accounts 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 Conflicts of Interest Policy of the Banco Sabadell Group and the General Conflicts of Interest Policy of Banco Sabadell are internal rules approved by the Board of Directors of Banco Sabadell, reviewed annually. These policies are intended to be effective in identifying, assessing, managing, mitigating, preventing or ultimately disclosing potential or actual conflicts of interest. The Regulatory Compliance Division has been delegated with the responsibility for correctly applying those policies and, when necessary, it will call on 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 the Bank's Senior Management, 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-banking activities and also with ordinary banking business.

   The Group's Risk Transactions Committee analyses all credit transactions carried out by Directors, members of the Bank's senior management: and their related parties and makes proposals to the Board of Directors for their approval.

   Royal Decree 84/2015, implementing Law 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. In addition, in 2021, the Board of Directors approved the new version of the Group's Code of Conduct, which has undergone an in-depth revision and update in order to bring it into line with regulatory requirements, supervisory guidelines and reports, as well as with market standards. The Code contains a catalogue of principles, obligations and duties that must govern the actions of all members of the Group. In addition, the purpose of this Code is to define the criteria to be followed to ensure ethical and responsible conduct, both in relationships within the Group itself and in relationships with clients, suppliers, shareholders, investors and other stakeholders. The introduction of the new version of the Group's Code of Conduct requires the express adherence of the Group's entire workforce.
4. Banco Sabadell Group's Internal Code of Conduct in connection with the securities markets (IRC), approved by the Board of Directors on 24 May 2018 and updated in September 2021, is 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 Code of Conduct in connection with the securities market.

   To achieve its objectives, the Corporate Ethics Committee can call upon the resources of the Compliance Division, 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 Regulations of the Board of Directors, all Board members are bound by a duty of loyalty and confidentiality and are required to disclose any holdings they may have in the company itself or interests in other companies outside the Group.

Specifically, Article 29 of the Regulations 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 and Corporate Governance before accepting any executive appointment in another company or institution.

Article 31 of the Board of Directors Regulations 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.

They must also 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 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 entire Group's various divisions 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 also 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 Board of Directors of Banco de Sabadell, S.A. assumes, among its other duties, the identification of the Group's main risks and the implementation and monitoring of the appropriate internal control and reporting systems, including the challenging and monitoring and strategic planning of the Group and the oversight of the management of relevant risks and the alignment thereof 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 schemes and policies.

The Board of Directors has non-delegable responsibility for: (i) determining the tax strategy; (ii) approving investments or transactions considered strategic on the basis of their amount or special characteristics, strategic nature or particular tax risk, unless their approval is a matter to be determined by the General Meeting; (iii) approving the creation of special-purpose vehicles or entities resident in jurisdictions considered tax havens, or the acquisition of holdings 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 Credit 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. In addition, various Committees and Divisions are significantly involved 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), which includes the policies and metrics related to credit risk (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.

— Group's 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 Credit 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. The full roll-out of its functions took place in the first half of 2021.

— NPA Monitoring and Management Committee (CSyGAP): management body responsible for coordinating the activities of the recovery cycle, including the prevention and containment of the potential entry into default by promoting anticipation strategies, which is responsible for the following functions: (i) monitoring 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) establishing 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) ensuring coordination between the Risk Department and the Business units to reduce the potential for default and delinquency; (iv) monitoring the portfolio of non-performing assets and the recovery strategy for those assets; and (v) establishing 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. It became fully operational in 2021, with full deployment of its functions.

— 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 (UGB BS) 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-a-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 (SEP-BLAC) 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 report to SEPBLAC; (iii)validating 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 risks taxonomy 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 to adapt the Group's business model to the evolution of the environment in which it operates. This risk includes:

— Solvency risk: this is the risk of not having sufficient capital, either in quality or quantity, required to achieve strategic and business objectives, withstand operational losses or comply with regulatory requirements and/or the expectations of the market in which it operates.
— Business risk: the possibility of incurring losses arising from adverse events that negatively affect the capacity, strength and recurrence of the income statement, either because of their viability (short-term) or sustainability (medium-term).
— Reputational risk: this is the current or future risk of loss arising from failures in the areas of processes and operations, strategy and corporate governance, which generate a negative perception by 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.
— Climate risk: the risk of loss arising from current and potential future impacts on the climate risk factors of customers and the Bank's own business. These factors can be mainly physical (the physical effects of change from a changing climate, including more frequent extreme weather events and gradual changes in climate) and transitional (resulting from adjustment processes towards a lower-emission economy). Climate risk acts, where appropriate, as a driver of other risks such as credit risk.

6.3.2. Credit risk

The possibility that losses may be incurred as a result of borrowers failing to meet their payment 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 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.
— Country risk is defined as the risk of 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 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 a State and who, for reasons outside their control and not intentionally, 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 received to pay off a debt.
— Equity risk: the risk of incurring losses as a result of adverse changes in the value of an equity instrument. This basically includes the Bank's own portfolio of equity holdings (listed and unlisted), including the portfolio of associate entities in which it has significant influence.

6.3.3. Finance risk

The possibility of obtaining insufficient returns or having insufficient liquidity such as to prevent compliance with future requirements and expectations. This risk includes:

— 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 of its being 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/Group 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 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. This refers in particular to trading positions.
— Insurance risk: this is the risk arising from pension commitments and from the holding of control in insurance companies, which are mainly affected by actuarial risk in addition to other risks (market, counterparty, operational, etc.).
— Credit Spread Risk in the Banking Book (CSRBB): is the risk of potential losses arising from changes in market perceptions of the price of credit risk, the liquidity premium and other potential components of instruments bearing credit risk, which generate fluctuations in the price of credit risk, the liquidity premium and other potential components. This risk is explained neither by IRRBB nor by the expected credit risk or immediate default risk.

6.3.4. Operational risk

Operational risk is defined as the risk of incurring losses due to inadequate or deficient processes, personnel and internal systems or due to external events. This definition includes, among others, legal risk, model risk and information and communication technology (ICT) risk and excludes strategic risk and reputational risk. 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: is the possibility, current or future, of losses arising from the inadequate provision of financial services, including cases of wilful or negligent conduct, including those arising from non-compliance with regulations or legal provisions.
— Process risk: the possibility of incurring losses due to failures in process management, execution or delivery or to inadequate processes.
— 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 information and communication technology 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 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 subcontracting company, 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, workforce turnover and replacement, dissatisfaction among employees, etc. This category also includes losses arising from actions in breach of legislation or agreements in the areas of employment, workplace health and safety, personal injury claim payouts, 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 safety.
— 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.
— Risk Data Aggregation Risk: is the risk associated with inappropriate processing and/or consideration of data within the entity that could affect the accuracy, preparation, dissemination and, where appropriate, publication of relevant reporting used in decision making, including, but not limited to, risk, regulatory and financial reporting data.
— 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 its banking activities.
— 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:
(i) On the one hand, the probability of failing to comply with tax obligations, potentially resulting in an undue shortfall of income, or the occurrence of any other event that generates potential harm or loss for the Bank in terms of meeting its objectives.
(ii) On the other hand, the probability of making an undue payment when complying with tax obligations, thus negatively affecting shareholders and 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 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. 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 of action.

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).

Throughout 2021, the various mitigating measures taken in 2020 to mitigate the effects of the pandemic have been expiring and no increase in arrears is being observed as a result of the expiry of these measures. In this respect, expectations about the duration and intensity of the negative impact on economic activity remain uncertain, and developments continue to be monitored.

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, which enables it to make informed decisions. Accordingly, depending on their nature and hierarchy, the metrics in the Group RAS are reported regularly to different governing bodies (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, this 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 view 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 Systems and Risk Management over Financial Reporting (ICFR) (F)

7.1. Control environment (F.1)

7.1.1. Governance and governing bodies

Article 5 of the Regulations of the Board of Directors states that the Board of Directors is an instrument of supervision and control whose responsibility is to identify the company's and the consolidated Group's main risks and implement and monitor suitable internal control and reporting systems, as well as designing policies for the reporting and disclosure of information to shareholders, the markets and the general public.

In addition, as provided in Article 16 of its Regulations, the Board of Directors delegates supervision of internal control systems to the Audit and Control Committee.

The functions of the Internal Audit Department include the support of the Audit and Control Committee in the oversight of the correct design, implementation and effective functioning of risk management and control systems, including the SCIIF - Financial Information Control System.

The Internal Control Division is responsible, among other functions, for ensuring the effective control of all risks related to SCIIF, as well as management compliance with the established risk appetite levels and the established procedures.

The Group's Finance Division 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.

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. This Management analyses and adapts the functions and organisational structure of each General Management to bring it into line with the set objectives and the current regulations. Amendments to the organisation structure of the members of the Management Committee are submitted to the Board of Directors for approval, while amendments to the organisation 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 Division showing all the amendments 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 encompasses 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

The Banco Sabadell Group has a Group Code of Conduct which, as indicated above, was thoroughly reviewed and updated in 2021. The new text, approved by the Board of Directors, is available to all members of the Group and requires their express adherence to it. Its fundamental principles include a commitment to transparency and, in particular, it reflects the commitment to make all financial and corporate information available to shareholders. 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 various companies that comprise it. 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 existing code or self-regulation. In order to perform its functions, it has access to the human and material resources of the Compliance Department. If, as a consequence of performing its duties and responsibilities, it detects any breach, it must advise the Human Resources Division for the application of corrective actions and penalties. Additionally, the Corporate Ethics Committee has been designated by the Board of Directors as the Body in charge of Supervision and Compliance with the Crime Risk Organisation and 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

With regard to training and refresher programmes, and in particular the process of preparing financial information, the Banco Sabadell Group's Finance Division holds training sessions, depending on the needs that arise, in order to cover new aspects in relation to the Entity's internal accounting/financial operations, applicable national and international regulations and the use of IT tools, with the aim of facilitating the management and control of financial information. In addition, professionals from the Finance Division regularly participate in workshops and events dealing with aspects related to accounting and prudential regulations applicable to the Institution.

Training is taught chiefly by internal professionals of Banco Sabadell Group and by external experts who are specialists in each area.

In addition, the Human Resources Division 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 for its Spanish initials) 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 2021, 8 audit professionals had completed this programme, and 71 members of the Internal Audit Department currently hold PSAI certificates. In addition, during 2021, members of the Internal Audit Department took part in workshops on the impact of new regulatory developments in relation to credit risk, sustainability, non-financial reporting, reporting to the supervisor and Next Generation funds. In terms of technology certifications in 2021, one auditor has been certified in ITIL v4 Foundation and CDMP (Certified Data Management Professional), another auditor in CISSP (Certified Information Security Systems Security Professional) and one auditor in ISO27001. In addition, 71 auditors are certified in the Internal Control - Integrated Framework of the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

7.2. Assessment 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 a quarterly basis. In any case, if in the financial year (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 assesses 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 procedures for reviewing and authorising Banco Sabadell Group's financial reporting to the markets commence with a review by the Finance Department. In accordance with the Board of Directors Regulations, the individual 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 regulations, 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 mandatory, 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. In addition, on a monthly basis, they monitor the most significant developments from a technical accounting point of view as well as the results.

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:

— Credit investment
— Fixed-income portfolio and issuance
— Equity portfolio
— 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 perimeter. In particular, for example, Banco Sabadell Group conducts a monthly analysis of the consolidation perimeter, 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. In this regard, the main judgements and estimates made relate to the determination of the business models under which financial assets are managed, the determination of the significant increase in the risk of financial assets, impairment losses on certain financial assets, actuarial calculations relating to pension liabilities and commitments, the useful life of tangible and intangible assets and their impairment losses, the valuation of goodwill, provisions and the consideration of contingent liabilities, the fair value of certain unquoted financial assets, the fair value of mortgaged property, the recoverability of non-monetisable deferred tax assets and tax credits, the term of finance leases in which Banco Sabadell acts as lessee and the discount rate of financial liabilities under leases.

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).

Additionally, in order to strengthen the ICFR validation process, a certification process of the controls included in the ICFR is carried out for the closing of annual and half-yearly accounts; this process consists of three sequential certification levels and flows hierarchically through the organisation up to the members of the Management Committee.

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. In addition, the availability of redundant infrastructures and regularly tested recovery procedures are ensured to guarantee the continuity of technological services.

7.3.3. Internal control policies and procedures for outsourced activities and appraisals outsourced to independent experts

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.

For financial year 2021, 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 communication (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 also 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 refer explicitly to the rules that apply to each type of transaction, but also elaborate and explain the interpretation of these rules.

These documents are updated at least annually. Significant amendments 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 consistent and that the arithmetic totals of the financial statements and the tables contained in the notes in the annual report are correct.

7.5. Supervision of system operation (F.5)

7.5.1. ICFR supervision activities

In accordance with the Regulations of the Board of Directors, the Audit and Control Committee is entrusted with oversight of Internal Audit. In addition, the Audit and Control Committee, among other functions, reports to the Board of Directors on the internal audit plan for approval by the Board, evaluates the results of each audit and prioritises and monitors corrective actions.

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 Internal Audit Activities Plan that the Board of Directors approved at a meeting on 20 January 2021, 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. The actions set out in the plan were performed in 2021, after a prioritisation scheme created for the purpose of adjusting the Plan to the group's new strategic plan as well as supervisor requirements and significant changes and exceptional transactions throughout the year; 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 the existing controls. In addition, 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.

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.

The Internal Control Division is responsible, among other functions, to ensure the effective control of all the risks related to ICFR, as well as compliance with the established procedures and alignment of these risks management with the risk appetite level defined.

In addition to the aforementioned supervisory activities carried out by the ICFR Department, the Audit and Control Committee and the Internal Audit Department, in 2021 the external auditor reviewed the information relat[1]ing 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.

In these meetings, an in-depth review is carried out 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 conducts meetings with the Chief Financial Officer, the internal control functions and the external auditor 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, during this discussion process, any ICFR weaknesses that were identified are assessed, and, where applicable, 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 to perform his/her work and to report on control weaknesses, if any, detected during the audit. With regard to the latter aspect, each year the external auditor submits a report to the Audit and Control Committee detailing any internal control weaknesses that were detected in the course of his/her work or certifying that there were none. This report incorporates comments by Group management and, where applicable, any action plans implemented to remedy the relevant internal control weaknesses.

7.6. External auditor's report (F.7)

The Banco Sabadell Group has submitted the ICFR information submitted to the markets for the 2021 financial year for review by the external auditor. The report of the External Auditor (KPMG Auditores, S.L.) will, when issued, be included as an appendix to this Annual Corporate Governance Report.

The scope of the auditor's review is determined by "Gufa 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" [Action Guidebook and Model Report of the Auditor referring to the Information related to the Internal Control System on Financial Information (SCIIF) of Listed Entities], issued by means of Circular E14/2013, dated 19 July 2013, of the Instituto de Censores Jurados de Cuentas de España [Spanish Institute of Chartered Accountants].

8. Degree of compliance with Corporate Governance Recommendations (G)

The degree to which Banco Sabadell complies with the recommendations in the Good Governance Code for Listed Companies is detailed in section G of the Statistical Annex to the 2021 Annual Corporate Governance Report of listed companies attached to this report.

9. Other useful information (H)

Since 2017, Banco Sabadell has adhered to the Code of Good Tax Practices approved by the Large Company Forum on 20 July 2010 and applies its recommendations.

Accordingly, Banco Sabadell informs that it voluntarily submitted the "Annual Tax Transparency Report" for financial year 2020 to the Spanish Tax Authority.

In addition, through its subsidiary in the United Kingdom, it has been a signatory since 2014 to the "*Code of Practice on Taxation for Banks*" promoted by the UK tax authorities, complying with its contents.

This Annual Corporate Governance Report was approved by Banco Sabadell's Board of Directors at its meeting held on:

17/02/2022

No Directors who voted abstained or voted against the approval 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.

ISSUER IDENTIFICATION DATA

Date of end of reference year:	31/12/2021
Tax ID Number:	A-08000143

Company name:

BANCO DE SABADELL, S.A.

Registered address:

AV. OSCAR ESPLA N.37 (ALICANTE)

A. OWNERSHIP STRUCTURE

A.1. Complete the following table on the share capital and voting attributed, including, where applicable, those corresponding to shares with loyalty votes, as at closing date of the financial year:

Indicate whether the company's articles of association contain a provision for double loyalty voting:

[ ] Yes
[√] No

Date of last modification	Share capital (€)	Number of shares	Number of voting
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 direct and indirect borrowers of significant holdings at the closing date of the financial year, including directors with significant holding:

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	3.02	0.00	0.41	3.43
FINTECH EUROPE, S.À.R.L.	3.45	0.00	0.00	0.00	3.45
MR. LEWIS A. SANDERS	0.00	3.47	0.00	0.00	3.47

Breakdown of the indirect holding:

Name or company name of the indirect borrower	Name or company name of the direct borrower	% of voting rights attached to the shares	% of voting rights through financial instruments	% of total voting rights
BLACKROCK INC.	BLACKROCK, INC. several subsidiaries	3.02	0.41	3.43
FINTECH EUROPE, S.À.R.L.	MR. DAVID MARTINEZ GUZMAN	3.45	0.00	3.45
MR. LEWIS A. SANDERS	SANDERS CAPITAL, LLC	3.47	0.00	3.47

A.3. List the holding, whatever the percentage, at closing date of financial year of the members of the Board of Directors who are borrowers of voting attributed to shares in the company or through financial instruments, excluding the directors identified in section A.2 above:

Name or company name of director	% of voting rights attached to the shares		% of voting rights through financial instruments		% of total voting rights	Voting that can be transferred through financial instruments (%)	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR. JOSEP OLIU CREUS	0.07	0.05	0.01	0.00	0.13	0.00	0.00
MR. PEDRO FONTANA GARCÍA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. CÉSAR GONZALEZ-BUENO MAYER WITTGENSTEIN	0.01	0.00	0.00	0.00	0.01	0.00	0.00
MR. ANTHONY FRANK ELLIOTT BALL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MS. AURORA CATÁ SALA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. LUIS DEULOFEU FUGUET	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MS. MARIÁ JOSÉ GARCÍA BEATO	0.01	0.00	0.00	0.00	0.01	0.00	0.00
MS. MIREYA GINÉ TORRENS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. GEORGE DONALD JOHNSTON III	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	0.05	0.01	0.00	0.00	0.06	0.00	0.00
MS. ALICIA REYES REVUELTA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. MANUEL VALLS MORATÓ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR. DAVID VEGARA FIGUERAS	0.01	0.00	0.00	0.00	0.01	0.00	0.00

% of total voting borrowed by Board of Directors	3.67

Breakdown of the indirect holding:

Name or company name of director	Name or company name of the direct borrower	% of voting rights attached to the shares	% of voting rights through financial instruments	% of total voting rights	Voting that can be transferred through financial instruments (%)
No data					

Give details of the total percentage of voting represented on the board:

Total voting represented on the Board of Directors (%)	3.67

A.7. Indicate whether the company has been notified of any shareholder 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 shares among its shareholders. If so, provide a brief description:

[ ] Yes
[√] No

A.8. Indicate whether any natural person 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 closing date of the year:

Number of direct shares	Number of shares Indirect(*)	% of total of share capital
40,679,208		0.72

(*) Through:

Name or company name of direct borrower of the holding	Number of direct shares
No data	

A.11. Estimated capital float:

	%
Estimated capital float	89.10

A.14. Indicate whether the company has issued shares that are not traded on a regulated EU market.

[ ] Yes
[√] No

B. GENERAL MEETING

B.4. Give details of attendance at general meetings held during the reporting year and the two previous years:

Date of general meeting	Attendance data				
	% in attendance	% represented by proxy	% remote voting		Total
			E-voting	Other	
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
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
26/03/2021	0.16	60.98	0.00	0.00	61.14
Of which free float	0.07	57.80	0.00	0.00	57.87

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 for any given reason:

[ ] Yes
[√] No

B.6. Indicate whether the articles of incorporation contain any restrictions requiring a minimum number of shares to attend the general meeting, or to vote remotely:

[√] Yes
[ ] No

Number of shares required to attend the general meeting	1,000
Number of shares required for voting remotely	1,000

C. STRUCTURE OF COMPANY'S ADMINISTRATION

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors expected in the articles of association and the number established by the general meeting:

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 with Board members:

Name or company name of director	Representative	Director category	Board position	Date first appointed	Date of last appointment	Election procedure
MR. JOSEP OLIU CREUS		Other external	CHAIRMAN	29/03/1990	28/03/2019	GENERAL MEETING OF SHAREHOLDERS RESOLUTION
MR. PEDRO FONTANA GARCÍA		Independent	DEPUTY CHAIRMAN	27/07/2017	19/04/2018	GENERAL MEETING OF SHAREHOLDERS RESOLUTION
MR. CÉSAR GONZALEZ-BUENO MAYER WITTGENSTEIN		Executive	CHIEF EXECUTIVE OFFICER/ CEO	17/12/2020	26/03/2021	GENERAL MEETING OF SHAREHOLDERS RESOLUTION
MR. ANTHONY FRANK ELLIOTT BALL		Independent	INDEPENDENT LEAD DIRECTOR	30/03/2017	26/03/2021	GENERAL MEETING OF SHAREHOLDERS RESOLUTION
MS. AURORA CATÁ SALA		Independent	DIRECTOR	29/01/2015	28/03/2019	GENERAL MEETING OF SHAREHOLDERS RESOLUTION
MR. LUIS DEULOFEU FUGUET		Independent	DIRECTOR	28/07/2021	28/07/2021	BOARD OF DIRECTORS RESOLUTION
MS. MARíA JOSÉ GARCÍA BEATO		Other external	DIRECTOR	24/05/2018	28/03/2019	GENERAL MEETING OF SHAREHOLDERS

Name or company name of director	Representative	Director category	Board position	Date first appointed	Date of last appointment	Election procedure
MS. MIREYA GINÉ TORRENS		Independent	DIRECTOR	26/03/2020	26/03/2020	GENERAL MEETING OF SHAREHOLDERS RESOLUTION
MR. GEORGE DONALD JOHNSTON III		Independent	DIRECTOR	25/05/2017	19/04/2018	GENERAL MEETING OF SHAREHOLDERS RESOLUTION
MR. DAVID MARTÍNEZ GUZMAN		Proprietary	DIRECTOR	27/03/2014	19/04/2018	GENERAL MEETING OF SHAREHOLDERS RESOLUTION
MR. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ		Independent	DIRECTOR	26/03/2013	19/04/2018	GENERAL MEETING OF SHAREHOLDERS RESOLUTION
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI		Independent	DIRECTOR	18/09/2010	28/03/2019	GENERAL MEETING OF SHAREHOLDERS RESOLUTION
MS. ALICIA REYES REVUELTA		Independent	DIRECTOR	24/09/2020	26/03/2021	GENERAL MEETING OF SHAREHOLDERS RESOLUTION
MR. MANUEL VALLS MORATÓ		Independent	DIRECTOR	22/09/2016	26/03/2021	GENERAL MEETING OF SHAREHOLDERS RESOLUTION
MR. DAVID VEGARA FIGUERAS		Executive	DIRECTOR	28/05/2015	28/03/2019	GENERAL MEETING OF SHAREHOLDERS RESOLUTION

Total number of directors	15

Indicate if any directors, whether through resignation or by agreement of the general meeting, have left the Board of Directors 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 disposal	Specialised Commissions of which the director was a member	Indicate whether the cessation took place before the finish date of the mandate
MR. JAIME GUARDIOLA ROMOJARO	Executive	19/04/2018	18/03/2021	Delegated Committee	YES
MR. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	Independent	28/03/2019	28/07/2021	Strategy and Sustainability Committee and Credit Delegated Committee	YES

C.1.3 Complete the following tables with the members of the Board and their categories:

EXECUTIVE DIRECTORS		
Name or company name of director	Post in organisation chart of the company	Profile
MR. CÉSAR GONZALEZ-BUENO MAYER WITTGENSTEIN	CHIEF EXECUTIVE OFFICER/ CEO	BANKING/RETAIL & CORPORATE BANKING/FINANCIAL/ REGULATORY/INTERNATIONAL/DIGITAL AND IT (Digital transformation) Double degree in Law and Business Administration from ICADE, Madrid, and an MBA from Yale School of Management, Connecticut (USA). 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) and non-executive director of TSB Bank, PLC and TSB Banking Group, PLC of Banco Sabadell Group. (2020-2021) Trustee of the Ciudad Escuela de los Muchachos Foundation.
MR. 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. Secretary of State for Economic Affairs (2004-2009), Deputy Director at the International Monetary Fund (2010-2012) and Deputy Managing Director for Banking of 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 the company Hellenic Corporation of Assets and Participations, S.A. and Trustee of the Foundation

EXECUTIVE DIRECTORS		
Name or company name of director	Post in organisation chart of the company	Profile
		Pasqual Maragall. He is a non-executive director of TSB Bank, PLC and TSB Banking Group, PLC of the Banco Sabadell Group.

Total number of executive directors	2
Percentage of Board	13.33

EXTERNAL PROPRIETARY DIRECTORS		
Name or company name of director	Name or corporate name of the significant shareholder he/she represents or who has proposed its appointment	Profile
MR. DAVID MARTÍNEZ GUZMÁN	FINTECH EUROPE, S.À.R.L.	BUSINESS/FINANCIAL/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 of Fintech Advisory in 1987, the fund management company of Fintech Investments Ltd. (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
MR. PEDRO FONTANA GARCÍA	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, Boston-Massachusetts (EE.UU.) 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., Chairman of Asociación para el Progreso de la Dirección -Catalonia Chapter, Chairman of the Board of Trustees of Fundació Privada Cercle d'Economía, Member of the Board of Trustees of Fundación Barcelona Mobile World Capital, and a Director of Fira Internacional de Barcelona.

EXTERNAL INDEPENDENT DIRECTORS	
Name or company name of director	Profile
MR. ANTHONY FRANK ELLIOTT BALL	BUSINESS/INTERNATIONAL. Chartered Engineer and MBA from Kingston Business School, Kingston University (London). Honorary Doctorate from the Kingston University Faculty of Business and Law and from Middlesex University. Chairman and CEO of Fox Sports International (1995-1996), CEO of Fox Liberty Networks LLC. (1996-1999), Chief Executive Officer of BSkyB Plc. (1999-2004), Chairman of Kabel Deutschland GmbH (2005-2013) and Independent Director of BT Group (2009-2018). Director of Ambassadors Theatre Group Ltd, Chairman of Bité Group and Proprietary Director of Masmovil Ibercom, S.A., companies in which Providence Equity Partners LLC has an interest.
MS. AURORA CATÁ SALA	BUSINESS / CONSULTING / FINANCE / HUMAN RESOURCES. Degree in Industrial Engineering (major in Industrial Organisation) from the Polytechnic University of Catalonia and an MBA and PADE from IESE Barcelona. Chief Financial Officer of Nissan Motor Ibérica, S.A. (1991-1996), CEO of Planeta 2010 (1999-2002), Founder of Content Arena (2002-2003), General Manager of Audiovisual Media of Recoletos Grupo de Comunicación (2003-2008), Member of the Governing Board of the Institut Català de Finances (2014) and Independent Director of Atresmedia Corporación de Medios de Comunicación, S.A. (2019-2021). Formerly member of a number of Board of Directors. Independent Director of Repsol, S.A. and Atrys Health, S.A. Chairman of Barcelona Global and Member of the Executive Committee of IESE alumni. Director of Sabadell Information Systems, S.A. (a technology subsidiary of Banco Sabadell).
MR. LUIS DEULOFEU FUGUET	BANKING/RETAIL BANKING/DIGITAL AND IT (Digital Transformation)/BUSINESS/CONSULTANT Telecommunications Engineer from the Polytechnic University of Catalonia, "Finance for Executives" at ESADE and PDG from IESE (Barcelona). Senior Manager at Andersen Consulting (1988-1994), Head of Technical Services & Development of New Projects at Acesa (1994-2001), Chief Technology Officer at La Caixa (2001-2011), Managing Director for Internal Resources and Efficiency at Abertis Infraestructuras (2011-2014). Managing Director of Sanef (2014-2018) and Deputy CEO of Cellnex Telecom (2018-2020). He has been Founder and Administrator of Acesa Telecom (today Cellnex Telecom), and Founder and Director of the Parc Logístic de la Zona Franca (Duty-Free Zone Logistics Park), as well as Deputy Chairman of the Catalan Research and Innovation Foundation and Trustee of the Barcelona Digital Foundation, and Board member of numerous entities such as e-La Caixa, Abertis Telecom, Invercaixa Gestión, Sanex, Xfera, Cellnex Telecom, Hispasat, DDST-Tradia, among others. Since 2020, Director of Sabadell Information Systems, S.A. (technology subsidiary of Banco Sabadell) and Member of the Technology Committee (CATED). Senior Advisor at Cellnex Telecom and Chairman of the Cellnex Foundation.
MS. 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, WRDS from Wharton Business School in Pennsylvania 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, Expert on Corporate Governance issues at the World Economic Forum from 2019 and a Member of the Center for Economic Policy from 2020. Independent Director of Sabadell Asset Management (2018-2020), Trustee of the Aula Escola Europea Foundation.

EXTERNAL INDEPENDENT DIRECTORS	
Name or company name of director	Profile
MR. 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. (USA). Executive Director at Salomon Brothers (1979-1990), Director of Bankers Trust International and member of its worldwide Executive Committee (1992-1999), head of the M&A group for Europe and member of the Executive Committee for Europe and of the Global Operating Committee within Deutsche Bank's investment banking division (1999-2005), Chairman of Deutsche Bank's European M&A group (2005-2010). Independent Director of listed companies Acerinox, S.A. and Merlin Properties, SOCIMI, S.A.
MR. JOSÉ MANUEL MARTÍNEZ	BUSINESS / INSURANCE / FINANCE / INTERNATIONAL. Public Works Engineer, he obtained a degree in Economics and Actuarial Science at the University of Madrid. Chairman of MAPFRE (2001-2012), Chairman 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.
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	BANKING / BUSINESS. Architect specialised in urban development, he holds an Executive MBA from IE Business School of Madrid. Formerly director of Banco Guipuzcoano (1990-2010). Owner and Chairman of an extensive group of companies, he is currently Chairman of the companies of the group 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.
MS. ALICIA REYES REVUELTA	BANKING / RETAIL & CORPORATE BANKING / FINANCE/ INTERNATIONAL Double degree in Law and Business Administration from ICADE, Madrid. PhD in Quantitative Methods and Financial markets from ICADE. Formerly member of a number of Board of Directors. 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), Chief Executive Officer (CEO) for the EMEA business (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. Independent Director of Ferrovial, S.A. and Non-Executive Director of TSB Bank, PLC and TSB Banking Group, PLC of Banco Sabadell Group.
MR. 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). Lead Independent Director of listed company Renta Corporación Real Estate, S.A. and Chairman of the Audit, Control and Risk Committee at COBEGA. Director of Sabadell Information Systems, S.A., a technology subsidiary of Banco Sabadell.

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
No data		

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	Grounds	Company, manager or shareholder to which or to whom the director is related	Profile
MR. JOSEP OLIU CREUS	He held executive functions until 26 March 2021 and in accordance with the Capital Companies Law	BANCO DE SABADELL, S.A.	BANKING/RETAIL & CORPORATE BANKING/FINANCIAL/ 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), Trustee of the Fundación Princesa de Asturias and the Fundación Princesa de Girona.

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	Grounds	Company, manager or shareholder to which or to whom the director is related	Profile
MS. MARIA JOSE GARCIA BEATO	Held executive functions until 31 March 2021 and in accordance with the Capital Companies Act.	BANCO DE SABADELL, S.A.	BANKING/LEGAL/ 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 Spanish National Court. She has been General Counsel (2005-2008), General Secretary (2008-2021) and Executive Director (2018-2021) of Banco Sabadell. Independent Director of the listed company Red Eléctrica Corporación, S.A. (2012-2021). Non-Executive Director of MdF, S.A., Trustee of Fundación Banco Sabadell and of the Fundación de la Asociación Española de Banca and member of the Advisory Board of the Board of Trustees of Fundación Cajasur.

Total number of other external directors	2
Percentage of Board	13.33

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 category
MR. JOSEP OLIU CREUS	26/03/2021	Executive	Other external
MS. MARIA JOSE GARCIA BEATO	31/03/2021	Executive	Other external

C.1.4 Complete the following table with information relating to the number of female directors at closing date of the past four years, as well as the category of each:

	Number of female directors				% of total directors in each category			
	Year 2021	Year 2020	Year 2019	Year 2018	Year 2021	Year 2020	Year 2019	Year 2018
Executives		1	1	1	0.00	25.00	20.00	25.00
Proprietaries					0.00	0.00	0.00	0.00
Independents	3	3	1	2	30.00	30.00	12.50	20.00
Other Externals	1		1		50.00	0.00	100.00	0.00
Total	4	4	3	3	26.67	26.67	20.00	20.00

C.1.11 List any position of director or administrator, or representative of them, held by directors or representatives of directors who are members of the company's Board of Directors in other entities, whether or not they are listed companies:

Identification of the director or representative	Company name of the listed or unlisted entity	Position
MR. JOSEP OLIU CREUS	SABADELL CONSUMER FINANCE, S.A.U.	CHAIRMAN
MR. JOSEP OLIU CREUS	EXEA EMPRESARIAL, S.L.	CHAIRMAN
MR. JOSEP OLIU CREUS	PUIG, S.L.	REPRESENTATIVE OF DIRECTOR
MR. JOSEP OLIU CREUS	BARCELONA GRADUATE SCHOOL OF ECONOMICS FUNDACIÓN PRIVADA	REPRESENTATIVE OF DIRECTOR
MR. JOSEP OLIU CREUS	FUNDACIÓ BOSCH I CARDELLACH	REPRESENTATIVE OF DIRECTOR
MR. JOSEP OLIU CREUS	FUNDACIÓN DE ESTUDIOS DE ECONOMÍA APLICADA	DIRECTOR
MR. JOSEP OLIU CREUS	FUNDACIÓN PRINCESA DE ASTURIAS	REPRESENTATIVE OF DIRECTOR
MR. JOSEP OLIU CREUS	FUNDACIÓN PRINCESA DE GIRONA	REPRESENTATIVE OF DIRECTOR
MR. PEDRO FONTANA GARCÍA	GRUPO INDUKERN, S.L.	DIRECTOR
MR. PEDRO FONTANA GARCÍA	PAX EQUITYCO, S.À.R.L.	DIRECTOR
MR. PEDRO FONTANA GARCÍA	GARNIEL, S.L.	SOLE ADMINISTRATOR
MR. PEDRO FONTANA GARCÍA	ASOCIACION PARA EL PROGRESO DE LA DIRECCION - APD CATALUÑA	CHAIRMAN

Identification of the director or representative	Company name of the listed or unlisted entity	Position
MR. PEDRO FONTANA GARCÍA	FIRA INTERNACIONAL DE BARCELONA	DIRECTOR
MR. PEDRO FONTANA GARCÍA	FUNDACION BARCELONA MOBILE WORLD CAPITAL	DIRECTOR
MR. PEDRO FONTANA GARCÍA	FUNDACIO PRIVADA CERCLE D´ECONOMIA	CHAIRMAN
MR. CÉSAR GONZALEZ-BUENO MAYER WITTGENSTEIN	FUNDACIÓN CIUDAD ESCUELA DE LOS MUCHACHOS	DIRECTOR
MR. ANTHONY FRANK ELLIOTT BALL	AMBASSADORS THEATRE GROUP LTD.	DIRECTOR
MR. ANTHONY FRANK ELLIOTT BALL	BITE GROUP	CHAIRMAN
MR. ANTHONY FRANK ELLIOTT BALL	MASMOVIL IBERCOM, S.A.	DIRECTOR
MS. AURORA CATÁ SALA	SABADELL INFORMATION SYSTEMS, S.A.U.	DIRECTOR
MS. AURORA CATÁ SALA	ATRYS HEALTH, S.A.	DIRECTOR
MS. AURORA CATÁ SALA	REPSOL, S.A.	DIRECTOR
MS. AURORA CATÁ SALA	BOZO CONSULTING, S.L.	JOINT ADMINISTRATOR
MS. AURORA CATÁ SALA	LIZARD INVERSIONES, S.L.	JOINT ADMINISTRATOR
MS. AURORA CATÁ SALA	ASOCIACIÓN BARCELONA GLOBAL	CHAIRMAN
MR. LUIS DEULOFEU FUGUET	SABADELL INFORMATION SYSTEMS, S.A.U.	DIRECTOR
MR. LUIS DEULOFEU FUGUET	EIXAMPLE 2 ASSESSORS, S.L.	JOINT ADMINISTRATOR
MR. LUIS DEULOFEU FUGUET	FUNDACIÓN CELLNEX	CHAIRMAN
MS. MARÍA JOSÉ GARCÍA BEATO	MdF, S.A.	DIRECTOR
MS. MARÍA JOSÉ GARCÍA BEATO	FUNDACIÓN PRIVADA BANCO SABADELL	DIRECTOR
MS. MARÍA JOSÉ GARCÍA BEATO	FUNDACIÓN ASOCIACIÓN ESPAÑOLA DE BANCA	DIRECTOR
MS. MIREYA GINÉ TORRENS	REAL ANALYSIS, S.L.	SOLE ADMINISTRATOR

MS. MIREYA GINÉ TORRENS	FUNDACIÓN AULA ESCUELA EUROPEA	DIRECTOR
MR. GEORGE DONALD JOHNSTON III	ACERINOX, S.A.	DIRECTOR
MR. GEORGE DONALD JOHNSTON III	MERLIN PROPERTIES, SOCIMI, S.A.	DIRECTOR
MR. GEORGE DONALD JOHNSTON III	YANKEE KINGDOM ADVISORY, LLC	SOLE ADMINISTRATOR
MR. DAVID MARTÍNEZ GUZMÁN	ALFA, S.A.B DE C.V.	DIRECTOR
MR. DAVID MARTÍNEZ GUZMÁN	CEMEX, S.A.B. DE C.V.	DIRECTOR
MR. DAVID MARTÍNEZ GUZMÁN	VITRO, S.A.B. DE C.V.	DIRECTOR
MR. DAVID MARTÍNEZ GUZMÁN	ICA TENEDORA, S.A. DE C.V.	DIRECTOR
MR. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	MAPFRE (HONORARY CHAIRMAN)	CHAIRMAN
MR. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	FUNDACIÓN PEDRO GUILLÉN	DIRECTOR
MR. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	FUNDACIÓN PEDRO CANO	DIRECTOR
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	CENTRO FUENCARRAL, S.A.	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	COMERCIAL DEL CAMPO, S.A.	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	EDIFICIOS CAMERANOS, S.A.	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	INVERSIETE, S.A.	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	PRODUCCIÓN Y DESARROLLO, S.A.	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	S.A. VILLA ROSA	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	TITULOS E INVERSIONES, S.A.	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	ADMINISTRACIÓN Y EXPLOTACIÓN HOTELERA, S.A.	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	CAVISA, S.A.	CHAIRMAN

Identification of the director or representative	Company name of the listed or unlisted entity	Position
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	DRUGSTORE MADRID, S.A.	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	EMPRESA TURÍSTICA HOTELERA, S.A.	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	EXPLOTACIONES AGRÍCOLAS EL ABUELITO, S.A.	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	HOTEL NUEVO BOSTON, S,A,	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	INMOBILIARIA MOGAN, S.A.	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	LONJAS INDUSTRIALES, S.A.	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	PROMOCIONES CANTERAS, S.A.	CHAIRMAN
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	PROMOTIONS JOMARSA, S.A.	CHAIRMAN
MS. ALICIA REYES REVUELTA	FERROVIAL, S.A.	DIRECTOR
MS. ALICIA REYES REVUELTA	TSB BANK, PLC	DIRECTOR
MS. ALICIA REYES REVUELTA	TSB BANKING GROUP, PLC	DIRECTOR
MS. ALICIA REYES REVUELTA	NGO FARESHARE	DIRECTOR
MR. MANUEL VALLS MORATÓ	SABADELL INFORMATION SYSTEMS, S.A.	DIRECTOR
MR. MANUEL VALLS MORATÓ	COBEGA, S.A. (AUDIT, CONTROL AND RISK COMMITTEE)	CHAIRMAN
MR. MANUEL VALLS MORATÓ	RENTA CORPORACIÓN REAL ESTATE, S.A.	DIRECTOR
MR. MANUEL VALLS MORATÓ	ERBERA M & A, S.L. (INACTIVE COMPANY)	JOINT ADMINISTRATOR
MR. DAVID VEGARA FIGUERAS	TSB BANK, PLC	DIRECTOR
MR. DAVID VEGARA FIGUERAS	TSB BANKING GROUP, PLC	DIRECTOR
MR. DAVID VEGARA FIGUERAS	HELLENIC CORPORATION OF ASSETS AND PARTICIPATION, S.A.	DIRECTOR
MR. DAVID VEGARA FIGUERAS	FUNDACIÓN PASQUAL MARAGALL	DIRECTOR

The positions indicated in Foundations and other non-profit entities listed above correspond to the position of Trustee.
Below is a list of the entities in which the directors of Banco de Sabadell, S.A. hold remunerated positions: ACERINOX, S.A.; ALFA, S.A.B. DE C.V.; AMBASSADORS THEATRE GROUP LTD.; ATRYS HEALTH, S.A.; BITE GROUP; CEMEX, S.A.B. DE C.V.; COBEGA, S.A.; EXEA EMPRESARIAL, S.L.; FERROVIAL, S.A.; GRUPO INDUKERN, S.L.; HELLENIC CORPORATION OF ASSETS AND PARTICIPATIONS, S.A.; ICA TENEDORA, S.A. DE C.V.; INVERSIETE, S.A.; MASMOVIL IBERCOM, S.A.; MERLIN PROPERTIES, SOCIMI, S.A.; PAX EQUITYCO, S.À.R.L.; REAL ANALYSIS, S.L.; RENTA CORPORACIÓN REAL ESTATE, S.A.; REAL ANALYSIS, S.L.; REPSOL, S.A.; SABADELL INFORMATION SYSTEMS, S.A.U.; TÍTULOS E INVERSIONES, S.A.; TSB BANK, PLC and TSB BANKING GROUP, PLC (ONLY THE INDEPENDENT DIRECTOR OF BANCO SABADELL); VITRO S.A.B DE C.V.; YANKEE KINGDOM ADVISORY, LLC.

Indicate, if applicable, any other remunerated activities of the directors or representatives of the directors, whatever their nature, other than those indicated in the above table.

Identification of the director or representative	Other remunerated activities
MR. ANTHONY FRANK ELLIOTT BALL	SENIOR ADVISOR (PROVIDENCE EQUITY PARTNERS LLC)
MR. LUIS DEULOFEU FUGUET	SENIOR ADVISOR (CELLENEX TELECOM, S.A.)
MS. MARÍA JOSÉ GARCÍA BEATO	LAWYER (PROFESSIONAL ACTIVITY)
MS. MIREYA GINÉ TORRENS	ASSOCIATE PROFESSOR (IESE BUSINESS SCHOOL)
MS. ALICIA REYES REVUELTA	VISITING PROFESSOR (FACULTY OF ENGINEERING, UNIVERSITY COLLEGE OF LONDON)
MR. DAVID VEGARA FIGUERAS	MEMBER OF THE ADVISORY BOARD (ROCA JUNYENT, S.L.P.)

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)	44,604
Amount of funds accumulated by current directors through long-term savings schemes with vested economic rights(thousands of euros)	4,696
Amount of funds accumulated by current directors for long-term savings schemes with non-vested economic rights(thousands of euros)	2,471
Amount of funds accumulated by former directors through long-term savings schemes (thousands of euros)	3,703

C.1.14 Identify members of Bank's senior management who are not also executive directors and indicate their total remuneration accrued during the year:

Name or company name	Position(s)
MR. LEOPOLDO ALVEAR TRENOR	GENERAL MANAGER
MR. MIQUEL MONTES GÜELL	GENERAL MANAGER
MR. JOSÉ NIETO DE LA CIERVA	GENERAL MANAGER
MR. CARLOS VENTURA SANTAMANS	GENERAL MANAGER

Name or company name	Position(s)
MR. GONZALO BARETTINO COLOMA	SECRETARY GENERAL
MR. MARC ARMENGOL DULCET	DEPUTY GENERAL MANAGER
MR. XAVIER COMERMA CARBONELL	DEPUTY GENERAL MANAGER
MS. ANA RIBALTA ROIG	DEPUTY GENERAL MANAGER
MS. NURIA LÁZARO RUBIO	ASSISTANT GENERAL MANAGER - HEAD OF INTERNAL AUDIT

Number of women in Bank's senior management	1
Percentage of total Bank's senior management members	10.00

Total remuneration of Bank's senior management (thousands of euros)	9,253

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	15
Number of board meetings held without the Chairman's presence	0

Indicate the number of meetings held by the lead director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings	1

Indicate the number of meetings held by each Board Committees during the year:

Number of Strategy and Sustainability Committee meetings	9
Number of the Credit Delegated Committee meetings	21
Number of Audit and Control Committee meetings	12
Number of Appointments and Corporate Governance Committee meetings	16
Number of Remuneration Committee meetings	12
Number of Risk Committee meetings	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	15
Attendance in person as a % of total votes during the year	99.10
Number of meetings with attendance in person or proxies given with specific instructions, by all directors	15
Votes cast in person and by proxies with specific instructions as a % of total votes during the year	100.00

C.1.27 Indicate whether the individual and consolidated annual accounts submitted to the Board for issue are certified in advance:

[√] Yes
[ ] No

Identify, if applicable, the person(s) who certified the individual and consolidated annual accounts of the company for issue by the Board:

Name	Position
MR. CÉSAR GONZALEZ-BUENO MAYER WITTGENSTEIN	CHIEF EXECUTIVE OFFICER/ CEO
MR. LEOPOLDO ALVEAR TRENOR	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
MR. 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

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)	211	46	257
Amount invoiced for non-audit work/Amount for audit work (in %)	8.88	0.70	2.86

C.1.33 Indicate whether the report of the audit of the annual accounts 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 annual accounts. Also, indicate the number of years audited by the current audit firm as a percentage of the total number of years in which the annual accounts have been audited:

	Individuals	Consolidated
Number of consecutive years	2	2

	Individuals	Consolidated
Number of years audited by the current audit firm/number of years in which the company or its group have been audited (in %)	4.88	5.41

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 the 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 21.1 of the Regulation of the Board of Directors establishes that the notice of the meeting shall always include the Agenda of the meeting that must contain, among other points, those that concern information about subsidiary companies and Board Committees, as well as the proposals and suggestions made by the Chairman and the other members of the Board and by the General Managers of the Bank, provided that notice is given at least five business days prior to the date of the Board Meeting, as well as proposals that must be supported by any relevant material for its distribution to the Directors.

Additionally, article 25 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 operations 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 Secretary of the Board of Directors, 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 of Directors 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 to directors, and in aggregate form in other cases, and provide details of any agreements between the company and its directors, executives or employees containing severance pay or golden parachute clauses in the event of resignation or dismissal without due cause or termination of employment as a result of a public offering or any other type of operations.

Number of beneficiaries	35
Type of beneficiary	Description of the agreement
CHAIRMAN, CHIEF EXECUTIVE OFFICER, DIRECTOR GENERAL MANAGER AND 32 EXECUTIVES	The Chairman's contract contains an early termination clause with two years' remuneration for non-voluntary eventualities linked to no-compete. The Chief Executive Officer's contract has a post-contractual non-compete clause providing two years' salary from the date of unfair dismissal or change of control, and one year's remuneration in all other cases. The Director General Manager's contract contains a post-contractual non-compete clause lasting two years, which would be applied at most until the first date of ordinary retirement in the amount of two years' salary of fixed remuneration. There are 20 executives whose contracts have a clause providing indemnity in the amount of two years' fixed remuneration for cases of unfair dismissal and some limited cases of change of control. A further 12 executives have a post-contractual non-compete clause, 10 of them for a duration of two years, at the latest until the first date of ordinary retirement for an amount of two years' salary of fixed remuneration, and 2 for a duration of one year from the date of unfair dismissal or due to some limited cases of change of control, at the latest until the first date of ordinary retirement for an amount of one year's salary of 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 Meeting
Body that authorises the clauses	√	

	Yes	No
Are these clauses notified to the General 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:

Strategy and Sustainability Committee		
Name	Position	Category
MR. JOSEP OLIU CREUS	CHAIRMAN	Other external
MR. LUIS DEULOFEU FUGUET	MEMBER	Independent
MR. PEDRO FONTANA GARCÍA	MEMBER	Independent
MS. MARÍA JOSÉ GARCÍA BEATO	MEMBER	Other external
MR. CÉSAR GONZALEZ-BUENO MAYER WITTGENSTEIN	MEMBER	Executive
MR. JOSÉ MANUEL MARTÍNEZ MARTINEZ	MEMBER	Independent

% of executive directors	16.67
% of proprietary directors	0.00
% of independent directors	50.00
% of other external directors	33.33

Credit Delegated Committee		
Name	Position	Category
MR. PEDRO FONTANA GARCÍA	CHAIRMAN	Independent
MR. LUIS DEULOFEU FUGUET	MEMBER	Independent
MS. MARÍA JOSÉ GARCÍA BEATO	MEMBER	Other external
MR. CÉSAR GONZALEZ-BUENO MAYER WITTGENSTEIN	MEMBER	Executive
MS. ALICIA REYES REVUELTA	MEMBER	Independent

% of executive directors	20.00
% of proprietary directors	0.00
% of independent directors	60.00
% of other external directors	20.00

Audit and Control Committee		
Name	Position	Category
MS. MIREYA GINÉ TORRENS	CHAIR	Independent
MR. PEDRO FONTANA GARCÍA	MEMBER	Independent
MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	MEMBER	Independent
NR. 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

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 Chairman of this committee was appointed.

Names of directors with experience	MRS. MIREYA GINÉ TORRENS / MR. PEDRO FONTANA GARCÍA / MR. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI / MR. MANUEL VALLS MORATÓ
Date of appointment of the Chairman	26/03/2021

Appointments and Corporate Governance Committee		
Name	Position	Category
MR. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	CHAIR	Independent
MR. ANTHONY FRANK ELLIOTT BALL	MEMBER	Independent
MRS. AURORA CATÁ SALA	MEMBER	Independent
MRS. MIREYA GINÉ TORRENS	MEMBER	Independent

% of executive directors	0,00
% of proprietary directors	0,00
% of independent directors	100,00
% of other external directors	0,00

Remuneration Committee		
Name	Position	Category
MRS. AURORA CATÁ SALA	CHAIR	Independent
MR. ANTHONY FRANK ELLIOTT BALL	MEMBER	Independent
MR. GEORGE DONALD JOHNSTON III	MEMBER	Independent
MR. 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	Category
MR. GEORGE DONALD JOHNSTON III	CHAIR	Independent

Risk Committee		
Name	Position	Category
MRS. AURORA CATÁ SALA	MEMBER	Independent
MRS. ALICIA REYES REVUELTA	MEMBER	Independent
MR. 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 on the number of female directors on the committees of the Board of Directors at the end of the last four financial years:

	Number of female directors							
	Year 2021		Year 2020		Year 2019		Year 2018	
	Number	%	Number	%	Number	%	Number	%
Strategy and Sustainability Committee	1	16.67	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Credit Delegated Committee	2	40.00	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Audit and Control Committee	1	25.00	1	25.00	1	25.00	1	25.00
Appointments and Corporate Governance Committee	2	50.00	1	33.33	2	50.00	2	50.00
Remuneration Committee	1	25.00	1	25.00	1	25.00	2	50.00
Risk Committee	2	50.00	1	33.33	1	33.33	1	25.00

D. RELATED PARTY AND INTRAGROUP OPERATIONS

D.2. List individually those operations that are significant due to their amount or relevant due to their subject matter carried out between the company or its subsidiaries and shareholders holding 10% or more of the voting or represented on the company's Board of Directors, indicating which body was competent to their approval and whether any shareholder or director affected abstained. In the case of board competence, indicate whether the motion has been approved by the board without a majority of the independent directors voting against it:

	Name or company name of shareholder or of any of its subsidiaries	% Holding	Name or company name of the company or subsidiary	Amount (thousands of euros)	Approving body	Identification of the significant shareholder or director who has abstained	The proposal to the board, if any, has been approved by the board without the majority of independents voting against
No data							

	Name or company name of the shareholder or of any of its subsidiaries	Nature of the relationship	Type of transaction and other information necessary for its assessment
No data			

D.3. List individually the operations that are significant due to their amount or relevant due to their subject matter carried out by the company or its subsidiaries with the directors or executives of the company, including those operations carried out with entities that the director or executive controls or jointly controls, indicating which body was the competent body for their approval and whether any shareholder or director affected abstained. In the case of board competence, indicate whether the motion has been approved by the board without a majority of the independent directors voting against it:

	Name or company name of the directors or their controlled or jointly controlled entities	Name or company name of the company or subsidiary	Relationship	Amount (thousands of euros)	Approving body	Identification of the significant shareholder or director who has abstained	The proposal to the board, if any, has been approved by the board without the majority of independents voting against
No data							

	Name or company name of the directors or their controlled or jointly controlled entities	Nature of the transaction and other information necessary for its assessment
No data		

D.4. Report on an individual basis on significant intragroup operations by virtue of their amount or their subject matter carried out by the company with its parent company or with other entities belonging to the parent company's group, including the listed company's own subsidiaries, unless no other related party of the listed company has an interest in such subsidiaries or such subsidiaries are wholly owned, directly or indirectly, by the listed company.

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 and other information necessary for its assessment	Amount (thousands of euros)
No data		

D.5. List individually any operations that are significant due to their amount or relevant due to their subject matter carried out by the company or its subsidiaries with other related parties in accordance with International Accounting Standards as adopted by the EU, which have not been reported under the previous headings.

Company name of the related party	Brief description of the transaction and other information necessary for its assessment	Amount (thousands of euros)
Acerinox, S.A.	The Board of Directors, on 18 November 2021, following a favourable report from the Audit and Control Committee, approved a related party transaction consisting of a loan to Acerinox, S.A. for an amount of 205 million euros, with a term of five years (the first two years of grace period), which was formalised on 23 December 2021. The transaction is considered a related-party transaction, since Acerinox, S.A. is a company in which a Director of Banco Sabadell is also an independent Director and on whose committees he holds positions (member of the executive committee and Chairman of the audit committee of Acerinox, S.A.).	205,000

Company name of the related party	Brief description of the transaction and other information necessary for its assessment	Amount (thousands of euros)
	As its amount exceeds 2.5% of the turnover of the consolidated annual accounts of Banco Sabadell for the financial year 2020, it was published as Other Relevant Information together with the corresponding report of the Audit and Control Committee in the CNMV on 23 December 2021 with registry number 13.328, in accordance with the provisions of article 529 twenty-first of the Capital Companies Law.	

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, whether listed or not, in the meaning of Article 42 of the Commercial Code 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 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 Ordinary General Meeting.

   b) Specific reasons why the company does not follow one or more of the recommendations of the Code of Corporate Governance and the alternative rules that apply in this regard, if any.

   Complies [X] Partially complies [ ] Explain [ ]

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] Partially complies [ ] Explain [ ]

5. That the Board of Directors should not submit to the General Meeting any proposal for delegation of powers allowing the issue of shares or convertible securities with the exclusion of pre-emptive 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 pre-emptive rights, the company should immediately publish the reports referred to by company law on its website.

   Complies [X] Partially complies [ ] 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 Ordinary General Meeting, even if their publication is not mandatory:

   a) Report on the auditor's independence.

   b) Reports on the performance of the audit and the nomination and remuneration committees.

   c) Report by the audit committee on related party operations.

   Complies [X] Partially complies [ ] Explain [ ]

7. That the company should transmit in real time, through its website, the proceedings of the General Meeting of Shareholders.

   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 companies of large capitalisation and to the extent that it is proportionate, attendance and active participation in the General Meeting to be conducted by such remote means.

   Complies [X] Partially complies [ ] Explain [ ]

8. That the audit committee should ensure that the annual accounts that the Board of Directors submits to the General Meeting of Shareholders 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 reports.

Complies [X] Partially complies [ ] 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 Meeting of Shareholders, and the exercise of voting or issuing a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies [X] Partially complies [ ] Explain [ ]

10. That when a duly authenticated shareholder has exercised his or her right to complete the agenda or to make motions in advance of the General Meeting of Shareholders, the company:

a) Should immediately distribute such complementary items and new motions.

b) Should publish the attendance, proxy and remote voting card specimen with the necessary changes such that the new agenda items and alternative motions can be voted on in the same terms as those proposed by the Board of Directors.

c) Should submit all these items 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 deduction regarding votes for or against.

d) That after the General Meeting of Shareholders, a breakdown of the voting on said additional items 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 Meeting of Shareholders, 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] Partially complies [ ] 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 of Directors and that:

    a) Is concrete and verifiable.

    b) Ensures that proposals as to the appointment or re-election are based upon a prior analysis of the skills required by the Board of Directors; and

    c) Favours knowledge, experience, age and gender diversity. 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 appointments committee published upon calling the General Meeting of Shareholders to which the ratification, appointment or re-election of each director is submitted.

    The appointments committee will annually verify compliance with this policy and explain its findings in the annual corporate governance report.

    Complies [X] Partially complies [ ] 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 holding 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 than 30% prior to that date.

Complies [ ] Partially complies [X] Explain [ ]

Banco Sabadell fulfils the first part of the recommendation. As for the number of female directors, 27% of the Board members in Banco Sabadell were women in financial year 2021, in line with the general target set by the CNMV of 30%. The Board and the Appointments and Corporate Governance Committee commits to favour the Board's diversity and will ensure that the Board has a sufficient number of female directors, promoting compliance with the objective of representing the under-represented sex.

16. That the number of proprietary directors as a percentage of the total number of non-executive directors are not 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 holdings 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 and biographical profile.

    b) Any other Boards of Directors to which the directors belong, regardless of whether or not they are listed companies, as well as any other remunerated activities engaged in, regardless of type.

    c) Category of directorship, indicating, in the case of proprietary directors, 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 reelections.

    e) Company shares and share options that they own.

    Complies [X] Partially complies [ ] Explain [ ]

19. That the annual corporate governance report, after verification by the appointments 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 holding. They should also resign, in a proportional fashion, in the event that said shareholder reduces its holding to a level that requires a decrease in the number of proprietary directors.

    Complies [ ] Complies partially [ ] Explain [ ] Not applicable [X]

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 appointments 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 offering, merger or other similar corporate operations entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board of Directors 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 Directors 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 Appointments 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] Partially complies [ ] 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 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 appointments 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] Partially complies [ ] 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] Partially complies [ ] 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 representative with instructions.

    Complies [X] Partially complies [ ] 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 establish 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] Partially complies [ ] 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 items 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] Partially complies [ ] 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] Partially complies [ ] 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] Partially complies [ ] Explain [ ]

34. That when there is a lead director, the articles of incorporation or Regulations of the Board of Directors 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 [X] Complies partially [ ] Explain [ ] Not applicable [ ]

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 appointments 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 appointments 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] Partially complies [ ] 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 of Directors.

Complies [ ] Complies partially [ ] Explain [ ] Not applicable [X]

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 [ ] Complies partially [ ] Explain [ ] Not applicable [X]

39. That the members of the audit committee, in particular its Chairman, be appointed in consideration of their knowledge and experience in accounting, audit and risk management issues, both financial and non-financial.

Complies [X] Partially complies [ ] 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] Partially complies [ ] 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 unit; 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 Bank's senior management takes into account the conclusions and recommendations of its reports.

c) Establish and supervise a mechanism to enable employees and other persons connected with the company, such as directors, shareholders, suppliers, contractors or subcontractors, to report potentially significant irregularities, including financial and accounting irregularities, or of any other nature, related to the company that they notice within 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] Partially complies [ ] 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 appears without the presence of any other member of management.

Complies [X] Partially complies [ ] Explain [ ]

44. That the audit committee be kept abreast of any corporate and structural changes operations 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 and 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 the aforementioned risks, including contingent liabilities or off-balance sheet risks.

Complies [X] Partially complies [ ] 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 management and control 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] Partially complies [ ] Explain [ ]

47. That in designating the members of the appointment and remuneration committee — or of the appointments 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] Partially complies [ ] Explain [ ]

48. That large-cap companies have separate Appointments and Remuneration Committees.

Complies [X] Explain [ ] Not applicable [ ]

49. That the appointments committee consult 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 appointments committee to consider potential candidates that he or she considers suitable to fill a vacancy on the Board of Directors.

Complies [X] Partially complies [ ] 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 executive 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 executives, 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 executives.

d) Ensuring that potential conflicts of interest do not impair the independence of external advice given to the committee.

e) Verifying the information on remuneration of directors and senior executives contained in the various corporate documents, including the annual report on directors' remuneration.

Complies [X] Partially complies [ ] Explain [ ]

51. That the remuneration committee should consult the Chairman and the chief executive of the company, especially on matters relating to executive directors and senior executives.

Complies [X] Partially complies [ ] 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 appointments 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 [X] Partially complies [ ] Explain [ ]

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 [X] Partially complies [ ] Explain [ ]

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] Partially complies [ ] 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] Partially complies [ ] 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 systems, 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 Appointments 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 repayment 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 resolution 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 resolution 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 board members voted against or abstained with respect to the approval of this report.

[ ] Yes
[√] No

I declare that the details include in this statistical schedule coincide and are consistent with the descriptions and details included in the annual corporate governance report published by the Company.

Annual Report on Directors' Remuneration for the year ended 31 December 2021

Banco Sabadell Annual Report on Directors' Remuneration

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This is the Annual Report on Directors' Remuneration of Banco de Sabadell, S.A. (hereinafter, Banco Sabadell, the Bank or the Entity).

Banco Sabadell's Annual Report on Directors' Remuneration (hereinafter, IARC or the Report) is drawn up with the information on the Bank at the end of 2021, in compliance with the provisions of article 541 of the Capital Companies Law and Notice 4/2013 of 12 June of the CNMV (Spanish National Securities Market Commission).

This Report, together with the statistical annex contained in Section 7, has been disclosed as "other relevant information" at the CNMV (Spanish National Securities Market Commission) and shall be submitted for a consultative vote on a separate item of the agenda at the Bank's forthcoming Ordinary General Meeting of Shareholders to be held in 2022. Similarly, this Report is available in the "Corporate Governance and Remuneration Policy" section of the Banco Sabadell Group's corporate website (www.grupobancsabadell.com).

This report essentially consists of two sections:
— Firstly, a summary of our Directors Remuneration Policy applicable to 2022 approved at the Company's General Meeting of Shareholders held on 26 March 2021, which shall remain in force until 31 December 2023.
— Secondly, a description of how the Directors Remuneration Policy has been applied throughout 2021.

We provide below details of the context of the current Remuneration Policy, which includes Banco Sabadell's results in 2021 and how through the decisions taken by the Remuneration Committee, said policy has been applied.

Informative Supplement to the Directors' Remuneration Policy

The Board of Directors, on 17 February 2022, following a report by the Remuneration Committee made available to shareholders at the time notice was given of the General Meeting of Shareholders, has considered appropriate to submit for approval by the General Meeting of Shareholders an informative supplement to the Directors' Remuneration Policy for the years 2021, 2022 and 2023 which developes and expands the information available on current Directors' Remuneration Policy of Banco Sabadell, S. A., approved by the General Meeting of Shareholders on 26 March 2021.

Subsequent to the approval of the current Directors' Remuneration Policy, Law 5/2021 of 12 April was enacted, amending the revised text of the Capital Companies Law, approved by Royal Legislative Decree 1/2010 of 2 July, and other financial regulations, with regard to the promotion of long-term shareholder involvement in listed companies, which entered into force in general on 3 May 2021, without prejudice to specific provisions for certain specific precepts. Amendments were introduced in relation to the requirements and mandatory content of the Directors' remuneration policy.

Although the current Directors' Remuneration Policy approved in March 2021 already took into account the Draft Bill that led to the aforementioned Law 5/2021, which was at that time at the end of its parliamentary processing, and substantially addresses all the requirements and content applicable to the remuneration policies of directors of listed companies as set out in the new article 529 novodecies of the Capital Companies Law. The Board of Directors of Banco Sabadell, approved at its meeting of 17 February 2022, following a favourable report from the Remuneration Committee, this proposal for the Director's Remuneration Policy, in order to develop and expand the information available on three specific aspects introduced by the new regulations subsequent to their approval, which will improve the overall quality of its contents.

In particular, the proposed informative supplement developes and expands (i) how the remuneration and employment conditions of the employees of the Bank have been taken into account when setting the Remuneration Policy; (ii) how share-based remuneration contributes to the Bank's business strategy and the Bank's long-term interests and sustainability; and (iii) the decision-making process followed for the determination, review and application of the Directors' Remuneration Policy.

The informative supplement of these three specific aspects do not affect the content of the current Directors' Remuneration Policy for the financial years 2021, 2022 and 2023 approved by the General Meeting of Shareholders on 26 March 2021. No elaboration of a new Policy or amendment is therefore required.

Remuneration accrued by the Directors in 2021

The remuneration accrued in 2021 by the Executive Directors and Non-Executive Directors comprises the same elements as those described in the current Remuneration Policy in force in 2022. In this respect, it should be noted that the remuneration system for the Directors of Banco Sabadell distinguishes between the remuneration of the Directors for their functions as members of the Board of Directors and the remuneration for the performance of executive functions, as regulated by the Articles of Association.

The amounts corresponding to 2021 of everyone who was a member of the Board of Directors during that year have been taken into account for this report. Some of the amounts correspond to extraordinary events which happened during 2021 concerning the Executive Directors that make the bases non comparable to 2020 and present significant differences. These events are the vesting of economic rights of long-term savings plans whose contributions have been made during the previous years and the

severance pay amounts for the Executive Directors, in the terms set out in section 3. If these events did not happen and only the amounts arising from the regular activity were considered, the amount of the remuneration accrued in companies of the group in 2021 would amount to 7,179 thousand euro instead of the 44,604 thousand euro contained in table c.i) of section "7. Statistical annex".

In the same way, in 2020, as a responsibility measure against the crisis brought by COVID-19, the Chairman and the Executive Directors voluntarily waived their variable annual remuneration for 2020. If this had not happened, the amount of the remuneration accrued in companies of the group in 2020 would amount to 7,644 thousand euro.

Ordinary remunerations comparative 2021 vs 2020 (thousand euro)

	2021	2020
Summary of the Directors' ordinary remunerations (thousand euro)	**7,179**	**7,644**
Extraordinary events in each year		
Vesting of entitlements for pensions (*) and severance pay for directors	37,425	
Directors' waiver of the variable remuneration payment for 2020		865
Total amounts published in the statistical annex, including extraordinary events	44,604	6,779

(*) Of which 32,134 thousand euro correspond to contributions made before 2021.

The comparable ordinary remunerations in 2021 decreased 465 thousand euro (-6,1%) in contrast to the remunerations in 2020.

— The remuneration system of the Directors as members of the Board of Directors, which is broken down into fixed remuneration for membership of the Board of Directors and attendance fees for ordinary meetings, specifies the additional remuneration received by the Chairman for the performance of his functions in his non-executive capacity.
— With regard to the remuneration system of the Directors for their executive functions, in 2021, the Directors received fixed remuneration, short-term variable remuneration, long-term remuneration, social welfare plans and discretionary pension benefits in accordance with the scheme set out in the Directors Remuneration Policy.

With regard to the short-term variable remuneration, each Executive Director is allocated a target amount and certain objectives, which include metrics related to risk control and management, solvency and capital and strategic objectives with weightings allocated to each indicator and a scale of achievement. In 2021 the Chief Executive Officer had 100% of his objectives linked to the Group's objectives. In the case of the CRO Director, taking into account the control functions that he performs, this percentage was reduced to 20%, with the remaining 80% related to the performance of his duties and responsibilities.

On 26 January 2022 the Board of Directors determined the degree of achievement of the following Group objectives in accordance with the weightings established at the beginning of the year:

Metric	Definition	Weighting	% Achievement
ROE (Return on Equity)	Banco Sabadell's ROE (excluding corporate operations) forecast in the 2021 budget	20%	125.61
Net banking revenues	Banco Sabadell's consolidated net interest income plus net fees and commissions forecast in the 2021 budget	17.5%	125.92
Group expenses	Budget for the sum of consolidated personnel and general expenses and those derived from real estate activities not included in the first two (personnel and general)	17.5%	126.63
Cost of Risk	Budget for loan-loss provisions and other financial assets / Gross customer loans + Non-performing properties, ex portfolio sales	25%	100.05
NPS (synthesis of Group)	A synthetic indicator of customers' appraisal of the Entity, distinguishing between business units (Commercial Banking, Private Banking, Corporate Banking EMEA and TSB), weighted by the strategic focus of each segment	10%	105.21
Sustainability (Synthetic Group)	A synthetic indicator comprising environmental, social, diversity and gender equality indicators	10%	125.60
TOTAL			**117.41%**

Upon the basis of these results, in accordance with the 2021 Policy, the amount of the per annum variable remuneration for each Executive Director has been determined, subject to the deferred liquidation and share-based payment system applicable to their status as Executive Directors, in a manner consistent with effective risk management.

The long-term remuneration is also subject to the achievement of annual objectives, insofar as the amount allocated in the long term is determined upon the basis of a percentage of the fixed remuneration and the achievement of individual annual objectives in the first year of the generation of the incentive. The achievement achieved in respect of the multi-year objectives is applied to this allocated amount at the end of the period and the final amount to be received is determined. The allocated amount considering the achievement of the annual objectives many be reduced but never increase by the result of multi-year metrics.

The Remuneration Policy, approved by the General Meeting of Shareholders on March 28, 2019, was applied to the members of the Board of Directors who performed their executive functions until March 26, 2021. In this respect, in addition to the current Chief Executive Officer and the CRO Director, the following persons performed executive functions as members of the Board of Directors in 2021:

— The Chairman, Mr Josep Oliu Creus performed executive functions until 26 March 2021.
— The Director Ms María José García Beato performed executive functions until 31 March 2021.
— Mr Jaime Guardiola Romojaro resigned as CEO on 18 March 2021.

1. Principles of Banco Sabadell's Remuneration Policy

Banco Sabadell's Remuneration Policy is geared towards creating long-term value by means of an alignment of the interests of its shareholders and employees in coherence with the strategic risk and business goals and the Bank's values while adopting a prudent risk management approach and preventing conflicts of interest.

The principles of the Banco Sabadell Group Remuneration Policy, which are fully applicable to the Executive Directors, are as follows:

1. Fostering medium-to-long term business and social sustainability, as well as alignment with the Group values

- Aligning remuneration with shareholder interest and with the creation of long-term value.
- Implementing rigorous risk management, considering measures to prevent conflicts of interest.
- Ensuring an alignment with the Group's long-term business strategy, objectives, values and interest.

Likewise, the Remuneration Policy of the Banco Sabadell Group, as a whole, includes information on the coherence of these policies with the integration of sustainability risks. In particular, with regard to sustainability, the following aspects shall be taken into account:

- The Group's remuneration policy and practices shall be consistent with its approach to credit risk management, its credit risk appetite and its strategies, and shall not create a conflict of interest. In addition, these practices shall incorporate measures for the management of conflicts of interest, with a view to protecting consumers against undesirable detriment arising from the remuneration of sales staff.
- Consistency with the integration of sustainability risks and the publication of this information on the Group's website.
- Remuneration policy and practices shall encourage conduct that is consistent with the Group's approach to climate and environmental risks, as well as with the Group's voluntary commitments. Remuneration policy and practices shall promote a long-term approach to managing climate-related and environmental risks.
- The components of remuneration must contribute towards the promotion of action in environmental, social and good governance (ESG) in order to have a sustainable and socially responsible business strategy.

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2. Ensuring a competitive and equitable remuneration system (external competitiveness and internal fairness) based on the equal remuneration of female and male employees for a given job or a job of equal value

- The ability to attract and retain the best talent.
- Rewards professional experience and responsibility, irrespective of the employee's gender.
- Is aligned with market standards and flexible, so that it can be adapted to changes in the environment and in the sector's requirements.

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3. Rewarding performance by aligning remuneration with the results generated by the indiviudals and the level of risk assumed with the results generated by the individual and the level of risk assumed

- An appropriate balance between the different remuneration components.
- Taking into consideration current and future risks and results, without encouraging employees to take risks that go beyond the level tolerated by the Group.
- A system that is simple, transparent and clear. The Remuneration Policy must be understandable and easy to communicate to the entire workforce.

Strengths of the Remuneration Policy applicable to the Executive Directors

— **A reasonable balance between (per annum and multi-year) fixed and variable elements**, reflecting appropriate risk-taking combined with the fulfilment of defined short and long-term objectives.
— **Consideration of multiple metrics** linked to results, return, risk management and control, solvency, capital and strategic non-financial objectives linked to sustainability.
— **Long-term remuneration** with a three-year target measurement period linked to TSR, liquidity, solvency and ROTE targets.
— **There is no guaranteed variable remuneration.**
— Prudential mechanisms for **adjustment to fulfilment of objectives** and other **ex-ante adjustments**.
— **Deferral** of 60% of the per annum variable remuneration over five years for any variable remuneration element.
— Payment of more than 50% of the **variable remuneration in shares** (50% for the up-front part and 55% for the deferred part).
— **Permanent holding of shares**. Executive Directors may not transfer the delivered shares until at least three years have elapsed since the time of their delivery, unless they own an amount equivalent to twice their annual fixed remuneration and in any event they have a minimum lock-up of one year.
— **Malusand clawback clauses**, in accordance with the provisions of credit institutions' regulations.
— **Recurrent external advice** to the Board of Directors and the Remuneration Committee with regard to market practices.

Strengths of the Remuneration Policy applicable to the Directors for their functions as members of the Board of Directors

— The remuneration is in accordance with the responsibilities and functions assumed by each Director, without jeopardising their independence.
— They do not participate in variable remuneration schemes.
— They do not receive their remuneration by means of the delivery of shares, options or rights relating to shares or instruments linked to the value of the share.
— They do not participate in long-term savings systems such as pension plans, retirement schemes or other social welfare schemes.

The Policy also complies with the current European Directives and Regulations and other legislation, in particular Law 10/2014 of 26 June on the regulation, supervision and solvency of credit institutions, Royal Decree 84/2015 of 13 February implementing Law 10/2014 of 26 June on the regulation, supervision and solvency of credit institutions and Bank of Spain Notice 2/2016 of 2 February to credit institutions on supervision and solvency, complementing the adaptation of the Spanish legal system to Directive 2013/36/EU and Regulation (EU) 575/2013, as well as the EBA Guidelines on Internal Governance (EBA/GL/2021/05) of 2 July 2021, the EBA Guidelines EBA/GL/2021/04 of 2 July 2021 on adequate remuneration policies in accordance with Directive 2013/36/EU and Delegated Regulation (EU) 923/2021 or the regulation that replaces it.

2. Directors Remuneration Policy applicable to 2022

Banco Sabadell regularly carries out a process to reflect on the current Directors Remuneration Policy that takes into account the following factors:

The Bank's own reality

— **Strategic Plan:** aligning the remuneration package with the short and long-term objectives set out in the 2021-2023 strategic plan.
— **Commitment to sustainability**: this is an essential element of the Group's remuneration. The components of the remuneration must contribute to the promotion of action in environmental, social and good governance (ESG) in order to ensure a sustainable and socially responsible business strategy.
— **Prudent risk management**: discouraging the taking of present and future risks that go beyond the level tolerated by the Group while taking into account the customers' interests.
— **The Group's general Remuneration Policy**: particularly the one applied to members of the members of the Group Identified Staf and the senior management.

External factors

— **Regulations:** strict compliance with the regulatory requirements on remuneration.
— **Approval of Report of the last financial year:** This report was approved by a significant majority at the General Meeting of Shareholders (89.74% of the votes cast).
— **Stakeholders:** the recommendations received during the process of engagement with investors, shareholders and proxy advisors that Banco Sabadell regularly carries out.
— **Market practices:** credit institutions that may be competitors for business or talent.
— **Good governance:** the general national and international corporate governance recommendations.

The Board of Directors, on the motion of the Remuneration Committee, applies the measures it deems appropriate to the Directors' remuneration system during the year, within the limits established in the Policy. However, if the Board of Directors considers that the measures to be implemented require an amendment or a new Remuneration Policy, it shall propose such an amendment or new Policy to the General Meeting of Shareholders.

The Remuneration Policy referred to in this section is the Remuneration Policy of the Directors of Banco Sabadell, S.A. for years 2021, 2022 and 2023, which was approved at the Bank's General Meeting of Shareholders held on 26 March 2021.

The Board of Directors, on 17 February 2022, following a report by the Remuneration Committee has considered appropriate to submit for approval by the General Meeting of Shareholders an informative supplement to the Directors' Remuneration Policy for the years 2021, 2022 and 2023. The Remuneration Committe report is available to shareholders at the time notice was given of the General Meeting of Shareholders. Tis informative supplement developes and expands the information availableon current Remuneration Policy of Banco Sabadell, S. A. (Banco Sabadell, the Bank or the Entity), approved by the General Meeting of Shareholders on 26 March 2021.

For further details the Remuneration Policy can be viewed via the following link:
https://www.grupbancsabadell.com/corp/es/gobierno-corporativo-y-politica-de-remuneraciones/politica-de-remuneraciones-de-consejeros.html

2.1. Remuneration of the Executive Directors

2.1.1. Executive summary and remuneration mix

The Executive Directors, in addition to their remuneration due to their capacity as members of the Board of Directors, receive the remuneration corresponding for the performance of their executive functions, pursuant to the provisions of the Articles of Association of Banco Sabadell, whose concepts coincide with those of the Senior Management of Banco Sabadell and the rest of the members of the Group Identified Staf.

The remuneration of the Executive Directors for each financial year is set by the Board of Directors, within the overall maximum limit established by the General Meeting of Shareholders in this Directors Remuneration Policy for each of the items comprising their remuneration. The Board of Directors shall comply with the provisions of the applicable legal regulations, taking into account its special consideration as a financial institution in accordance with the concepts, terms and conditions established in the Directors Remuneration Policy, which considers a vision of total remuneration, taking into account all the elements of remuneration and the relationships between them, establishing an appropriate balance between the fixed and variable remuneration and between the distribution of short and long-term payments and safeguarding the rights and interests of the shareholders, investors and customers.

In this respect, while the remuneration packages of the Chief Executive Officer and the CRO Director are quite similar, there exist the following differences:

— The CRO Director's remuneration is predominantly fixed in order to reflect the nature of his activities and not to jeopardise his independence with respect to the business units he oversees.
— The methods used to set the objectives and determine the variable remuneration of each of the Directors take into account the particularities of each of them and they must not jeopardise their objectivity and independence, in particular that of the Chief Risk Officer. In this respect, 80% of the Chief Executive Officer's short-term variable remuneration is linked to the Group's objectives and the remaining 20% is based on an individual qualitative appraisal approved by the Remuneration Committee on the motion of the Chairman. For the CRO Director, given the nature of his functions (control function), the percentage linked to the Group's objectives is limited to 20% and the remaining 80% are objectives specific to his functions.
— In relation to the pension benefits, the Chief Executive Officer only participates in the pension plan in which the other employees of Banco Sabadell, S.A. are included.

The Chief Executive Officer's remuneration has been kept without variation since their hiring. The established conditions were fixed taking into account the comparative market references, detailed in section 4.2 of this report, which establish the total remuneration of the CEO at the 60th percentile of the group of international comparison and at the 63rd percentile of the group of national comparison, as well as the situation of the Entity at the moment of hiring.

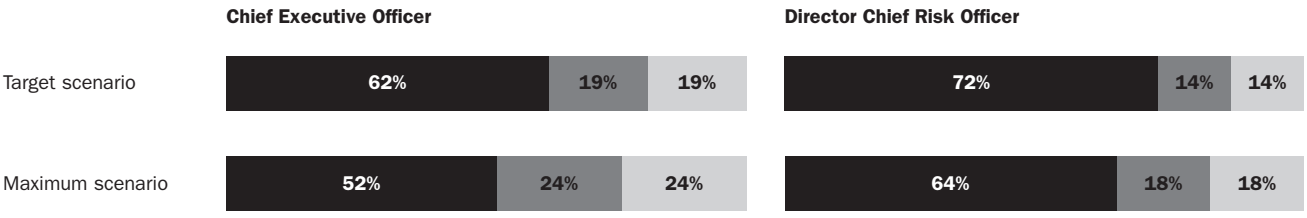
The remuneration items for the Executive Directors set out in the Directors Remuneration Policy, as well as the amounts estimated for 2022, are summarised below:

Item	Purpose	2022 amounts	
		Chief Executive Officer	CRO Director:
Fixed salary	To remunerate the set of functions and the responsibilities of the position held, acknowledging the contribution of the Executive Director in that position for as long as he remains in it.	€2,000,000	€450,000
Social benefits and remuneration in kind	To complement the monetary and non-monetary remuneration with other items that increase the loyalty and commitment of the Executive Directors. The Executive Directors are entitled to the social benefits under the same conditions as the rest of the workforce.	Similar to 2021[1]	Similar to 2021 [1]
Social welfare plans	To cover retirement and other contingencies appropriate to the nature of the functions performed by the Executive Directors.	€870 approximate	€ 100,500 approximate
Discretionary pension benefits*	In accordance with the current regulations, 15% of the contributions to the pension benefits are regarded as discretionary pension benefits and are therefore linked to the percentage of fulfilment of the short-term objectives of the short-term variable remuneration, and they may not in any event exceed 100% of the amount.		
Short-term variable remuneration*	To reflect the performance during the year measured by annual objectives aligned with the risk incurred. Each Executive Director is allocated certain objectives, which include metrics related to risk control and management, solvency and capital and strategic objectives with weightings allocated to each indicator and a scale of achievement. The objectives set for the Executive Directors for 2022 can be viewed in section 2.1.2.b).	Target**: €600,000 Maximum: €870,000	Target**: €100,000 Maximum: €117,500
Long-term remuneration*	To measure the performance of the Group and the Executive Director within a multi-year framework. The annual objectives determine the amount allocated, to the same extent as the short-term variable remuneration. Upon the basis of that amount, the multi-year objectives determine the final amount to be received, which may be reduced, but never but never increased the long term remuneration amount. The objectives set for the Executive Directors in the different cycles in force in 2022 can be viewed in section 2.1.2.c).	Target**: €600,000 Maximum: €870,000	Target**: €112,500 Maximum: €132,188

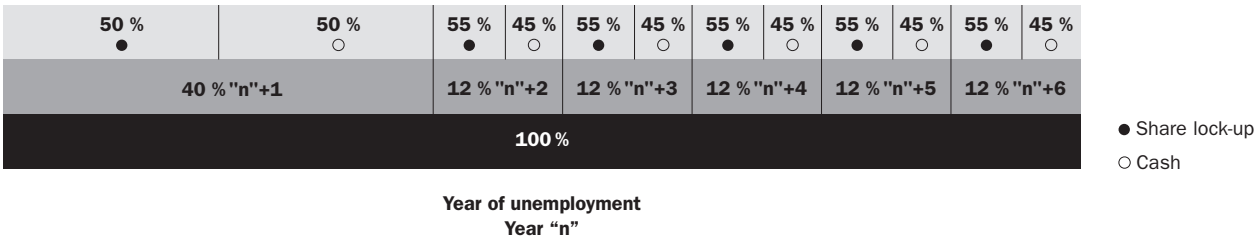
* The payment of any item of variable remuneration is subject to the requirements regarding ex-ante adjustments, deferral periods, payments in capital instruments, malus and clawback clauses outlined in this Report.
In addition, the target and maximum amounts of the variable remuneration are indicated at the time of allocation, without prejudice to the fact that the value actually received may be lower, equal or higher, depending on (i) the evolution of the value of the capital instruments during the deferral period and (ii) the application, as appropriate, of malusclauses.

**Target: remuneration to be allocated in the event that 100% of the objectives are achieved.
Maximum: maximum amount of the variable remuneration to be allocated in the event of over-fulfilment of the objectives.

In view of the above, the remuneration mix of the Executive Directors is presented upon the basis of a target scenario for the fulfilment of the objectives:



- Fixed Salary + Social Benefits + Pension Benefits
- Short-term variable remuneration + discretionary pension benefits
- Long-term remuneration



[1] The amounts are detailed in section 7. Statistical appendix, table i).

2.1.2. Details of the items of remuneration

The items that comprise the remuneration package of the Executive Directors for the performance of their executive functions are similar to those for the 2021 financial year:

A) Fixed remuneration

In accordance with the Directors Remuneration Policy, the overall maximum limit of the fixed remuneration of the Executive Directors is six million euros per annum. Within the above-mentioned limit, which includes both the cash remuneration and the social benefits, pension benefits and welfare plans in the envisaged contractual terms, the Board of Directors, subject to a favourable report from the Remuneration Committee, determines the individual amounts of the remuneration.

The individual remuneration amounts comprising the fixed remuneration of the Executive Directors in 2022 are listed below:

Item	Additional information	Amount
Fixed salary	This is paid in cash on a monthly basis. This remuneration is established by the Board of Directors on the motion of the Remuneration Committee. The amount established in 2021 for both Executive Directors has been maintained.	— Chief Executive Officer/ CEO: €2,000,000 — CRO Director: €525,000
Benefits and Remuneration in kind	The Executive Directors are the beneficiaries in 2022 of a Collective Life Insurance, School allowance, and Christmas basket in the same terms as the rest of the institution's employees. In addition, they are beneficiaries of an Absolute Permanent Disability Insurance in the same terms as the rest of the institution's executives, as well as the assignment of use of a vehicle, in the same terms as the rest of the members of the Bank's senior management.	— Chief Executive Officer/ CEO: Amounts similar to 2021[1] — CRO Director: Amounts similar to 2021[1]
Social welfare plans*	Like all the other employees, the Executive Directors participate in the defined contribution "Group B company pension plan", which shall materialise upon their effective retirement as employees. The CRO Director is also a beneficiary of the defined-contribution "Executive Group insurance policy" indexed to his annual fixed salary, which shall be paid out upon the date of his effective retirement, death or permanent and absolute disability, providing for the possibility of collection of the benefit in the form of a lump sum, rent or a combination of the two, in accordance with the current legislation, except in the event that, in the absence of any express interest on the part of Banco Sabadell, he continues to work at Banco Sabadell beyond the age defined by law for collecting the retirement benefit, in which case all the economic rights to which he is entitled shall be forfeited. It is compatible with potential dismissal indemnities.	It is calculated that the following contributions shall be made in 2022: —Group B company pension plan: Chief Executive Officer/ CEO: €831.27 and CRO Director: €831.27 — Executive Group insurance policy: CRO Director: €99,750

Note:

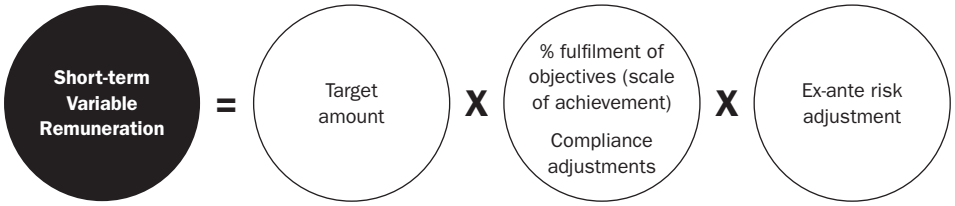
Discretionary pension benefits: Since the entry into force of Bank of Spain Notice 2/2016 of 2 February to credit institutions on supervision and solvency, complementing the adaptation of the Spanish legal system to Directive 2013/36/EU and Regulation (EU) 575/2013, 15% of the contributions are regarded as discretionary pension benefits and, consequently, they are linked to the percentage of fulfilment of the beneficiary's short-term objectives and on no account may they exceed 100% of the amount.

In this regard, 15% of the contributions to be made in 2022 in relation to the "Executive Group insurance policy" shall be made in keeping with the percentage of fulfilment of the short-term variable remuneration objectives.

[1] **The amounts are detailed in section 7. Statistical appendix, table i).**

B) Short-term variable remuneration 2022

At its meeting held on 26 January 2022, the Board of Directors, on the motion of the Remuneration Committee, established that the short-term variable remuneration for 2022 shall be as follows:



Target and maximum amounts:

Target amount (reached in the event that 100% of the pre-set objectives are fulfilled):
— Chief Executive Officer/ CEO: € 600,000 (30% of the fixed salary).
— CRO Director: € 100,000 (22.22% of the fixed salary).

Maximum amount (reached in the event of maximum fulfilment of the pre-established objectives):
— Chief Executive Officer/ CEO: € 870,000 (145% of the target amount).
— CRO Director: € 110,000 (117.5% of the target amount).

Objectives and metrics

The Chief Executive Officer has 80% of his objectives linked to the Group's objectives and the remaining 20% to an individual qualitative appraisal set by the Remuneration Committee on the motion of the Chairman. In the case of the CRO Director, the percentage of the Group's objectives fell to 20%, taking into account the control functions he performs. The metrics selected for the Group's objectives are described below:

Metric	Definition	Weighting
ROTE	Return on Tangible Equity	20%
Net Profit of the Group		20%
Margin interest plus commissions	Banco Sabadell's consolidated net interest income plus net fees and commissions forecast in the 2022 budget	10%
Group expenses	Budget for the sum of consolidated personnel and general expenses and those derived from real estate activities not included in the first two (personnel and general)	10%
Asset Quality	Cost of Risk (12%) + Volume NPAs (8%)	20%
Quality of Services	Aggregate availability metrics of the Group's customer services	10%
Sustainability	A synthesis with grade improvements in the main ESG indices of the credit ratings agencies - Thematic Review Result, Diversity (% female managers) Environment (sustainable finance)	10%

Scales of achievement

In the case of the Group's Objectives, attainment parameters of between 50% and 150% were established for each of the objectives, based on a non-linear scale of attainment pre-established by the Remuneration Committee for each of the objectives. Attainment of under 50% is regarded as 0% for the purposes of the calculation of the overall attainment.

In the case of the functional objectives of the CRO Director, the attainment parameters are set at between 50% and 100%.

In order to be entitled to receive the variable remuneration, the overall attainment of the objectives must exceed 60%. No variable remuneration shall be received under 60% and no additional variable remuneration shall be generated above 150%

Prudential adjustments to the fulfilment of the objectives

The real amount to be received shall be determined by the degree of attainment of the Group's established objectives, to which a correction factor shall be applied, based on the relationship between the Institution's levels of capital (CET1) and liquidity *(Liquidity Coverage Ratio)* with respect to the limits set in the RAS (Risk Appetite Statement). Non-attainment of any of these indicators shall entail a reduction in the variable remuneration; a breach of the tolerance thresholds of the RAS of these indicators shall count as zero attainment of the Group's objectives for 2021.

Ex ante risk adjustments

In addition, the amount of the short-term variable remuneration is subject to a possible disposal adjustment, as determined by the Board of Directors on the motion of the Remuneration Committee, which may indeed prove to be zero depending on the following parameters:

— A variable remuneration adjustment based on the evolution of the risk profile and the evolution of the results. The adjustment may be applied at Group, unit, country or even individual level, to reflect the various types of risk. This variable remuneration adjustment, which can reduce the initial amount of available remuneration to zero, ensures that the variable remuneration is fully aligned with the risks assumed. This variable remuneration adjustment shall cover all the events and situations that might have an impact on the Group's risk and which have not been fully factored into the assessment of the objectives set at the beginning of the year and shall be related to risk and control factors such as breaches of standards and regulations, breaches of risk limits (e.g. RAS, (solvency, liquidity) and breaches of expected loss thresholds in terms of operational risk) and/or internal control indicators (e.g. results of internal audits) and similar items.

— The possibility of reduction to zero if the Bank's capital is less than the Maximum Distributable Amount (MDA) determined by the regulations at any given time.

Malus and Clawback clauses

The short-term variable remuneration and long-term remuneration that has not yet been collected (up to 100% of the amount) shall be subject to malus (reduction or cancellation of the deferred amounts) and clawback (recovery of the received amounts) clauses in the event of a poor financial performance by the Bank as a whole or a specific division or area or the exposures generated by the member of the members of the Group Identified Staf that are applicable. These clauses do not require malice or negligence. For these purposes, the performance assessment will be compared with subsequent performance of the variables that contributed to achieving the objectives.

The following factors will be considered:

—Significant failures in the risk management by the Institution or a unit.

—An increase in the capital requirements of the Institution or a business unit level not envisaged at the moment at which the exposures are generated.

—Regulatory penalties or legal convictions for events that can be attributed to the unit or its managers. Similarly, failure to comply with the Institution's internal codes of conduct.

—Individual or collective improper conduct. Particular consideration shall be given to the negative effects deriving from marketing unsuitable products and the liability of the persons or bodies making such decisions.

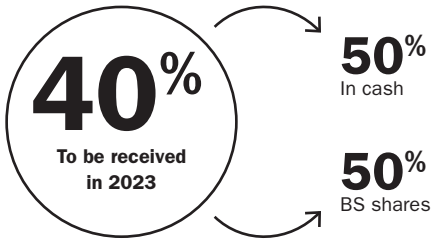
The malus clause may be triggered during the period in which variable remuneration is deferred. The clawback clauses may be applied from the delivery of the remuneration until the conclusion of the last lock-up period. The application of the clawback clauses may be supplementary to the application of malus causes, in such a way that, in addition to forfeiting the amounts not yet received, the member of the Identified Staff shall be required to return part or all of the amounts already received as short-term variable remuneration and long-term remuneration.

The Remuneration Committee must review the situation each year in order to make a proposal to the Board of Directors, if necessary, based on a report by the Human Resources Division, and after seeking the opinion of the Internal Control Division, the Finance Division and the Compliance Division as to whether circumstances have arisen to reduce or cancel the deferred remuneration or trigger clawback of variable remuneration already collected by a member of the Identified Staff, depending on the characteristics and circumstances of each particular case.

Payment procedure

The payment of this variable remuneration is subject to the criteria of deferral and payment in capital instruments, in accordance with the applicable regulations. Taking into account the foregoing, the effective receipt of the short-term variable remuneration of the Executive Directors corresponding to 2022 will be subject to the following scheme:

Variable remuneration 2022



40% of the variable remuneration for 2022 shall be received in 2023. 50% of the resulting amount shall be paid in cash and the other 50% in Banco Sabadell shares (valued at the closing price of the last meeting of the month in 2023 in which the non-deferred part is paid) and the shares shall be subject to a one-year lock-up*.

60% of the variable remuneration for 2022 shall be deferred over a five-year period, with one-fifth being paid in each of the years 2024, 2025, 2026, 2027 and 2028. 45% of the resulting amount shall be paid in cash and the other 55% in Banco Sabadell shares (whose number shall be determined in accordance with the closing price of the last meeting of the month in 2023 in which the non-deferred part is paid) and the shares shall be subject to a one-year lock-up*.

* The variable remuneration paid in shares is subject to one-year lock-up. In line with recommendation 62 of the Good Governance Code, unless the Executive Directors own shares amounting to the equivalent of twice their annual fixed remuneration, they may not transfer the shares they receive until at least three years have elapsed from the time of their delivery. The above condition shall not apply to any shares that must be disposed of, as appropriate, to cover the tax obligations arising from their delivery.

The use of personal hedges with financial products or any other mechanism that guarantees collection of part or all of the variable remuneration is not permitted.

C) Long-term remuneration

The Executive Directors, as well as the other members of the Bank's senior management and the Group Identified Staff, receive long-term remuneration whose overlapped cycles are granted on an annual basis.

General framework

The long-term remuneration scheme is based on the fulfilment of annual and multi-year (three-year) objectives, whereby a reference long-term remuneration amount (the amount to be received in the event of 100% fulfilment of both the annual and the multi-year objectives) is established at the beginning of the cycle. This reference amount totals 30% of the fixed salary for the Chief Executive Officer and 25% for the CRO Director.

After the end of the first year of the cycle, the reference amount is adjusted during the first quarter upon the basis of the following factors:

— Degree of fulfilment with the short-term variable remuneration objectives corresponding to the first year of the cycle.
— Potential ex-ante adjustments.

This adjustment may result in the reference amount being zero or, at most, in the event of the over-fulfilment of the annual objectives, 145% of the reference amount in the case of the Chief Executive Officer and 117.5% in the case of the CRO Director.

The payment of the adjusted reference amount, determined as a cash amount (45%) and a number of shares (55%), shall depend on the degree of fulfilment of the three-year multi-year objectives. The final amount to be paid shall be, at most, the adjusted reference amount (on no account may it be increased).

In addition, as in the case of the annual objectives, a risk correction factor shall be applied with indicators relating to capital (CET1) and liquidity (Liquidity Coverage Ratio) and an attainment adjustment. Any breach of the tolerance thresholds of the RAS for Liquidity or Solvency shall entail zero remuneration for this long-term remuneration.

In view of the above, the following table summarises the main features of each of the long-term remuneration cycles whose measurement period includes 2022:

Objectives and metrics

In relation to the annual objectives that determine the adjusted reference amount, the same objectives as those established for the short-term variable remuneration apply.

Regarding the multi-annual objectives, the metrics applicable to the 2020 and 2021 long-term remunerations are as follows:

Objective	Weighting
Shareholder profitability (Relative Total Shareholder Return)	25%
Liquidity (Liquidity Coverage Ratio)	25%
Solvency (CET 1)	25%
Return on Risk Adjusted Capital (RoRAC)	25%

In relation to the multi-year objectives, the metrics applicable to the long-term remuneration in 2022 are as follows:

Objective	Weighting
Shareholder profitability (Relative Total Shareholder Return)	25%
Liquidity (Liquidity Coverage Ratio)	25%
Solvency (CET 1)	25%
ROTE	25%

The main features of each of the above metrics are outlined below:

Shareholder profitability (relative TSR)

Definition:
The TSR shall be regarded as the sum of the dividends paid and the variation in the share value shall be regarded as the difference between the arithmetic mean of the closing share price, rounded up to the third decimal, of the first 20 sessions prior to the beginning and end of the multi-year objective measurement period. In this respect, the start and end dates are as follows:

Long-term remuneration	2020	2021	2022
Start Date	01/01/2020	01/01/2021	01/01/2022
Completion date	31/12/2022	31/12/2023	31/12/2024

The TSR of Banco Sabadell shall be compared with the TSR of the following companies (peer group):

Long-term remuneration 2020

ABN AMRO Group NV	Unione di Banche Italiane, SpA
Bankia, S.A.	Caixabank S.A.
Banco Santander, S.A.	Natixis, S.A.
Mediobanca Banca di Credito Finanziario SpA	Banco Bpm SpA
Bankinter S.A.	Nordea Bank AB
BBVA, S.A.	KBC Groep NV
Skandinaviska Enskilda Banken AB	Intesa Sanpaolo SpA
Swedbank AB	Société Générale, S.A.
Crédit Agricole, S.A.	

Long-term remuneration 2021

ABN AMRO Group NV	Unione di Banche Italiane, SpA
Bankia, S.A.	Caixabank S.A.
Erste Group	Natixis, S.A.
Mediobanca Banca di Credito Finanziario SpA	Banco Bpm SpA
Bankinter S.A.	Raiffeisen
BBVA, S.A.	KBC Groep NV
Skandinaviska Enskilda Banken AB	Intesa Sanpaolo SpA
Swedbank AB	Virgin Money
Standard Chartered Bank	

Long-term remuneration 2022

ABN AMRO Group NV	Caixabank S.A.
BPER Banking, SpA	Banco Bpm SpA
Erste Group	Raiffeisen
Mediobanca Banca di Credito Finanziario SpA	KBC Groep NV
Bankinter S.A.	Intesa Sanpaolo SpA
BBVA, S.A.	Virgin Money
Skandinaviska Enskilda Banken AB	Standard Chartered Bank
Swedbank AB	

Upon the basis of a proposal by the Remuneration Committee, the Board of Directors shall have the power to adapt, as appropriate, the composition of the sample of entities in the event of unforeseen circumstances affecting the above-mentioned companies (e.g. mergers, spin-offs, exclusions from stock market trading, etc.) and to adapt the TSR calculation to any potential operations (e.g. capital increases with the accolade of the preference right) performed by said entities that affect the value of the shares to ensure that the comparison is made on a like-for-like basis.

Scale of achievement

Position of Banco Sabadell's TSR within the peer group		**% of achievement**
Long-term remuneration 2020 and 2021	Long-term remuneration 2022	
Between the 1st and the 8th	Between the 1st and the 8th	100%
Between the 9th and the 11th	Between the 9th and the 10th	75%
Between the 12th and the 14th	Between the 10th and the 13th	50%
Between the 15th and the 18th	Between the 14th and the 16th	0%

Liquidity (Liquidity Coverage Ratio)

Definition:
the level established in the Bank's RAS (Risk Appetite Statement) shall be taken into account for the calculation of the fulfilment of the Liquidity Coverage Ratio indicator. The measurement of this indicator shall be based on the average of the last three months of the last financial year of the multi-year measurement period.

Scale of achievement:
If the LCR is higher than the early warning indicator (EWI), the objective shall be deemed to have been achieved in full; if it lies below that threshold, the attainment shall be rated 0%.

Long-term remuneration	**2020**	**2021**	**2022**
Average LCR	01/10/2022 – 31/12/2022	01/10/2022 – 31/12/2023	01/10/2024 – 31/12/2024

Solvency (CET1)

Definition:
the level established in the Bank's RAS (Risk Appetite Statement) shall be taken into account for the calculation of the fulfilment of the Solvency CET1 indicator. The measurement of this indicator shall be based on the average of the last three months of the last financial year of the multi-year measurement period.

Scale of achievement:
If the Solvency is higher than the early warning indicator (EWI), the objective shall be deemed to have been achieved in full; if it lies below that threshold, the attainment shall be rated 0%.

Long-term remuneration	**2020**	**2021**	**2022**
CET 1 average	01/10/2022 – 31/12/2022	01/10/2022 – 31/12/2023	01/10/2024 – 31/12/2024

Return on Risk Adjusted Capital (RoRAC) (set for 2020-2022 and 2021-2023)

Definition:
the level of the cost of equity shall be taken into account for the calculation of the fulfilment of the RoRAC indicator. The measurement of this indicator shall be based on the average of the last three months of the last financial year of the multi-year measurement period.

Scale of achievement:
If the Cost of Equity is exceeded, the fulfilment of the indicator shall be deemed to be 100%. If it is not reached, the fulfilment of the indicator shall be deemed to be 0%.

Long-term remuneration	2020	2021
Average RORAC	01/10/2022 – 31/12/2022	01/10/2022 – 31/12/2023

Return on Tangible Equity (ROTE) (set for 2022-2024)

Definition:
The ROTE value obtained at the end of the measurement period (2024) shall be taken.

Scale of achievement:
the following fulfilment scale is defined with a position at the end of the December 2024 period.

0%	50%	75%	100%
<5%	5%	6%	>7.5%

Prudential adjustments to the fulfilment of the objectives

A risk correction factor shall be applied with indicators relating to capital (CET1) and liquidity (Liquidity Coverage Ratio) and an attainment adjustment. Any breach of the tolerance thresholds of the RAS for Liquidity or Solvency shall entail zero remuneration for this long-term remuneration.

Ex ante risk adjustments

The ex-ante adjustments outlined in the section corresponding to the short-term variable remuneration shall also apply to the long-term remuneration .

Payment procedure

The payment of this variable remuneration is subject to the criteria of deferral and payment in capital instruments, in accordance with the applicable regulations. Taking into account the foregoing, the effective receipt of the short-term variable remuneration of the Executive Directors corresponding to 2022 will be subject to the following scheme:

	Year annual measurement	Multi-year measurement period	1st payment* (60%)	2nd payment* (20%)	3rd payment* (20%)
Long-term remuneration 2020	2020	2020-2022	2024	2025	2026
Long-term remuneration 2021	2021	2021-2023	2025	2026	2027
Long-term remuneration 2022	2022	2022-2024	2026	2027	2028

* Taking into account that the adjusted reference amount is determined as 45% in cash and the remaining 55% in Banco Sabadell shares, each payment of the long-term remuneration shall abide by the same proportion. The shares that are received are subject to the lock-up requirements outlined in the section on long-term remuneration .

2.1.3. Terms and conditions of the Executive Directors' contracts, including potential payments in the event of termination of employment

The contracts of the Executive Directors are in keeping with the usual parameters for the Bank's Senior Management contracts and comply with the requirements of the law for these types of contracts, based on the following terms and conditions:

— **Duration:** the contracts are indefinite.
— **Fixed remuneration:** The contracts incorporate the payment of the fixed amounts of the remuneration of the Executive Directors under the terms and conditions outlined above.
— **Variable remuneration:** The contracts incorporate the payment of the variable amounts of the remuneration of the Executive Directors under the terms and conditions outlined above.
— **Social welfare benefits:** The contracts incorporate the holding of the Executive Directors in the social welfare systems under the terms and conditions outlined above.
— **Benefits:** The contracts of the Executive Directors incorporate social benefits and flexible remuneration programmes that the Bank has established for the company's other employees, under the same terms as the other beneficiaries.
— **Confidentiality:** The contracts include a confidentiality clause that binds the Executive Directors not to disclose, either during the term of the contract or thereafter, any confidential data, procedures, methods, information or commercial or industrial data referring to the Bank's business or finances.
— **Use and return of company assets:** all the material goods, information media, files, documentation, manuals, etc. in the possession of the Executive Directors must be returned to the Bank upon the termination of the contract.
— **Clawback and Malus clauses:** These two types of clauses are included in the eventualities defined in the Directors Remuneration Policy which are outlined in section 1.1.4 of this Report.
— **Early termination and no-compete clause:** The Chief Executive Officer's contract has a non-compete clause for a period of two years from the date of unfair dismissal or change of control, and for one year in all other cases. The Director General Manager contract contains a post-contractual non-compete clause lasting two years, which would be applied at most until the first date of ordinary retirement in the amount of two years' salary of fixed remuneration.

They do not contain any of the other clauses specified in Article 529.1 eighteenth of the Capital Companies Law.

2.2. Directors' remuneration for their functions as members of the Board of Directors

2.2.1. Remuneration Policy

In accordance with the Directors Remuneration Policy in force in 2022, the overall maximum limit of the remuneration of the Directors for their functions as members of the Board of Directors, pursuant to the provisions of the Articles of Association of Banco Sabadell, is five million EUR per annum. This maximum limit includes the additional remuneration corresponding to the Chairman for his non-executive functions. The remuneration is set on an annual basis within this limit by the Board of Directors following a favourable report from the Remuneration Committee.

In order to determine the remuneration of the Board of Directors, the Reports on the Remuneration of Directors in Spain published by KPMG and Spencer Stuart have been taken into account for financial year 2022.

The Directors' remuneration for their functions as members of the Board of Directors in 2022 is broken down as follows:

— Fixed remuneration for membership of the Board of Directors.
— Attendance fees, with a maximum of 11 fees corresponding to ordinary meetings and the possibility of delegating the representation without the loss of the fee for justified reasons at most twice a year. No amounts are payable for attendance at the extraordinary meetings of the Board of Directors.
— Additional remuneration is collected for performing the functions of Deputy Chairman, Lead Independent Director and chairmanship or membership of the different Committees of the Board of Directors, as well as, as appropriate, membership of any of Banco Sabadell's Advisory Boards.
— Additional fixed remuneration for the Chairman to remunerate the functions he performs as Chairman of the Bank and the Board of Directors, as Chairman of the General Meeting of Shareholders and as the highest representative of the Bank and for the special engagement involved in exercising the function of Chairman under the terms established in the Capital Companies Law and the Articles of Association and by the Board of Directors in a group such as Banco Sabadell.

These functions, due to their organic or representative nature, cannot be regarded as executive, but, nevertheless, from a quantitative point of view they entail a great deal of dedication with much higher intensity than the other non-executive members of the Board of Directors.

The non-executive Directors do not qualify for the remuneration items or benefits that apply to the Bank's employees, the Group's Identified Staff or the Bank's Senior Management, nor are they included in the social welfare plans or the long-term incentive programmes approved by the General Meeting of Shareholders, nor the long-term remuneration.

2.2.2. Expected remuneration

The following table summarises the remuneration expected to be paid in 2022 for their functions as members of the Board of Directors:

	remuneration 2022 (in euros)	**Attendance fees 2022 (euros per meeting)**
Members	75,000	2,272
In addition:		
— Chairman	1,500,000	
— Deputy Chairman	107,000	
— Lead Independent Director	22,000	

In addition, the non-executive Directors receive certain amounts for chairing or being members of the different Board Committees.

Committee	**Position**	**Amount (in euros)**
Strategy and Sustainability Committee	Chairman	—
	Member	40,000
Credit Delegated Committee	Chairman	70,000
	Member	40,000
Audit and Control Committee	Chairman	40,000
	Member	20,000
Appointments and Corporate Governance Committee	Chairman	40,000
	Member	20,000
Remuneration Committee	Chairman	40,000
	Member	20,000
Risk Committee	Chairman	70,000
	Member	20,000

For the position of members of the Board of Directors of Sabadell Information Systems, S.A., Mr Manel Valls Morató and Ms Aurora Catá Sala will receive a maximum of €30,000.

It is not envisaged that the non-executive Directors shall collect any supplementary remuneration from the Institution or any other Group institution in 2022 as consideration for services rendered other than those inherent to their position, or any other remuneration items such as those resulting from the awarding of advances, loans or guarantees, or any other additional remuneration not included in this Report.

Finally, it is hereby stated that both the Chairman Mr Josep Oliu Creus and the Director Ms María José García Beato may continue to receive the deferred amounts of the short and long-term variable remuneration generated in whole or in part while they performed their executive functions.

2.2.3. Conditions of the contracts

With the exception of the Chairman, the non-executive Directors are not under contract to the Bank by virtue of their status as members of the Board of Directors and no indemnities have been agreed upon in the event of the termination of their positions as Directors.

As established in the Articles of Association of Banco de Sabadell, S.A., the Chairman is the Bank's highest representative and he has the rights and obligations inherent to such representation, including the power to sign on behalf of the company. In the discharging of his functions the Chairman is the person with principal responsibility for the effectiveness of the Board of Directors and, as such, in any event, he represents the Bank, holds the power to sign on behalf of the company and convenes and chairs the meetings of the Board of Directors, setting the agenda, directing the debates and deliberations during the meetings of the Board of Directors and being responsible for ensuring compliance with the decisions reached by the Board of Directors.

Due to the scope and particular nature of the assigned functions, the contract of the Chairman in his non-executive capacity provides for fixed remuneration in addition to that corresponding to his membership of the Board, as explained above, and it incorporates an early termination clause of two years' salary in non-voluntary cases, linked to non-competition.

3. Directors Remuneration Policy applicable to 2021

The remuneration accrued in 2021 has abided by the terms of the Remuneration Policy for Directors of Banco Sabadell, S.A. approved as binding by the General Meeting of Shareholders held on 26 March 2021, in accordance with the provisions of article 529 nineteenth of the Capital Companies Law.

It is hereby stated that there has been no deviation from the procedure for the application of the remuneration policy, nor have any temporary exceptions to it been applied.

In this respect, the remuneration accrued in 2021 by the Executive Directors and Non-Executive Directors has been made up of the same items as those outlined in relation to the Remuneration Policy currently in force in 2022.

A detailed description of the Directors' remuneration system in 2021 was included in sections 3.2, 4.2, 5.2 and 5.3 of the Directors' Remuneration Report corresponding to 2020.

This report obtained the following results at the General Meeting of Shareholders held on 26 March 2021:

— the number of shares for which valid votes were cast was 3,440,374,631, which were distributed as indicated below:
— 5,663 abstentions, corresponding to 5,665,497 shares owned by 32 shareholders representing 0.16% of the total share capital present and represented with voting rights;
— 347,535 votes against, corresponding to 347,541,567 shares owned by 142 shareholders representing 10.10% of the total share capital present and represented with voting rights and,
— 3,087,152 votes in favour, corresponding to 3,087,167,567 shares owned by 108,793 shareholders representing 89.74% of the total share capital present and represented with voting rights.

It has been considered appropriate to introduce improvements to the structure of the Annual Report Directors' Remuneration corresponding to 2021 and to incorporate the new features introduced in Notice 3/2021 of 28 September of the CNMV (National Securities Market Commission).

The Remunration Policy approved by the General Meeting of Shareholders on March 28, 2019, aplied to those members of the Board of Directors who performed executive functions until March 26, 2021. In this respect, in addition to the current Chief Executive Officer and the CRO Director, the following persons performed executive functions as members of the Board of Directors in 2021:

— The Chairman, Mr Josep Oliu Creus performed executive functions until 26 March 2021.
— The Director Ms María José García Beato performed executive functions until 31 March 2021.
— Mr Jaime Guardiola Romojaro resigned as CEO on 18 March 2021. His remuneration was the same as in 2020 until the date of the termination.

This section includes the payments for 2021 of everyone who has been a member of the Board of Directors during this year. Some of the amounts correspond to the extraordinary events that happened during 2021 concerning the Executive Directors who make the bases non comparable to 2020 and present significant differences. These events are the consolidation of economic rights of long-term savings plans whose contributions have been made during the previous years and the severance pay amounts for the Executive Directors, in the terms of this section 3. If these events did not happen and only the amounts arising from the regular activity were considered, the amount of the remuneration accrued in companies of the group in 2021 would amount to 7,179 thousand of euros instead of the 44,604 thousand euros contained in table c.i) of section 7. Statistical annex.

Additionally, in 2020, as a responsibility measure against the crisis brought by COVID-19, the Chairman and the Executive Directors voluntarily waived their variable annual remuneration for 2020. If this had not happened, the amount of the remuneration accrued in companies of the group in 2020 would amount to 7,644 thousand of euros.

3.1. Remuneration of the Executive Directors

3.1.1. Details of the items of remuneration

The individual remuneration comprising the remuneration for 2021 for the Executive Directors is detailed below:

Position	Fixed salary	Benefits and remuneration in kind	Contributions to social welfare plans	Short-term variable remuneration	Long-term variable remuneration
Chief Executive Officer César González-Bueno Mayer [1]	€1,576,921	€20,506	—	€ 557,777 (fulfilment of objectives 117.41%)	€ 557,777 (fulfilment of objectives 117.41%)
CRO Director	€493,749	€41,043	€94,631	€ 99,680 (fulfilment of objectives 99.68%)	€ 112,138 (fulfilment of objectives 99.68%)

[1] Corresponds to the remuneration allocated since 18 March 2021, the date from which he has held the position of Chief Executive Officer.

Position	Fixed salary	Benefits and remuneration in kind	Contributions to social welfare plans	Short-term variable remuneration	Long-term variable remuneration
Chairman Mr Josep Oliu Creus[1]	€451,948	€15,698	€819	€ 355,447 (fulfilment of objectives 117.41%)	€ 139,526 (fulfilment of objectives 117.41%)
Outgoing Chief Executive Officer Jaime Guardiola Romojaro [2]	€300,358	€3,193	€1,342,421	€ 264,375 (fulfilment of objectives 113.93%)	€ 97,337 (fulfilment of objectives 113.93%)
Other external Director Ms Maria José García Beato [3]	€135,268	€9,926	€2,943,597		

[1] Remuneration in respect of 1 January 2021 until 26 March 2021.
[2] Remuneration in respect of 1 January 2021 until 18 March 2021.
[3] Remuneration in respect of 1 January 2021 until 31 March 2021.

A) Fixed remuneration

Fixed salary

— The fixed salary is intended to remunerate the full range of functions and responsibilities of the positions held and acknowledges the contribution of the Executive Directors within those positions for as long as they remain in them.

Social benefits and remuneration in kind

— Social benefits and remuneration in kind: In 2021 the Executive Directors have been beneficiaries of Group Life Insurance and Absolute Permanent Disability Insurance (both applicable to all the Entity's employees), as well as the assignment of use of a vehicle.

Contributions to long-term saving systems

— Contributions to social welfare schemes:
  — These amounts include the part regarded as a "discretionary pension benefit", which, as explained above, is regarded as variable remuneration for regulatory purposes.
  — These amounts include contributions to other policies held by the Executive Directors as is the case with other employees. Specifically, the defined contribution Group B company pension plan, which shall materialise upon their effective retirement as employees.
  — The Chief Executive Officer and the CRO Director have participated in the social welfare plans outlined in section 2.1.2.A) of this Report.
  — The features of the social welfare plans in which the other Directors who performed executive functions in 2021 participated are listed below:

Chairman
Mr Josep Oliu Creus

— A defined contribution Group insurance policy for the Board of Directors, which shall pay out in the form of a lump sum from the moment at which each of the beneficiaries cease to be Directors, except in the event that they provide services to any other bank as an advisor or member of the Board of Directors, in which case all the economic rights they are entitled to would be lost. It is compatible with potential termination indemnities and is currently applicable only to the Chairman. The cumulative amount is €1,484,612.
— Executive Group insurance policy, with a fixed contribution, which materialised in 2021 due to a retirement contingency. The consolidated rights as of the retirement date were in the amount of €7,462,000.
— Group B company pension plan with a fixed contribution, which materialised due to a retirement contingency. The consolidated rights on the retirement date were €26,724; the contribution in 2021 was €818.95.

Outgoing Chief Executive Officer Mr Jaime Guardiola Romojaro

— Executive insurance carried out in two policies, whose beneficiary was the outgoing Chief Executive Officer, Mr Jaime Guardiola Romojaro.
— The first was a defined-benefit policy with 50% spousal reversion. The contribution in 2021 due to the adjustment of variables and the rent base was €1,341,599. This policy materialised in 2021 due to a retirement contingency. Consolidated rights at retirement amounted to €23,867,882. Additionally, €1,072,474 in respect of the contributions made considered discretionary pension benefits, have been retained in Banco de Sabadell, S.A. shares for a period of 5 years from the date of retirement.
— The second was a defined contribution insurance policy which paid out in some of the contingencies of retirement, death or total permanent disability in the form of a lump sum, except in the event of resignation from the position of Chief Executive Officer of the Bank before the age of 63, a breach of the no-compete condition within one year of stepping down as the Bank's Chief Executive Officer and or breach of fiduciary duty until the date of expiry of the period of the no-compete condition, in which case all the economic rights to which he was entitled would have been forfeited. The accumulated amount at the retirement date amounted to €2,616,439 and will only be consolidated when compliance with non-competition is verified during the established period of 1 year.

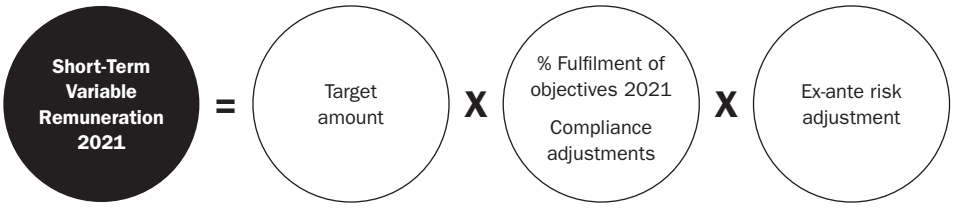
— Group B company pension plan, defined contribution that has materialised due to retirement contingency. The consolidated rights on the retirement date were in the amount of €14,382; the contribution in 2021 was €818.95.

Other external Director
Ms Maria José García Beato

— During 2021, she was the beneficiary of an Executive Collective insurance policy, with a defined benefit indexed to the annual pensionable fixed salary, which could become effective upon reaching 60 years of age, and carried out in two policies:
— One of early retirement from the age of 60, in which the accumulated amounts are considered variable remuneration, for which they are affected by the maximum limit of 200% of fixed remuneration in variable remuneration, as approved by the General Meeting of Shareholders held on 26 March 2021. No accrual for this item having the employment relationship that occurred on 31 March 2021, proceeding to the cancellation of said policy, allowing the bank to exercise the right of redemption on the accumulated mathematical provision, amounting to 615,839 euros.
— Another retirement plan from effective retirement, death or permanent and absolute disability, with provision for the possibility of redemption in the form of capital in accordance with current legal regulations. The contributions in respect of 2021 amounted to €2,942,776, of which €2,689,829 have been consolidated on the occasion of the termination of the employment relationship that occurred on 31 March 2021, leaving an amount of €252,947, in respect of the amounts contributed that are considered discretionary pension benefits, in accordance with Circular 2/2016, of 2 February of the Bank of Spain, to credit institutions, on supervision and solvency, retained for a period of five years from the date of termination of the employment relationship, in shares of Banco de Sabadell, S.A. The accumulated amount at the termination date of the work relationship amounted to 4,676,738 euros, which include the contributions for 2021 indicated above. This amount of the mathematical provision corresponding to the amounts that are considered discretionary pension benefits amounted to 726,693 euros at 31 december 2021, which include the 525,947 euro mentioned above, and which have been retained in shares of Banco de Sabadell, S.A. for a period of five years from the date of termination.
— Group B company pension plan, with a defined contribution that has materialised due to the contingency of termination of the employment relationship that occurred on 31 March 2021. The consolidated rights on the retirement date were in the amount of €16,503; the contribution in 2021 was €818.95.

B) Short-term variable remuneration 2021

The short-term variable remuneration relating to 2021 was as follows:



% Fulfilment of objectives

On 26 January 2022 the Board of Directors determined the degree of fulfilment of the following Group objectives in accordance with the weightings established at the beginning of the year:

Metric	Definition	Weighting	% Compliance
ROE (Return on Equity)	Banco Sabadell's ROE (excluding corporate operations) forecast in the 2021 budget	20%	125.61
Core revenue	Banco Sabadell's consolidated net interest income plus net fees and commissions forecast in the 2021 budget	17.5%	125.92
Group expenses	Budget for the sum of consolidated personnel and general expenses and those derived from real estate activities not included in the first two (personnel and general)	17.5%	126.63
Cost of Risk	Budget for loan-loss provisions and other financial assets / Gross customer loans + Non-performing properties, ex portfolio sales	25%	100.05
NPS (synthesis of Group)	A synthetic indicator of customers' appraisal of the Entity, distinguishing between business units (Commercial Banking, Private Banking, Corporate Banking EMEA and TSB), weighted by the strategic focus of each segment	10%	105.21
Sustainability (Synthetic Group)	A synthetic appraisal indicator comprising environmental, social, diversity and gender equality indicators	10%	125.60
TOTAL			**117.41 %**

The Chief Executive Officer had 100% of his objectives linked to the Group's objectives. In the case of the CRO Director, this percentage fell to 20%, taking into account the control functions he performs.

In relation to the level of fulfilment of objectives of the CRO Director, which includes both the fulfilment of group objectives and the fulfilment of its functional objectives, the Board of Directors set it at 99.68%.

The information used to calculate the financial indicators is derived from audited data in the Annual Accounts, maintaining the definition established when they were first set.

Assessment methods were established consisting of defining attainment parameters between 50% and 150% for each of the objectives, based on a non-linear scale of attainment pre-established by the Remuneration Committee. Attainment of under 50% was regarded as 0% for the purposes of the calculation of the general attainment.

In order to qualify for the variable remuneration, the overall attainment of the objectives had to exceed 60%. No variable remuneration was received under 60% and no additional variable remuneration would have been generated above 150%.

Compliance adjustments

The Board of Directors did not regard it as necessary to make any adjustments to the level of fulfilment of the objectives outlined above, as the Bank's capital (CET1) and liquidity *(Liquidity Coverage Ratio*) levels complied with the limits set in the *Risk Appetite Statement (*RAS).

In this regard, at its meeting held on 24 January 2022, the Risk Committee of Banco Sabadell analysed the applicability of the Risk Correction Factor ("RCF"). In accordance with the capital and liquidity objectives, metrics, scales of achievement and payment curves of the RCF approved by the Board of Directors on 26 January 2022, the Risk Committee determined that the thresholds required in the RAS to generate the right to the full variable remuneration corresponding to the fulfilment of the objectives set in this respect have been met.

Ex ante risk adjustments

Upon the basis of the information provided by Internal Control, the Remuneration Committee has not considered proposing any additional individual or collective ex-ante adjustments for 2021 insofar as:

— The Group and/or the credit institution subsidiaries have reached the MDA (Maximum Distributable Amount) level determined by the current regulations.
— According to the reports received by Regulatory Compliance, Internal Audit, Finance and the Internal Control management itself, the short-term remuneration for 2021 is aligned with the risk and control levels such as regulatory and normative non-compliance, breaches of risk limits (e.g., RAS (solvency, liquidity) and breaches of expected loss thresholds in terms of operational risk) and/or internal control indicators (e.g. results of internal audits) and similar items.

Short-term variable remuneration generated in 2021

Once the fulfilment of the objectives at Group, unit or country and individual levels has been calculated and ex-ante adjustments have not been deemed necessary, the variable remuneration to be granted individually to each of the members of the Identified Staff has been determined, based on the individual target bonus figure allocated to the evaluation of the fulfilment of individual performance objectives, as approved by the Remuneration Committee at its meeting held on 25 January 2022 and by the Board of Directors on the motion of the Remuneration Committee at its meeting held on 26 January 2022, the variable remuneration in respect of the Executive Directors and the members of the Bank's Senior Management.

In accordance with the applicable regulations, these amounts are paid in the following manner:

— 40% shall be received in 2022, with 50% of the resulting amount being paid in cash and the other 50% in Banco Sabadell shares (valued at the closing price of the last meeting of the month in 2022 in which the non-deferred part is paid) and the shares shall be subject to a one-year lock-up.

— 60% shall be deferred over a five-year period, with one-fifth being paid in each of the years 2023, 2024, 2025, 2026 and 2027. 45% of the resulting amount shall be paid in cash and the other 55% in Banco Sabadell shares (whose number shall be determined in accordance with the closing price of the last meeting of the month in 2022 in which the non-deferred part is paid) and the shares shall be subject to a one-year lock-up.

Director	Up-front payment	**Deferred payment**				
	2022	**2023**	**2024**	**2025**	**2026**	**2027**
Chief Executive Officer Mr César González-Bueno	€111,555 190,043 shares	€30,120 62,714 shares	€30,120 62,714 shares	€30,120 62,714 shares	€30,120 62,714 shares	€30,120 62,714 shares
CRO Director Mr David Vegara Figueras	€19,936 33,962 shares	€5,383 11,207 shares	€5,383 11,207 shares	€5,383 11,207 shares	€5,383 11,207 shares	€5,383 11,207 shares

Director	Up-front payment	**Deferred payment**				
	2022	**2023**	**2024**	**2025**	**2026**	**2027**
Chairman Mr Josep Oliu Creus (remuneration in respect of the period as Executive Director)	€71,089 121,106 shares	€19,194 39,965 shares	€19,194 39,965 shares	€19,194 39,965 shares	€19,194 39,965 shares	€19,194 39,965 shares
Outgoing Chief Executive Officer Mr Jaime Guardiola Romojaro (remuneration until the date of his resignation)	€52,875 90,076 shares	€14,276 29,725 shares	€14,276 29,725 shares	€14,276 29,725 shares	€14,276 29,725 shares	€14,276 29,725 shares

The external Director Ms Mª José García Beato did not accrue any short-term variable remuneration in 2021 as she has reached the maximum threshold of the variable remuneration, limited to two annuities of fixed remuneration, as detailed in section 3.1.2.

The amounts and deferred shares are subject to the malus and clawback clauses outlined in section 2.1.4 of this Report.

In accordance with the instructions of Notice 4/2013 of 12 June of the CNMV (Spanish National Securities Market Commission), Statistical Schedule C.1.a.i) includes the non-deferred amount paid in 2022. Table C.1.a.ii) includes both the delivered shares ("financial instruments accrued in 2021") and the deferred shares ("financial instruments at 2021 year-end").

C) Long-term remuneration

This section includes the information on long-term remuneration schemes whose objective measurement periods have ended in 2021.

Complementary Long-Term Incentive (SLTI) 2018- 2021 based on the share price appreciation, which takes into account attainment of multi-year objectives, as approved by the General Meeting of Shareholders on 19 April 2018.

The 2018 SLTI consisted of the allocation of a certain number of rights to the beneficiaries for participation in the increase in value of the same number of Banco Sabadell shares.

The number of rights was subsequently adjusted in the first quarter of 2019 upon the basis of the individual achievement of the annual objectives allocated for 2018.

Position	Number of initial rights	Number of adjusted rights
Chairman	1,700,000	1,250,000
Outgoing Chief Executive Officer	1,500,000	1,125,000
Other external Director	800,000	720,000

The multi-year period for measuring the increase in the value of the Bank's share that would determine the value of the allocated rights covered the years 2018, 2019 and 2020. During this period, objectives related to Shareholder profitability (25%), Liquidity (25%), Solvency CET1 (25%) and RoRAC (25%) were also measured on whose achievement the final number of rights to be received depended.

However, the incentive would have value insofar as there was a revaluation of the Bank's share price over the 2018-2020 period. In this respect:

— The arithmetic mean rounded up to the third decimal point of the closing prices of the Banco Sabadell share in the first 20 trading sessions of 2018 was taken as the initial reference value, resulting in a value of €1.841.
— The arithmetic mean rounded up to the third decimal point of the closing prices of the Banco Sabadell share in the first 20 trading sessions of March 2021 was taken as the final value, resulting in a value of €0.456.

The value of the 2018 SLTI has therefore been zero, as the final value of the Bank's share has been lower than the reference value.

Long-term remuneration 2019-2021

The 2019-2021 long-term remuneration scheme is similar to that outlined for the 2020, 2021 and 2022 long-term variable remuneration (see section 2.1.2.c).

This is an incentive based on the fulfilment of annual and multi-year (three-year) objectives, whereby a reference long-term remuneration amount (the amount to be received in the event of 100% fulfilment of both the annual and the multi-year objectives) is established at the beginning of the cycle.

After the end of 2019, the reference amount was adjusted in the first quarter of 2020 upon the basis on the degree of fulfilment of the 2019 short-term variable remuneration objectives. When it came to determining the adjusted reference amount, the applicability of the ex-ante adjustments established in the variable remuneration, which have already been outlined in this Report, was also analysed.

Director	Initial reference amount	Adjusted reference amount (EUR)
Chairman	€510,300	€442,323
Outgoing Chief Executive Officer	€405,000	€351,256
Other external Director	€125,000	€115,662
CRO Director	€112,500	€102,751

In accordance with the Directors Remuneration Policy, the adjusted reference amounts have been specified as a cash amount (45%) and a number of shares (55%) which were determined with the weighted average price of the last 20 sessions in December 2019, resulting in the following:

Director	Amount in EUR	Number of shares
Chairman	€ 99,523	11,735
Outgoing Chief Executive Officer	€79,033	91,906
Other external Director	€26,024	30,262
CRO Director	€51,148	26,765

The payment of the adjusted reference amount has been subject to the following multi-year objectives set for the 2019-2021 period:

Objective	Weighting
Shareholder profitability (Relative Total Shareholder Return)	25%
Liquidity (Liquidity Coverage Ratio)	25%
Solvency (CET 1)	25%
Return on Risk Adjusted Capital (RoRAC)	25%

The main features of each of these metrics and the degree of fulfilment of the objectives are outlined below:

Shareholder profitability (relative TSR)

Definition:
The TSR has been taken as the sum of the dividends paid and the increase in the share value has been taken as the difference between the arithmetic mean of the closing share price, rounded up to the third decimal point, of the first 20 sessions later than 1 January 2019 and 31 December 2021.

The TSR of Banco Sabadell has been compared with the TSR of the following companies:

Peer group

ABN AMRO Group NV	Société Générale, S.A.
Caixabank S.A.	Intesa Sanpaolo SpA
Banco Santander, S.A.	KBC Groep NV
Mediobanca Banca di Credito Finanziario SpA	Banco Bpm SpA
Bankinter S.A.	Nordea Bank AB
BBVA, S.A.	Swedbank
Skandinaviska Enskilda Banken AB	
Credit Agricole, S.A.	

Scale of achievement:

Position of Banco Sabadell's TSR within the peer group	% of achievement
Between the 1st and the 8th	100%
Between the 9th and the 10th	75%
Between the 10th and the 13th	50%
Between the 14th and the 15th	0%

Percentage of compliance:
Bearing in mind that Banco Sabadell's position within the peer group is 14th, the percentage of compliance is 0%.

Liquidity (Liquidity Coverage Ratio)

Definition:
The level established in the Bank's RAS (Risk Appetite Statement) has been taken into account for the calculation of the fulfilment of the Liquidity Coverage Ratio indicator. This indicator has been measured by taking into account the average for October, November and December 2021.

Scale of achievement:
If the LCR is higher than the early warning indicator (EWI), the objective shall be deemed to have been achieved in full; if it is below that threshold, the attainment shall be rated 0%.

Percentage of compliance:
Given that the average LCR for October, November and December 2020 was above the early warning indicator (EWI), 100% compliance has been confirmed.

Solvency (CET1)

Definition:
The level established in the Bank's RAS (Risk Appetite Statement) has been taken into account for the calculation of the fulfilment of the Solvency (CET1) indicator. This indicator has been measured by taking into account the average for October, November and December 2021.

Scale of achievement:
If the Solvency is higher than the early warning indicator (EWI), the objective shall be deemed to have been achieved in full; if it is below that threshold, the attainment shall be rated 0%.

Percentage of compliance:
Given that the average Solvency (CET1) indicator for October, November and December 2020 was above the early warning indicator (EWI), 100% compliance has been confirmed.

Return on Risk Adjusted Capital (RoRAC)

Definition:
The level of the cost of equity has been taken into account for the calculation of the fulfilment of the RoRAC risk indicator. This indicator has been measured by taking into account the average for October, November and December 2021.

Scale of achievement:
If the Cost of Equity is exceeded, the fulfilment of the indicator shall be deemed to be 100%. If it is not reached, the fulfilment of the indicator shall be deemed to be 0%.

Percentage of compliance:
Given that the average RoRAC for October, November and December 2021 was below the Cost of Equity threshold, 0% compliance has been confirmed.

Taking into account the percentages of fulfilment of the objectives and their weightings, the final percentage of fulfilment of the 2019-2021 long-term remuneration objectives is 50%. The Remuneration Committee has verified that no adjustments to this percentage are appropriate, resulting in the following distribution:

Director	Final incentive in EUR	Final incentive in shares
Chairman	€121,638	116,401
Outgoing Chief Executive Officer	€96,595	92,436
Other external Director	€31,807	30,437
CRO Director	€28,256	27,040

The calendar for payment of said incentive, in compliance with the corresponding regulatory requirements, is as follows:

	2023 (60%)	2024 (20%)	2025 (20%)
Chairman	€72,983 69,840 shares	€24,327 23,280 shares	€24,327 23,280 shares
Outgoing Chief Executive Officer	€57,957 5,461 shares	€19,319 18,487 shares	€19,319 18,487 shares
Other external Director	€19,084 18,262 shares	€6,361 6,087 shares	€6,361 6,087 shares
CRO Director	€16,953 16,223 shares	€5,651 5,407 shares	€5,651 5,407 shares

Notes:
— These amounts shall be subject to the malus and clawback clauses set out in the Directors Remuneration Policy.
— The shares that are received are subject to the lock-up requirements outlined in the section on long-term remuneration.

Long-term remuneration 2021–2023

The long-term remuneration for 2021 was approved in the same terms as for 2020, based on the fulfilment of annual and multi-year objectives, establishing a reference amount for the long-term remuneration (the amount to be received in the event of fulfilling 100% of the objectives) equivalent to a percentage of the fixed salary (25% or 30%, depending on the case). (see section 2.1.2.c).

After the end of 2021, the reference amount was adjusted in the first quarter of 2022 upon the basis on the degree of fulfilment of the 2021 short-term variable remuneration objectives.

Director	Initial reference amount	Adjusted reference amount (value)
Chairman (for the period as Executive Director)	€118,837	€139,526
Chief Executive Officer	€475,068	€555,777
Outgoing Chief Executive Officer	€85,438	€97,337
CRO Director	€112,500	€112,138

3.1.2. Terms and conditions of the Executive Directors' contracts, including payments in the event of termination of employment

The conditions of the contracts of the current Executive Directors have been included in section 2.1.3 above.

On 31 March 2021, the employment relationship of Ms. María José García Beato was terminated, with the same right to receive the amount of €1,032,038 as legal severance pay.

Additionally, and in accordance with the termination clause included in her contract, Ms. María José García Beato was entitled to receive €1,274,229, an amount considered variable remuneration and which has been reduced to the amount of €816,390, set as a limit of two years of fixed remuneration in variable remuneration, a limit approved at the General Meeting of Shareholders held on 26 March 2021. The said amount has been paid applying the schedules for deferral, payment in shares and subjection to malus and clawback clauses explained in the section on short-term variable remuneration generated in 2021, in chapter 3.1 B) of this Report.

Taking into account that, in accordance with the applicable regulations, some of these amounts are regarded as variable remuneration, their payment must comply with the requirements regarding, inter alia, payment in shares and deferral.

The following table details the compensation amounts, as well as the deferral schedule established for them.

Director	Up-front payment	Deferred payment				
	2021	2022	2023	2024	2025	2026
Other external Director	€1,195,424 309,795 shares	€ 44,114 102,232 shares	€ 44,114 102,232 shares	€ 44,114 102,232 shares	€ 44,114 102,232 shares	€ 44,114 102,232 shares

The shares that are received shall be subject to a one-year lock-up.

The "compensation" column of Statistical Schedule C.1.a.i) includes the cash amount paid in 2021. Section C.1.a.i) includes both the delivered shares and those that have been deferred.

3.1.3. Malus and clawback clauses

As stated in section 3.1.1 in relation to short and long-term variable remuneration, the amounts pending collection (up to 100% of the amount) are subject to malus (reduction or cancellation of the deferred amounts) and clawback (recovery of the received amounts) clauses.

The causes that would activate these clauses are outlined in section 2.1.4 above; none of them occurred in 2021.

3.2 Directors' remuneration for their functions as members of the Board of Directors

The reports on director remuneration in Spain published by KPMG and Spencer Stuart were taken into account to determine the remuneration of the Board of Directors, as well as the remunerations of the Boards and Committees of Spain's main financial institutions.

The Directors' remuneration in 2021, until the approval of the new Directors Remuneration Policy on 26 March 2021, consisted of the following annual amounts:

	remuneration 2021 (in euros)	**Attendance fees 2021 (euros per meeting)**
Chairman	175,650	5,273
Deputy Chairman	95,250	2,886
Other members	75,000	2,272
Lead Independent Director	22,000 (additional)	

In addition, the non-executive Directors received the following amounts per year for membership of different Board Committees:

Committee	**Position**	**Amount (in euros)**
Audit and Control Committee	Chairman	40,000
	Member	20,000
Appointments Committee	Chairman	20,000
	Member	10,000
Remuneration Committee	Chairman	40,000
	Member	20,000
Risk Committee	Chairman	70,000
	Member	20,000
Delegated Committee	Member	80,000

Following the approval of the new Directors Remuneration Policy, the remuneration scheme has been modified to adapt it to the Chairman's new role, in keeping with what has already been mentioned in section 2.2.2 of this Report. Moreover, the remuneration of the Deputy Chairman has been updated and, at the same time, the specific Board attendance fees for this position have been eliminated. The remuneration of the ordinary members and the Lead Independent Director has remained unchanged:

	Remuneration 2021 (in euros)	**Attendance fees 2021 (euros per meeting)**
Members	75,000	2,272
In addition:		
— Chairman	1,500,000	
— Deputy Chairman	107,000	
— Lead Independent Director	22,000	

In addition, the amounts for chairmanship or membership of the different Board Committees have been adapted, taking into account the changes that took place in the Bank's delegated and consultative committees in 2021:

Committee	**Position**	**Amount (in euros)**
Strategy and Sustainability Committee	Chairman	—
	Member	40,000
Credit Delegated Committee	Chairman	70,000
	Member	40,000
Audit and Control Committee	Chairman	40,000
	Member	20,000
Appointments and Corporate Governance Committee	Chairman	40,000
	Member	20,000
Remuneration Committee	Chairman	40,000
	Member	20,000
Risk Committee	Chairman	70,000
	Member	20,000

Taking into account the above, the total amount actually received by the members of the Board of Directors in 2021 has been:

Directors	Director category	Board of Directors	Allowances	Risk Committee	Appointments and Corporate Governance Committee	Remuneration Committee	Audit and Control Committee	Credit Delegated Committee	Delegated Committee	Strategy and Sustainability Committee
Josep Oliu Creus	Chairman	1,225	34	0	0	0	0	0	0	0
Javier Echenique Landiribar	Deputy Chairman	100	23	0	0	0	0	12	35	15
Pedro Fontana Garcia	Deputy Chairman	120	25	0	0	0	20	33	34	25
Jaime Guardiola Romojaro	CEO	12	5	0	0	0	0	0	0	0
César González Bueno Mayer Wittgenstein	CEO	63	20	0	0	0	0	0	0	0
Anthony Frank Elliott Ball	Lead Independent Director	97	25	0	20	20	0	0	0	0
Aurora Catá Sala	Independent Director	75	25	18	20	40	0	0	0	0
Luis Deulofeu Fuguet	Independent Director	18	7	0	0	0	0	7	0	7
María José García Beato	Other External Director	75	25	0	0	0	0	22	14	30
Mireya Giné Torrens	Independent Director	75	25	0	15	0	35	0	0	0
George Donald Johnston	Independent Director	75	25	70	0	18	0	0	0	0
David Martínez Guzmán	Proprietary Director	75	25	0	0	0	0	0	0	0
José Manuel Martínez Martínez	Independent Director	75	25	0	40	0	0	0	0	27
José Ramón Martínez Sufrategui	Independent Director	75	25	0	0	15	20	0	0	0
Alicia Reyes Revuelta	Independent Director	75	25	15	0	0	0	23	26	0
Manuel Valls Morató	Independent Director	75	25	20	0	0	25	0	0	0
David Vegara Figueras	Executive director	75	25	0	0	0	0	0	0	0

For the position of Chairman of the Advisory Boards of Sabadell Guipuzcoano, Mr. Javier Echenique Landiribar received €20,400; Mr. Manel Valls Morató, Ms. Aurora Catá Sala for the position of members of the Board of Directors of Sabadell Information Systems, S.A. received an amount of €25,000, with €5,000 euros for the same office for Mr. Luis Deulofeu Fuguet.

The amounts actually received depended on the date of the appointment and the attendance and they are itemised in the statistical schedule of this document.

The Directors have not collected any supplementary remuneration from the Institution or any other Group institution in 2021 as consideration for services rendered other than those inherent to their position, nor any other remuneration items resulting from the awarding of advances, loans or guarantees, nor remunerations by virtue of payments to a third-party institution made by the Bank or any other additional remuneration items not included in this Report.

4. Procedures and bodies involved in determining and approving the Remuneration Policy

4.1. General framework

The Articles of Association of Banco Sabadell set out the competences of the Board of Directors and its Committees. The Regulation of the Board of Directors set out the principles of action for the Board of Directors and its Committees, establishing their powers and the basic rules of functioning and organisation, in keeping with the applicable regulations to listed companies and credit institutions, as implemented and complemented in the Regulations of the Board of Directors. The Articles of Association and the Regulations of the Board of Directors and its Committees are available on the Banco Sabadell corporate website.

In accordance with the provisions of the Capital Companies Law, the Board of Directors is vested with non-delegable power to determine the company's general policies and strategies and to make decisions regarding the remuneration of the Directors within the statutory framework and, as appropriate, the Directors Remuneration Policy.

The Remuneration Committee is entrusted with making proposals to the Board of Directors regarding the Directors Remuneration Policy and the individual remuneration and other contractual conditions of the Executive Directors while overseeing their compliance, in accordance with the Regulation of the Board of Directors and the Committee itself.

Similarly, the Remuneration Committee has, at least, the following basic responsibilities, as outlined in article 18 of the Regulation of the Board of Directors and further implemented in the Regulations of the Remuneration Committee:

a) Proposing the Director Remuneration Policy to the Board of Directors.

b) Proposing to the Board of Directors the remuneration policy for the General Managers or others who perform the bank's senior management functions reporting directly to the Board, the Delegated Committee or the CEOs, as well as the individual remuneration and other contractual conditions of the Executive Directors while overseeing their compliance.

c) Regularly reviewing the remuneration policy.

d) Reporting on the share-based and/or option-based remuneration programmes

d) Periodically reviewing the general principles in terms of remuneration, as well as the compensation programmes of all employees, weighting their compliance with these principles.

f) Ensuring that the remuneration is transparent.

g) Ensuring that any potential conflicts of interest do not impair the independence of the external advice

h) Verifying the information on remuneration contained in the different corporate documents, including the Report on Director Remuneration.

The Remuneration Committee complies with the principles, good practices and criteria for its proper functioning established by Technical Guide 1/2019 on nomination and remuneration committees of 20 February published by the National Securities Market Commission.

In accordance with the provisions of article 62 of the Articles of Association, at the end of 2021 Banco Sabadell's Remuneration Committee comprised four non-executive Directors, all of whom were Independent Directors, as follows:

Composition:

Chairman
Ms Aurora Catá Sala

Members
Mr Anthony Frank Elliott Ball
Mr. George Donald Johnston III
Mr José Ramón Martínez Sufrategui

Non-member Secretary
Mr Gonzalo Barettino Coloma

In accordance with the provisions of article 19 of the Regulation of the Board of Directors and its own Regulations, the Risk Committee is responsible for informing the Remuneration Committee as to whether the employee compensation programmes are consistent with the Group's risk, capital and liquidity.

In accordance with article 16 of the Regulation of the Board of Directors and its own Regulations, the Audit and Control Committee is responsible for supervising the process of drafting and presenting the regulated financial information, including that related to remuneration, verifying compliance with the regulatory requirements and the correct application of the accounting criteria. In particular, an annual audit of the Remuneration Policy is performed, whose conclusions are submitted to the Remuneration Committee.

The proposals by the Remuneration Committee are submitted to the Board of Directors for its consideration and, as appropriate, approval.

In its meeting on 26 January 2022, in accordance with the Directors Remuneration Policy currently in force and within the limits established therein, the Board of Directors determined the amount of the remuneration of the Directors for the current financial year. Specifically, it determined the remuneration corresponding to the Chairman during the year and that of the other Directors in their capacity as members of the Board of Directors. In addition, it determined the remuneration corresponding to the Executive Directors for the performance of their executive functions, as outlined in the corresponding sections above.

Moreover, several divisions of the Bank participate in the application and supervision of the Remuneration

Policy. These include the Human Resources Division, which draws up an annual report on remuneration whose purpose is to provide the Remuneration Committee with the basic elements to enable it to perform the functions entrusted to it in connection with the review of the general principles of the Banco Sabadell Remuneration Policy and the supervision of the remuneration of the Executive Directors, the Bank's senior management and other persons who, due to their level of responsibility, risk-taking capacity and remuneration status, form part of the Group's Identified Staff, in accordance with the provisions of Law 10/2014 and Delegated Regulation 923/2021/EU or any regulation that replaces it.

4.2. Remuneration benchmarking and external advisors

The Remuneration Committee, in addition to relying on the internal advice of the Bank's own services, is advised by the specialist Willis Towers Watson firm, which collaborates with the Remuneration Committee in identifying market trends and regulatory developments in remuneration matters, and by the EY People Advisory Services firm, which specialises in the implementation of integrated business strategies. Furthermore, specialised consulting firm Mercer Consulting S.L. issued an independent assessment of the implementation of the remuneration policy applicable to the members of the Identified Staff and the remuneration policy of the Directors, whose conclusions confirmed their proper application; the report was submitted to the Risk Committee and the Remuneration Committee in January 2021.

In addition, with a view to establishing a Remuneration Policy consistent with comparable companies, each year Banco Sabadell uses the Spencer Stuart Board Index 2020 and the report titled "The remuneration of the board members of IBEX 35 companies" produced by the KPMG consulting firm, as well as the advice of the Willis Towers Watson consulting firm, to perform comparative analyses of the remuneration of the Board of Directors, the members of the Bank's Senior Management and the members of the Identified Staff with respect to the market.

Two groups of companies have been used as benchmarking to set the remuneration of the Chief Executive Officer in 2022. As outlined in the following table, the first peer group is made up of 17 banks from Spain and other European countries (the European benchmark), while the second peer group is made up of 13 IBEX-35 companies (the domestic benchmark).

Companies used as benchmarks

Banks included in the European benchmark		Companies included in the domestic benchmark	
Raiffeisen	CaixaBank	Santander	Amadeus
Erste Group	KBC Groep	Mapfre	Bankinter
BBVA	Swedbank	CaixaBank	Enagas
Intesa San Paolo	BPER Banca	Abanca	Fluidra
Banco BPM	Mediobanca	Acciona	Grifols
Skandinavska Enskilda Banken	Bankinter	Endesa	Merlin Properties
ABN Amro Group		Siemens Gamesa	
Standard Chartered Bank		BBVA	
Virgin Money		Ferrovial	

To set the remuneration of the CRO Director, the information comparable to his functions among the group of European and Spanish companies outlined above has been taken into account.

5. Measures to reduce the exposure to excessive risks and contribute to sustainable performance

The Banco Sabadell Remuneration Policy is aligned with the shareholders' interests, the Banco Sabadell Group strategy and the creation of long-term value and promotes appropriate risk management.

Without prejudice to the supervision exercised by the Bank's governing bodies and management (outlined in section 4 of this Report), the directors Remuneration Policy includes several elements that reduce the exposure to excessive risks, many of which have already been outlined in previous sections. These elements also apply to the professionals who have a material impact on the Bank's risk profile (the "members of the Group Identified Staf").

The main elements of the Remuneration Policy that make it possible to reduce the exposure to excessive risk and align the remuneration with the Bank's objectives, values and long-term interests are listed below:

Objectives established in the variable remuneration

The corporate objectives set in the short-term variable remuneration in 2021 and 2022 measure the Bank's prudential performance from financial and non-financial perspectives. In this respect, 80% of the objectives are linked to financial metrics related to profitability (ROE), results (Core Revenue), expense control (Group Expenses) and the cost of risk. The remaining 20% is linked to non-financial metrics which are key to the Group's value creation, such as customer ratings (NPS - Group synthetic) and ESG progress (Sustainability - Group synthetic).

In addition, taking into account the functions performed by the CRO Director, in accordance with the provisions of the applicable regulations to credit institutions, it has been established that the weight of the corporate objectives in this individual case should be limited to 20% and the remaining 80% should be linked to his own objectives.

In the case of long-term remuneration, in addition to the annual objectives set for short-term remuneration, the multi-year objectives linked to the creation of shareholder value (relative TSR) and the main indicators of the Risk Appetite Framework (Liquidity Coverage Ratio, CET 1 and RoRAC) must be fulfilled.

Adjustments to the fulfilment of objectives

As mentioned in previous sections, both the short and the long-term remuneration are subject to a risk correction factor that includes capital (CET1) and liquidity (Liquidity Coverage Ratio) indicators in relation to the limits set in the RAS. Failure to attain any of these indicators shall result in a reduction of the remuneration.

Moreover, no short-term or long-term variable remuneration is accrued if the overall fulfilment of the objectives (mix of Group and individual objectives) is less than 60%.

Ex ante risk adjustments

The amount of any variable remuneration item is subject to a potential disposal adjustment, as determined by the Board of Directors on the motion of the Remuneration Committee, which may reach zero depending on the parameters outlined in section 2.1.2.b) of this Report, including:

— Risk and control factors such as regulatory and normative non-compliance, breaches of risk limits (e.g., RAS (solvency, liquidity) and breaches of expected loss thresholds related to operational risk) and/or internal control indicators (e.g. results of internal audits) and similar items.
— Maximum Distributable Amount (MDA) lower than that required by the regulations.

Taking the above into account, the final amount of the short-term variable remuneration accrued on an annual basis (subject to ex post adjustments) shall be determined by the Board of Directors, following a recommendation by the Remuneration Committee, based on the individual assigned short and/or long-term variable remuneration figure, the evaluation of the degree of fulfilment of the individual performance objectives allocated to the Executive Directors and the application of the variable remuneration adjustment.

Deferral and payment

The short-term variable remuneration is subject to a deferral scheme, the main features of which are as follows:

— A timeline for the deferral of at least five years for the Executive Directors and the other members of the Bank's senior management and at least three years for the other members of the Identified Staff.
— Deferral of at least 60% in the case of the Executive Directors and the members of the Identified Staff whose variable remuneration exceeds 1,500,000 EUR and 40% for the other members of the Identified Staff.
— The deferred remuneration shall be paid in the form of Banco Sabadell shares in a proportion of 55% to the Executive Directors and the other members of the Bank's senior management and at least 50% to the rest of the Identified Staff.
— The variable remuneration paid in shares is subject to one-year lock-up. In line with recommendation 62 of the Good Governance Code, unless the Executive Directors own shares amounting to the equivalent of twice their annual fixed remuneration, they may not transfer the shares they receive until at least three years have elapsed from the time of their delivery. The above condition shall not apply to any shares that must be disposed of, as appropriate, to cover the tax obligations arising from their delivery.

— The use of personal hedges with financial products or any mechanism that guarantees collection of part or all of the variable remuneration is not permitted.

The specific payment schedule of the short-term variable remuneration for 2021 and 2022 can be viewed in sections 3.1.1.b) and 2.1.2.b) respectively.

The long-term remuneration shall also be paid in the form of Banco Sabadell shares in a proportion of 55% to the Executive Directors and the other members of the Bank's senior management and at least 50% to the rest of the Identified Staff. The time horizon from the measurement of the annual objectives determining the adjusted reference amount until the last payment date is five years, excluding the lock-up period applicable to any shares that are delivered. Information on the payment schedules for the long-term remuneration in force in 2021 and 2022 is included in sections 3.1.1.c) and 2.1.2.c).

Malus and clawback clauses

The short-term variable remuneration and long-term remuneration that has not yet been collected (up to 100% of the amount) shall be subject to malus (reduction or cancellation of the deferred amounts) and clawback (recovery of the received amounts) clauses in the event of a poor financial performance by the Bank as a whole or a specific division or area or the exposures generated by the member of the members of the Group Identified Staf that are applicable. These clauses do not require malice or negligence. For these purposes the performance assessment shall be compared with the subsequent performance of the variables that contribute to achieving the objectives. The factors outlined in section 2.1.4 shall be taken into account.

Control by certain bodies and divisions of the Institution

Without prejudice to the functions mentioned above and those corresponding to the Institution's Remuneration Committee and Board of Directors, the functions of other governing bodies and divisions of the Institution entrusted with control over the remuneration are listed below:

— The Risk Committee checks to ensure that the employee remuneration programmes are consistent with the Bank's risk, capital and liquidity and provides advice in this respect to the Remuneration Committee.
— The Audit and Control Committee supervises the process of drafting and presenting the regulated financial information, including that relating to remuneration, and reviews compliance with the regulatory requirements and proper application of accounting criteria.
— The Internal Audit Division, within the framework of its functions, carries out an independent examination, at least once per annum, of the definition and application of the institution's Remuneration Policy and its effects on its risk profile and the way in which these effects are managed. In addition, the report on the Prudential Evaluation of the Remuneration drawn up by the specialised Mercer Consulting, S.L. firm for the Remuneration Committee assesses and guarantees that the delimitation of the Group's Identified Staff and the remuneration practices and policies conform to the requirements established in the regulations and interpretations of the EBA and the Bank of Spain.
— Each year the Risk Regulation and Control Division (CRO) submits to the Remuneration Committee a proposal for the adjustment of the variable remuneration, which may be at a Group, unit, country or even individual level, to be applied at year-end, depending on the risk profile and the evolution of the results.

This Annual Report on Directors' Remuneration was approved by Banco Sabadell's Board of Directors at its meeting held on:

17/02/2022

No Directors who voted abstained or voted against the approval 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.

6. Reconciliation with the CNMV Annual Report on Remuneration of Directors of Listed Limited Liability Companies

Below is a table of equivalences detailing the location, in this Report, of the content established in the official form of the CNMV's Report on Remuneration of Directors of Listed Limited Companies, approved by Notice 3/2021.

Content of the form per Notice 3/2021	Report on Remuneration of the Directors of Banco Sabadell
A. Company's remuneration policy for the current financial year	
A.1. Describe the current Directors Remuneration Policy applicable to the current year. To the extent relevant, include disclosures relating to the remuneration policy approved by the General Meeting of Shareholders, provided that these references are clear, specific and concrete. Describe the specific decisions taken by the Board that apply to this financial year, relating to both directors' remuneration for their functions as such and for executive functions, as provided in the contracts signed with the executive directors, and to the general remuneration policy approved by the General Meeting of Shareholders. In any event, the following aspects must be disclosed: — Description of the company's procedures and the bodies involved in determining and approving the remuneration policy and its terms and conditions. — Indicate, where applicable, whether the company's remuneration policy was benchmarked against other companies and give details. — Information as to whether any external advisors were involved in this process and, if so, their institution. —Procedures set out in the current remuneration policy for directors to apply temporary exceptions to the policy, conditions under which these exceptions can be used and components that may be subject to exception according to the policy.	**Sections 1 & 4.**
Relative importance of variable remuneration and fixed remuneration items (remuneration mix) and the criteria and objectives used to determine and ensure an appropriate balance between the fixed and variable components of remuneration. In particular, state the actions taken by the company in relation to the remuneration system to reduce exposure to excessive risks and adjust it to the company's long-term objectives, values and interests, including references to any measures to guarantee that the company's long-term results are taken into account in the remuneration policy, the measures taken in relation to those categories of staff whose work has a material impact on the company's risk profile and any measures to avoid conflicts of interest. Also disclose if the company has established a period for the accrual or vesting of certain variable remuneration items, whether in cash, shares or other financial instruments, any period of deferral of the payment of amounts or the delivery of accrued or vested financial instruments, any clause that reduces the invested deferred remuneration or that obliges the director to refund remuneration already received, where such remuneration was based on figures that have subsequently been clearly shown to be inaccurate.	**Sections 2.1 & 5.**

— Amount and nature of fixed components that are expected to be accrued by directors during the financial year for membership of the Board of Directors as such. **Section 2.2.**

— Amount and nature of fixed components that are to be accrued during the financial year for the performance of the Bank's senior management functions by executive directors. **Section 4.2.**

— Amount and nature of any component of remuneration in kind that will accrue during the year, including, but not limited to, insurance premiums paid in favour of the director. **Section 2.1.**

— Amount and nature of variable components, differentiating between short and long term. Financial and non-financial parameters, including social, environmental and climate change, selected to determine variable remuneration in the current year, describing the extent to which these parameters are related to performance, both of the director and of the company, together with their risk profile, and the methodology, necessary period and the techniques established to determine the degree of fulfilment of the parameters used in the design of the variable remuneration at the end of the year, and describe in detail the criteria and factors applied in terms of the time required and methods for verifying that the performance conditions or any other type of conditions to which the accrual and vesting of each component of variable remuneration was linked were actually fulfilled. State the range, in monetary terms, of the variable components according to the degree of fulfilment of the objectives and established parameters, and whether there is any absolute cap in monetary terms. **Sections 2.1 & 5.**

— Main characteristics of long-term savings systems. Among other information, state the contingencies covered by the system, whether it is defined-contribution or defined-benefit, the annual contribution to be made to the defined-contribution system, the benefits directors are entitled to under defined-benefit systems, the conditions under which economic rights vest for directors and their compatibility with any other type of payment or severance pay as resolution for the early termination or dismissal of the director or deriving from the termination of the contractual relation, in the terms provided, between the company and the director. **Section 2.1.**

State if the accrual or vesting of any of the long-term savings plans is linked to achieving certain objectives or parameters related to the director's short- or long-term performance.

— Any type of payment or severance pay for resolution or early termination or dismissal of the director, or deriving from the termination of the contractual relationship between the company and the director, in the terms provided, whether by voluntary resignation by the director or dismissal of the director by the company, as well as any type of agreement, such as exclusivity, post-contractual non-competition, permanence or loyalty, which entitle the director to any type of remuneration. **Sections 2.1 and 3.1.**

— State the conditions that contracts for executive directors' bank senior management functions must comply with. Among other aspects, give information on the term, limits to the amounts of severance pay, permanence clauses, notice periods and payment in lieu of notice, and any other clauses regarding hiring bonuses, as well as severance payments or golden handshakes for early resolution or termination of the contractual relationship between the company and the executive director. Include, among others, any no-compete, exclusivity, permanence and loyalty, and post-contractual non-competition pacts or agreements, except where they have already been explained in the previous section. **Section 2.1.**

— The nature and estimated amount of any other supplementary remuneration accrued by directors in the year as consideration for services rendered other than those inherent to their position as directors. **Sections 2.1 & 3.1.**

— Other remuneration items, such as those arising from the company granting the director advance payments, loans, guarantees or any other remuneration **Sections 2.1 & 3.1.**

— The nature and estimated amount of any other planned supplementary remuneration that is not included in the preceding sections, whether paid by the institution or by another institution in the Group, which will be earned by directors during the current financial year. **Sections 2.1 & 3.1.**

A.2.
Describe any material change in the remuneration policy applicable in the current financial year resulting from: **Section 2.**

— A new policy or an amendment of the policy already approved by the General Meeting.
— Material changes in the specific determinations established by the board for the current year regarding the remuneration policy in force, in comparison with those applied in the previous financial year.
— Proposals that the board of directors has resolved to submit to the General Meeting of Shareholders to which this annual report will be submitted and which are proposed to be applicable to the current financial year.

A.3.
Identify the direct link to the document where the current company remuneration policy is posted, which must be available on the company's website. **Section 2.**

A.4.
Explain, considering the data provided in Section B.4, how the outcome of the consultative vote at the General Meeting of Shareholders on the previous year's annual report on remuneration was taken into account. **Section 3.**

B. Overall summary of how the remuneration policy was applied during the reporting year

B.1.
Explain the process used to apply the remuneration policy and to determine the individual remuneration set out in Section C of this report. This information must include the role played by the remuneration committee, the decisions taken by the Board of Directors and, where applicable, the institution and the role of any external advisers engaged for the process of applying the remuneration policy in the reporting year. **Section 3.**

B.1.2.
Explain any deviation from the established procedure for the application of the remuneration policy that has occurred during the financial year. **Section 3.**

B.1.3.
Indicate whether any temporary exception to the remuneration policy has been applied and, if applied, explain the exceptional circumstances that led to the application of these exceptions, the specific components of the remuneration policy affected and the reasons why the institution considers that those exceptions were necessary to serve the long-term interests and sustainability of the company as a whole or to ensure its viability. Furthermore, quantify the impact that the application of these exceptions has had on the remuneration of each director in the financial year. **Section 3.**

B.2.
Explain the actions taken by the company in relation to the remuneration system and how they contributed to reducing exposure to excessive risks and adapting it to the company's long-term objectives, values and interests, including a reference to any measures that have been adopted to ensure that the company's long-term results were taken into consideration in setting the remuneration actually earned and that a suitable balance was attained between the fixed and variable components of remuneration, any measures adopted in relation to those categories of staff whose professional activities have a material repercussion on the company's risk profile and any measures that have been adopted to avoid conflicts of interest. **Section 3.1.**

— The nature and estimated amount of any other planned supplementary remuneration that is not included in the preceding sections, whether paid by the institution or by another institution in the Group, which will be earned by directors during the current financial year. **Sections 2.1 & 3.1.**

B.3.
Explain how the remuneration accrued and consolidated in the year complies with the provisions of the current remuneration policy and, in particular, how it contributes to the sustainable and long-term performance of the company. Also, report on the relationship between the remuneration obtained by the directors and the company's results or other performance metrics, in the short and long term, detailing how any variations in the company's performance influenced changes in director remuneration, including remuneration accrued but payment deferred, and how they contribute to the company's short- and long-term results. **Sections 1, 2.1 & 5.**

B.4.
Describe the outcome of the consultative vote at the general meeting on the Annual Remuneration Report for the previous year, indicating the number of votes cast for, against, and abstentions if any. Number % of votes cast Number % of negative votes compared with votes cast Votes in favour Blank votes Abstentions Remarks **Sections 2 & 3.**

B.5.
Describe how the fixed components of remuneration earned and vested during the year by the directors in their capacity as such were determined, their relative proportion for each director, and how they changed with respect to the previous financial year. **Section 3.2.**

B.6.
Describe how the salaries earned and vested by each of the executive directors in the last year for performing executive functions were determined, and how they changed with respect to the previous financial year. **Section 3.1.**

Explain the nature and give the main features of the variable components of the remuneration systems earned and vested in the reporting year. In particular:

a) Identify each of the remuneration plans that determined the various types of variable remuneration earned by each of the directors in the reporting year, including information on their scope, approval date, implementation date, any vesting conditions, the periods of accrual and validity, the criteria used to assess performance and how this affected the establishment of the variable amount that accrued, as well as the measurement criteria that were applied and the period that must elapse in order to be in a position to suitably measure all the applicable conditions and criteria, and describe in detail the criteria and factors applied in terms of the time required and methods for verifying that the performance conditions or any other type of conditions to which the accrual and vesting of each component of variable remuneration was linked were actually fulfilled.

b) In the case of stock options and other financial instruments, the general characteristics of each plan must contain information on the conditions required both to achieve unconditional ownership (vesting) and to exercise such options or financial instruments, including the strike price and exercise period.

c) Name and category (executive director, proprietary external director, independent external director and other external director) of each of the directors who are beneficiaries of remunerations systems or plans that include variable remuneration.

d)Where applicable, disclose any accrual, vesting or deferral periods that were applied to the payment of vested amounts and/or any periods of lock-up/non-provision for shares or other financial instruments.

Explain the short-term variable components of the remuneration systems.
Explain the components.

B.7.

Explain the nature and give the main features of the variable components of the remuneration systems earned and vested in the reporting year. In particular:

Sections 3.1 & 5.

— Identify each of the remuneration plans that determined the various types of variable remuneration earned by each of the directors in the reporting year, including information on their scope, approval date, implementation date, any vesting conditions, the periods of accrual and validity, the criteria used to assess performance and how this affected the establishment of the variable amount that accrued, as well as the measurement criteria that were applied and the period that must elapse in order to be in a position to suitably measure all the applicable conditions and criteria, and describe in detail the criteria and factors applied in terms of the time required and methods for verifying that the performance conditions or any other type of conditions to which the accrual and vesting of each component of variable remuneration was linked that were actually fulfilled.

— In the case of stock options and other financial instruments, the general characteristics of each plan must contain information on the conditions required both to achieve unconditional ownership (vesting) and to be able to exercise such options or financial instruments, including the strike price and exercise period.

— Each of the directors and their category (executive directors, proprietary external directors, independent external directors and other external directors) who are beneficiaries of remunerations systems or plans that include variable remuneration.

— Where applicable, disclose any accrual, vesting or deferral periods that were applied to the payment of vested amounts and/or any periods of lock-up/non-provision for shares or other financial instruments.

B.8.

Indicate whether any accrued variable components were reduced or clawed back after deferral of unvested amounts (in the former case) or vesting and payment (in the latter case) on the basis of data which were subsequently shown to be manifestly inaccurate. Describe the amounts reduced or clawed back through the application of the malus or clawback clauses, why they were implemented and the financial years to which they refer.

Section 3.1.

B.9.

Describe the main characteristics of the long-term savings systems where the amount or equivalent per annum cost appears in the tables in Section C, including retirement and any other survivorship benefits that are financed, totally or partially, by the company, whether through internal or external contributions, indicating the type of plan, whether it is defined-contribution or defined-benefit, the contingencies covered, the conditions for the economic rights to vest for directors, and their compatibility with any type of severance pay for early resolution or termination of the contractual relationship between the company and the director.

Section 3.1.

B.10.

Describe any termination indemnities or other payment arising from early dismissal or early resignation, or from the termination of the contract, in its own terms, that were accrued and/or received by directors during the reporting year.

Section 3.1.

B.11.

Indicate whether there were any significant changes in the contracts of persons performing bank senior management functions, such as executive directors, and, if applicable, describe them. Additionally, describe the main conditions of new contracts signed with executive directors during the financial year, unless already described in Section A.1.

Section 3.1.

B.12.

Describe any additional remuneration paid to directors like consideration for services rendered other than those inherent to their directorship.

Sections 3.1 and 3.2.

B.13.

Describe any remuneration deriving from advance payments, loans or guarantees granted, indicating the interest rate, the main features and any amounts that were repaid, as well as any collateral obligations assumed on their behalf as a guarantee.

Sections 3.1 and 3.2.

B.14.

Detail any remuneration in kind earned by the directors in the financial year, briefly indicating the nature of the various salary components.

Section 3.1.

B.15.

Describe any remuneration accrued by directors in the form of payments settled by the listed company with third parties where the director renders services, where such payments are intended to compensate the director's services to the company.

Sections 3.1 and 3.2.

B.16.

Explain and detail the amounts accrued in the financial year in relation to any other remuneration item other than the above, whatever its nature or the group entity that pays it, including all benefits in any of their forms, such as when considered a related party transaction or, especially, when it significantly affects the true and fair view of the total remuneration accrued by the director, and the amount granted or pending payment must be explained, the nature of the consideration received and the reasons why it would have been considered , if applicable, that it does not constitute remuneration to the director for his/her status as such or in consideration for the performance of his/her executive functions, and whether or not it has been considered appropriate to include it among the amounts accrued in the "other concepts" section of section C.

Sections 3.1 and 3.2.

C. Itemised individual remuneration in respect of each director

Statistical annex

Section 7

7. Statistical annex

ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS OF LISTED PUBLIC LIMITED COMPANIES

ISSUER IDENTIFICATION DATA

Date of end of reference year: 31/12/2021

Tax ID Number (CIF): A-08000143

Company name:

BANCO DE SABADELL, S.A.

Registered office:

AV. ÓSCAR ESPLÁ No.37 (ALICANTE)

B. OVERALL SUMMARY OF HOW THE REMUNERATION POLICY WAS APPLIED DURING THE REPORTING YEAR

B.4. Describe the outcome of the consultative vote at the general meeting on the Annual Remuneration Report for the previous year, indicating the number of votes cast for, against, and abstentions if any:

	Number	% of total
Votes cast	3,440,350	62.00

	Number	% of votes cast
Votes against	347,535	10.10
Votes in favour	3,087,152	89.74
Blank votes		0.00
Abstentions	5,663	0.16

C. ITEMISED INDIVIDUAL REMUNERATION IN RESPECT BY EACH DIRECTOR

Name	Type	Accrual period in 2021
Mr JOSEP OLIU CREUS	Other External Chairman	From 01/01/2021 to 31/12/2021
Mr JOSE JAVIER ECHENIQUE LANDIRIBAR	Independent Deputy Chairman	From 01/01/2021 to 28/07/2021
Mr PEDRO FONTANA GARCIA	Independent Deputy Chairman	From 01/01/2021 to 31/12/2021
Mr JAIME GUARDIOLA ROMOJARO	CEO	From 01/01/2021 to 18/03/2021
Mr CESAR GONZALEZ BUENO MAYER WITTGENSTEIN	CEO	From 18/03/2021 to 31/12/2021
Mr ANTHONY FRANK ELLIOTT BALL	Lead Director	From 01/01/2021 to 31/12/2021
Ms AURORA CATA SALA	Independent Director	From 01/01/2021 to 31/12/2021
Mr LUIS DEULOFEU FUGUET	Independent Director	From 26/10/2021 to 31/12/2021
Ms MARIA JOSE GARCIA BEATO	Other External Director	From 01/01/2021 to 31/12/2021
Ms MIREYA GINE TORRENS	Independent Director	From 01/01/2021 to 31/12/2021
Mr GEORGE DONALD JOHNSTON III	Independent Director	From 01/01/2021 to 31/01/2021
Mr DAVID MARTÍNEZ GUZMAN	Proprietary Director	From 01/01/2021 to 31/12/2021
Mr JOSE MANUEL MARTÍNEZ MARTÍNEZ	Independent Director	From 01/01/2021 to 31/12/2021
Mr JOSE RAMON MARTÍNEZ SUFRATEGUI	Independent Director	From 01/01/2021 to 31/12/2021
Ms ALICIA REYES REVUELTA	Independent Director	From 01/01/2021 to 31/12/2021
Mr MANUEL VALLS MORATO	Independent Director	From 01/01/2021 to 31/12/2021
Mr DAVID VEGARA FIGUERAS	Executive Director	From 01/01/2021 to 31/12/2021

C.1. Complete the following tables with data on the individual remuneration accrued during the year by each of the directors (including remuneration for performing executive functions).

a) Remuneration from the reporting company:

i) Remuneration in cash (thousand euro)

Name	Fixed remuneration	Attendance fees	Remuneration for membership of Board committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other items	2021 Total	2020 Total
Mr JOSEP OLIU CREUS	1,225	34		452	71			16	1,798	1,986
Mr JOSE JAVIER ECHENIQUE LANDIRIBAR	100	23	62					20	205	227
Mr PEDRO FONTANA GARCIA	120	25	112						257	198
Mr JAIME GUARDIOLA ROMOJARO	12	5		301	53			3	374	1,463
Mr CESAR GONZALEZ BUENO MAYER WITTGENSTEIN	63	20		1,577	112			20	1,792	
Mr ANTHONY FRANK ELLIOTT BALL	97	25	40						162	150
Ms AURORA CATA SALA	75	25	78						178	166
Mr LUIS DEULOFEU FUGUET	18	7	14						39	
Ms MARIA JOSE GARCIA BEATO	75	25	66	135			1,196	10	1,507	610
Ms MIREYA GINE TORRENS	75	25	50						150	39
Mr GEORGE DONALD JOHNSTON III	75	25	88						188	188
Mr DAVID MARTÍNEZ GUZMAN	75	25							100	100
Mr JOSE MANUEL MARTÍNEZ MARTÍNEZ	75	25	67						167	138
Mr JOSE RAMON MARTÍNEZ SUFRATEGUI	75	25	35						135	140
Ms ALICIA REYES REVUELTA	75	25	64						164	
Mr MANUEL VALLS MORATO	75	25	45						145	160
Mr DAVID VEGARA FIGUERAS	75	25		494	19			41	654	555

ii) Table of changes in share-based remuneration schemes and gross profit from vested shares or financial instruments.

Name	Plan	Financial instruments at the beginning of 2021		Financial instruments granted during the year 2021		Financial instruments accrued in the year				Instruments vested but not exercised	Financial instruments at the end of 2021	
		No. of instruments	No. Equivalent shares	No. of instruments	No. Equivalent shares	No. of instruments	No. of equivalent/vested shares	Price of vested shares	Gross profit on vested shares or financial instruments (thousand euro)	No. of instruments	No. of instruments	No. Equivalent shares
Mr JOSEP OLIU CREUS	ICLP 2018-2021	1,275,000	461,550					0.00		1,275,000		
Mr JOSEP OLIU CREUS	RLP 2019-2021	231,472	231,472					0.00		115,736	115,736	115,736
Mr JOSEP OLIU CREUS	RLP 2020-2022							0.00				
Mr JOSEP OLIU CREUS	RLP 2021-2023			130,731	130,731			0.00			130,731	130,731
Mr JOSEP OLIU CREUS	RV 2021			320,931	320,931	121,106	121,106	0.58	71		199,825	199,825
Mr JAIME GUARDIOLA ROMOJARO	ICLP 2018-2021	1,125,000	407,250					0.00		1,125,000		
Mr JAIME GUARDIOLA ROMOJARO	RLP 2019-2021	183,816	183,816					0.00		91,908	91,908	91,908
Mr JAIME GUARDIOLA ROMOJARO	RLP 2020-2022	288,819	288,819					0.00			288,819	288,819
Mr JAIME GUARDIOLA ROMOJARO	RLP 2021-2023			91,202	91,202			0.00			91,202	91,202
Mr JAIME GUARDIOLA ROMOJARO	RV 2021			238,701	238,701	90,076	90,076	0.58	53		148,625	148,625
Mr CESAR GONZALEZ-	RLP 2021-2023			522,619	522,619			0.00			522,619	522,619

Name	Plan	Financial instruments at the beginning of 2021		Financial instruments granted during the year 2021		Financial instruments accrued in the year				Instruments vested but not exercised	Financial instruments at the end of 2021	
		No. of instruments	No. Equivalent shares	No. of instruments	No. Equivalent shares	No. of instruments	No. of equivalent/vested shares	Price of vested shares	Gross profit on vested shares or financial instruments (thousand euro)	No. of instruments	No. of instruments	No. Equivalent shares
BUENO MAYER WITTGENSTEIN												
MR CESAR GONZALEZ-BUENO MAYER WITTGENSTEIN	RV 2021			503,613	503,613	190,043	190,043	0.58	112		313,570	313,570
Ms MARIA JOSE GARCIA BEATO	ICLP 2018-2021	720,000	260,640					0.00		720,000		
Ms MARIA JOSE GARCIA BEATO	RLP 2019-2021	60,527	60,527					0.00		30,264	30,263	30,263
Ms MARIA JOSE GARCIA BEATO	RLP 2020-2022	95,983	95,983					0.00			95,983	95,983
Ms MARIA JOSE GARCIA BEATO	Severance pay			820,955	820,955	309,755	309,755	0.52	163		511,160	511,160
Mr DAVID VEGARA FIGUERAS	RLP 2019-2021	53,770	53,770					0.00		27,004	26,766	26,766
Mr DAVID VEGARA FIGUERAS	RLP 2020-2022	120,553	120,553					0.00			120,553	120,553
Mr DAVID VEGARA FIGUERAS	RLP 2021-2023			105,070	105,070			0.00			105,070	105,070
Mr DAVID VEGARA FIGUERAS	RV 2021			89,997	89,997	33,962	33,962	0.58	20		56,035	56,035

iii) Long-term savings systems.

Name	Remuneration from vesting of rights within savings systems
Mr JOSEP OLIU CREUS	7,489
Mr JOSE JAVIER ECHENIQUE LANDIRIBAR	
Mr PEDRO FONTANA GARCIA	
Mr JAIME GUARDIOLA ROMOJARO	23,882
Mr CESAR GONZALEZ BUENO MAYER WITTGENSTEIN	
Mr ANTHONY FRANK ELLIOTT BALL	
Ms AURORA CATA SALA	
Mr LUIS DEULOFEU FUGUET	
Ms MARIA JOSE GARCIA BEATO	4,693
Ms MIREYA GINE TORRENS	
Mr GEORGE DONALD JOHNSTON III	
Mr DAVID MARTÍNEZ GUZMAN	
Mr JOSE MANUEL MARTÍNEZ MARTÍNEZ	
Mr JOSE RAMON MARTÍNEZ SUFRATEGUI	
Ms ALICIA REYES REVUELTA	
Mr MANUEL VALLS MORATO	
Mr DAVID VEGARA FIGUERAS	2

Name	Company's contribution for the year (thousand euro)				Amount of accumulated funds (thousand euro)			
	Saving plans with vested economic rights		Saving plans with unvested economic rights		Saving plans with vested economic rights		Saving plans with unvested economic rights	
	Year 2021	Year 2020	Year 2021	Year 2020	Year 2021	Year 2020	Year 2021	Year 2020
Mr JOSEP OLIU CREUS	1			36	7,489		1,485	8,720
Mr JAIME GUARDIOLA ROMOJARO	1,240		102	1,225	23,882		3,689	25,516
MR CESAR GONZALEZ-BUENO MAYER WITTGENSTEIN								
Ms MARIA JOSE GARCIA BEATO	2,691		253	796	4,693		727	2,685
Mr DAVID VEGARA FIGUERAS	1		94	118	2		260	163

iv) Details of other items

Name	Item	Remuneration amount
Mr JOSEP OLIU CREUS		
Mr JOSE JAVIER ECHENIQUE LANDIRIBAR		
Mr PEDRO FONTANA GARCIA		
Mr JAIME GUARDIOLA ROMOJARO		
Mr CESAR GONZALEZ BUENO MAYER WITTGENSTEIN		
Mr ANTHONY FRANK ELLIOTT BALL		
Ms AURORA CATA SALA		

Name	Item	Remuneration amount
Mr LUIS DEULOFEU FUGUET		
Ms MARIA JOSE GARCIA BEATO		
Ms MIREYA GINE TORRENS		
Mr GEORGE DONALD JOHNSTON III		
Mr DAVID MARTÍNEZ GUZMAN		
Mr JOSE MANUEL MARTÍNEZ MARTÍNEZ		
Mr JOSE RAMON MARTÍNEZ SUFRATEGUI		
Ms ALICIA REYES REVUELTA		
Mr MANUEL VALLS MORATO		
Mr DAVID VEGARA FIGUERAS		

b) Remuneration of directors of the listed company for their membership of the administrative bodies of its subsidiaries:

i) Remuneration in cash (thousand euro)

Name	Fixed remuneration	Attendance fees	Remuneration for membership of Board committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other items	2021 Total	2020 Total
Mr JOSEP OLIU CREUS										
Mr JOSE JAVIER ECHENIQUE LANDIRIBAR										
Mr PEDRO FONTANA GARCIA										
Mr JAIME GUARDIOLA ROMOJARO										
Mr CESAR GONZALEZ BUENO MAYER WITTGENSTEIN										

Name	Fixed remuneration	Attendance fees	Remuneration for membership of Board committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other items	2021 Total	2020 Total
Mr ANTHONY FRANK ELLIOTT BALL										
Ms AURORA CATA SALA		25							25	
Mr LUIS DEULOFEU FUGUET		5							5	
Ms MARIA JOSE GARCIA BEATO										
Ms MIREYA GINE TORRENS										
Mr GEORGE DONALD JOHNSTON III										
Mr DAVID MARTÍNEZ GUZMAN										
Mr JOSE MANUEL MARTÍNEZ MARTÍNEZ										
Mr JOSE RAMON MARTÍNEZ SUFRATEGUI										
Ms ALICIA REYES REVUELTA	49								49	
Mr MANUEL VALLS MORATO		25							25	
Mr DAVID VEGARA FIGUERAS										

ii) Table of changes in share-based remuneration schemes and gross profit from vested shares or financial instruments.

Name	Plan	Financial instruments at the beginning of 2021		Financial instruments granted during the year 2021		Financial instruments accrued in the year				Instruments vested but not exercised	Financial instruments at the end of 2021	
		No. of instruments	No. Equivalent shares	No. of instruments	No. Equivalent shares	No. of instruments	No. of equivalent/vested shares	Price of vested shares	Gross profit on vested shares or financial instruments (thousand euro)	No. of instruments	No. of instruments	No. Equivalent shares
Mr JOSEP OLIU CREUS												
Mr JAIME GUARDIOLA ROMOJARO												
Ms MARIA JOSE GARCIA BEATO												
Mr DAVID VEGARA FIGUERAS												

iii) Long-term savings systems.

Name	Remuneration from vesting of rights within savings systems
Mr JOSEP OLIU CREUS	
Mr JOSE JAVIER ECHENIQUE LANDIRIBAR	

Name	Remuneration from vesting of rights within savings systems
Mr PEDRO FONTANA GARCIA	
Mr JAIME GUARDIOLA ROMOJARO	
Mr CESAR GONZALEZ BUENO MAYER WITTGENSTEIN	
Mr ANTHONY FRANK ELLIOTT BALL	
Ms AURORA CATA SALA	
Mr LUIS DEULOFEU FUGUET	
Ms MARIA JOSE GARCIA BEATO	
Ms MIREYA GINE TORRENS	
Mr GEORGE DONALD JOHNSTON III	
Mr DAVID MARTÍNEZ GUZMAN	
Mr JOSE MANUEL MARTÍNEZ MARTÍNEZ	
Mr JOSE RAMON MARTÍNEZ SUFRATEGUI	
Ms ALICIA REYES REVUELTA	
Mr MANUEL VALLS MORATO	
Mr DAVID VEGARA FIGUERAS	

Name	Company's contribution for the year (thousand euro)				Amount of accumulated funds (thousand of euro)			
	Saving plans with vested economic rights		Saving plans with unvested economic rights		Saving plans with vested economic rights		Saving plans with unvested economic rights	
	Year 2021	Year 2020	Year 2021	Year 2020	Year 2021	Year 2020	Year 2021	Year 2020
Mr JOSEP OLIU CREUS								

Name	Company's contribution for the year (thousand euro)				Amount of accumulated funds (thousand euro)			
	Saving plans with vested economic rights		Saving plans with unvested economic rights		Saving plans with vested economic rights		Saving plans with unvested economic rights	
	Year 2021	Year 2020	Year 2021	Year 2020	Year 2021	Year 2020	Year 2021	Year 2020
Mr JAIME GUARDIOLA ROMOJARO								
Ms MARIA JOSE GARCIA BEATO								
Mr DAVID VEGARA FIGUERAS								

iv) Details of other items

Name	Item	Remuneration amount
Mr JOSEP OLIU CREUS		
Mr JOSE JAVIER ECHENIQUE LANDIRIBAR		
Mr PEDRO FONTANA GARCIA		
Mr JAIME GUARDIOLA ROMOJARO		
Mr CESAR GONZALEZ BUENO MAYER WITTGENSTEIN		
Mr ANTHONY FRANK ELLIOTT BALL		
Ms AURORA CATA SALA		
Mr LUIS DEULOFEU FUGUET		
Ms MARIA JOSE GARCIA BEATO		
Ms MIREYA GINE TORRENS		

Name	Item	Remuneration amount
Mr GEORGE DONALD JOHNSTON III		
Mr DAVID MARTÍNEZ GUZMAN		
Mr JOSE MANUEL MARTÍNEZ MARTÍNEZ		
Mr JOSE RAMON MARTÍNEZ SUFRATEGUI		
Ms ALICIA REYES REVUELTA		
Mr MANUEL VALLS MORATO		
Mr DAVID VEGARA FIGUERAS		

c) Summary of remuneration (thousand euro):

Summarise the amounts corresponding to all the remuneration items included in this report that have accrued to the director, in thousand euro.

	Remuneration accrued in the company					Remuneration accrued in group companies					
Name	Total cash remuneration	Gross profit on vested shares or financial instruments	Remuneration under savings systems	Remuneration under other headings	2021 total Company	Total cash remuneration	Gross profit on vested shares or financial instruments	Remuneration under savings systems	Remuneration under other headings	2021 total Group	2021 total Company + Group
Mr JOSEP OLIU CREUS	1,798	71	7,489		9,358						9,358
Mr JOSE JAVIER ECHENIQUE LANDIRIBAR	205				205						205
Mr PEDRO FONTANA GARCIA	257				257						257

	Remuneration accrued in the company					Remuneration accrued in group companies					
Name	Total cash remuneration	Gross profit on vested shares or financial instruments	Remuneration under savings systems	Remuneration under other headings	2021 total Company	Total cash remuneration	Gross profit on vested shares or financial instruments	Remuneration under savings systems	Remuneration under other headings	2021 total Group	2021 total Company + Group
Mr JAIME GUARDIOLA ROMOJARO	374	53	23,882		24,309						24,309
MR CESAR GONZALEZ-BUENO MAYER WITTGENSTEIN	1,792	112			1,904						1,904
Mr ANTHONY FRANK ELLIOTT BALL	162				162						162
Ms AURORA CATA SALA	178				178	25				25	203
Mr LUIS DEULOFEU FUGUET	39				39	5				5	44
Ms MARIA JOSE GARCIA BEATO	1,507	163	4,693		6,363						6,363
Ms MIREYA GINE TORRENS	150				150						150
Mr GEORGE DONALD JOHNSTON III	188				188						188
Mr DAVID MARTÍNEZ GUZMAN	100				100						100
Mr JOSE MANUEL MARTÍNEZ MARTÍNEZ	167				167						167

	Remuneration accrued in the company					Remuneration accrued in group companies					
Name	Total cash remuneration	Gross profit on vested shares or financial instruments	Remuneration under savings systems	Remuneration under other headings	2021 total Company	Total cash remuneration	Gross profit on vested shares or financial instruments	Remuneration under savings systems	Remuneration under other headings	2021 total Group	2021 total Company + Group
Mr JOSE RAMON MARTÍNEZ SUFRATEGUI	135				135						135
Ms ALICIA REYES REVUELTA	164				164	49				49	213
Mr MANUEL VALLS MORATO	145				145	25				25	170
Mr DAVID VEGARA FIGUERAS	654	20	2		676						676
TOTAL	8,015	419	36,066		44,500	104				104	44,604

C.2. Indicate the changes over the last five years in the amount and percentage change in the remuneration accrued by each of the listed company's directors during the year, in the consolidated results of the company and in the average remuneration on a full-time equivalent basis of the employees of the company and its subsidiaries who are not directors of the listed company.

	Total amounts accrued and % of change per annum								
	Year 2021	% Change 2021/2020	Year 2020	% Change 2020/2019	Year 2019	% Change 2019/2018	Year 2018	% Change 2018/2017	Year 2017
Executive Directors									
Mr JAIME GUARDIOLA ROMOJARO	427	-70.81	1,463	-39.34	2,412	64.64	1,465	-42.86	2,564

	Total amounts accrued and % of change per annum								
	Year 2021	% Change 2021/2020	Year 2020	% Change 2020/2019	Year 2019	% Change 2019/2018	Year 2018	% Change 2018/2017	Year 2017
Mr CESAR GONZALEZ BUENO MAYER WITTGENSTEIN	1,904	-	0	-	0	-	0	-	0
Mr DAVID VEGARA FIGUERAS	674	21.44	555	-6.41	593	220.54	185	7.56	172
External directors									
Mr JOSEP OLIU CREUS	1,869	-5.89	1,986	-35.81	3,094	56.82	1,973	-45.99	3,653
Ms MARIA JOSE GARCIA BEATO	311	-49.02	610	-25.06	814	206.02	266	-	0
Mr JOSE JAVIER ECHENIQUE LANDIRIBAR	205	-9.69	227	-3.81	236	0.00	236	14.56	206
Mr PEDRO FONTANA GARCIA	257	29.80	198	1.54	195	52.34	128	n.k.	8
Mr ANTHONY FRANK ELLIOTT BALL	162	8.00	150	7.14	140	10.24	127	252.78	36
Ms AURORA CATA SALA	203	9.14	186	16.25	160	0.00	160	15.94	138
Mr LUIS DEULOFEU FUGUET	44	-	0	-	0	-	0	-	0
Ms MIREYA GINE TORRENS	150	284.62	39	-	0	-	0	-	0
Mr GEORGE DONALD JOHNSTON III	188	0.00	188	1.08	186	35.77	137	552.38	21
Mr DAVID MARTÍNEZ GUZMAN	100	0.00	100	0.00	100	0.00	100	49.25	67
Mr JOSE MANUEL MARTÍNEZ MARTÍNEZ	167	21.01	138	-25.41	185	2.78	180	16.13	155
Mr JOSE RAMON MARTÍNEZ SUFRATEGUI	135	-3.57	140	8.53	129	7.50	120	16.50	103
Ms ALICIA REYES REVUELTA	213	-	0	-	0	-	0	-	0

	Total amounts accrued and % of change per annum								
	Year 2021	% Change 2021/2020	Year 2020	% Change 2020/2019	Year 2019	% Change 2019/2018	Year 2018	% Change 2018/2017	Year 2017
Mr MANUEL VALLS MORATO	170	-5.56	180	12.50	160	0.00	160	31.15	122
Consolidated results of the company									
	619,990	-	-120,830	-	951,076	127.06	418,865	-50.62	848,255
Average employee remuneration									
	59	9.26	54	-1.82	55	5.77	52	0.00	52

D. OTHER USEFUL INFORMATION

This Annual Remuneration Report was approved by the company's Board of Directors at a meeting on:

[17/02/2022]

Indicate whether any board members voted against or abstained with respect to the approval of this report.

[ ] Yes
[√] No

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Barcelona

Auditor's report referring to the "Information related to the Internal Control System over Financial Information (ICOFR)" of Banco de Sabadell, S.A. corresponding to the 2021 financial year

(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 19 January 2022, we have applied certain procedures to the "ICFR disclosures" attached hereto in section F of the Annual Corporate Governance Report (ACGR) of Banco de Sabadell, S.A. for 2021, which summarises the Company's internal control procedures for annual financial reporting.

The Directors are responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and monitoring of an adequate system of internal control and developing improvements to that system, as well as defining the content of and preparing the ICFR information attached hereto.

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 Company 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 Company's internal control was solely aimed at enabling us to establish the scope, nature and timing of the audit procedures on the Company'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.

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Reg. Mer Madrid, T. 11.961, F. 90, Sec. 8, H. M -188.007, Inscrip. 9
N.I.F. B-78510153

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

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 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 the effectiveness thereof, nor on its design or operating effectiveness, with respect to the Company's annual financial reporting for 2021 described in the ICFR information attached hereto. 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 the 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 ICFR – 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 ICFR, of the ACGR template provided in Spanish National Securities Market Commission (CNMV) Circular 5/2013 of 12 June 2013, and subsequent amendments, the most recent being Circular 3/2021 of 28 September of the CNMV (hereinafter, the Circulars of the CNMV).
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 the explanatory documents supporting the information detailed in point 1 above, including documents directly made available to those responsible for describing ICFR systems. 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 ICFR 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 committee and other committees of the entity for the purposes of assessing the consistency of the matters discussed at these meetings in relation to ICFR with the information detailed in point 1 above.
6. Obtaining a representation letter in connection with the work performed, signed by those responsible for preparing and approving the information detailed in point 1 above.

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

No inconsistencies or incidents that might affect ICFR disclosures have come to light as a result of the procedures applied to those disclosures.

This report has been prepared exclusively within the context of the provisions of article 540 of the Revised Spanish Companies Act and the CNMV Circulars for the purposes of the description of ICFR in annual corporate governance reports.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Francisco Gibert Pibernat

17 February 2022