Sabadell

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

DOES HEREBY CERTIFY THAT:

In the company's Board of Directors meeting held today in Madrid, duly called in writing on January 23rd 2020 and with the personal attendance of Chairman Mr José Oliu Creus, and members Mr José Javier Echenique Landiribar, Mr Jaime Guardiola Romojaro, Ms María Teresa García-Milá Lloveras, Mr José Ramón Martínez Sufrategui, Mr José Luís Negro Rodríguez, Mr José Manuel Martínez Martínez, Mr David Martínez Guzmán, Ms Aurora Catá Sala, Mr David Vegara Figueras, Mr Manuel Valls Morató, Mr Anthony Frank Elliott Ball, Mr George Donald Johnston, Mr Pedro Fontana García and Ms María José García Beato, under the chairmanship of Mr Oliu, with the undersigned acting as Secretary, after due deliberation and amongst other items that do not contradict them, the following resolutions were unanimously adopted:

> The members of the Board of Directors hereby declare that, to the best of their knowledge, the individual and consolidated annual accounts for the year 2019, approved by them today and drawn up in accordance with the applicable accounting principles pursuant to current legislation, give a true and fair view of the assets, liabilities, financial position and profit or loss of Banco de Sabadell, S.A. and the enterprises included in the consolidated group taken as a whole, and that the Directors' reports respectively approved by them include a fair review of the development and performance of the business and the position of Banco de Sabadell, S.A. and the enterprises included in the consolidated group taken as a whole, together with a description of the main risks and uncertainties which they face.

Express mention is hereby made that the minutes of the aforesaid meeting of the Board in which the above resolution was agreed upon have been read and unanimously approved at the conclusion 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 Madrid on January 30st in the year two thousand twenty.

APPROVED BY

The Chairman | The Secretary

# Banco de Sabadell, S.A. and Subsidiaries (Group Banco Sabadell)

Independent Auditor's Report,
Consolidated Annual Accounts and
Consolidated Director's Report
for the year ended December 31, 2019

"This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation."

# Independent auditor´s report on the consolidated annual accounts

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

## Report on the consolidated annual accounts

### Opinion

We have audited the consolidated annual accounts of Banco de Sabadell, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of recognized income and expenses, statement of total changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2019, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

### Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

### Key audit matters

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

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*Tel.: +34 965 980 350 / +34 902 021 111, Fax: +34 965 208 933, www.pwc.es*


R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

| Key audit matters | How our audit addressed the key audit matter |
|---|---|
| **Impairment for credit risk of "Loans and advances", impairment of real estate assets arising from foreclosured assets and sale of real estate portfolios** | |
| Determining impairment for credit risk is one of the most significant and complex estimation exercises performed when preparing the accompanying consolidated annual accounts. The evaluation of impairment for credit risk is based on both individualized and collective estimates of coverage, in this case through the application of the Group's internal models, and involves a process that implies judgments and estimates, and so it has been a key matter of our audit.<br><br>In the determination of hedges for credit risk, guarantees, real or personal, considered effective are considered. In this sense, the Group has developed internal methodologies for evaluating the recoverable amount of real estate collateral.<br><br>It should be noted that the estimation of the impairment of real estate assets originated from credit activities and which, through lieu in payment, purchase or judicial proceedings, are awarded to the Group, are subject to the same policies indicated above for real estate collateral.<br><br>The performance of the models used to calculate impairment for expected losses required by International Financial Reporting Standard 9 (IFRS 9) require a high level of judgment to determine these credit losses considering, amongst others, elements such as:<br><br>• Identification and classification in stages ("staging") of impaired assets or assets with a significant increase in credit risk.<br><br>• Use of concepts such as macroeconomic scenarios, expected life of the operation and segmentation criteria.<br><br>• Construction of parameters for these models such as probability of default (PD ) and loss given default (LGD). | Our work has focused on the analysis, evaluation and testing of the internal control system, as well as the performance of test of details over credit risk impairment losses estimated collectively and individually.<br><br>With respect to internal control system we have performed the following procedures, among others:<br><br>• Verifying that the various policies and procedures and the approved internal models comply with applicable regulations and Group's internal governance model.<br><br>• Analysis of the periodic risk assessment and follow-up alerts carried out by the Group, as well as the effective performance of the process of periodic review of files of accredited persons for the follow-up of their classification and, in the cases in which it applies, registration of the impairment.<br><br>In addition, we carried out the following tests of details:<br><br>• Analysis of the methodology for classifying credit assets in the three stages defined in the standard, analyzing the adequacy of: i) the definition of impairment applied; and ii) the methodology for estimating the significant increase in credit risk for assets classified as Stage 2, based on the definition of qualitative indicators and thresholds for the increase of quantitative indicators.<br><br>• Evaluation of the different calculation methodologies and the criteria adopted for the estimation of the risk parameters used in the calculation of the expected credit loss, including: i) the estimation of the risk parameters throughout lifetime or 12 months, depending on the corresponding stage; ii) the use of alternative scenarios in the projections carried out in the future; and iii) the use of retrospective contrast methodologies for the most relevant parameters in the impairment's estimation. |

| Key audit matters | How our audit addressed the key audit matter |
|---|---|
| In 2019, the Group has executed the transfer of real estate assets included in the sales operations previously agreed. On 19 July 2018, the Group agreed to transfer almost all of its real estate exposure to a subsidiary of Cerberus Capital Management L.P. The real estate assets of the operation had a joint carrying amount of approximately €3,900 million at the date of the agreement. In addition, on 2 August 2019, the sale of an additional portfolio of real estate assets to the same company was agreed with a joint carrying amount of €342 million.<br><br>On 20 December 2019, the Group has executed the transfer of most of the real estate assets of the aforementioned portfolios to companies wholly owned by a subsidiary of Cerberus that owns 80% of its capital, the remaining 20% being owned by Banco de Sabadell, S.A., with the corresponding derecognition of these real estate assets from the Group's balance sheet. The price of the operation is approximately €3,430 million. The transferred real estate assets include, amongst others, certain units subject to the exercising, in the short term, of rights of pre-emption by third parties totalling €1,149 million. In addition, there is a payment that has been deferred by the aforementioned subsidiary of the Cerberus Group totalling €447 million, which matures in 24 months.<br><br>See Notes 1, 2, 4.4.2, 11 and Appendix VI to the accompanying consolidated annual accounts with respect to impairment for credit risk and Notes 1, 2, 4.4.2, 13, 15, 17 and Appendix VI to the accompanying consolidated annual accounts with respect to the impairment of real estate assets arising from foreclosured assets and sale of real estate portfolios. | • Checks referred to: i) the reliability and consistency of the data sources used; ii) historical loss rates for impairment in credit risk in the estimation of future cash flows and historic discount rates on sale of real estate assets against the appraised value; and iii) recalibrations and retrospective contrasts performed in internal models.<br><br>• Check referred to the working of the "calculation engine" and re-execution of the calculation of collective hedges, for portfolios with structural models, and of the calculation of impairment of real estate assets deriving from foreclosured assets based on the different asset categories.<br><br>• Analysis of a sample of individualized credit files, as well as real estate assets deriving from foreclosured assets, to evaluate their proper classification and registration, as the case may be, of the corresponding impairment.<br><br>Regarding the sale of real estate portfolios, we have performed the following tests:<br><br>• Verification and analysis of the support contractual documentation of the agreements reached, and the report prepared by an independent expert on the accounting treatment of the operation that has led to loss of control of the transferred real estate assets.<br><br>• Verification of the accounting classification and of the analysis of recoverability of the deferred payment and the collection right associated with the assets subject to the exercising of the rights of pre-emption by third parties.<br><br>As a result of our tests on the calculations and estimates of the amount of credit risk impairment and real estate assets deriving from foreclosured assets, we have not identified any differences outside a reasonable range in the amounts recorded in the accompanying consolidated annual accounts. |

| Key audit matters | How our audit addressed the key audit matter |
|---|---|
| **Verification of the recoverability of goodwill**<br><br>Evaluation of the recoverability of goodwill is a complex exercise and requires a high level of judgment and estimation, and therefore it has been a key matter in our audit.<br><br>On an annual basis, or when there are indications of impairment, the Group performs an assessment to determine whether the goodwill recognized in its consolidated annual accounts is impaired.<br><br>Each goodwill item is associated with one or more cash generating units (CGU), using the discount method for profits distributed through the various operating plans within each CGU to estimate their recoverable value.<br><br>The estimation of the recoverable value of each CGU is inherently uncertain and includes a high level of judgments and estimates given that it is based on assumptions concerning macroeconomics evolution and other matters such as key business assumptions (the evolution of credit, non-performing loans ratio, interest rates, etc…) that determine the cash flows, discount rates and long-term growth rates that are applied. The models are sensitive to the variables and assumptions used, and there is a risk of the inaccurate assessment of those items due to their nature.<br><br>See Notes 1 and 16 to the accompanying consolidated annual accounts. | We gained an understanding and performed a review of the estimation process carried out by the Group, as well as the internal control environment, focusing our procedures on aspects such as:<br><br>• Verification of the criteria for defining the Group's CGUs associated with the various goodwill items.<br><br>• Evaluation of the method used by to estimate the impairment of goodwill.<br><br>• Analysis of the annual measurement reports, prepared by both the Group and external experts, on the assessment of impairment of goodwill.<br><br>We have performed tests to examine the cash flow projection models for the various CGUs utilized by the Group, taking into consideration the content of current legislation, market practices and the specific expectations for the banking sector. This assessment included the verification of assumptions such as growth rates and discount rates used, as well as an analysis of the budgetary monitoring of the primary CGUs and the impact of variations identified in the budgets and growth rates.<br><br>Finally, we have also reviewed the adequacy of the information presented in the accompanying consolidated annual accounts.<br><br>As a result of the aforementioned procedures, we consider that the estimates made by the Group with respect to the recoverability of goodwill fall within a reasonable range within the context of the circumstances under which these consolidated annual accounts are prepared. |

| Key audit matters | How our audit addressed the key audit matter |
|---|---|
| **Financial information systems**<br><br>Due to its nature, Banco Sabadell Group's business, particularly the preparation of financial and accounting information, is highly dependent on information technology systems, such that adequate control of these systems is crucial to ensuring correct data processing.<br><br>Moreover, as the systems become more complex, the risks relating to the organization's information technology systems and, by extension, the data they process, increase.<br><br>The effectiveness of the general internal control framework for information systems relating to the accounting recognition and closing process is essential for the performance of certain audit procedures relating to internal controls.<br><br>Considering this context, it is vital to evaluate aspects such as the organization and governance of the Information Technology Area, software maintenance and development controls, physical and logical security and system operation. | With the help of our information technology system experts, our work consisted of reviewing the general internal control environment associated with the information systems and applications that support the Group's accounting recognition and closings. We have also gained an understanding of the functionalities and involvement of the various information systems at the Group within the accounting recognition and closing process.<br><br>We essentially performed the following procedures on the information systems considered relevant to the financial reporting process:<br><br>• Review of the general computer controls relating to aspects deriving from operations, the development and maintenance of applications, their security and the governance and organization of the Group's Information Systems Area.<br><br>• Review of the general controls to manage authorization to access financial reporting systems and controls relating to the authorization of personnel to make changes to computer processes.<br><br>• Understanding of key business processes, identifying automatic controls that exist in those processes and their validation.<br><br>• Understanding and review of the process for generating manual accounting entries considered to give rise to a risk. Extraction, completeness validation and filtering of the accounting entries.<br><br>• Understanding and re-execution of some of the calculations performed by the Group considered to have the highest impact, particularly those relating to the apportionment of financial product interest (loans, credit facilities and deposits).<br><br>In general terms, the results of our procedures were satisfactory and we did not detect any material aspect affecting the financial information included in the accompanying consolidated annual accounts. |

## Other information: Consolidated Director's report

Other information comprises only the consolidated Director's report for the 2019 financial year, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated Director's report. Our responsibility regarding the information contained in the consolidated Director's report is defined in the legislation governing the audit practice, which establishes two distinct levels in this regard:

a) A specific level applicable to the consolidated statement of non-financial information and certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Act 22/2015, that consists of verifying solely that the aforementioned information has been provided in the Director's report or, if appropriate, that the Director's report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.

b) A general level applicable to the rest of the information included in the consolidated Director's report that consists of evaluating and reporting on the consistency between that information and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned consolidated annual accounts and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of that part of the consolidated Director's report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have ascertained that the information mentioned in paragraph a) above has been provided in the consolidated Director's report and that the rest of the information contained in the consolidated Director's report is consistent with that contained in the consolidated annual accounts for the 2019 financial year, and its content and presentation are in accordance with the applicable regulations.

## Responsibility of the directors and the Audit and Control Committee for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´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 aforementioned directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company´s Audit and Control Committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

## Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated 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 legislation governing the audit practice 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 consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.

- Conclude on the appropriateness of the Parent company´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 Group´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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company´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 Parent company´s Audit and Control Committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company´s Audit and Control Committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and 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

### Report to the Parent company´s Audit and Control Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's Audit and Control Committee dated January 28, 2020.

### Appointment period

The General Ordinary Shareholders' Meeting held on March 28, 2019 appointed us as auditors of the Group for a period of 1 year, as from the year ended December 31, 2019.

Previously, we were appointed by resolution of the General Shareholders' Meeting for an initial period and we have audited the accounts continuously since the year ended December 31, 1985.

### Services provided

Services, different to the audit, provided to the Group are detailed in note 33 of the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by

Raúl Ara Navarro (20210)

January 31, 2020

*Translation of the Consolidated Annual Accounts originally issued in Spanish and prepared in accordance with EU-IFRSs, as adopted by the European Union. In the event of a discrepancy the Spanish-language version prevails.*

# BANCO DE SABADELL, S.A. AND COMPANIES FORMING BANCO SABADELL GROUP

Consolidated financial statements
for the year ended 31 December 2019

## Contents:
## Banco de Sabadell Group, S.A. Consolidated Financial Statements for 2019

### Consolidated financial statements



### Consolidated annual report

# Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2019 and 31 December 2018

Thousand euro

| Assets | Note | 2019 | 2018 (*) |
|---|---|---|---|
| **Cash, cash balances at central banks and other demand deposits (**)** | 7 | **15,169,202** | **23,494,479** |
| **Financial assets held for trading** | | **2,440,866** | **2,044,965** |
| Derivatives | 10 | 1,840,245 | 1,720,274 |
| Equity instruments | 9 | 3,701 | 7,254 |
| Debt securities | 8 | 596,920 | 317,437 |
| Loans and advances | | - | - |
| Central banks | | - | - |
| Credit institutions | | - | - |
| Customers | | - | - |
| *Memorandum item: loaned or pledged as security with sale or pledging rights* | | *38,709* | *66,006* |
| **Non-trading financial assets mandatorily at fair value through profit or loss** | | **171,056** | **141,314** |
| Equity instruments | | - | - |
| Debt securities | 8 | 171,056 | 141,314 |
| 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** | | **7,802,025** | **13,247,055** |
| Equity instruments | 9 | 212,074 | 270,336 |
| Debt securities | 8 | 7,589,951 | 12,976,719 |
| Loans and advances | | - | - |
| Central banks | | - | - |
| Credit institutions | | - | - |
| Customers | | - | - |
| *Memorandum item: loaned or pledged as security with sale or pledging rights* | | *1,179,026* | *4,676,769* |
| **Financial assets at amortised cost** | | **181,422,646** | **164,415,563** |
| Debt securities | 8 | 19,218,721 | 13,131,824 |
| Loans and advances | 11 | 162,203,925 | 151,283,739 |
| Central banks | | 112,923 | 98,154 |
| Credit institutions | | 14,275,501 | 8,198,763 |
| Customers | | 147,815,501 | 142,986,822 |
| *Memorandum item: loaned or pledged as security with sale or pledging rights* | | *5,133,513* | *4,680,404* |
| **Derivatives – Hedge accounting** | 12 | **468,516** | **301,975** |
| **Fair value changes of the hedged items in portfolio hedge of interest rate risk** | | **249,552** | **56,972** |
| **Investments in joint ventures and associates** | 14 | **733,930** | **574,940** |
| Joint ventures | | - | - |
| Associates | | 733,930 | 574,940 |
| **Assets under insurance or reinsurance contracts** | | **-** | **-** |
| **Tangible assets** | 15 | **3,462,399** | **2,497,703** |
| Property, plant and equipment | | 2,947,770 | 1,796,682 |
| For own use | | 2,638,484 | 1,526,976 |
| Leased out under operating leases | | 309,286 | 269,706 |
| Investment properties | | 514,629 | 701,021 |
| *Of which: leased out under operating leases* | | *514,629* | *701,021* |
| *Memorandum item: acquired through finance leases* | | *1,078,240* | - |
| **Intangible assets** | 16 | **2,564,983** | **2,461,142** |
| Goodwill | | 1,031,824 | 1,032,618 |
| Other intangible assets | | 1,533,159 | 1,428,524 |
| **Tax assets** | | **7,008,327** | **6,859,405** |
| Current tax assets | | 492,395 | 312,272 |
| Deferred tax assets | 39 | 6,515,932 | 6,547,133 |
| **Other assets** | 17 | **1,495,936** | **1,639,985** |
| Insurance contracts linked to pensions | | 133,960 | 132,299 |
| Inventories | | 868,577 | 934,857 |
| Rest of other assets | | 493,399 | 572,829 |
| **Non-current assets and disposal groups classified as held for sale** | 13 | **764,203** | **4,586,923** |
| TOTAL ASSETS | | 223,753,641 | 222,322,421 |

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

(**) See details in the consolidated cash flow statement of the Group.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated balance sheet as at 31 December 2019.

## Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2019 and 31 December 2018

Thousand euro

| Liabilities | Note | 2019 | 2018 (*) |
|---|---|---|---|
| **Financial liabilities held for trading** | | **2,714,365** | **1,738,354** |
| Derivatives | 10 | 1,842,553 | 1,690,233 |
| Short positions | | 871,812 | 48,121 |
| 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** | | **205,636,018** | **206,076,860** |
| Deposits | | 178,898,181 | 179,877,663 |
| Central banks | 18 | 20,064,641 | 28,799,092 |
| Credit institutions | 18 | 11,471,187 | 11,999,629 |
| Customers | 19 | 147,362,353 | 139,078,942 |
| Debt securities issued | 20 | 22,569,896 | 22,598,653 |
| Other financial liabilities | 21 | 4,167,941 | 3,600,544 |
| *Memorandum item: subordinated liabilities* | | *3,088,538* | *3,065,259* |
| **Derivatives – Hedge accounting** | **12** | **728,769** | **633,639** |
| **Fair value changes of the hedged items in portfolio hedge of interest rate risk** | | **234,537** | **36,502** |
| **Liabilities under insurance or reinsurance contracts** | | **-** | **-** |
| **Provisions** | **22** | **430,434** | **466,379** |
| Pensions and other post employment defined benefit obligations | | 99,346 | 88,456 |
| Other long term employee benefits | | 6,938 | 12,404 |
| Pending legal issues and tax litigation | | 66,889 | 58,226 |
| Commitments and guarantees given | | 110,746 | 108,568 |
| Other provisions | | 146,515 | 198,725 |
| **Tax liabilities** | | **240,803** | **176,013** |
| Current tax liabilities | | 42,637 | 8,783 |
| Deferred tax liabilities | 39 | 198,166 | 167,230 |
| **Share capital repayable on demand** | | **-** | **-** |
| **Other liabilities** | | **784,154** | **995,069** |
| **Liabilities included in disposal groups classified as held for sale** | **13** | **10,155** | **82,605** |
| TOTAL LIABILITIES | | 210,779,235 | 210,205,421 |

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated balance sheet as at 31 December 2019.

# Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2019 and 31 December 2018

Thousand euro

| Equity | Note | 2019 | 2018 (*) |
|---|---|---|---|
| **Own funds** | **23** | **13,171,806** | **12,544,931** |
| 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 | | 39,742 | 35,487 |
| Retained earnings | | 4,858,681 | - |
| Revaluation reserves | | - | - |
| Other reserves | | (977,687) | 3,832,935 |
| Reserves or accumulated losses of investments in joint ventures and associates | | 223,975 | 206,149 |
| Other | | (1,201,662) | 3,626,786 |
| (-) Treasury shares | | (8,533) | (143,452) |
| *Profit or loss attributable to owners of the parent* | | 767,822 | 328,102 |
| (-) Interim dividends | | (110,817) | (110,739) |
| **Accumulated other comprehensive income** | **24** | **(266,746)** | **(491,470)** |
| Items that will not be reclassified to profit or loss | | (44,677) | (52,564) |
| Actuarial gains or (-) losses on defined benefit pension plans | | (2,361) | (329) |
| Non-current assets and disposal groups classified as held for sale | | - | - |
| Share of other recognised income and expense of investments in joint ventures and associates | | - | - |
| Fair value changes of equity instruments measured at fair value through other comprehensive income | | (42,316) | (52,235) |
| 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 | | (222,069) | (438,906) |
| Hedge of net investments in foreign operations [effective portion] | | 114,237 | 213,031 |
| Foreign currency translation | | (445,169) | (640,720) |
| Hedging derivatives. Cash flow hedges reserve [effective portion] | | 89,845 | 4,306 |
| Fair value changes of debt instruments measured at fair value through other comprehensive income | | (2,137) | (22,958) |
| Hedging instruments [not designated elements] | | - | - |
| Non-current assets and disposal groups classified as held for sale | | - | - |
| Share of other recognised income and expense of investments in joint ventures and associates | | 21,155 | 7,435 |
| **Non-controlling interests** | **25** | **69,346** | **63,539** |
| Accumulated other comprehensive income | | 242 | 118 |
| Other items | | 69,104 | 63,421 |
| **TOTAL EQUITY** | | **12,974,406** | **12,117,000** |
| **TOTAL EQUITY AND TOTAL LIABIITIES** | | **223,753,641** | **222,322,421** |
| **Memorandum item: off-balance sheet exposures** | | | |
| **Loan commitments given** | **26** | **27,563,836** | **22,645,948** |
| **Financial guarantees provided** | **26** | **2,107,412** | **2,040,786** |
| **Other commitments provided** | **26** | **10,398,913** | **8,233,226** |

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated balance sheet as at 31 December 2019.

# Consolidated income statement of Banco Sabadell Group

For the years ended 31 December 2019 and 2018

Thousand euro

| | Note | 2019 | 2018 (*) |
|---|---|---|---|
| Interest income | 28 | 4,984,891 | 4,861,943 |
| Financial assets at fair value through other comprehensive income | | 119,888 | 212,080 |
| Financial assets at amortised cost | | 4,429,106 | 4,268,831 |
| Other interest income | | 435,897 | 381,032 |
| (Interest expenses) | 28 | (1,362,495) | (1,186,759) |
| (Expenses on share capital repayable on demand) | | - | - |
| **Net interest income** | | **3,622,396** | **3,675,184** |
| Dividend income | | 4,516 | 8,180 |
| Profit or loss of entities accounted for using the equity method | 14 | 56,427 | 56,554 |
| Fee and commission income | 29 | 1,628,892 | 1,558,648 |
| (Fee and commission expenses) | 29 | (190,151) | (223,347) |
| Gains or (-) losses on financial assets and liabilities, net | 30 | 37,947 | 226,709 |
| Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net | | 152,483 | 208,106 |
| Financial assets at amortised cost | | 65,277 | (75,870) |
| Other financial assets and liabilities | | 87,206 | 283,976 |
| Gains or (-) losses on financial assets and liabilities held for trading, net | | (111,151) | 10,568 |
| Reclassification of financial assets from fair value through other comprehensive income | | - | - |
| Reclassification of financial assets from amortised cost | | - | - |
| Other gains or (-) losses | | (111,151) | 10,568 |
| Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net | | (2,470) | (13,902) |
| Reclassification of financial assets from fair value through other comprehensive income | | - | - |
| Reclassification of financial assets from amortised cost | | - | - |
| Other gains or (-) losses | | (2,470) | (13,902) |
| Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net | | - | 19 |
| Gains or (-) losses from hedge accounting, net | | (915) | 21,918 |
| Exchange differences [gain or (-) loss], net | | 88,309 | (1,318) |
| Other operating income | 31 | 234,240 | 256,682 |
| (Other operating expenses) | 32 | (550,822) | (547,065) |
| Income from assets under insurance or reinsurance contracts | | - | - |
| (Expenses on liabilities under insurance or reinsurance contracts) | | - | - |
| **Gross income** | | **4,931,754** | **5,010,227** |

(*) Shown for comparative purposes only (see section “Comparability” in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated profit and loss account for 2019.

# Consolidated income statement of Banco Sabadell Group

For the years ended 31 December 2019 and 2018

Thousand euro

| | Note | 2019 | 2018 (*) |
|---|---|---|---|
| (Administrative expenses) | | (2,743,459) | (2,920,350) |
| (Staff expenses) | 33 | (1,648,836) | (1,590,590) |
| (Other administrative expenses) | 33 | (1,094,623) | (1,329,760) |
| (Depreciation and amortisation) | 15, 16 | (469,656) | (353,095) |
| (Provisions or (-) reversal of provisions) | 22 | (26,595) | (160,706) |
| Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains) | 34 | (667,025) | (756,092) |
| (Financial assets at fair value through other comprehensive income) | | 3,748 | (2,472) |
| (Financial assets at amortised cost) | | (670,773) | (753,620) |
| **Profit/(loss) on operating activities** | | **1,025,019** | **819,984** |
| (Impairment or (-) reversal of impairment of investments in joint ventures and associates) | | 6,605 | 157 |
| (Impairment or (-) reversal of impairment on non-financial assets) | 35 | (86,236) | (400,648) |
| (Tangible assets) | | 4,717 | (60,428) |
| (Intangible assets) | | (6,964) | (286) |
| (Other) | | (83,989) | (339,934) |
| Gains or (-) losses on derecognition of non-financial assets, net | 36 | 41,357 | 34,573 |
| 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 | 37 | (35,668) | (35,201) |
| **Profit or (-) loss before tax from continuing operations** | | **951,077** | **418,865** |
| (Tax expense or (-) income related to profit or loss from continuing operations) | 39 | (174,199) | (83,635) |
| **Profit or (-) loss after tax from continuing operations** | | **776,878** | **335,230** |
| Profit or (-) loss after tax from discontinued operations | | - | - |
| **Profit or loss for the year** | | **776,878** | **335,230** |
| Attributable to minority interest [non-controlling interests] | 25 | 9,056 | 7,128 |
| Attributable to owners of the parent | | 767,822 | 328,102 |
| **Earnings per share (euro)** | **3** | **0.13** | **0.05** |
| Basic (in euro) | | 0.13 | 0.05 |
| Diluted (in euro) | | 0.13 | 0.05 |

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated profit and loss account for 2019.

# Consolidated statements of changes in equity of Banco Sabadell Group

## Consolidated statements of recognised income and expenses

For the years ended 31 December 2019 and 2018

Thousand euro

| | Note | 2019 | 2018 (*) |
|---|---|---|---|
| **Profit or loss for the year** | | **776,878** | **335,230** |
| **Other comprehensive income** | **24** | **224,848** | **(285,394)** |
| Items that will not be reclassified to profit or loss | | 7,888 | (102,007) |
| Actuarial gains or (-) losses on defined benefit pension plans | | (2,902) | (10,138) |
| Non-current assets and disposal groups held for sale | | - | - |
| Share of other recognised income and expense of investments in joint ventures and associates | | - | - |
| Fair value changes of equity instruments measured at fair value through other comprehensive income | | 193 | (135,478) |
| Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net | | - | - |
| Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item] | | - | - |
| Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument] | | - | - |
| Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk | | - | - |
| Income tax relating to items that will not be reclassified | | 10,597 | 43,609 |
| Items that may be reclassified to profit or loss | | 216,960 | (183,387) |
| Hedge of net investments in foreign operations [effective portion] | | (98,793) | (23,616) |
| Valuation gains or (-) losses taken to equity | | (98,793) | (23,616) |
| Transferred to profit or loss | | - | - |
| Other reclassifications | | - | - |
| Foreign currency translation | | 195,549 | 38,813 |
| Translation gains or (-) losses taken to equity | | 195,549 | 38,813 |
| Transferred to profit or loss | | - | - |
| Other reclassifications | | - | - |
| Cash flow hedges (effective portion) | | 122,152 | 121,163 |
| Valuation gains or (-) losses taken to equity | | 77,343 | 200,505 |
| Transferred to profit or loss | | 40,326 | (79,342) |
| Transferred to initial carrying amount of hedged items | | 4,483 | - |
| 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 | | 28,654 | (396,409) |
| Valuation gains or (-) losses taken to equity | | 205,422 | (120,071) |
| Transferred to profit or loss | | (176,768) | (276,338) |
| 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 | | - | - |
| Share of other recognised income and expense of investments in joint ventures and associates | | 13,721 | (4,148) |
| Income tax relating to items that may be reclassified to profit or (-) loss | | (44,323) | 80,810 |
| **Total comprehensive income for the year** | | **1,001,726** | **49,836** |
| Attributable to minority interest [non-controlling interests] | | 9,180 | 7,039 |
| Attributable to owners of the parent | | 992,546 | 42,797 |

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

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

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated statement of changes in equity for 2019.

# Consolidated statements of changes in equity of Banco Sabadell Group

Consolidated statements of total changes in equity

For the years ended 31 December 2019 and 2018

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 attributable to owners of the parent | (-) Interim dividends | Accumulated other comprehensive income | Minority interests: Accumulated other comprehensive income | Minority interests: Other items | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Opening balance 31/12/2018** | **703,371** | **7,899,227** | **-** | **35,487** | **-** | **-** | **3,832,935** | **(143,452)** | **328,102** | **(110,739)** | **(491,470)** | **118** | **63,421** | **12,117,000** |
| Effects of corrections of errors | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Effects of changes in accounting policies | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| **Opening balance 31/12/2018** | **703,371** | **7,899,227** | **-** | **35,487** | **-** | **-** | **3,832,935** | **(143,452)** | **328,102** | **(110,739)** | **(491,470)** | **118** | **63,421** | **12,117,000** |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **767,822** | **-** | **224,724** | **124** | **9,056** | **1,001,726** |
| **Other changes in equity** | **-** | **-** | **-** | **4,255** | **4,858,681** | **-** | **(4,810,622)** | **134,919** | **(328,102)** | **(78)** | **-** | **-** | **(3,373)** | **(144,320)** |
| Issuance of ordinary shares | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Issuance of preference shares | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Issuance of other equity instruments | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Exercise or expiration of other equity instruments issued | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Conversion of debt to equity | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Capital reduction | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Dividends (or shareholder remuneration) (*) | - | - | - | - | (56,270) | - | - | - | - | (110,817) | - | - | - | **(167,087)** |
| Purchase of treasury shares | - | - | - | - | - | - | - | (210,624) | - | - | - | - | - | **(210,624)** |
| Sale or cancellation of treasury shares | - | - | - | - | - | - | (39,868) | 345,543 | - | - | - | - | - | **305,675** |
| Reclassification of financial instruments from equity to liability | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Reclassification of financial instruments from liability to equity | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Transfers among components of equity | - | - | - | - | 217,363 | - | - | - | (328,102) | 110,739 | - | - | - | **-** |
| Equity increase or (-) decrease resulting from business combinations | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Share based payments | - | - | - | 11,767 | - | - | - | - | - | - | - | - | - | **11,767** |
| Other increase or (-) decrease in equity | - | - | - | (7,512) | 4,697,588 | - | (4,770,754) | - | - | - | - | - | (3,373) | **(84,051)** |
| **Closing balance 31/12/2019** | **703,371** | **7,899,227** | **-** | **39,742** | **4,858,681** | **-** | **(977,687)** | **(8,533)** | **767,822** | **(110,817)** | **(266,746)** | **242** | **69,104** | **12,974,406** |

(*) Distribution of supplementary dividend (see Note 3).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated statement of changes in equity as at 31 December 2019.

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

# Consolidated statements of changes in equity of Banco Sabadell Group

Consolidated statements of total changes in equity
For the years ended 31 December 2019 and 2018

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 attributable to owners of the parent | (-) Interim dividends | Accumulated other comprehensive income | Minority interests: Accumulated other comprehensive income | Minority interests: Other items | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Opening balance 31/12/2017** | **703,371** | **7,899,227** | **-** | **32,483** | **-** | **-** | **4,207,340** | **(106,343)** | **801,466** | **(111,628)** | **(265,311)** | **207** | **60,969** | **13,221,781** |
| Effects of corrections of errors | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Effects of changes in accounting policies | - | - | - | - | - | - | (707,405) | - | - | - | 59,146 | - | - | **(648,259)** |
| **Opening balance 01/01/2018** | **703,371** | **7,899,227** | **-** | **32,483** | **-** | **-** | **3,499,935** | **(106,343)** | **801,466** | **(111,628)** | **(206,165)** | **207** | **60,969** | **12,573,522** |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **328,102** | **-** | **(285,305)** | **(89)** | **7,128** | **49,836** |
| **Other changes in equity** | **-** | **-** | **-** | **3,004** | **-** | **-** | **333,000** | **(37,109)** | **(801,466)** | **889** | **-** | **-** | **(4,676)** | **(506,358)** |
| 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) | - | - | - | - | - | - | (281,348) | - | - | (110,739) | - | - | - | **(392,087)** |
| Purchase of treasury shares | - | - | - | - | - | - | - | (267,449) | - | - | - | - | - | **(267,449)** |
| Sale or cancellation of treasury shares | - | - | - | - | - | - | 1,795 | 230,340 | - | - | - | - | - | **232,135** |
| Reclassification of financial instruments from equity to liability | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Reclassification of financial instruments from liability to equity | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Transfers among components of equity | - | - | - | - | - | - | 689,838 | - | (801,466) | 111,628 | - | - | - | **-** |
| Equity increase or (-) decrease resulting from business combinations | - | - | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Share based payments | - | - | - | 3,004 | - | - | - | - | - | - | - | - | - | **3,004** |
| Other increase or (-) decrease in equity | - | - | - | - | - | - | (77,285) | - | - | - | - | - | (4,676) | **(81,961)** |
| **Closing balance 31/12/2018** | **703,371** | **7,899,227** | **-** | **35,487** | **-** | **-** | **3,832,935** | **(143,452)** | **328,102** | **(110,739)** | **(491,470)** | **118** | **63,421** | **12,117,000** |

Shown for comparative purposes only (see section "Comparability of information" in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated statement of changes in equity as at 31 December 2019.

# Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2019 and 2018

Thousand euro

| | Note | 2019 | 2018 (*) |
|---|---|---|---|
| **Cash flows from operating activities** | | **(10,395,460)** | **(3,527,010)** |
| Profit or loss for the year | | 776,878 | 335,230 |
| Adjustments to obtain cash flows from operating activities | | 1,438,317 | 1,734,258 |
| Depreciation and amortisation | | 469,656 | 353,095 |
| Other adjustments | | 968,661 | 1,381,163 |
| Net increase/decrease in operating assets | | (11,821,101) | (6,889,631) |
| Financial assets held for trading | | (395,901) | (472,461) |
| Non-trading financial assets mandatorily at fair value through profit or loss | | (29,743) | 18,417 |
| Financial assets designated at fair value through profit or loss | | - | - |
| Financial assets at fair value through other comprehensive income | | 5,479,518 | 1,572,710 |
| Financial assets at amortised cost | | (16,457,905) | (8,349,090) |
| Other operating assets | | (417,070) | 340,793 |
| Net increase/decrease in operating liabilities | | (522,824) | 1,351,513 |
| Financial liabilities held for trading | | 976,011 | 307,139 |
| Financial liabilities designated at fair value through profit or loss | | - | - |
| Financial liabilities measured at amortised cost | | (1,570,415) | 1,534,920 |
| Other operating liabilities | | 71,580 | (490,546) |
| Income tax receipts or payments | | (266,730) | (58,380) |
| **Cash flows from investment activities** | | **2,232,503** | **624,954** |
| Payments | | (793,531) | (738,048) |
| Tangible assets | 15 | (445,174) | (300,530) |
| Intangible assets | 16 | (333,321) | (375,093) |
| Investments in joint ventures and associates | 14 | (14,653) | (46,178) |
| Subsidiaries and other business units | Schedule I | (383) | (16,247) |
| Non-current assets and liabilities classified as held for sale | | - | - |
| Other payments related to investment activities | | - | - |
| Collections | | 3,026,034 | 1,363,002 |
| Tangible assets | 15, 36 | 252,844 | 504,881 |
| Intangible assets | | - | - |
| Investments in joint ventures and associates | 14 | 114,615 | 93,240 |
| Subsidiaries and other business units | | - | - |
| Non-current assets and liabilities classified as held for sale | | 2,658,575 | 764,881 |
| Other collections related to investment activities | | - | - |

(*) Shown for comparative purposes only (see section “Comparability” in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated cash flow statement for 2019.

# Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2019 and 2018

Thousand euro

| | Note | 2019 | 2018 (*) |
|---|---|---|---|
| **Cash flows from financing activities** | | **(261,814)** | **21,324** |
| Payments | | (477,854) | (710,811) |
| Dividends | | (56,270) | (392,087) |
| Subordinated liabilities | | - | - |
| Amortisation of own equity instruments | | - | - |
| Acquisition of own equity instruments | | (210,624) | (267,449) |
| Other payments related to financing activities | | (210,960) | (51,275) |
| Collections | | 216,040 | 732,135 |
| Subordinated liabilities | | - | 500,000 |
| Issuance of own equity instruments | | - | - |
| Disposal of own equity instruments | | 216,040 | 232,135 |
| Other collections related to financing activities | | - | - |
| **Effect of exchange rate fluctuations** | | **99,494** | **12,404** |
| **Net increase (decrease) in cash and cash equivalents** | | **(8,325,277)** | **(2,868,328)** |
| **Cash and cash equivalents at the beginning of the year** | 7 | **23,494,479** | **26,362,807** |
| **Cash and cash equivalents at the end of the year** | 7 | **15,169,202** | **23,494,479** |

| | | | |
|---|---|---|---|
| **Memorandum item** | | | |
| **CASH FLOWS CORRESPONDING TO:** | | | |
| Interest received | | 4,939,689 | 4,822,300 |
| Interest paid | | (1,329,782) | 1,134,273 |
| Dividends received | | 4,516 | 8,180 |
| **COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | | |
| Cash | 7 | 897,745 | 814,761 |
| Cash equivalents in central banks | 7 | 13,587,274 | 22,065,440 |
| Other demand deposits | 7 | 684,183 | 614,278 |
| Other financial assets | | - | - |
| Less: bank overdrafts repayable on demand | | - | - |
| **TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | **15,169,202** | **23,494,479** |
| *Of which: held by Group entities but which cannot be drawn by the Group* | | - | - |

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated cash flow statement for 2019.

## Note 1 – Activity, accounting policies and practices

### 1.1 Activity

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

The bank is the parent company of a corporate group (see Schedule I and Note 2) whose activity it controls directly or indirectly and which comprise, together with the bank, Banco Sabadell Group (hereinafter, the Group).

### 1.2 Basis of presentation

The Group's consolidated annual financial statements for 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union applicable at the end of 2019, taking into account Bank of Spain Circular 4/2017 of 27 November as well as other provisions of the financial reporting regulations applicable to the Group, in order to fairly present the Group's equity and consolidated financial situation as at 31 December 2019 and the results of its consolidated operations, changes in equity and cash flows in 2019.

The consolidated annual financial statements have been prepared based on the accounting records kept by the bank and each of the other entities in the Group, and include adjustments and reclassifications necessary to ensure the harmonisation of the accounting principles and policies and the measurement criteria applied by the Group, which are described in this note.

The information included in these consolidated annual financial statements is the responsibility of the directors of the Group's parent company. The Group’s consolidated annual financial statements for 2019 were signed off by the directors of Banco Sabadell at a meeting of the Board of Directors on 30 January 2020 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 consolidated 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.

#### Standards and interpretations issued by the International Accounting Standards Board (IASB) entering into force in 2019

During 2019 the following standards have entered into force and have been adopted by the European Union:

| Standards | Titles |
|---|---|
| IFRS 16 | Leases |
| Amendments to IFRS 9 | Prepayment features with negative compensation |
| Interpretation of IFRIC 23 | Uncertainty over income tax treatments |
| Amendments to IAS 28 | Long-term interests in associates and joint ventures |
| Annual improvements to IFRS | Cycle 2015 - 2017 |
| Amendments to IAS 19 | Plan amendment, curtailment or settlement |

*IFRS 16 “Leases”*

IFRS 16 “Leases” entered into force on 1 January 2019. This standard sets forth principles for the recognition, valuation, presentation and disclosure of lease agreements and has involved the adoption of changes in the Group’s accounting policies in relation to these agreements (see Note 1.3.11).

At the date of the first implementation, the Group decided to apply this standard retroactively, recognising the cumulative effect of the initial implementation in the consolidated balance sheet as at 1 January 2019, without restatement of the comparative information for 2018, in accordance with the transitional arrangements of the standard (see the “Comparability” section of this Note). In addition, the Group has used the practical assumptions defined in paragraph C10 of IFRS 16 permitted for the selected first-time implementation approach.

As a result of the entry into force of IFRS 16, the Group has recognised a lease liability as at 1 January 2019 amounting to 1,107 million euros and an asset equal to the amount of the lease liability in relation to the agreements considered as operating leases in accordance with the requirements of IAS 17, repealed by IFRS 16. This lease liability bears an average annual interest rate of 1.73%.

The reconciliation between the operating lease commitments as at 31 December 2018 and the lease liability recognised as at 1 January 2019 is shown below:

| Million euro | |
|---|---|
| **Operating lease commitments as at 31 December 2018 discounted at the incremental borrowing rate** | **800** |
| Short-term leases recognised as a straight-line expense | (4) |
| Adjustments arising from different treatment of extension and termination options | 311 |
| **Lease liability as at 1 January 2019** | **1,107** |

The first implementation of this standard has had no impact on the Group’s consolidated equity, although it has reduced the Common Equity Tier 1 (CET 1) ratio by 15 basis points. Likewise, the entry into force of this standard has had no significant impact on earnings per share or on the Group's segment information in 2019.

*Amendments to IFRS 9 “Prepayment features with negative compensation”*

This amendment allows financial assets whose cash flows represent solely payments of principal and interest, with the exception of cases in which their early termination gives rise to payments as compensation by the lending institution to the borrower, to be measured, under certain circumstances, at their amortised cost or fair value with a balancing entry in the statement of equity.

*Interpretation of IFRIC 23 “Uncertainty over income tax treatments”*

This interpretation establishes how to estimate the accounting position when there is uncertainty over income tax treatments. This requires entities to determine whether tax positions for which there is uncertainty must be valued separately or together, and whether it is probable that the tax authority will accept the uncertain tax treatment that an entity has used, or plans to use, in its income tax filing.

- If considered probable, the entity will have to determine its tax position consistently with the tax treatment which it has used or plans to use;

- If considered not probable, the entity should reflect the effect of such uncertainty when determining its tax position.

*Amendments to IAS 28 “Long term interests in Associates and Joint Ventures”*

These amendments clarify that entities must apply IFRS 9, including its requirements in relation to the impairment of financial instruments, to long-term interests in associates and joint ventures that form part of the entities’ net investment in the associate or joint venture but to which the equity method is not applied.

*Annual improvements to IFRS “2015-2017 Cycle”*

These improvements include minor amendments to standards IAS 12 - “Income Taxes”, IAS 23 “Borrowing Costs”, IFRS 3 “Business Combinations” and IFRS 11 “Joint Arrangements”.

In particular, the amendment to IAS 12 clarifies that an entity should recognise the income tax consequences of dividends where the entity originally recognised those past transactions or events. The implementation of this amendment has resulted in recognising the tax impact of interest paid by contingent convertible bonds as a minor expense amounting to 21,975 thousand euros under the heading “*Tax expense or (-) income related to profit or loss from continuing operations*” of the consolidated income statement for 2019.

*Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”*

This amendment to IAS 19 requires entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement, and to recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

Except for the impact arising from the adoption of IFRS 16 and the amendment to IAS 12 described above, the implementation of these standards has not given rise to any material effects on the consolidated annual financial statements.

**Standards and interpretations issued by the IASB not yet in force**

As at 31 December 2019, the most significant standards and interpretations for the Group that have been published by the IASB but which have not been applied when preparing these consolidated annual financial statements, either because their effective date is subsequent to the date thereof or because they have not yet been endorsed by the European Union, are as follows:

| Standards and Interpretations | Title | Mandatory for years beginning: |
|---|---|---|
| *Approved for application in the EU* | | |
| References to IFRS Conceptual Framework | Amendment of references to IFRS Conceptual Framework | 1 January 2020 |
| Amendments to IAS 1 and IAS 8 | Definition of material | 1 January 2020 |
| *Not approved for application in the EU* | | |
| IFRS 17 | Insurance contracts | 1 January 2021 (*) |
| Amendments to IFRS 3 | Business combinations | 1 January 2020 |
| Amendments to IFRS 9, IAS 39 and IFRS 7 (**) | Reference rate reform | 1 January 2020 |

(*) The IASB proposed that it be postponed to 1 January 2022.
(**) These amendments were approved for application in the EU after the end of 2019.

The Group has carried out an assessment of the impacts resulting from these standards and decided not to exercise its option to adopt early, where possible. Unless otherwise indicated, management estimates that their adoption would not have a material impact on the Group.

_Approved for implementation in the EU_

*Amendment of references to the IFRS Conceptual Framework*

The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the development of new IFRS Standards. It helps to ensure that these Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for users. It also assists institutions in developing accounting policies when no IFRS Standard applies to a particular transaction.

The revised Conceptual Framework entered into force in March 2018. Among other aspects, it reintroduced the concept of prudence, amended the definitions of assets and liabilities, included clarifications with regard to the recognition and write-off of assets and liabilities and in relation to the measurement of items in financial statements and used profit/loss as a key indicator of the profitability of an entity.

Additionally, the IASB published the document "Amendments to References to the Conceptual Framework in IFRS Standards", which updates the references included in several IFRS Standards so that they refer to the new Conceptual Framework.

*Amendments to IAS 1 and IAS 8 "Definition of material"*

These amendments establish a new definition of 'material' in order to help companies make materiality judgements to determine what information should be included in their financial statements. In accordance with the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions made by users on the basis of the entity's financial statements.

_Not approved for their implementation in the EU_

*IFRS 17 "Insurance contracts"*

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that entities provide relevant information in a way that faithfully represents those contracts.

In accordance with this standard, insurance contracts combine components of financial instruments and service contracts. Furthermore, many insurance contracts generate cash flows that vary substantially and have a long duration. In order to provide useful information on these aspects, IFRS 17:

- combines the current measurement of future cash flows with the revenue recognised throughout the period during which the services established in the contracts are provided.

- presents results for services provided separately from the expenses and income relating to these contracts.

- requires entities to decide whether to recognise the entirety of their financial income and expenses relating to insurance contracts in profit and loss or whether part of these results will be recognised in equity.

*Amendments to IFRS 3 "Business combinations"*

These amendments improve the definition of a business, in order to help entities make a distinction between asset purchases and business acquisitions. This distinction is important because only business acquisitions generate goodwill.

The amended definition of a business emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors.

*Amendments to IFRS 9, IAS 39 and IFRS 7 “Benchmark rate reform”*

These amendments aim to ensure that companies can continue providing useful information during the period of uncertainty arising from the phasing-out of interest rate benchmarks, in particular interbank offered rates (IBORs).

In accordance with the foregoing, some specific hedge accounting requirements have been amended to provide relief from the potential negative impacts of the benchmark rate reform. The amendments also require entities to provide additional information about the hedging relationships affected by this uncertainty.

These amendments culminate Phase 1 of the regulatory changes envisaged in relation to the benchmark rate reform. The IASB is currently working on Phase 2 of this project, which considers the potential consequences on financial reporting of replacing an existing benchmark with an alternative.

In 2018 the bank created a specific task force to assess the impacts of the benchmark rate reform from a contractual (necessary contract amendments), financial (instrument valuations and risk metrics), operational (impacts on systems and processes) and behavioural (customer communications) point of view. Based on this assessment, and bearing in mind that the accounting regulation in relation to Phase 2 of this project has not yet been published, Banco Sabadell estimates that the benchmark rate reform will not have a material impact on its consolidated financial statements.

Best judgement and estimates

The preparation of the consolidated 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 Group’s accounting policies. Such judgements and estimates may affect the amount of the assets and liabilities and the disclosure of contingent assets and contingent liabilities as at the date of the consolidated 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 1.3.3, 8 and 11).

- The determination of the significant increase in the credit risk of financial assets since their initial recognition (see Notes 1.3.4, 8 and 11).

- Losses due to the impairment of certain financial assets (see Notes 1.3.4, 8, 9 and 11).

- The assumptions used in actuarial calculations of liabilities and post-employment obligations (see Notes 1.3.17 and 22).

- The valuation of consolidated goodwill (see Notes 1.3.12 and 16).

- The useful life and impairment losses of tangible assets and other intangible assets (see Notes 1.3.10, 1.3.11, 1.3.12, 15 and 16).

- The provisions and consideration of contingent liabilities (see Notes 1.3.16 and 22).

- The fair value of certain unquoted financial assets (see Note 6).

- The fair value of real estate assets held on the balance sheet (see Notes 1.3.9, 1.3.10, 1.3.13 and 6).

- The recoverability of non-monetisable deferred tax assets and tax credits (see Note 39).

- The duration of lease contracts and the discount rate used in the valuation of the lease liability (see section “Standards and interpretations issued by the International Accounting Standards Board (IASB) entering into force in 2019” of this note and Notes 1.3.11 and 15).

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

## 1.3 Accounting principles and policies and measurement criteria

The accounting principles and policies, as well as the most significant measurement criteria that have been applied in preparing these consolidated annual financial statements, are as follows: There have been no cases in which accounting principles or measurement criteria have not been applied because of a material effect on the Group's consolidated annual financial statements for 2019.

### 1.3.1 Consolidation principles

In the consolidation process, a distinction is drawn between subsidiaries, joint ventures, associates and structured entities.

*Subsidiaries*

Subsidiaries are institutions over which the Group has control. This occurs when the Group is exposed, or is entitled, to variable returns as a result of its involvement in the investee and when it has the ability to influence those returns through its power over the investee.

For control to exist, the following criteria must be met:

- Power: an investor has power over an investee when it holds rights which provide it with the ability to lead the significant activities, i.e. those that significantly affect the investee's returns.

- Returns: an investor is exposed, or is entitled, to variable returns due to his/her involvement in the investee when the returns obtained from such involvement may vary depending on the investee's economic performance. The investor's returns may be only positive, only negative or both positive and negative.

- Relationship between power and returns: an investor controls an investee if the investor not only has power over the investee and is exposed, or is entitled, to variable returns due to his/her involvement with the investee, but also the ability to use their power to affect the returns obtained due to their involvement with the investee.

When the Group takes control over a subsidiary, it applies the acquisition method provided for in the regulations governing business combinations (see Note 1.3.2) except in the case of acquisitions of an asset or a group of assets.

The financial statements of subsidiaries are consolidated with the bank's financial statements using the full consolidation method.

The third party ownership of the Group's consolidated equity is shown in the heading *"Minority interests (non-controlling interests)"* of the consolidated balance sheet and the part of the profit or loss for the year attributable to these interests is presented under the heading *"Profit or loss for the year - Attributable to minority interests (non-controlling interests)"* in the consolidated income statement.

*Joint ventures*

These are institutions subject to joint control agreements whereby decisions on significant activities are made unanimously by the institutions which share control.

Investments in joint ventures are accounted for by the equity method i.e. they are accounted for in terms of the fraction of equity represented by the Group's share of their capital stock, after taking account of any dividends received from them and any other equity disposals.

The Group has not held investments in joint ventures during 2019.

*Associates*

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

In the consolidated annual financial statements, associates are accounted for using the equity method.

*Structured entities*

A structured entity is an entity that has been designed so that voting or other similar rights are not the dominant factor in deciding who controls the entity.

Where the Group holds an interest in an entity, or where it incorporates an entity, in order to transfer risks or for any other purposes, or to allow customers access to certain investments, the Group determines whether or not there is control over the entity based on that provided in regulations, as described above, in order to consequently determine whether or not they should be subject to consolidation. Specifically, the following factors, among others, are considered:

- Analysis of the influence of the Group over the significant activities of the entity that could have an influence on the amount of its returns.

- Implicit or explicit commitments of the Group to provide financial support to the entity.

- Identification of the entity's manager and analysis of the remuneration scheme.

- Existence of removal rights (possibility of dismissing managers).

- Significant exposure of the Group to the variable returns on the entity's assets.

These entities include those known as "asset securitisation funds", which are consolidated in cases where, based on the above analysis, it is determined that the Group has maintained control. For these operations, financial support agreements commonly used in securitisation markets are generally in place, and there are no commitments to provide any financial support that goes substantially beyond what has been contractually agreed. By reason of the foregoing, it is considered that for the majority of the Group's securitisations, the transferred risks cannot be derecognised from the asset side of the consolidated balance sheet and the securitisation funds issued are recognised as liabilities on the Group consolidated balance sheet.

In the case of investment firms and mutual and pension funds managed by the Group (mostly retail funds with no legal personality over which investors acquire proportional units providing them with ownership over the assets managed), these are considered not to meet the regulatory requirements for them to be considered structured entities and they are analysed under the same criteria as subsidiaries. These firms and funds are self-sufficient in terms of their activities, and their capital structure does not prevent them from carrying out their activities without further financial support, therefore they are not subject to consolidation.

Schedule II provides details of the structured entities of the Group.

In all cases, the consolidation of the results generated by the companies forming part of the Group during a given year is carried out considering only those relating to the period spanning between the acquisition date and year-end.

Similarly, the results generated by the companies disposed of during the year are consolidated considering only those relating to the period spanning between the start of the year and the disposal date.

In the consolidation process, all material balances and transactions between the companies forming part of the Group have been eliminated, in the proportion corresponding to them based on the applied method of consolidation.

Financial and insurance institutions, both subsidiaries and associates, regardless of the country in which they are located, are subject to supervision and regulation by various bodies. The laws in effect in the various jurisdictions, along with the need to meet certain minimum capital requirements and carry out oversight activities, are circumstances that could affect the ability of these institutions to transfer funds in the form of cash, dividends, loans or advances.

Note 2 includes information on the most significant acquisitions and disposals that have taken place during the year. Significant disclosures regarding the Group's companies is provided in Schedule I.

### 1.3.2 Business combinations

A business combination is a transaction, or any other event, through which the Group obtains control over one or more businesses. Business combinations are accounted for using the acquisition method.

Under this method, the acquiring entity (acquirer) recognises the assets acquired and liabilities assumed in its financial statements, also considering contingent liabilities, according to their fair value, including those that the acquired entity (acquiree) had not recognised for accounting purposes. This method also requires the cost of the business combination to be estimated, which will normally correspond to the consideration paid, defined as the fair value, on the acquisition date, of the assets delivered, the liabilities incurred against the former owners of the acquired business and the equity instruments issued, if any, by the acquirer.

The Group then recognises goodwill in the consolidated annual financial statements if on the acquisition date there is a positive difference between:

- the sum of the consideration paid plus the amount of all minority interests and the fair value of prior interests held in the acquired business; and

- the fair value of recognised assets and liabilities.

If the difference is negative, it is recorded under the heading *"Negative goodwill recognised in profit or loss"* in the consolidated income statement.

In cases where the amount of the consideration depends on future events, any contingent consideration is recognised as part of the consideration paid and measured at fair value on the acquisition date. The costs associated with the transaction do not form part of the cost of the business combination for these purposes.

If the cost of the business combination or the fair value assigned to the acquiree's assets, liabilities or contingent liabilities cannot be conclusively determined, the initial accounting of the business combination will be considered provisional. In any event, the process should be completed within a maximum of one year from the acquisition date and effective as of that date.

Minority interests in the acquiree are measured on the basis of the proportional percentage of its identified net assets. All purchases and disposals of these minority interests are accounted for as capital transactions when they do not result in a change of control. No profit or loss is recognised in the consolidated income statement and the initially recognised goodwill is not re-measured. Any difference between the consideration paid or received and the decrease or increase in minority interests, respectively, is recognised in reserves.

With regard to non-monetary contributions of businesses to associates or joint ventures in which there is a loss of control over these businesses, the Group's accounting policy is to record the full profit or loss in the consolidated income statement, recognising any remaining interest at its fair value.

### 1.3.3 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 6) which, unless evidence to the contrary is available, coincides with the transaction price. For financial instruments not recognised at fair value through profit or loss, the fair value is adjusted either by adding or deducting the transaction costs directly attributable to their acquisition or issue. In the case of financial instruments at fair value through profit or loss, the directly attributable transaction costs are recognised immediately in the consolidated income statement. As a general rule, conventional sales and purchases of financial assets are recognised in the Group's consolidated 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 consolidated income statement, under the headings "*Interest income*" or "*Interest expenses*", as applicable. Dividends received from other companies are recognised in the consolidated income statement for the year in which the right to receive them is originated.

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

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

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

- The characteristics of contractual cash flows from financial assets.

<u>Business model</u>

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

The business models used by the Group are indicated below:

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

- Sale of financial assets.

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

<u>Characteristics of contractual cash flows of financial assets</u>

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

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

- All other financial assets.

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

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

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

**Portfolios of financial instruments classified for the purpose of their valuation**

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

*Financial assets at amortised cost*

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

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

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

This category comprises investments associated with typical lending activities, such as amounts loaned to customers withdrawn in cash and not yet repaid, deposits placed with other institutions, regardless of the legal arrangements under which the funds were provided, debt securities which meet the two conditions indicated above, as well as debts incurred by purchasers of goods or users of services forming part of the Group’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 consolidated income statement, using the effective interest rate method, of the difference between the initial cost and the corresponding repayment value at maturity. In addition, the amortised cost is decreased by any reduction in value due to impairment recognised directly as a decrease in the value of the asset or through an allowance or compensatory item of the same value.

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

*Financial assets at fair value through other comprehensive income*

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

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

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

These financial assets primarily correspond to debt securities.

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

- Exchange differences are recognised in the consolidated 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 consolidated income statement and, in the case of equity instruments, through other comprehensive income.

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

When a debt instrument measured at fair value through other comprehensive income is derecognised from the balance sheet, the fair value change recognised under the heading *"Accumulated other comprehensive income"* of the consolidated statement of equity is reclassified into the consolidated 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 consolidated 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 Group for its management or the characteristics of its contractual cash flows make it inadvisable to classify it into any of the other portfolios described above.

This portfolio is in turn subdivided into:

- *Financial assets held for trading*

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

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

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

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

*Financial liabilities held for trading*

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

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

*Financial liabilities designated at fair value through profit or loss*

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

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

*Financial liabilities measured at amortised cost*

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

In particular, this category includes capital qualifying as a financial liability, i.e. financial instruments issued by the Group which, given their legal classification as capital, do not meet the requirements to be classified as consolidated 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 consolidated income statement. However, if the Group has discretionary powers with regard to the payment of coupons associated with the financial instruments issued and classified as financial liabilities, the Group's accounting policy is to recognise them in consolidated reserves.

**Hybrid financial instruments**

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

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

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

The fair value of the Group's financial instruments as at 31 December 2019 and 2018 is indicated in Note 6.

#### 1.3.4 Impairment of financial assets

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

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

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

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

**Debt instruments and off-balance sheet exposures**

Impairment losses on debt instruments and other off-balance sheet credit exposures are recognised as an expense in the consolidated income statement for the year in which the impairment is estimated. The recoveries of any previously recognised losses are also recognised in the consolidated 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 Group 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 consolidated income statement, with a balancing entry under the heading "*Accumulated other comprehensive income*" on the consolidated statement of equity. Impairment allowances for off-balance sheet exposures are recognised on the liabilities side of the consolidated balance sheet as a provision.

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

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

The Group 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 potential loan losses attributable to borrower arrears and due to country risk. These policies, methods and procedures are applied when authorising, assessing and arranging debt instruments and off-balance sheet exposures, when identifying their possible impairment and, where applicable, when calculating the allowances required to cover these expected credit losses.

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

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

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

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: transactions that do not meet the requirements for classification into other categories.

- Stage 2: this category includes all transactions which, although they do not meet the criteria to be classified individually as Stage 3 or a write-off, show significant increases in credit risk since initial recognition. Transactions with amounts more than 30 days past due are included in this category. Refinanced and restructured transactions classified in this category shall be classified into a lower risk category when they meet the criteria for such reclassification. Transactions that have been classified as Stage 2, due to significant increases in credit risk or due to the existence of amounts more than 30 days past due, will be reclassified into Stage 1 after passing a 6-month probation period, depending on the likelihood of them re-entering the Stage 2 category.

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

    - As a result of borrower arrears: transactions any part of whose principal, interest or contractually agreed expenses is, in general, more than 90 days past due (although the specific characteristics of purchased or originated credit-impaired transactions are taken into account), unless they should be classed as write-offs. This category also includes guarantees given if the guaranteed party has fallen into in arrears for the guaranteed transaction. This category also includes the amounts of all of a borrower's transactions when the transactions with amounts that are generally (as indicated above) more than 90 days past due account for over 20% of the total amounts pending collection.

    - For reasons other than borrower arrears: transactions which are not classifiable 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 and whose recovery is doubtful.

    The accounting definition of Stage 3 is in line with the definition used in the Group's credit risk management activities. It is also in line with the regulatory definition of default, with the exception that, in regulatory terms, all the transactions of a borrower in the business segment are considered to be defaulted when there are amounts more than 90 days past due, while the accounting definition of default only considers all of a borrower's transactions to be Stage 3 when the transactions with amounts more than 90 days past due account for over 20% of the amounts pending collection.

- Write-off:

    The Group derecognises from the consolidated balance sheet transactions for which the possibility of full or partial recovery is concluded to be remote following an individual assessment. This category includes exposures of customers who are in bankruptcy proceedings filing for liquidation, as well as transactions classified as Stage 3 as a result of borrower 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. It also includes transactions which, despite not being in any of the previous situations, are undergoing a manifest and irreversible deterioration of their solvency.

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

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

#### Purchased or originated credit-impaired transactions

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

<u>Transaction classification criteria</u>

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

- Automatic criteria;

- Specific criteria for refinancing; and

- Criteria based on indicators (triggers).

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

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

Transactions classified as Stage 3 are reclassified as Stage 1 or 2 when, due to the full or partial collection of unpaid exposures (in the case of transactions classed as Stage 3 as a result of borrower arrears) or due to the completion of the cure period (in the case of transactions classified as Stage 3 for reasons other than borrower arrears), the reasons for which they were originally classed as Stage 3 no longer exist, unless there are any other factors that make it advisable to keep such transactions in this category.

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

Individual assessment

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

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


**Significant Risks**

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

**Companies and individuals**

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

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

- o Specific triggers that signal when there has been a significant increase in credit risk;
- o Specific triggers that signal when there are signs of impairment;
- o Triggers that allow an increase in credit risk and signs of impairment to be detected, based on various early warning thresholds.

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

The system of triggers for significant borrowers is automated and takes into account the particular characteristics of segments that perform differently from the loan portfolio. The system of triggers seeks to identify the following aspects:

- Significant financial difficulties of the issuer or obligor, indicative of a significant increase in credit risk or an impairment event insofar as their classification as being significant limits the ability of the issuer or obligor to honour their financial obligations as usual.

- In order to identify a significant increase in credit risk or an impairment event, it is necessary to consider variables that are indicative of a deteriorating or poor economic and financial situation as well as variables that could potentially give rise to impairment or which allow impairment to be anticipated.

  For example:

  - Stage 2 triggers:

    - o Adverse changes in the financial situation, such as a significant increase in debt levels, sharp drops in turnover, or a significant tightening of operating margins.
    - o Adverse changes in the economy or market indicators, such as a significant decline in share prices or a reduction in the price of debt issues. In the case of sovereign debt issues, price spreads with respect to the benchmark German bond (share premium) are also analysed.
    - o 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.
    - o For transactions secured with collateral, a higher loan-to-value ratio, due to a dwindling value of the collateral, or due to the amount pending amortisation staying the same or increasing as a result of the established payment terms.

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

- Stage 3 triggers:

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

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

  - Increase in the borrower's leverage ratios.

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

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

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

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

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

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

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

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

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

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

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

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

- Systemic: macroeconomic characteristics shared by all exposures.

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

- Idiosyncratic: aspects specific to each transaction or borrower.

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

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

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

Refinancing and restructuring operations

Credit risk management policies and procedures applied by the Group 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 4). To this end, the Group allocates loan loss provisions for the transactions that require them given the borrower's circumstances, before formally executing any refinancing/restructuring arrangements, which should be understood as follows:

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

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

Formally introducing contractual amendments does not further deteriorate a borrower's circumstances to such an extent that additional provisions need to be allocated.

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

Forborne, refinanced and restructured transactions remain in the Stage *2* category during a probation period until all of the following requirements are met:

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

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

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

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

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

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

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

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

With regard to refinanced/restructured loans classified as Stage 2, different types of transactions are specifically assessed in order to reclassify them, where applicable, into one of the categories described previously that reflect a higher level of risk (i.e. into Stage 3 as a result of borrower 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).

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

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

*Measurement of allowances*

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

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

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

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

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

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

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

  - Credit ratings: in general, credit risks undertaken with companies are rated using a rating system based on the internal estimate of their probability of default (PD). The rating system is based on factors that predict the probability of default over a one-year period. It has been designed for different segments. The rating model is reviewed annually based on the analysis of 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 decision-making process (system of discretions), risk monitoring and pricing policies.

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

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

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

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

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

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

- Multiple scenarios: in order to estimate expected losses, the Group applies different scenarios to identify the effect of the non-linearity of losses. To this end, the provisions required are estimated in the various different scenarios for which a probability of occurrence is established. Specifically, the Group has considered five macroeconomic scenarios that have been defined at Group level: one baseline scenario, which has the highest probability of occurrence (40%), one favourable scenario (10%) and three adverse scenarios (which together have a 50% probability of occurrence). 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.

    - Baseline scenario:

    Key assumptions:

    - Orderly Brexit.
    - Some form of trade agreement between the United States and China that alleviates the rising tension between both countries.
    - Moderate impact of trade tensions between the United States and the European Union.
    - Establishment of an economic policy in China capable of sustaining growth.
    - Lax funding conditions and more expansionary tax policies.

    - Trade war and global recession

    Assumption:

    - Sharp slowdown in international trade as a result of an increase in protectionism and/or China's inability to absorb the shock.

    Impacts:

    - Global recession, affecting both developed and emerging economies. Sluggish economic activity for a protracted period of time, recovery is slow.
    - Deflation in the euro area.
    - Intensification of negative interest rates, with impacts on banks and insurers.
    - Increased financial repression.
    - Fiscal expansion and deteriorating fiscal metrics.
    - New historic lows in terms of yields on core sovereign bonds and appreciation of the US dollar.

    Geographical impacts:

    - Spain: economic downturn, with consequences for political stability. Increased uncertainty and the occasional rating downgrade.
    - United Kingdom: fall in GDP and labour market deterioration. Substantial drops in house prices. Bank of England base rate cuts.
    - Mexico: economic recession once the US abandons NAFTA. Devaluation of the peso and increases in the Banxico benchmark rate.

- End of trade war

Assumption:

- The US closes trade deals with China and Europe and tariffs are withdrawn.

Impacts:

- Uncertainty is eased and business confidence is boosted.
- Synchronised economic cycle and dynamic GDP and international trade.
- Gradual upturn in central banks' benchmark rates and long-term government bond yields.
- Global financial conditions remain lax, with no significant episodes of risk aversion.
- Political and geopolitical situation improves.
- Fiscal metrics improve and ratings increase in the European periphery.
- Devaluation of the dollar.

Geographical impacts:

- Spain: significant economic momentum. Structural reforms are adopted in a favourable political environment. Potential growth improves.
- United Kingdom: GDP picks up and labour market improves. The Bank of England gradually raises its base rate and house prices start to increase.
- Mexico: pragmatic public policies and resumed implementation of structural reforms. Entry into force of new NAFTA.

- No Deal No Cliff-Edge Brexit

Assumptions:

- The measures established by the United Kingdom and the European Union to avoid a cliff-edge Brexit are implemented and immediate disruption to cross-border and financial activity is averted.

Impacts in the UK:

- Devaluation of pound sterling.
- Economic recession in the UK in 2020.
- Upturn in inflation in the UK due to the devaluation of the pound and tariff barriers.
- The Bank of England cuts its base rate and the ECB adopts a more lax approach.
- Poor performance of UK real estate market.

Other impacts:

- Financial turbulence in capital markets.
- Recession in the euro zone, followed by a slow recovery. Reduced impact in the US, Mexico and third countries. The Spanish economy slows given the trade, investment and tourism links. The hardest hit sectors are tourism, food, transportation and the automotive industry.
- Intensification of negative interest rate environment in the euro area.
- Lending activity remains broadly flat in Spain.

- No Deal Cliff-Edge Brexit

  Assumptions:

  - Plans to avoid immediate disruption in cross-border and financial activity are not appropriate and/or not implemented. Additionally, a contingency not envisaged in these plans may occur.
  - Air and road transportation may be disrupted, leading to delayed deliveries of goods, particularly food and medical supplies.
  - Security issues along the border between Ireland and Northern Ireland.

  Impacts in the UK:

  - Foreign exchange crisis in the UK, with a sharp devaluation of the pound in its currency pair with the dollar and the euro.
  - Steep increase in the Bank of England base rate.
  - The UK falls into a severe recession, the unemployment rate soars, as does inflation (due to the devaluation of the pound).
  - Significant declines in house prices.

  Other impacts:

  - Economic recession in the euro zone and Spain. In Spain, the tourism, food, transportation and automotive sectors are particularly hard hit.
  - Europe enters an anti-inflationary phase and the ECB extends its negative interest rate policy.
  - Lending in Spain declines and recovers very slowly.

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

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

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

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

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

12-month expected credit losses are defined as:

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

Where:

$EAD_{12M}$ is the exposure at default at 12 months, $PD_{12M}$ is the probability of a default occurring within 12 months and $LGD_{12M}$ is the expected loss given default.

Lifetime expected credit losses are defined as:

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

Where:

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

During this estimation process, a calculation is made of the allowance necessary to cover, on one hand, the credit risk attributable to borrowers and, on the other hand, country risk.

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

The Group uses estimated prepayment rates for different products and segments based on observed historical data (historical data from 2000 onwards). These prepayment rates are used to determine the lifetime expected credit losses on exposures classified as Stage *2*. The agreed amortisation schedule for each transaction is used.

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

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

*Individual allowance estimates*

The following must be estimated individually:

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

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

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

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

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

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

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

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

*Collective allowance estimates*

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

When calculating collective impairment losses, the Group, in accordance with IFRS 9, mainly takes the following aspects into account:

- The impairment estimation process takes all credit exposures into account. The Group recognises an impairment loss equal to the best estimate available from internal models, taking into account all of the relevant information which the Group holds on the existing conditions at the end of the reported period. For some types of exposures, including sovereign risk with general governments of European Union countries and countries classified as group 1 for country risk purposes, the Group does not use internal models. These exposures are considered to have negligible risk given that, based on the information available as at the date of signing off the consolidated annual financial statements, the impairment allowance that these exposures are estimated to require is not significant as long as they are not reclassified into Stage 3.

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

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

Observed credit impairment since initial recognition

| Credit risk category | Stage 1 | Stage 2 | Stage 3 | Write-off |
|---|---|---|---|---|
| Criteria for classification into stages | Transactions in which there has been no significant increase in credit risk since initial recognition and which do not meet the requirements for classification into other categories. | Transactions with no default events but which do show a significant increase in credit risk since initial recognition. | Transactions whose full recovery is considered doubtful, even if no amounts are more than ninety days past due.<br><br>Transactions with amounts more than 90 days past due. | Transactions whose possibility of recovery is considered remote due to a manifest and irreversible deterioration of the solvency of the transaction or the borrower. |
| Calculation of allowance | 12-month expected credit loss | Lifetime expected credit loss | | Write-off from balance sheet and recognition of the loss in the income statement, at the carrying amount of the transaction |
| Accrual of interest | Calculated by applying the effective interest rate to the gross carrying amount of the transaction | | Calculated by applying the effective interest rate to the amortised cost (adjusted to account for any impairment allowances) | Not recognised in the income statement |
| Transactions included, by stage | Initial recognition | Transactions which show a significant increase in credit risk since initial recognition<br><br>Transactions included in a debt sustainability agreement.<br><br>Risks of borrowers who are in bankruptcy proceedings that do not meet the conditions for classification into Stage 3.<br><br>Forborne, refinanced and restructured transactions that do not meet the conditions for classification as Stage 3.<br><br>Transactions with amounts more than 30 days past due. | **Transactions classified as Stage 3 as a result of borrower arrears:**<br>Amount of debt instruments with one or more amounts more than 90 days past due.<br>Amount of all of a borrower's transactions when the transactions with amounts more than 90 days past due account for over 20% of the total amounts pending collection.<br><br>**Transactions classified as Stage 3 for reasons other than borrower arrears:**<br>• Transactions with no amounts more than 90 days past due but whose full recovery is considered doubtful.<br>• Transactions with outstanding balances claimed through judicial proceedings.<br>• Transactions in which the collateral enforcement process has been initiated.<br>• Transactions and guarantees given to borrowers who have filed for bankruptcy or who have declared that they will be filing for bankruptcy without requesting liquidation.<br>• Forborne, refinanced and restructured transactions not qualifying for classification as Stage 2.<br>• Purchased or originated credit-impaired (POCI) transactions. | Transactions whose possibility of recovery is considered remote.<br><br>Transactions partially deemed to be irrecoverable even though debt collection rights have not yet been terminated (write-downs).<br><br>- Transactions classified as Stage 3 as a result of borrower arrears, when they have been in this category for over 4 years or when the amount not covered by effective guarantees has been kept on the balance sheet with a credit risk allowance covering 100% of that amount for more than two years, unless the effective collateral covers at least 10% of the gross amount.<br><br>- Transactions of borrowers who are in bankruptcy proceedings filing for liquidation or who have declared they will be filing for liquidation, unless they have effective collateral covering at least 10% of the gross carrying amount. |

## *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 significantly depends on the credit quality of the debtor or, where applicable, the economic group of which the debtor forms part, be accepted as effective guarantees.

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

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

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

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

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

The Group 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 Group’s ability and experience in realising the value of similar properties through enforcement in terms of prices and terms, as well as the costs of enforcement, maintenance and sale.

*Backtesting of allowances for loan losses and real estate asset impairment*

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

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

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

**Investments in joint ventures and associates**

The Group recognises allowances for the impairment of investments in 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.

Among others, the Group considers the following indicators to determine whether there is evidence of impairment.

- Significant financial difficulties.
- Disappearance of an active market for the instrument in question due to financial difficulties.
- Significant changes in profit or loss, compared to the data included in budgets, business plans or targets.
- Significant changes in the market in the issuer's equity instruments, its existing products, or its potential products.
- Significant changes in the global economy or in the economy of the region in which the issuer operates.
- Significant changes in the technological or legal environment in which the issuer operates.

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

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

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

### 1.3.5 Hedging transactions

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

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

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

- The financial derivative must effectively eliminate some portion of the risk that is inherent in the hedged item or position throughout the entire expected life of the hedge. This effectiveness should be measured both prospectively and retrospectively. To this end, the Group 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 Group'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 consolidated income statement, with a balancing entry under the headings of the consolidated 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 consolidated 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 consolidated 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 consolidated balance sheet, as applicable. In this case, hedge effectiveness is assessed by comparing the net position of assets and liabilities in each time period against the hedged amount designated for each of them, immediately recognising the ineffective portion under the heading "*Gains or (-) losses on financial assets and liabilities, net*" of the consolidated 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 consolidated statement of equity. These differences are recognised in the consolidated 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 consolidated statement of equity under *"Accumulated other comprehensive income – Hedge of net investments in foreign operations [effective portion]"*. These differences are recognised in the consolidated income statement when the investment in foreign operations is disposed of or derecognised from the consolidated 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 consolidated income statement.

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 derivative held for trading for accounting purposes. Therefore, changes in its valuation will be recognised with a balancing entry through profit or loss.

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

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

### 1.3.6 Financial guarantees

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

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

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

Financial guarantees are classified according to the risk of incurring loan losses attributable to either customer arrears 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 consolidated 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 Group under the heading *"Interest income"* in the consolidated income statement.

### 1.3.7 Transfers and derecognition of financial instruments from the balance sheet

Financial assets are only derecognised from the consolidated balance sheet when they no longer generate cash flows or when their inherent risks and benefits have been substantially transferred to third parties. Similarly, financial liabilities are only derecognised from the consolidated 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 4 provides details of asset transfers in effect at the end of 2019 and 2018, indicating those that did not involve the derecognition of the asset from the consolidated balance sheet.

### 1.3.8 Offsetting of financial instruments

Financial assets and financial liabilities are only offset for the purpose of their presentation in the consolidated balance sheet when the Group 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.

### 1.3.9 Non-current assets and assets and liabilities included in disposal groups classified as held for sale and discontinued operations

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

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

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

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

In order to determine the net fair value of real estate assets, the Group 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 consolidated 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 1.3.4. The main appraisal firms and agencies used to obtain market values are listed in Note 6.

Gains and losses arising from the disposal of assets and liabilities classified non-current assets or liabilities 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 consolidated income statement. The remaining income and expenses relating to these assets and liabilities are disclosed based on their nature.

Discontinued operations are components of the institution that have been disposed of or classified as held for sale and which (i) represent a business line or region that is significant and separate from the rest or is part of a single coordinated plan to dispose of that business or region, or (ii) are subsidiaries acquired solely in order to be resold. Income and expenses of any kind generated by discontinued operations during the year, including those generated before they were classified as discontinued operations, are presented net of the tax effect as a single amount under the heading *"Profit or (-) loss after tax from discontinued operations"* in the consolidated income statement, regardless of whether the business has been derecognised from or remains on the asset side of the balance sheet as at year-end. 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 Group for current or future use that is expected to be used for more than year, (ii) property, plant and equipment loaned to customers under operating leases, and (iii) investment properties, which include land, buildings and other structures held in order to be leased out or to obtain a capital gain on their sale. This heading also includes tangible assets received in payment of debts classified on the basis of their final use.

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

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

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

| | Useful life (years) |
|---|---|
| Land and buildings | 37.5 a 75 |
| Fixtures and fittings | 4.2 a 25 |
| Furniture and office equipment | 3.3 a 18 |
| Vehicles | 3.1 a 6.25 |
| Cash dispensers, computers and computer equipment | 4 |

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

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

In particular, certain items of property, plant and equipment are assigned to cash-generating units in the banking business. Impairment tests are conducted on these units to verify whether sufficient cash flows are generated to support the assets' value. To this end, the Group (i) calculates the recurring net cash flow of each branch based on the accumulated contribution margin less an allocated recurring cost of risk, and (ii) this recurring net cash flow is regarded as a perpetual cash flow and a valuation is effected using the discounted cash flow method applying the cost of capital and growth rate to perpetuity determined by the Group (see Note 16).

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

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

### 1.3.11 Leases

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

*Leases in which the Group acts as lessee*

The Group 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 Group for use.

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

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

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

The lease liability is initially recognised in the heading "*Financial liabilities measured at amortised cost – Other financial liabilities*" of the consolidated balance sheet (see Note 21), for a value equal to the present value of estimated payments outstanding, based on the envisaged maturity date. These payments comprise the following items:

- Fixed payments, less any lease incentives payable.
- Variable lease payments, than depend on an index or rate.
- Amounts expected to be paid for residual value guarantees provided to the lessor.
- The exercise price of a purchase option if the Group 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 Group 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 consolidated 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 Group 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 Group 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 Group 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 consolidated 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 Group acts as lessor*

*Finance leases*

Where the Group 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 consolidated balance sheet. This financing includes the exercise price of the purchase option payable to the lessee upon termination of the contract in cases where the exercise price is sufficiently lower than the fair value of the asset at the date of maturity of the option, such that it is reasonably likely to be exercised.

*Operating leases*

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

The acquisition cost of the leased asset is recognised under the heading *"Tangible assets"*. These assets are depreciated in accordance with the same policies followed for similar tangible assets for own use and the revenue from the lease contracts is recognised in the consolidated 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 Group. An intangible asset will be recognised when, in addition to meeting this definition, the Group 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, when applicable, any accumulated depreciation and impairment loss which may have been sustained.

*Goodwill*

Positive differences between the cost of a business combination and the acquired portion of the net fair value of the assets, liabilities and contingent liabilities of the acquired entities are recognised as goodwill on the asset side of the consolidated balance sheet. These differences represent an advance payment made by the Group of the future economic benefits derived from the acquired entities that are not individually identified and separately recognised. Goodwill, which is not depreciated, is only recognised when acquired for good and valuable consideration in a business combination.

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

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

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

- Estimates of macroeconomic variables and other financial parameters.

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

- Discount rate: the present value of future dividends, from which a value in use is obtained, is calculated using the institution's cost of capital (Ke), from the standpoint of a market participant, as a discount rate. To determine the cost of capital the CAPM (Capital Asset Pricing Model) is used in accordance with the formula: "$Ke = Rf + \beta (Pm) + \alpha$", where: Ke = Required return or cost of capital, Rf = Risk-free rate, $\beta$ = Company's systemic risk coefficient, Pm = Market premium and $\alpha$ = 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 book value of a UGE is higher than its recoverable amount, the Group 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 book value of the remaining allocated assets on a proportional 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 have a finite useful life and are amortised based on 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. In particular, the sub-systems corresponding to the infrastructure, communications, architecture and corporate functions of the banking platforms used by Group entities to carry out their activity generally have a useful life of between 10 and 15 years, while the useful life of sub-systems corresponding to channels and data & analytics ranges from 7 to 10 years. The base platform implemented in 2018 that TSB uses to carry out its activity has a useful life of 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 Group 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 Inventories

Inventories are non-financial assets that are held by the Group for their use or sale in the normal course of its business activity, or which are in the process of production, construction or development in order to be sold or used, or which are to be used in the production process or in the provision of services.

In general, inventories are valued at the lower of their value at cost, including all purchase and conversion costs and other direct and indirect costs incurred in bringing the inventories to their present condition and location, and their net realisable value.

Net realisable value means the estimated sale price net of the estimated production and marketing costs to carry out the sale. This value is revised and recalculated on the basis of actual losses incurred on the sale of the assets.

Any value adjustments to inventories, whether caused by impairment due to damage, obsolescence or a fall in sale prices, to reflect their net realisable value, or arising from other losses, are recognised as expense in the year in which the impairment or other loss occurred. Any subsequent recoveries in value are recognised in the consolidated income statement in the year in which they occur.

For inventories comprising land and buildings, the net realisable value is calculated based on the appraisal carried out by an independent expert, entered in the Bank of Spain Special Register of Appraisal Firms and performed 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, which is then adjusted in line with the internal methodology developed by the Group, taking into account its experience in selling assets that are similar in terms of prices, the period during which each asset remains on the consolidated balance sheet and other explanatory factors.

The book value of the inventories is derecognised from the consolidated balance sheet and recognised as an expense during the year in which the income from its sale is recognised.

### 1.3.14 Own equity instruments

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

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

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

All transactions involving the Group's own equity instruments, including their issuance or depreciation, are recognised directly with a balancing entry in consolidated 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 consolidated equity net of the associated transaction costs.

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

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

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

### 1.3.15 Remuneration in equity instruments

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

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

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

### 1.3.16 Provisions, contingent assets and contingent liabilities

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

In general, the Group's consolidated annual financial statements include all significant provisions based on which it is estimated that it is more likely than not that the obligation will need to be settled. These provisions include, among others, pension commitments undertaken with employees by Group entities (see Note 1.3.17), as well as provisions for tax litigation and other contingencies.

Contingent liabilities are any possible obligations in the Group 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 Group. Contingent liabilities include present obligations of the Group for which payment is not probable or whose amount, in extremely rare cases, cannot be measured reliably. Contingent liabilities are not recognised in the consolidated annual financial statements, rather, they are disclosed in the notes to the consolidated annual financial statements.

As set forth in IAS 37.92, 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 Group 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 Group can choose not to disclose this information.

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

### 1.3.17 Provisions for pensions

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

***Defined contribution plans***

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

These contributions are recognised each year in the consolidated income statement (see Note 33).

***Defined benefit plans***

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

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

1. The pension plan

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

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

- Disability or incapacity arising in certain circumstances.

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

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

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

2. Insurance contracts

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

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

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

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

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

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

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

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

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

4. Internal funds

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

*Accounting record of defined benefit obligations*

The *"Provisions – Pensions and other post-employment defined benefit obligations"* heading on the liabilities side of the balance sheet includes the current actuarial value of pension commitments, which is calculated individually using the projected unit credit method on the basis of the financial and actuarial assumptions set out below. This is the same method used for the sensitivity analysis described in Note 22.

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

- They are not owned by the Group 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 Group, even in the event of the Bank becoming insolvent.

- They cannot be returned to the Group unless the assets remaining in the plan are sufficient to settle all obligations, of the plan or of the entity, relating to employee benefits, or unless assets are to be returned to the bank to reimburse it for employee benefits previously paid.

- They are not non-transferable financial instruments issued by the Group.

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

Pension commitments are recognised as follows:

- In the consolidated income statement, net interest on the defined benefit liability (asset) net of pension commitments as well as the cost of the services, which includes (i) the cost of services in the current period, (ii) the cost of past services arising from past changes made to existing commitments or from the introduction of new benefits and (iii) any gain or loss arising from a settlement of the plan.

- Under the heading *"Accumulated other comprehensive income"* in the consolidated statement of equity, the remeasurement of the net defined benefit liability (asset) for pension commitments, which includes (i) actuarial gains and losses generated in the year arising from differences between the previous actuarial assumptions and the real situation and from changes in the actuarial assumptions made, (ii) the return on plan assets, and (iii) any change in the effect of the asset ceiling, excluding, for the last two items, the amounts included in net interest on the defined benefit liability (asset).

  The amounts recognised in the consolidated statement of equity are not reclassified into the consolidated income statement in subsequent years, rather, they are reclassified under the heading *"Other reserves – Other"* of the consolidated statement of equity.

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

*Actuarial assumptions*

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

| | 2019 | 2018 |
|---|---|---|
| Tables | PERM / F 2000 New production | PERM / F 2000 New production |
| Discount rate, pension scheme | 0.75% per annum | 1.50% per annum |
| Discount rate, internal fund | 0.75% per annum | 1.50% per annum |
| Discount rate, related insurance | 0.75% per annum | 1.50% per annum |
| Discount rate, non-related insurance | 0.75% per annum | 1.50% per annum |
| Inflation | 2.00% per annum | 2.00% per annum |
| Rate of increase in salaries | 3.00% per annum | 3.00% per annum |
| Retirement due to disability | SS90-Absolute | SS90-Absolute |
| Staff turnover | None assumed | None assumed |
| Early retirement | Allowed for | Allowed for |
| Normal retirement age | 65 or 67 years | 65 or 67 years |

In 2019 and 2018, the technical interest rate on all commitments has been determined by reference to the return on AA-rated corporate bonds (iBoxx € Corporates AA 10+), with an average duration of 12.50 years in 2019 and 11.94 years in 2018.

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

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

### 1.3.18 Foreign currency transactions and exchange differences

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

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

- Monetary assets and liabilities are translated at the closing rate, defined as the average spot exchange rate at the end of the reporting period.
- Non-monetary items measured at historical cost are translated at the exchange rate ruling on the acquisition date.

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

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

The balances of the financial statements of consolidated entities with a functional currency other than the euro are translated into euros in the following manner:

- Assets, liabilities and value adjustments are translated at the exchange rate ruling at each year-end closing.
- Income and expenses are translated at the average exchange rate, weighted by the volume of transactions of the company whose income and expenses are being translated.
- Own funds are translated by applying historical exchange rates.

Exchange differences arising on the translation of financial statements of consolidated entities with a functional currency other than the euro are recognised under the heading *"Accumulated other comprehensive income"* on the consolidated statement of equity.

The exchange rates applied to translate balances denominated in foreign currency into euros are those published by the European Central Bank on 31 December of each year.

### 1.3.19 Recognition of income and expense

*Interest income and expense and other similar items*

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

*Commissions, fees and similar items*

Generally, income and expense in the form of commissions and similar fees are recognised in the consolidated 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 consolidated 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 consolidated income statement.

*Non-financial income and expense*

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

*Deferred payments and collections*

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

*Levies*

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

*Deposit guarantee schemes*

The Bank is a member of the Deposit Guarantee Fund. In 2019, the Management Committee of the Deposit Guarantee Fund of Credit Institutions, in accordance with that established in Royal Decree Law 16/2011 and Royal Decree 2606/1996, set the contribution for all entities covered by the Fund's deposit guarantee at 0.18% of the amount of the deposits guaranteed as at 30 June 2019 (0.18% of the amount of deposits guaranteed as at 30 June 2018 in 2018). Each entity's contribution is calculated based on the amount of deposits guaranteed and its risk profile, taking into account indicators such as capital adequacy, asset quality and liquidity, which have been defined in Bank of Spain Circular 5/2016 of 27 May. Furthermore, the contribution to the securities guarantee offered by the Fund has been set at 0.2% of 5% of the amount of the securities guaranteed as at 31 December 2019 (0.2%f 5% of the amount of the securities guaranteed as at 31 December 2018 in 2018). In accordance with that set forth by IFRIC 21, the transaction is recognised whenever there is a payment obligation, recorded as at 31 December each year (see Note 32).

Some of the consolidated entities are integrated into schemes which are similar to the Deposit Guarantee Fund and they make contributions to these schemes in accordance with national regulations (see Note 32). The most significant of these are listed below:

- TSB Bank plc makes contributions to the Financial Services Compensation Scheme, which are accrued on 1 April of every year.

- Banco Sabadell, S.A. Institución de Banca Múltiple makes contributions to the deposit guarantee fund established by the Instituto para la Protección del Ahorro Bancario. In this case the payment obligation, and therefore its accrual, is monthly.

*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) 806/2014. This regulation sets out standard rules and procedures for the resolution of credit institutions and investment firms within the framework of a Single Supervisory Mechanism and a Single Resolution Fund at European level.

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

The calculation of each entity's contribution to the Single Resolution Fund, governed by Regulation (EU) 2015/63, is based on the proportion that each entity represents with respect to the aggregate total liabilities of the Fund's member entities, after deducting own funds and the guaranteed amount of the deposits. The latter is then adjusted to the entity's risk profile (see Note 32). The obligation to contribute to the Single Resolution Fund accrues on 1 January of each year.

### 1.3.20 Corporation tax

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

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

Taxable income for the year may be at variance with the income for the year as shown in the consolidated 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 39).

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

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

Deferred tax liabilities arising from timing differences associated with investments in subsidiaries and associates are recognised in the accounts unless the Group 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 consolidated balance sheet include all tax assets and tax liabilities, differentiating between current tax assets/liabilities (to be recovered/paid in the next 12 months, for example, a corporation tax payment made to the tax authority (Hacienda Pública)) and deferred tax assets/liabilities (to be recovered/paid in future years).

Income or expenses recognised directly in the consolidated 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.

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

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

- Forecasts of results of each entity or fiscal group, based on the financial budgets approved by the Group's administrators for a five-year period, subsequently applying constant growth rates similar to the mean long-term growth rates of the sector in which the various companies of the Group operate;

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

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

Banco Sabadell Group companies included in Spain's consolidated tax regime for Corporation Tax are listed in Schedule I.

### 1.3.21 Consolidated cash flow statements

Consolidated cash flow statements have been prepared using the indirect method, in such a way that, based on the Group's results, the non-monetary transactions and all types of deferred payment items and accruals which have been or will be the cause of operating income and expense have been taken into account, in addition to the income and expense associated with cash flows from activities classified as investment or financing activities.

The consolidated 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 Group and other activities that cannot be classified as investment or financing activities.

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

- Financing activities: activities that result in changes in the size and composition of consolidated 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 consolidated cash flow statement.

## 1.4 Comparability

The information presented in these consolidated annual financial statements for 2018 is provided solely and exclusively for purposes of comparison with the information for the year ended 31 December 2019 and therefore does not constitute the Group's consolidated annual financial statements for 2018.

In accordance with that permitted by regulations, the Group has opted not to restate the comparative information of 2018 by applying the classification and measurement criteria set forth in IFRS 16, instead recognising, as at 1 January 2019, the accumulated impact arising from the entry into force of the aforementioned standard on the Group's consolidated financial statements. This impact is disclosed in the section "Standards and interpretations issued by the International Accounting Standards Board (IASB) entering into force in 2019" of this note.

In 2019, a change has been made in the structure of the Group's business units that existed in 2018, therefore the segment information for 2018 included in these consolidated annual financial statements (see Note 38) has been restated for comparison purposes, as provided in IFRS 8 "Segment reporting".

The amendment of IAS 12 "Income Taxes" described in Note 1.2 has resulted in the tax impacts from the distribution of generated profits being recognised under the heading entitled "*Tax expense or (-) income related to profit from continuing operations*" of the consolidated income statement, when before they were recognised in the consolidated statement of equity. The amount had this amendment to IAS 12 been applied to previous years would have resulted in 22 million euros being added to the consolidated income statement in 2018. This reclassification has not had an impact on the Group's consolidated statement of equity.

## Note 2 – Banco Sabadell Group

The subsidiaries and associated companies as at 31 December 2019 and 2018 are listed in Schedule I, along with their registered offices, primary activities, the Bank's percentage shareholding in each, key financial data and the consolidation method used (full consolidation or equity method) in each case.

Schedule II provides a breakdown of consolidated structured entities (securitisation funds).

The following section provides a description of the business combinations, acquisitions and sales or liquidations which are most representative of investments in the capital of other entities (subsidiaries and/or investments in associates) performed by the Group during 2019 and 2018. Schedule I also includes a detailed list of the companies consolidated for the first time and those no longer consolidated for each year.

### Changes in the Group's scope of consolidation in 2019

**Additions to the scope of consolidation:**

There were no significant additions to the scope of consolidation in 2019.

**Exclusions from the scope of consolidation:**

- On 19 July 2018, Banco Sabadell agreed to transfer practically all of its problematic real estate exposures to a subsidiary of Cerberus Capital Management L.P. (hereinafter, Cerberus), structured around the transfer of two real estate asset portfolios, with the commercial names "Challenger" and "Coliseum". The overall gross book value of the real estate assets involved in the transaction amounted to approximately 9,100 million euros, and their overall net book value amounted to approximately 3,900 million euros as at the date of the agreement.

  In addition, Banco Sabadell has agreed on 2 August 2019 the sale of a portfolio of real estate assets called Rex to Cerberus. The real estate assets involved in this transaction had an overall net book value of approximately 342 million euros at the date of the agreement, with the sale amount reaching 314 million euros.

  On 20 December 2019, the Bank formalised the transfer of most of the real estate assets that comprised these three portfolios to companies wholly owned by a subsidiary of Cerberus called Promontoria Challenger I, S.A., which is in turn 80% owned by Cerberus and the remaining 20% by Banco Sabadell, with the subsequent derecognition of these assets from Banco Sabadell Group balance sheet.

  The real estate assets transferred constitute nearly 46,000 units with an overall gross book value of approximately 6,414 million euros, an amount that does not include the assets that have been marketed and sold to third parties to date. The liquidation of the approximately 15,000 units remaining of real estate assets, amounting to 1,149 million euros, is pending the likely exercise of pre-emptive rights by third parties, although this would not alter the expected financial consequences, and this transfer is expected to be formalised in the short-term.

  The price of the transactions is approximately 3,430 million euros. At the closing of the transactions, the enforcement of certain contractual clauses on the entire pool of assets of the transactions required the recognition of additional provisions amounting to 52 million euros, after tax.

  On the other hand, in the fourth quarter of 2019, 20 million euros were recognised (after tax) for charges linked to assets not attributable to the sale. The closing of these transactions contributed positively to improving the profitability of Banco Sabadell Group and had a positive impact on Banco Sabadell's (fully-loaded) Common Equity Tier 1 capital ratio of 16 basis points in the fourth quarter of 2019.

  As at 31 December 2019, the Group had an account receivable with Cerberus amounting to 447 million euros in connection with this divestment operation, which matures 24 months after the closing of this transaction.

- On 23 April 2019, the Bank, having obtained the relevant authorisations, closed the sale of 80% of the share capital of Solvia Servicios Inmobiliarios, S.L. (Solvia) to Intrum Holding Spain, S.A.U. (formerly, Lindorff Holding Spain, S.A.U.), a company that is part of Intrum AB Group.

  The transaction price has amounted to 241 million euros, corresponding to an equity value of 300 million euros for the entire share capital of Solvia. This price may increase by a maximum of 40 million euros, provided that the conditions relating to the performance of some of Solvia's business lines are met.

  The transaction has generated a profit of 133 million euros and a positive impact of 15 basis points on the fully-loaded Common Equity Tier 1 capital ratio.

With the exception of the transaction described above, there have been no significant changes in the scope of consolidation in 2019.

## Changes in the Group's scope of consolidation in 2018

**Additions to the scope of consolidation:**

There were no significant additions to the scope of consolidation in 2018.

**Exclusions from the scope of consolidation:**

There have been no significant exclusions from the scope of consolidation in 2018.

## Other significant transactions in 2019

- On 24 July 2018, Banco Sabadell reached an agreement to transfer a portfolio of assets (mostly mortgage loans) comprised in turn of three sub-portfolios to Deutsche Bank and Carval Investors.

  On 24 July 2019, the Bank, having obtained the relevant authorisations, completed the transfer of this credit portfolio with a gross book value of approximately 1,834 million euros and a net book value of approximately 268 million euros, as well as foreclosed assets with a gross book value of approximately 290 million euros and a net book value of approximately 106 million euros at the date of the transfer.

  This transaction does not entail allocating any additional provisions and has a neutral impact on the capital ratio.

- 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 Residencial), together with a pool of plots and real estate developments managed by this company and owned by Banco Sabadell. SDIn is the result of the divestiture and transfer in share blocks of part of the equity of Solvia Servicios Inmobiliarios, S.L.U., a company engaging in the provision of real estate development services.

  On 3 August, the Bank transferred 100% of the share capital of this investee company, together with the aforementioned plots and real estate developments, to an entity controlled by funds managed and/or advised by Oaktree Capital Management. The total amount of the transaction, referenced to the existing pool as at 1 January 2019, amounted to 882 million euros. As at 31 December 2019, the book amount of assets subject to this transaction amounted to 824 million euros, of which 766 million euros are recognised under the heading "Inventories" in the consolidated balance sheet.

  The closing of the transaction, subject to obtaining the relevant authorisations, will have a positive impact of +5 basis points on the fully-loaded Common Equity Tier 1 capital ratio.

## Other significant transactions in 2018

On 16 May 2018, Banco Sabadell agreed to transfer a portfolio of loans with an outstanding balance of approximately 866 million euros, of which 737 million euros corresponded to write-offs, to Axactor Capital Luxembourg, S.A.R.L. The closing of this transaction was completed on 13 December 2018, once the corresponding authorisations had been obtained and the relevant terms and conditions had been met.

This transaction had a net impact of approximately 6 million euros in losses, which were recognised in the consolidated income statement for the year ended 31 December 2018.

## Other relevant information

### 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 as from 31 July 2011. Under the scheme, which covers a specified portfolio of assets with a gross value of 24,644 million euros as at 31 July 2011, the Deposit Guarantee Fund (hereinafter, "DGF") will bear 80% of the losses on the portfolio for a period of ten years, once impairment allowances in respect of those assets, which amounted to 3,882 million euros at the aforementioned date, have been fully applied.

The portfolio of assets protected by the APS on the date it entered into force (31 July 2011) breaks down as follows:

Million euro

| | On individual balance sheet | | On Group balance sheet | |
|---|---|---|---|---|
| | Balance | Provision | Balance | Provision |
| Loans and advances | 21,711 | 2,912 | 19,117 | 2,263 |
| *Of which: amount drawn* | *21,091* | - | *18,460* | - |
| *Of which: guarantees and contingent liabilities* | *620* | - | *657* | - |
| Real estate assets | 2,380 | 558 | 4,663 | 1,096 |
| Investments in joint ventures and associates | 193 | 52 | 504 | 163 |
| Write-offs | 360 | 360 | 360 | 360 |
| **Total** | **24,644** | **3,882** | **24,644** | **3,882** |

Movements in the balance drawn from the customer lending portfolio protected by the APS from its entry into force until 31 December 2019 are as follows:

Million euro

| | |
|---|---|
| **Balance as at 31 July 2011** | **18,460** |
| Acquisition of real estate assets | (7,862) |
| Collections and subrogation | (6,884) |
| Increase in write-offs | (1,824) |
| Credit drawdowns | 90 |
| **Balance at 31 December 2019** | **1,980** |

Movements in the balance drawn from the customer lending portfolio protected by the APS from its entry into force until 31 December 2019 are as follows:

Million euro

| | |
|---|---|
| **Balance as at 31 July 2011** | **4,663** |
| Acquisition of real estate assets | 5,884 |
| Sales of real estate assets | (10,159) |
| **Balance at 31 December 2019** | **389** |

The portfolio of assets protected by the APS as at 31 December 2019 breaks down as follows:

Million euro

| | Balance | Provision |
|---|---|---|
| Loans and advances, guarantees and contingent liabilities | 1,986 | 134 |
| *Of which, amount drawn not classified as Stage 3* | *1,625* | *12* |
| *Of which, amount drawn classified as Stage 3* | *355* | *122* |
| *Of which: commitments and guarantees not classified as Stage 3* | *3* | - |
| *Of which: commitments and guarantees classified as Stage 3* | *3* | - |
| Real estate exposures | 167 | 64 |
| Non-current assets held for sale for which a transfer agreement has been reached | 222 | 122 |
| Investments in joint ventures and associates | 39 | 27 |
| Write-offs | 513 | 513 |
| **Total** | **2,927** | **860** |

The NPL ratio and NPL coverage ratio are indicated below, together with the lending volumes for construction and real estate developments:

| % | 2019 |
|---|---|
| NPL ratio | 17.98 |
| NPL coverage ratio | 37.64 |

| Million euro | On Group balance sheet | | *Of which, Stage 3* | |
|---|---|---|---|---|
| | Balance | Provision | *Balance* | *Provision* |
| Loans and advances - amount drawn | 1,980 | 134 | *355* | *122* |
| *Of which, lending to construction and real estate development sector (business in Spain)* | *330* | *63* | *119* | *60* |
| **Total** | **1,980** | **134** | ***355*** | ***122*** |

For all of the losses that have been accounted for (those deriving from loan loss provisions, loan reductions, impairment allowances for real estate assets and losses from the disposal of these assets), the Group keeps an account receivable classed under the "*Financial assets measured at amortised cost – Loans and advances - Customers*" heading and recognised on the income statement, in order to reflect the right of collection from the DGF as a result of its guarantee. The accumulated amount recorded as at 31 December 2019 is 3,092 million euros.

## Note 3 – Shareholder remuneration and earnings per share

Set out below is the distribution of 2019 Banco de Sabadell, S.A. profits which the Board of Directors will propose to the shareholders at the Annual General Meeting for approval, together with the proposed distribution of Banco de Sabadell S.A.'s 2018 profits, which was approved by shareholders at the AGM on 28 March 2019:

| Thousand euro | 2019 | 2018 |
|---|---|---|
| To dividends | 223,356 | 167,008 |
| To Canary Island investment reserve | 1,174 | 383 |
| To voluntary reserves | 828,737 | 372,475 |
| **Profit for the year of Banco de Sabadell, S.A.** | **1,053,267** | **539,866** |

Proposed distributions of profits of subsidiaries are subject to approval by shareholders at their respective Annual General Meetings.

The Board of Directors will submit a proposal at the Annual General Meeting for the distribution of a gross dividend of 0.04 euros per share for 2019.

On 24 October 2019, the Board of Directors agreed to distribute an interim dividend of the 2019 earnings amounting to 110,817 thousand euros (0.02 euros gross per share), paid out on 24 December 2019. It was decided that the amount of the interim dividend net of the corresponding tax withholding (0.0162 euros per share) would be paid through (i) the remittance of the Bank's own shares valued at the simple arithmetic average of their weighted average prices on Spain's electronic trading system in the trading sessions between 11 and 17 December 2019, inclusive (the "Reference Price"), up to a distributed maximum of 90 million shares and (ii) if insufficient, a cash amount up to supplementing this net amount.

The Reference Price of Banco Sabadell shares was 1.0725 euros and the interim dividend was settled by delivering one Banco Sabadell share to shareholders for every 66.20368225 shares held. The fractions of shares lower than the unit which the shareholders were entitled to receive in accordance with the above ratio were settled in cash, applying the Reference Price. Shareholders whose depository institutions accredited in good time and in an appropriate manner their right to exemption from withholding or the application of a reduced rate of withholding have been paid the corresponding amount in cash.

Pursuant to Article 277 of the Spanish Capital Companies Act, the forward-looking accounting statement prepared as a mandatory requirement to demonstrate the existence of sufficient liquidity and profit at the Bank at the time of approving the interim dividend is shown below:

Thousand euro

| Available for the payment of dividends according to the interim statement at: | 30/09/2019 |
|---|---|
| Banco Sabadell profit as at the date indicated, after provisions for taxes | 823,429 |
| Estimated statutory reserve | - |
| Estimated Canary Island investment reserve | 361 |
| Maximum amount available for distribution | 823,068 |
| Interim dividend proposed | 110,688 |
| Cash balance at Banco de Sabadell, S.A. available (*) | 11,955,899 |

(*) Includes the balance of the heading "Cash, cash balances at central banks and other demand deposits".

The Annual General Meeting, held on 28 March 2019, approved a shareholder remuneration, supplementary to the dividend corresponding to 2018, of 0.01 euros per share (56,270 thousand euros), which was paid on 5 April 2019. Previously, in December 2018, shareholders received remuneration in the form of a dividend of 0.02 euros per share, charged to the income statement for 2018, which was paid on 28 December 2018.

## Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by remuneration in 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:

| | 2019 | 2018 |
|---|---|---|
| Profit or loss attributable to owners of the parent (thousand euro) | 767,822 | 328,102 |
| Adjustment: Remuneration of other equity instruments (thousand euro) | (73,250) | (51,275) |
| Profit or (-) loss after tax from discontinued operations (thousand euro) | - | - |
| Adjusted net profit attributable to the owners of the parent company (thousand euros) | 694,572 | 276,827 |
| Weighted average number of ordinary shares outstanding (*) | 5,538,122,771 | 5,564,718,978 |
| Conversion undertaken of convertible debt and other equity instruments | - | - |
| Adjusted weighted average number of ordinary shares outstanding | 5,538,122,771 | 5,564,718,978 |
| Earnings per share (euro) | 0.13 | 0.05 |
| Basic earnings per share adjusted for mandatory convertible bonds (euro) | 0.13 | 0.05 |
| Diluted earnings per share (euro) | 0.13 | 0.05 |

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

As at 31 December 2019 and 2018, there were no other share-based financial instruments or commitments to employees with a material 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 4 – Risk management

### 4.1 Introduction

During 2019, 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 performance of its activities, good management of these risks is a key part of the business. In this regard, a set of principles has been defined, translated into policies and deployed in 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 environment of uncertainty. This set is called the Global Risk Framework.

In its management of risks, the Group considers the macroeconomic environment and the regulatory environment. The most significant aspects of 2019 are set out below:

- Political and geopolitical issues have once again conditioned the international economic and financial environment.
- The trade war between the United States and China has led to an increase in tariffs. Tensions have also become evident in the technological field.
- Brexit did not materialised during 2019. Boris Johnson's big electoral win makes it easier for the UK to leave the EU on 31 January 2020.
- The global economy has weakened in this environment of uncertainty, recording the lowest growth since the financial crisis.
- The manufacturing sector and business investment have been the hardest hit by the trade war, while services have been more resilient.
- Spain has experienced a growth performance similar to that of the previous year, with an increase in the year of around 2% per year.
- In the United Kingdom, activity has recorded reduced growth, affected by the uncertainty surrounding Brexit.
- In Mexico, the economy has stagnated, influenced by uncertainty over domestic policy and the slow execution of expenditure by the government.
- Risk assets have performed positively, supported by the shift towards a more accommodating monetary policy from the developed countries' Central Banks.
- In September, the ECB approved a comprehensive stimulus package (borrowing interest rate cut, resumption of the asset purchase programme, etc.)
- The Fed lowered interest rates as an insurance against global risks, held liquidity auctions and initiated a Treasury bill purchase program to combat money market stress.
- German long-term government bond yields returned to negative figures for the first time since 2016, influenced by the degree of uncertainty and the ECB policy.
- Sovereign risk premiums of the European periphery have narrowed, influenced by the ECB's new accommodating measures and the new Italian government.

- The euro has depreciated against the dollar, influenced by economic weakness in the euro zone and trade tensions.
- The pound has remained sensitive to Brexit and has appreciated against the euro with the British Parliament's rejection of a no-deal Brexit and Boris Johnson's search for a deal.
- As regards the financial markets of emerging economies, the accommodating shift of the Central Banks of the main developed countries has been a supporting factor.
- The European banking system has held its solvency and continued making progress in reducing its NPL ratio.
- Progress in the Banking Union and the Capital Markets Union has been limited due to the electoral scenario in the EU. The main milestones have been the adoption of the reform of the single rule book, the agreement on the resolution framework and the roll-out of the Sustainable Finance Action Plan.
- The use of macro-prudential policy has intensified in the face of accumulated financial vulnerabilities in an environment of an accommodating monetary policy.
- In the regulatory and supervisory framework, the work related to the reform of benchmarks and the increasing attention by Central Banks and supervisors to the consequences of climate change on the banking sector are noteworthy.

*Brexit*

The Group has considered the potential developments and consequences of Brexit in its macroeconomic and financial scenarios. The United Kingdom will maintain the trade and regulatory status quo during the transition period. The UK will also continue to bear the economic costs of the uncertainty associated with the negotiating process of the new relational framework with the EU. The scenario also considers the relocation of some services, particularly financial services. The baseline scenario considers that the Brexit process takes place in an orderly manner following a trade agreement with the EU.

The Group also works with risk scenarios in which the UK's exit from the EU ends up being disorderly, generating significant impacts on the UK economy. The Spanish economy would also be significantly affected given the existing trade, tourism and investment links with the United Kingdom. The most stressed scenario is aligned with those established by the Bank of England for stress tests of financial institutions.

Other than the impacts on the actual economy, TSB's exposure to Brexit is relatively limited, given the domestic nature of its activities. From an operational point of view, it does not show any vulnerability in terms of existing contracts with counterparties, cross dependency on financial market infrastructures, reliance on funding markets, etc. As such, it is worth noting that TSB has a low risk profile, with one of the most robust capital positions in the UK (fully-loaded CET1 capital ratio of 20.4%), an evenly distributed balance sheet between loans and deposits (loan-to-deposit ratio of 103%), as well as a loan portfolio in which over 90% of loans are secured with a mortgage. The quality of this mortgage portfolio is also very high, with an average LTV of 44%, and it has a relatively low exposure to London and high-risk segments.

In 2019, the Bank has carried out an analysis of the recoverability of the invested capital, based on the business plan approved by TSB's Board and presented to analysts and investors last November. The result of this analysis shows that there are no indications of impairment of this investment, as detailed in Note 16.

## 4.2 Key milestones during the year

### 4.2.1 Improvement of the Group's risk profile during the year

The Group's risk profile during 2019 has mainly improved for the following reasons:

**(i) Reduction of non-performing assets:**

- Reduction of the NPA ratio from 5.6% to 4.8% in year-on-year terms, additionally bringing the net NPA to total asset ratio to 1.7% and virtually eliminating non-performing real estate exposure from the Group's balance sheet.
- Furthermore, the Group's NPL ratio fell to 3.83% from 4.22% in December 2018.

**(ii) Concentration**

- From a sectoral point of view, the portfolio is well diversified with an upward trend in sectors with higher credit quality. Reduction of real estate exposures (its weight is one third of that of 2014).
- In terms of individual concentration, concentration risk metrics of large exposures have also been reduced, while the credit rating in the TOPs composition has improved.
- In geographical terms, the portfolio is positioned in the most dynamic regions, both nationally and internationally.
- International risk continues to account for almost a third of the loan portfolio, with year-on-year increases in all relevant regions (Mexico +7.9%, TSB +3.2% and foreign branches +16.2%).

**(iii) TSB lending performance:**

- Positive lending performance at TSB in the second half of the year, recovering the year-on-year growth path. Net lending grew due to the high volume of mortgage applications received, which resulted in increased agreements.
- Loan recovery maintaining the low risk profile (more than 94% in retail mortgages with average LTV of 44%), while improving the portfolio composition by reducing exposures in the Interest Only and Buy to Let portfolios.
- In November 2019, TSB presented its new strategic plan (2019-2022), with the aim of improving profitability, increasing lending, its commitment to digital transformation, as well as increasing the Bank's profits and improving the customer experience.

**(iv) Improvement of the capital position:**

- Improvement in the (fully-loaded) CET1 ratio which stands at 11.7% at the end of 2019, as a result of significant organic capital generation.
- The Total Capital ratio ended 2019 at 15.0% and the Leverage ratio improved from 4.54% to 4.75% year-on-year.

**(v) Robust liquidity position:**

- At the end of 2019, the LCR stood at 172% and the Loan-to-Deposit (LtD) ratio stood at 99%.
- The Group met the MREL requirement at the end of the year. This ratio stood above regulatory requirements.

The improvement in the Group's fundamentals, mainly in terms of risk, is reflected in the Investment Grade consideration by all the agencies that rate its debt (see Directors' Report – Section 1.4 Banco Sabadell shares and shareholders – Credit Rating Management).

#### 4.2.2 Strengthened credit risk management and control environment

*Planning and control of existing and new stock*

During 2019, the risk management and control environment has been further strengthened by preparing and deploying credit risk management and control frameworks for certain portfolios, sectors and regions, providing a powerful tool that allows the Global Risk Framework to be implemented and guides the growth of lending, seeking to optimise the duality between long-term profitability and risk.

Each of these frameworks defines the Group's risk appetite in each sector or portfolio and the requirements to achieve them, establishing:

- Asset allocation, setting the growth targets in each key pillar (quality, type, etc.).
- General criteria that should govern activity in each portfolio, sector or region.
- Basic policies for the approval and monitoring of loans and credit.
- Risk monitoring and control metrics (for both existing and new stock).

Lastly, the set of management and control frameworks, together with ongoing planning and management, allow portfolio performance to be anticipated, enabling the Group to guide the growth in a way that is profitable in the long term.

*Asset Allocation/Sectoral Strategic Debate*

The Sectoral Strategic Debate arises in the environment of the Risk Appetite Framework (RAF) and the Risk Appetite Statement (RAS), and is one of the key developments that have taken place since 2014 with the creation of the Sectoral Risk Management and Control model of Banco Sabadell Group.

As a result of this initial development, the following steps were taken:

- Definition and calculation of key metrics to monitor and manage sectoral concentration risk and their subsequent incorporation into the RAS as first-tier metrics.
- Generation of a correlated sectorisation model, grouping sectors with an outlook focused on risk management.

In this context, a decision was made to create a mechanism that would allow all of the current outlooks of the Group in relation to sectoral risk to be integrated. This determined the need to promote a Sectoral Strategic Debate in order to establish the Group's sectoral asset allocation strategy, integrating to this end the various existing outlooks within the organisation in relation to the various economic activity sectors.

The project pursues the following objectives:

- Obtain the Group's sectoral strategic outlook.
- Detect growth opportunities, as well as undesirable scenarios.
- Define mechanisms to achieve the agreed objectives.

*Pricing system that guarantees alignment with credit risk*

Pricing process in which prices are assigned on the basis of the cost, risk and capital allocated at transaction level, which is particularly important in the current environment of very competitive pricing.

The Group uses Risk adjusted Return on Capital (RaRoC) as a key risk screening factor to ensure the existence of a framework that measures return on the basis of risks and that contributes a coherent outlook of profitability among the various portfolios.

*Improvement of monitoring environment*

In 2019, the Group has continued to strengthen its customer credit risk monitoring environment, incorporating the sectoral strategic outlook into the monitoring environment and using this outlook on a forward-looking basis in order to anticipate customers' needs. The early warnings system is incorporated into management procedures through a monitoring environment that allows different strategies to be implemented depending on the segment (individuals, retailers and self-employed professionals, and corporates).

The main input used in this monitoring environment is taken from the early warning models adapted to different segments. This leads to:

- Improved efficiency by focusing monitoring activities on customers with signs of impairment.
- Forward-looking management when there are signs of deterioration, in which the Basic Management Team is responsible for renewing the rating of customers in which there has been an impairment.
- Regular monitoring of customers whose situation remains unchanged and who have been analysed by the Basic Management Team.
- Feedback using the information provided by the Basic Management Team as a result of this management.

## 4.3 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, evaluation, monitoring and control of the various risks to which the Group is exposed. With the Global Risk Framework, the Group aims to:

- Tackle risk through a structured and consistent approach throughout the Group.
- Foster an open and transparent culture with regard to risk management and control, promoting the involvement of the entire organisation.
- Facilitate the decision-making process.
- Align the accepted risk with 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 relevant risks to which the Group and subsidiaries are exposed.

### 4.3.1 Global Risk Framework Policy

As an integral part of the Global Risk Framework, the Global Risk Framework Policy establishes the common pillars for the risk management and control activities of Banco Sabadell Group. 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 develops a general framework for the establishment of other policies related to risk management and control, determining core/common aspects which are applicable to the different risk management and control policies.

When implementing the Global Risk Framework to all Group's business lines and entities, proportionality criteria are taken into account in relation to the size, 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 from the Board of Directors through the three lines of defence model, among others.

The risk governance established in the various policies that form part of the Global Risk Framework promotes a solid organisation of risk management and control, categorising it, defining limits and establishing clear responsibilities at all levels of the organisation through policies, procedures and manuals for each risk.

Banco de Sabadell, S.A. Board of Directors 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 questioning and monitoring and strategic planning of the Group and the supervision of the management of relevant risks and the alignment thereof with the profile defined by the Group.

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

- Alignment with the Group's business strategy, especially through the implementation of 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 should contribute to the achievement of objectives and improve medium-term performance. Therefore, it is integrated into 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 to the risk profile.

Corporate culture and values are a key element as they reinforce ethical and responsible behaviour by all members of the organisation.

Accordingly, 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, and 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 mentioned aspects, understanding that this favours an adequate risk-taking, facilitates the identification and management of emerging risks and promotes employees to carry out their activities and develop the business in a legal and ethical manner.

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

The Global Risk Framework, through the set of documents that comprise it, contemplates a holistic view of risk: it includes all risks, with special 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 disseminates relevant information to the public, so that market participants can maintain an informed opinion on the suitability of the management and control framework for these risks, thus ensuring transparency in risk management.

Likewise, risk management and control ensure that the interests of the Group and its shareholders are protected at all times.

### 4.3.2 Risk Appetite Framework (RAF)

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

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

The RAF's effective implementation requires an adequate combination of policies, processes, controls, systems and procedures which enable a set of defined objectives to be achieved, and to do so effectively and continuously.

The RAF covers all the Group's business lines and units, in accordance with the principle of proportionality, and must enable adequately informed decision-making, taking into account the relevant 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, self-assessment of capital and liquidity, the Recovery Plan and the remuneration framework, among others, and 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.

### 4.3.3 Risk Appetite Statement (RAS)

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

RAS' qualitative aspects

The Group's RAS incorporates the definition of a set of qualitative aspects, which fundamentally allow the definition of the Group's position against certain risks when these are difficult to quantify.

These qualitative aspects complement the quantitative metrics, establish the overall tone of the Group's risk-taking approach and articulate the motivations for taking or avoiding certain types of risks, products, geographic exposures or others.

RAS' quantitative aspects

The set of quantitative metrics defined in the RAS are intended to provide objective elements of comparison of the Group's situation with respect to 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 mechanisms for approval, monitoring and acting in the event of breaches of thresholds.

In order to gradually detect likely situations of deterioration in the risk position and thus be able to better monitor and control them, the RAS articulates a system of thresholds associated with the quantitative metrics. These thresholds reflect the desirable levels of risk by metric, as well as the levels to be avoided –their breach may trigger the activation of adjustment plans aimed at redirecting the situation.

The articulation of the different thresholds is graduated according to the severity, which allows the execution of preventive actions before reaching excessive levels. Setting all or only part of the thresholds for a given metric will depend on its nature and its hierarchy within the RAS metrics structure.

### 4.3.4 Specific policies for the different relevant risks

The set of policies for each of the risks, together with the operating and conceptual Procedures and Manuals that form part of the body of regulations of the Group and its subsidiaries, are tools on which the Group and subsidiaries rely to develop more specific aspects of each of the risks.

For each of the Group's significant 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.

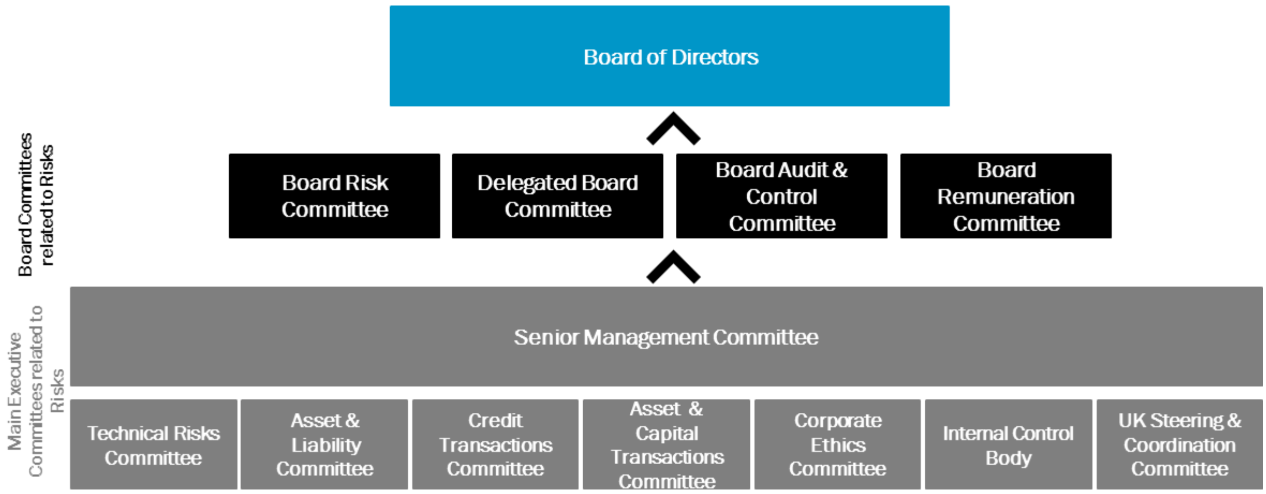
### 4.3.5 Overall organisation of the risk function

Governance structure

Banco de Sabadell, S.A. Board of Directors is the body responsible for establishing the general guidelines on the organisational distribution of the risk management and control functions, as well as determining the main strategic lines 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 capacity and remuneration programmes and policies.

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

In addition, within the Board of Directors of Banco de Sabadell, S.A. itself, there are four Committees involved in the Group's Global Risk Framework and, therefore, in risk management and control (the Delegated Committee, the Board Risk Committee, the Remuneration Committee and the Audit and Control Committee). Likewise, various Committees and Divisions are significantly involved in the risk function.



The governance structure defined aims to ensure the appropriate development and implementation of the Global Risk Framework and, therefore, of the risk management and control activity within the Group, while at the same time it aims to facilitate:

- Participation and involvement in risk decisions, and also in their supervision and control, of the Group's management bodies and Senior Management.
- Alignment of objectives at all levels, monitoring of their fulfilment and implementation of corrective measures when 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 three lines of defence model. This model is developed, for each of the risks, in the various policies that make up the Group's regulatory body, where specific responsibilities for each of the three lines of defence are established.

For each of the lines of defence, the set of risk policies describes and assigns responsibilities, as appropriate, to the following functions (or additional ones to be considered):

- First line of defence: responsible for maintaining sufficient and effective internal controls and implementing corrective actions to remedy 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 targets and objectives;

    - Implementing adequate management and oversight processes to guarantee regulatory compliance and which focus 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 management and control framework.

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

    - Overseeing the development 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 development of its businesses.

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

    - Ensuring that the models work as expected and that the results obtained from them are appropriate to their various uses, both internal and regulatory.
    - Promoting and pursuing the highest possible levels of compliance with current legislation and professional ethics within the Group.
    - Guaranteeing both the continuity of ordinary business activities and the security of the information on which such activities are based.

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

## 4.4 Management and monitoring of the main significant risks

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 2019:

### 4.4.1 Strategic risk

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

The Group develops a Strategic Business Plan which sets out the institution's strategy over a certain period of time (currently 2018-2020). In addition, the Plan is periodically monitored in order to study the Group's most recent performance and the environment, as well as the risks taken. This projection is carried out on the basis of the most likely economic scenario for the key regions (baseline scenario), and it is also included in the ICAAP as a baseline scenario. The economic scenario is described in terms of the key risk factors impacting the Group's income statement and balance sheet.

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

In addition, it is worth noting that in November, TSB presented its new strategic plan (2019-2022), with the aim of improving profitability, increasing lending, its commitment to digital transformation, as well as increasing the Bank's profits and improving the customer experience.

Strategic risk includes the management and control of four risks:

- 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 its 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.

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

4.4.1.1 Solvency risk

The CET1 ratio has performed positively throughout 2019. It stood at 11.7% (fully-loaded) at the end of 2019, as a result of significant organic capital generation.

The Total Capital ratio also performed along these lines, standing at 15.0% in December 2019. Likewise, the Leverage ratio stood at 4.75% as at December 2019 compared to 4.54% in the previous year.

As at 31 December 2019, Banco Sabadell’s phased-in CET1 capital ratio stood at 12.5% and the Total Capital ratio at 15.7%.

Banco Sabadell exceeds the limits required by the European Central Bank in the decision it sent to the Group in December 2019 and which are applicable to it for 2020. Therefore, Banco Sabadell has no limitations on distributions of dividends, variable remuneration and coupon payments to holders of AT1 capital instruments.

The current levels of solvency show that Banco Sabadell is generally in compliance with capital levels in terms of regulatory requirements.

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

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

4.4.1.2 Business risk

The strength of the Group's banking business revenues, despite the interest rate environment, continues to evolve positively, growing 1% year-on-year. In terms of fee income, there was a good year-on-year performance with growth of 7.7%, driven by service fees. As a result, the profit obtained at the end of December 2019 was 768 million euros and the ROE was solid at 5.9%.

At the same time, it was possible to carry out actions that lay the foundations for greater future profitability based on the growth of core revenues, mainly by promoting digitalisation and divestment in non-strategic businesses.

In addition, as part of the strategy, the Group has sped up the digital transformation process, increasing both the volume of customers and the number of digital sales throughout 2019. In Spain, the launch of the NOMO application to help self-employed individuals manage their finances, and the partnership with SQUARE in the UK to facilitate card payments for customers in TSB's business segment are noteworthy.

Finally, it is worth noting the improvement in TSB's recurring profit envisaged in the strategic plan disseminated to the market, which will stand between 130 million and 140 million pounds in 2022. At these levels, TSB's ROE will be close to 7%. The Bank also plans to increase and diversify its loan portfolio, with a net annual increase of 5% over the next three years. Cost savings, after absorbing the impact of amortisation of investments, will reach around 100 million pounds, which will help to improve its cost-to-income ratio by 15 percentage points.

4.4.1.3 Reputational risk

With regard to reputational risk, Banco Sabadell continues to maintain its competitive advantage by excelling in service quality. Accordingly, the service quality index has performed positively throughout 2019, and is above the average for the sector. In addition, the Group has consolidated its top position in the NPS ranking for the SME segment, while it is second in the ranking for Corporates and Personal Banking segments.

Similarly, TSB's NPS continued to improve during the year and especially the mobile NPS, which is practically at pre-migration levels.

4.4.1.4 Environmental risk

Climate change has led to the identification of new sources of financial risk to which the regulatory and supervisory community is paying greater attention. Consequently, and in line with the trend in the sector, Banco Sabadell has started a project to deepen the management and control of environmental risk.

As part of this, in September 2019 Banco Sabadell became one of the founding signatories to the Principles of Responsible Banking, committing itself to strategically align its business with the Sustainable Development Goals and the Paris Agreement on Climate Change. By signing the Principles of Responsible Banking, Banco Sabadell joined a coalition of 130 banks worldwide, representing more than 47 trillion dollars in assets, which are committed to playing a crucial role in achieving a sustainable future.

Banco Sabadell's growing commitment to promoting more sustainable energy models is reflected in the increase in investment in renewable energy projects throughout 2019.

### 4.4.2. Credit risk

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 deterioration of borrowers' creditworthiness.

#### *4.4.2.1 Credit risk management framework*

*Acceptance and monitoring*

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

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

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

The account manager monitors the business aspect through direct contact with customers and by handling their day-to-day banking activities, whilst the risk analyst takes a more system-based approach making use of their 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 corporate borrowers and credit scoring systems for retail customers, as well as early warning indicators for monitoring risk. These are integrated into a single tool that provides a comprehensive and forward-looking view of customers.

The analysis of indicators and early warnings, in addition to credit rating reviews, allows 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 by enabling a proactive policy to be devised based on a preliminary 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 the deterioration of credit quality. In general, this monitoring is based on early warnings systems at both transaction/borrower level and at portfolio level, and both systems use the firm's internal information and external information in order to obtain results. The 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 (increased 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, based on risks in excess of a set limit and predicted default rates, groups or categories are established to be treated individually. These warnings are additionally managed by the account manager and the risk analyst.

*NPA risk management*

Generally, during stages of weakness in the economic cycle, debt refinancing and restructuring are the main risk management techniques used. The Bank's objective, when faced with debtors or 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 availability of a sufficiently detailed compliance record for 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.

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

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

- A maximum length is applied to grace periods.

The Group continually monitors compliance with the agreed terms and conditions 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 of 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 carries out internal approval functions, depending on the levels of materiality of the risks, and which also monitors internal credit risk models.

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

For further quantitative information, see Schedule VI "*Other risk information: Forbearance*" to these consolidated 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 being implemented in this portfolio is the continuous monitoring of risks and the reappraisal of borrowers' financial viability based on their new economic circumstances. If the results of the reappraisal are satisfactory, the existing arrangements continue on the basis agreed, with new commitments being required where appropriate in light of the new circumstances.

The Bank has established three strategic lines of action:

- 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 assessment to be obtained, taking into account the expert real estate vision.

Accordingly, 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 which enables the Group to have a detailed understanding of the projects being analysed by the unit (including the surface area, the number of units, the sales volume, the construction budget and the extent of pre-marketing activities).

- Two Real Estate Investment Analysis and Monitoring Divisions, East and West (reporting to the Real Estate Risk and Investees Division), responsible for analysing all of the real estate projects that the Bank is considering awarding funding to from a purely real estate business point of view, analysing the location and suitability of the product, as well as the potential current supply and demand, and comparing in each case 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 control drawdowns and compliance with the business plan (sales, costs and timelines).

This management model has allowed the definition of alerts to be monitored from 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 optimum 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/file.

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

In the case of completed real estate developments or completed non-residential properties, the possibility of marketing at prices that can drive the market is offered.

For other funded real estate developments, the possibility of closing sale agreements with third parties is considered and amicable settlement solutions are proposed (purchase, payment in kind, which in the case of properties owned by retail customers can be coupled with favourable conditions for relocation or social renting depending on the needs of the customer) or else judicial proceedings are initiated.

- Management of foreclosed assets

Once the loan has been converted into a real estate asset, a management strategy is defined depending on the type of asset and its location, in order to identify the potential of each asset according to its potential demand.
The main disposal mechanism is the sale of the asset, for which the Bank, through Solvia, has developed different channels on the basis of the type of property and customer.

The Group, given the past significance of high concentrations of this type of risk, has a first-tier RAS metric in place which establishes a maximum level of concentration of exposures associated with real estate developments based on the TIER 1 capital in Spain. This metric is monitored on a monthly basis and reported to the Technical Risks 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. Results of this monitoring exercise are escalated to the Technical Risks Committee for information.

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

*4.4.2.2. Risk management models*

*Rating*

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

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

%

| Breakdown of Sabadell corporates portfolio by rating | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 9 | 8 | 7 | 6 | 5 | 4 | 3 | 2 | 1 | 0 | **TOTAL** |
| 0.36% | 11.36% | 20.08% | 22.88% | 29.35% | 11.35% | 3.48% | 0.91% | 0.18% | 0.07% | 100% |

*Scoring*

In general, credit risks undertaken with individual customers are rated using credit scoring systems that are based on a quantitative model of past statistical data, and which identify the relevant predictive factors. In regions in which credit scoring takes place, the latter is divided into two types:

*Behavioural scoring*: the system automatically classifies customers based on information on their transactions and on each product which they have acquired. These scores are mainly used in: approving transactions, setting (authorised) overdraft limits, advertising campaigns, monitoring and segmentation of claims and/or recovery procedures.

*Reactive scoring*: this is used to evaluate applications for consumer loans, mortgage loans and credit cards. Once all of the data relating to the various transactions has been entered, the system calculates a result based on the estimated repayment capacity, financial profile and, if applicable, the level of assets pledged as guarantees.

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

%

| Breakdown of individuals portfolio by rating | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 9 | 8 | 7 | 6 | 5 | 4 | 3 | 2 | 1 | 0 | **TOTAL** |
| 0.93% | 4.34% | 16.69% | 35.93% | 22.30% | 11.78% | 5.11% | 1.61% | 0.55% | 0.74% | 100% |

Excluding transactions relating to TSB.

*Warning tools*

In general, Banco Sabadell Group has a system of warning tools in place, which include both individual warnings and advanced early warning models for both the Corporates sector and the Individuals sector. These warning tools are based on behavioural factors obtained from available sources of information (credit rating 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 corporates and individuals.

This warnings system enables:

- Efficiency to be improved, as monitoring exercises focus on customers with the lowest credit rating or credit score (different cut-off points for each group).
- The institution to anticipate actions required to manage any negative change in the situation of the customer (change in rating, new severe warnings, etc.).
- Regular monitoring of customers whose situation remains unchanged and who have been analysed by the Basic Management Team.

*4.4.2.3. Credit risk exposure*

The tables below show the breakdown, by headings of the consolidated balance sheet, of the Group's maximum gross exposure to credit risk as at 31 December 2019 and 2018, without deducting collateral or credit enhancements received in order to ensure compliance with payment obligations, broken down by portfolios and in accordance with the nature of the financial instruments:

Thousand euro

| Maximum credit risk exposure | Note | 2019 | 2018 |
|---|---|---|---|
| **Financial assets held for trading** | | **600,621** | **324,691** |
| Equity instruments | 9 | 3,701 | 7,254 |
| Debt securities | 8 | 596,920 | 317,437 |
| **Non-trading financial assets mandatorily at fair value through profit or loss** | | **171,056** | **141,314** |
| Equity instruments | | - | - |
| Debt securities | 8 | 171,056 | 141,314 |
| **Financial assets at fair value through other comprehensive income** | | **7,972,968** | **13,247,055** |
| Equity instruments | 9 | 382,903 | 270,336 |
| Debt securities | 8 | 7,590,065 | 12,976,719 |
| **Financial assets at amortised cost** | | **184,356,525** | **167,850,730** |
| Debt securities | 8 | 19,218,841 | 13,132,060 |
| Loans and advances | 11 | 165,137,684 | 154,718,670 |
| **Derivatives** | **10, 12** | **2,308,761** | **2,022,249** |
| **Total credit risk due to financial assets** | | **195,409,931** | **183,586,039** |
| Loan commitments provided | 26 | 27,563,836 | 22,645,948 |
| Financial guarantees provided | 26 | 2,107,412 | 2,040,786 |
| Other commitments provided | 26 | 10,398,913 | 8,233,226 |
| **Total off-balance sheet exposures** | | **40,070,161** | **32,919,960** |
| **Total maximum credit risk exposure** | | **235,480,092** | **216,505,999** |

The Group has also given borrowers guarantees and loan commitments, materialised 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 assume credit risk and are subject to the same management and monitoring systems described above. For further information, see Note 26.

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

*4.4.2.4. Credit risk mitigation*

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

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

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

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

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

In addition to the mitigation of the risk arising from guarantees executed between the obligors and the institution, as a result of the acquisition of Banco CAM, the Group also has an additional guarantee for a particular asset portfolio, provided by the APS, with retroactive effects from 31 July 2011 and for a period of ten years (see Note 2).

The Bank has not received any significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of the referred guarantees, except for those intrinsic to treasury activities, which are mostly repos with maturities of no more than six months, therefore their fair value does not differ substantially from their carrying value (see Note 6). 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 888,078 thousand euros and are included by type under the repos heading in Notes 18 and 19.

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

The values of the guarantees received to ensure collection, broken down into collateral and other guarantees, as at 31 December 2019 and 2018 are as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Value of collateral | 93,600,477 | 87,807,280 |
| *Of which: securing Stage 2 loans* | *5,277,168* | *6,222,290* |
| *Of which: securing Stage 3 loans* | *2,745,459* | *2,916,904* |
| Value of other guarantees | 10,146,890 | 10,882,213 |
| *Of which: securing Stage 2 loans* | *614,257* | *820,106* |
| *Of which: securing Stage 3 loans* | *356,153* | *320,192* |
| **Total value of guarantees received** | **103,747,367** | **98,689,493** |

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 for use in the financing or construction of housing or other types of real estate. On a like-for-like basis, exposures secured with mortgage loans represent 60.42% of total gross lending.

In the case of market transactions, counterparty credit risk is managed as explained in Section 4.4.2.7.

*4.4.2.5. 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 such models can only be reasonably designed if a minimum level of experience with cases of non-payment is available.

The exposure percentage of the institution calculated using internal models, for solvency purposes, is 76%. This percentage has been calculated following the TRIM guidelines (Article 31[a]).

The breakdown of total exposures, rated based on the various internal rating levels, as at 31 December 2019 and 2018 is as follows:

Million euro

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

Million euro

| Breakdown of exposure by rating | Loans assigned rating/score | | | | |
|---|---|---|---|---|---|
| | 2018 | | | | |
| | Stage 1 | Stage 2 | Stage 3 | *Of which: purchased credit-impaired* | Total |
| AAA/AA | 10,703 | 228 | - | - | 10,931 |
| A | 9,245 | 27 | - | - | 9,272 |
| BBB | 70,519 | 200 | - | - | 70,719 |
| BB | 41,027 | 481 | - | - | 41,508 |
| B | 25,907 | 2,975 | - | *15* | 28,882 |
| Rest | 1,206 | 4,917 | 6,368 | *405* | 12,491 |
| No rating/score assigned | 7,048 | 66 | 104 | - | 7,218 |
| **Total gross amount** | **165,655** | **8,894** | **6,472** | **420** | **181,021** |
| **Impairment allowances** | **(373)** | **(325)** | **(2,737)** | ***(86)*** | **(3,435)** |
| **Total net amount** | **165,282** | **8,569** | **3,735** | ***334*** | **177,586** |

The breakdown of total off-balance sheet exposures, rated based on the various internal rating levels, as at 31 December 2019 and 2018 is as follows:

Million euro

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

Million euro

| Breakdown of exposure by rating | Loans assigned rating/score | | | | |
|---|---|---|---|---|---|
| | 2018 | | | | |
| | Stage 1 | Stage 2 | Stage 3 | *Of which: purchased credit-impaired* | Total |
| AAA/AA | 2,705 | 33 | - | *9* | 2,738 |
| A | 1,584 | 5 | - | - | 1,589 |
| BBB | 9,204 | 77 | - | - | 9,281 |
| BB | 9,959 | 156 | - | - | 10,115 |
| B | 6,366 | 401 | - | - | 6,767 |
| Rest | 391 | 347 | 135 | - | 873 |
| No rating/score assigned | 1,549 | 6 | 2 | - | 1,557 |
| **Total gross amount** | **31,758** | **1,025** | **137** | ***9*** | **32,920** |
| **Impairment allowances** | **(46)** | **(14)** | **(48)** | **-** | **(108)** |
| **Total net amount** | **31,712** | **1,011** | **89** | **9** | **32,812** |

Further details on the credit rating and credit scoring models are included in Section 4.4.2.2 of these consolidated annual financial statements.

For Spain business' borrowers that do not exceed the materiality threshold and whose coverage has been assessed under internal models in 2019, 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 at which the transactions are classified according to their credit risk.

%

| | Average EL 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** | 1.10% | 23.50% | 20.30% | 19.60% | 100.00% | 34.70% | 6.80% | 23.80% |
| Other financial corporations | 1.20% | 26.50% | 10.80% | 9.00% | 100.00% | 45.20% | 1.60% | 26.30% |
| Non-financial corporations | 1.30% | 34.40% | 18.90% | 25.00% | 100.00% | 40.40% | 5.60% | 34.10% |
| Households | 1.00% | 12.10% | 21.90% | 13.70% | 100.00% | 31.40% | 8.10% | 13.60% |

%

| | Average EL 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** | 0.90% | 31.40% | 31.30% | 32.30% | 100.00% | 53.80% | 1.40% | 31.50% |
| Other financial corporations | 1.60% | 41.00% | 4.70% | 42.00% | - | - | 1.60% | 41.00% |
| Non-financial corporations | 1.10% | 37.50% | 32.60% | 33.00% | 100.00% | 54.20% | 1.90% | 37.50% |
| Households | 1.00% | 32.30% | 14.70% | 23.10% | 100.00% | 40.00% | 1.10% | 32.20% |

During 2019, an improvement has been observed in the reduction of assets classified as Stage 3, which have been reduced by 413 million euros during the year, resulting in a reduction of the Group's NPL ratio as shown in the table below:

%

| | 2019 | 2018 |
|---|---|---|
| NPL ratio (*) | 3.83 | 4.22 |
| NPL coverage ratio (*) | 49.58 | 54.07 |

(*) The NPL ratio excluding TSB stands at 4.62% and the NPL coverage ratio at 50.09% (in 2018, 5.04% and 54.34%, respectively).

The NPL ratio, broken down by lending segment, is set out below:

| % | Proforma 2019 (*) | 2019 | Proforma 2018 (*) | 2018 |
|---|---|---|---|---|
| Real estate development and construction | 10.96 | 10.91 | 15.68 | 15.62 |
| Non-real estate construction | 6.11 | 6.10 | 5.68 | 5.67 |
| Corporates | 1.45 | 1.45 | 2.32 | 2.32 |
| SMEs and self-employed | 6.73 | 6.69 | 6.48 | 6.45 |
| Individuals with 1st mortgage guarantee | 5.33 | 3.43 | 5.82 | 3.82 |
| **Sabadell Group NPL ratio** | **4.62** | **3.83** | **5.04** | **4.22** |

(*) Corresponds to the NPL ratio excluding TSB.

A more detailed breakdown of allowances and assets classified as Stage 3 can be found in Note 11, and a more detailed breakdown of forborne and restructured transactions is included in Schedule VI.

*4.4.2.6. Concentration risk*

Concentration risk is defined as credit risk to exposures with the potential to generate sufficiently large losses that threaten the solvency of the institution or the viability of its ordinary business.

Exposures can be concentrated within a single customer or economic group, or at sector or geographical level.

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.

- 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 an efficient management of concentration risk:

- Quantitative metrics from the Risk Appetite Statement and their subsequent monitoring as first-tier metrics.

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

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

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

**Consistency with the Global Risk Framework**

The Group guarantees the consistency between the concentration of its risk exposures and the tolerance of such risks, as defined in the RAS. There are overall concentration risk limits and adequate internal controls are in place to ensure that the concentration of these risk exposures does not exceed 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 historical 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.

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

**Risk control monitoring and regular reporting**

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

**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.

If necessary, the Group will take the corresponding measures 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 2019, there were no borrowers with approved lending that individually exceeded 10% of the Group's own funds.

*Country risk: geographic exposure to credit risk*

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 the eventual inability of obligors to honour their foreign currency payment obligations to external creditors due to, among other reasons, the country preventing access to that foreign currency, the inability to transfer it or the non-enforceability of legal actions against borrowers for reasons of sovereignty, or for reasons of war, expropriation or nationalisation.

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

An exposure limit is set for each country which is applicable across the whole of Banco Sabadell Group. These limits are approved by the Delegated Committee and the corresponding decision-making bodies, as per their conferred powers, and they are continuously monitored to ensure that any deterioration in the political, economic or social situation of a country can be detected in good time.

The main component of the framework 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 committees 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.

*4.4.2.7. Counterparty credit risk*

This heading considers credit risk associated with activities in financial markets involving transactions with counterparty credit risk. Counterparty 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.

Accordingly, the amount subject to the potential default of the counterparty does not correspond to the notional of the contract, but is uncertain and depends on the fluctuation of market prices 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 exposure by credit rating and by the regions in which the Group operates.

%

| AAA | AA+ | AA | AA- | A+ | A | A- | BBB+ | BBB | BBB- | BB+ | BB | BB- | B+ | Rest | **TOTAL** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.0% | 0.0% | 7.2% | 38.7% | 18.1% | 11.7% | 6.3% | 5.7% | 3.5% | 1.8% | 1.0% | 3.1% | 1.4% | 0.3% | 1.3% | **100.0%** |

%

| | 2019 |
|---|---|
| Euro Zone | 73.8% |
| Rest of Europe | 18.9% |
| U.S.A. and Canada | 5.6% |
| Rest of the world | 1.7% |
| **Total** | **100.0%** |

As can be seen in the table, the risk is concentrated in counterparties with a high credit quality, with 82% of the risk relating to counterparties with a credit rating of A.

In 2016, under the European Market Infrastructure Regulation (EMIR) (Regulation 648/2012), the obligation to settle and clear certain over-the-counter derivatives through central counterparty clearing houses (CCPs) has been applicable to the Group. For this reason, the derivatives subscribed by the Group and subject to the foregoing are channelled via these agents. At the same time, the Group has strengthened the standardisation of OTC derivatives with a view to promoting 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), it is considered, based on management criteria, that there is no exposure, given that there is no risk as the OMs act as counterparties in the transactions and a daily settlement and guarantee mechanism is in place to ensure the transparency and continuity of the activity. In OMs the exposure is equivalent to the deposited guarantees.

The breakdown of transactions involving derivatives in financial markets depending on whether the counterparty is another financial institution, clearing house or organised market is as follows:

Million euro

| | 2019 | 2018 |
|---|---|---|
| Transactions with organised markets | 3,779 | 2,784 |
| OTC transactions | 169,533 | 178,102 |
| *Settled through clearing houses* | *88,444* | *88,452* |
| **Total** | **173,312** | **180,886** |

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 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 2019 and 2018:

Thousand euro

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Financial assets subject to collateral agreements | | | | |
| | | | Guarantee received | | |
| | Amount recognised on balance sheet | Amount offset (for collateral calculations only) | Cash | Securities | Net value |
| **Financial assets** | (a) | (b) | ( c) | ( d) | (a)-(b)-(c)-(d) |
| Derivatives | 1,852,354 | 1,631,635 | 174,004 | - | 46,715 |
| Repos | 12,037,527 | - | 25,390 | 12,183,111 | (170,974) |
| **Total** | **13,889,881** | **1,631,635** | **199,394** | **12,183,111** | **(124,259)** |

Thousand euro

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Financial liabilities subject to collateral agreements | | | | |
| | | | Guarantee given | | |
| | Amount recognised on balance sheet | Amount offset (for collateral calculations only) | Cash | Securities | Net value |
| **Financial liabilities** | (a) | (b) | ( c) | ( d) | (a)-(b)-(c)-(d) |
| Derivatives | 2,486,328 | 1,631,635 | 888,771 | 157,912 | (191,990) |
| Repos | 8,442,811 | - | 617,509 | 8,416,140 | (590,838) |
| **Total** | **10,929,139** | **1,631,635** | **1,506,280** | **8,574,052** | **(782,828)** |

Thousand euro

| | 2018 | | | | |
|---|---|---|---|---|---|
| | 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 | 1,508,703 | 1,208,294 | 243,375 | - | 57,034 |
| Repos | 5,960,839 | - | 7,194 | 5,992,028 | (38,383) |
| **Total** | **7,469,542** | **1,208,294** | **250,569** | **5,992,028** | **18,651** |

Thousand euro

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Financial liabilities subject to collateral agreements | | | | |
| | Amount recognised on balance sheet | Amount offset (for collateral calculations only) | Guarantee given | | Net value |
| | | | Cash | Securities | |
| Financial liabilities | (a) | (b) | ( c) | ( d) | (a)-(b)-(c)-(d) |
| Derivatives | 2,219,489 | 1,208,294 | 1,067,530 | 197,924 | (254,259) |
| Repos | 9,819,345 | - | 258,490 | 9,940,126 | (379,271) |
| **Total** | **12,038,834** | **1,208,294** | **1,326,020** | **10,138,050** | **(633,530)** |

The values of derivative financial instruments which are settled through a clearing house as at 31 December 2019 and 2018 are indicated hereafter:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Derivative financial assets settled through a clearing house | 929,918 | 652,615 |
| Derivative financial liabilities settled through a clearing house | 1,241,254 | 858,273 |

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

The approach for quantifying counterparty credit risk exposure takes into account current and future exposure. Current exposure represents the cost of substituting a transaction at market value in the event of a default by a counterparty. To calculate it, the current or Mark to Market (MtM) value of the transaction is required. The future exposure represents the risk that a transaction could potentially represent over a certain period of time, given the characteristics of the transaction and the market variables on which it depends. In the case of transactions carried out under a collateral agreement, the future exposure represents the possible fluctuation of the MtM between the time of default and the replacement of such transactions in the market. If the transaction is not carried out through 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 control in accordance with the limits approved by Senior Management. This information is included in risk reports for disclosure to the departments and units responsible for their management and monitoring.

With regard to counterparty credit risk, the Group adopts different mitigation measures. The main measures are:

- Netting agreements for derivatives (ISDA and CMOF).
- Variation margin collateral agreements for derivatives (CSA and Schedule 3 - CMOF), repos (GMRA, EMA) and securities lending (GMSLA).

Netting agreements allow positive and negative MtM to be aggregated for transactions with a single counterparty, in such a way that in the event of default, a single payment or collection obligation is established in relation to all of the transactions closed with such counterparty.

By default, the Group has netting agreements with all of the counterparties that wish to operate with derivatives.

Variation margin collateral agreements, as well as including the netting effect, also include the regular exchange of guarantees which mitigate the current exposure with a counterparty in respect of the transactions subject to such agreement.

In order to operate in derivatives or repos with financial institutions, the Group has established the requirement of having variation margin collateral agreements. Furthermore, for derivative transactions with such 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.

*4.4.2.8 Assets pledged in financing operations*

As at the end of 2019 and 2018, there were certain financial assets pledged in financing transactions, i.e. offered as collateral or guarantees for certain liabilities. These assets correspond mainly to loans linked to the issuance of covered bonds, public sector covered bonds and long-term securitisation bonds (see Note 20, Schedule III for transactions linked to the Spanish Mortgage Market and Schedule IV for details of issues). The remaining pledged assets are debt securities which are submitted in transactions involving assets sold under repurchase agreements, pledged collateral (loans or debt instruments) to access certain financing transactions with central banks and all types of collateral provided to secure derivatives transactions.

Information on mortgage-secured loans awarded in Spain and included in the "*Loans and advances – Customers*" portfolio, which are linked to the issuance of covered bonds pursuant to the Spanish Mortgage Market Law, is included in Schedule III on "Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register", a special accounting record of the issuing entity Banco Sabadell, as required by Bank of Spain Circular 5/2011, implementing 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 Group 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 Group, identifying those in which the risks and associated rewards of ownership have been transferred, is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Fully derecognised from the balance sheet:** | **1,069,492** | **833,792** |
| Securitised mortgage assets | 165,572 | 186,899 |
| Other securitised assets | 896,022 | 16,122 |
| Other transferred financial assets | 7,898 | 630,771 |
| **Fully retained on the balance sheet:** | **13,246,466** | **15,092,110** |
| Securitised mortgage assets | 12,526,632 | 13,876,927 |
| Other securitised assets | 719,834 | 1,215,183 |
| Other transfers to credit institutions | - | - |
| **Total** | **14,315,958** | **15,925,902** |

The assets and liabilities associated with securitisation funds of assets which originated after 1 January 2004, and for which inherent risks and rewards of ownership have not been transferred to third parties, have been maintained in the consolidated financial statements. In terms of the assets shown, the risk is not transferred as some form of subordinated loan or credit enhancement has been transferred to the securitisation funds. As at 31 December 2019, there was no significant financial aid from the Group for unconsolidated securitisations.

The heading 'Other transferred financial assets fully derecognised from the balance sheet' included, as at 31 December 2018, mainly assets transferred to the Spanish company for the management of assets arising from the restructuring of the banking system (Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, SAREB) by Banco Gallego, as they continue to be managed by the entity for 621,627 thousand euros. As at 31 December 2019, this management practice is no longer in place.

Schedule II to these consolidated annual financial statements includes certain information regarding the securitisation funds originated by the Group.

### 4.4.3. Financial risks

Financial risk is defined as the possibility of obtaining an inadequate return or insufficient levels of liquidity to prevent compliance with future requirements and expectations.

*4.4.3.1. 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 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 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 or under a stress situation caused by systemic and/or idiosyncratic factors.

The pillars of Banco Sabadell's governance structure for liquidity management and control are the direct involvement of governing bodies, management bodies and Senior Management, following the model of three lines of defence, and a strict separation of duties, as well as a clear-cut structure of responsibilities.

*Liquidity management*

Banco Sabadell's liquidity management seeks to ensure funding for its business activity at an appropriate cost and term while minimising liquidity risk. The institution's funding policy focuses on maintaining a balanced funding structure, based mainly on customer deposits and supplemented with access to wholesale funding 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, the UGLs are Banco Sabadell (includes foreign branches, or OFEX for their acronym in Spanish), BancSabadell d'Andorra (BSA), TSB and the entities Banco Sabadell S.A., I.B.M. and Sabcapital S.A. de C.V., SOFOM, E.R., which correspond to the business in Mexico.

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 responsibility for the oversight of liquidity risk.

- Integration of the risk culture, based on prudent liquidity risk management and its alignment with the established risk appetite.

- Clear separation of functions and duties between the different areas and units within the organisation, with a clear-cut delineation of the three lines of defence, ensuring the involvement of the governing bodies and Senior Management.

- Implementation of best practices in liquidity risk management and control, ensuring not only compliance with regulatory requirements but also that, under a criterion of prudence, a sufficient level of liquid assets is available to cope with 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 on the various 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 defence.

- 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 issuing capacity of covered bonds.

- Holistic view of risk, complying with regulatory requirements, recommendations and guidelines.

- Alignment with stakeholders' interests through regular public disclosure of liquidity risk information.

- Availability of a Liquidity Contingency Plan.

*Tools/Metrics for monitoring and controlling liquidity risk management*

Banco Sabadell Group has a system of metrics and tolerance limits which are described in the RAS and which define the appetite for liquidity risk, 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. As part of the monitoring of liquidity metrics at Group level, there are metrics that have been established at Group level and which are calculated on a consolidated basis, metrics established at Group level and deployed to each Group UGL, as well as metrics established at 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 relating to the approval, monitoring, reporting of breaches and remediation plans established in the Risk Appetite Framework (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 an early warning indicators (EWIs) system at the UGL level, which includes market and liquidity indicators adapted to the funding structure and the business model of each UGL. The deployment of these indicators at UGL level complements the RAS metrics and allows tensions in the local liquidity position and funding structure to be detected early, thereby facilitating the implementation of corrective measures and actions and reducing the risk of contagion between the different management units.

The risk of each UGL is also monitored daily through the Structural Treasury Report, which measures the daily changes in the funding needs of the balance sheet, the daily changes in the outstanding balance of transactions in capital markets, as well as the daily changes in the first line of liquidity maintained by each UGL.

The reporting and control framework involves, among other aspects:

- Monitoring the RAS metrics and the associated thresholds on a consolidated basis, as well as those established for each UGL, in line with the established monitoring frequency.

- Reporting to the relevant committees, governing and management bodies on the basis of the levels into which such metrics have been classified.

- In the event a 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 target risk appetite. Each UGL has a 1 and 3-year funding plan in which they set out their potential funding needs as well as their management strategy, and they regularly analyse the compliance therewith, any deviations from the projected budget and the adequacy of the plan in terms of the market environment.

The institution also has an internal funds transfer pricing system to transfer the funding costs to business units.

Lastly, Banco Sabadell has a Liquidity Contingency Plan (LCP) in place, which sets forth the strategy for guaranteeing that the institution has sufficient management capacities and measures in place to limit any negative impacts of a crisis situation affecting its liquidity position and to allow it to return to a business-as-usual situation. The LCP also aims to facilitate business continuity in the management of liquidity, particularly in the event that a crisis has arisen due to a substandard performance of one or more financial market infrastructures. The LCP can be activated in response to different crisis situations in either the markets or the institution itself. The key components of the LCP include: measures available to generate liquidity in business-as-usual situations or in a crisis situation linked to the activation of the LCP and a communication plan (both internal and external) for the LCP.

*Residual maturity periods*

The table below shows the breakdown by contractual term to maturity, excluding, in some cases, valuation adjustments and impairment losses, of certain consolidated balance sheet items as at 31 December 2019 and 2018, under business-as-usual market conditions:

Thousand euro

| | | | | | 2019 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Time to revision or 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 | - | 21,517,866 | 1,965,459 | 1,977,159 | 517,913 | - | - | - | - | **25,978,397** |
| Loans and receivables | 619,417 | 7,632,828 | 5,972,617 | 14,418,127 | 11,924,479 | 13,576,551 | 10,769,445 | 8,886,124 | 69,080,634 | **142,880,223** |
| Debt securities | - | 285,618 | 385,221 | 1,363,200 | 601,538 | 564,837 | 315,855 | 1,718,607 | 18,350,303 | **23,585,179** |
| Other assets | - | - | - | 3 | 29 | - | 741 | 799 | 8,570 | **10,142** |
| **Total assets** | **619,417** | **29,436,312** | **8,323,298** | **17,758,489** | **13,043,959** | **14,141,387** | **11,086,042** | **10,605,530** | **87,439,507** | **192,453,941** |
| Money Market | - | 7,591,949 | 2,612,807 | 4,950,608 | 15,188,075 | 1,043,995 | 42,903 | 44,165 | 111,193 | **31,585,695** |
| *Of which: Repos* | - | 4,756,408 | 1,610,538 | 1,801,130 | 393,765 | - | - | - | - | ***8,561,841*** |
| Customer funds | 118,205,321 | 2,593,762 | 2,875,573 | 12,745,397 | 2,848,587 | 1,086,392 | 275,788 | 934,616 | 9,536 | **141,574,973** |
| Marketable debt securities (*) | - | 94,440 | 1,378,895 | 3,338,512 | 2,987,089 | 3,659,325 | 2,990,734 | 5,201,593 | 4,753,890 | **24,404,477** |
| *Of which: Secured senior debt* | - | 15,426 | 311,100 | 2,462,637 | 2,176,289 | 1,827,110 | 1,501,734 | 2,818,259 | 2,717,164 | ***13,829,721*** |
| *Of which: Unsecured senior debt* | - | - | 491,122 | 9,975 | 358,284 | 682,215 | 989,000 | 2,383,333 | 1,521,700 | ***6,435,630*** |
| *Of which: Subordinated liabilities* | - | - | - | 424,600 | 452,515 | 1,150,000 | 500,000 | - | 515,025 | ***3,042,140*** |
| Other liabilities | - | 46,145 | 93,012 | 383,878 | 355,660 | 271,468 | 216,377 | 184,644 | 1,017,406 | **2,568,589** |
| **Total liabilities** | **118,205,321** | **10,326,296** | **6,960,287** | **21,418,394** | **21,379,411** | **6,061,180** | **3,525,802** | **6,365,018** | **5,892,025** | **200,133,735** |
| ***Of which:*** | | | | | | | | | | |
| *Secured liabilities* | - | 4,771,834 | 1,921,638 | 3,853,916 | 6,735,597 | 2,238,488 | 1,501,734 | 1,936,736 | 2,717,164 | ***25,677,107*** |
| *Unsecured liabilities* | 118,205,444 | 5,554,340 | 5,038,649 | 17,564,478 | 14,643,814 | 3,822,692 | 2,024,068 | 4,428,282 | 3,174,861 | ***174,456,627*** |
| **Trading and Hedging Derivatives** | | | | | | | | | | |
| Receivable | - | 15,501,712 | 20,397,410 | 20,038,070 | 14,462,384 | 9,437,524 | 10,583,364 | 16,415,371 | 34,057,369 | **140,893,204** |
| Payable | - | 16,619,346 | 21,167,793 | 22,977,713 | 15,608,687 | 9,603,503 | 9,297,872 | 16,207,859 | 36,059,617 | **147,542,390** |
| **Net** | **-** | **(1,117,634)** | **(770,383)** | **(2,939,644)** | **(1,146,303)** | **(165,979)** | **1,285,492** | **207,512** | **(2,002,248)** | **(6,649,187)** |
| **Contingent risks** | | | | | | | | | | |
| Financial guarantees | 37,479 | 22,339 | 111,565 | 260,912 | 181,908 | 85,041 | 41,396 | 34,637 | 1,332,135 | **2,107,412** |

(*) For details of maturities of issues aimed at institutional investors, see the section entitled "Funding strategy and liquidity trends in 2019" in this note.

Thousand euro

| 2018 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Time to revision or 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 | 256,019 | 25,364,611 | 1,956,971 | 1,289,360 | 27,362 | - | - | - | - | **28,894,323** |
| Loans and receivables | 630,627 | 7,082,922 | 6,176,911 | 14,988,247 | 10,958,819 | 10,375,647 | 10,379,198 | 10,981,792 | 63,055,785 | **134,629,948** |
| Debt securities | 7,931 | 66,604 | 506,146 | 995,897 | 932,276 | 718,879 | 387,174 | 1,252,685 | 20,496,119 | **25,363,711** |
| Other assets | - | - | - | - | 3 | 11 | 199 | 513 | 6,353 | **7,079** |
| **Total assets** | **894,577** | **32,514,137** | **8,640,028** | **17,273,504** | **11,918,460** | **11,094,537** | **10,766,571** | **12,234,990** | **83,558,257** | **188,895,061** |
| Money Market | 1,735 | 9,923,238 | 1,775,054 | 1,231,577 | 16,604,682 | 11,467,377 | 20,642 | 22,733 | 56,554 | **41,103,592** |
| *Of which: Repos* | - | *7,434,634* | *1,335,200* | *1,114,616* | *264,091* | - | - | - | - | ***10,148,541*** |
| Customer funds | 106,595,948 | 2,975,566 | 4,973,879 | 15,504,583 | 1,184,999 | 335,028 | 378,070 | 527,412 | (34,250) | **132,441,235** |
| Marketable debt securities (*) | - | 831,993 | 2,089,686 | 4,001,142 | 3,855,355 | 2,717,029 | 2,456,932 | 2,967,201 | 5,961,569 | **24,880,907** |
| *Of which: Secured senior debt* | - | *316,423* | *211,743* | *1,522,583* | *2,482,001* | *2,658,745* | *1,232,132* | *1,463,201* | *4,650,843* | ***14,537,671*** |
| *Of which: Unsecured senior debt* | - | - | *607,566* | *968,170* | *518,361* | *58,284* | *74,800* | *1,004,000* | *795,700* | ***4,026,881*** |
| *Of which: Subordinated liabilities* | - | - | - | - | *854,993* | - | *1,150,000* | *500,000* | *515,025* | ***3,020,018*** |
| Other liabilities | - | 54,883 | 81,694 | 421,697 | 326,364 | 227,169 | 146,347 | 101,462 | 374,976 | **1,734,592** |
| **Total liabilities** | **106,597,683** | **13,785,680** | **8,920,313** | **21,158,999** | **21,971,400** | **14,746,603** | **3,001,991** | **3,618,808** | **6,358,849** | **200,160,326** |
| ***Of which:*** | | | | | | | | | | |
| *Secured liabilities* | - | *7,751,057* | *1,544,473* | *2,630,182* | *9,453,522* | *3,608,964* | *1,232,132* | *1,463,201* | *4,650,843* | ***32,334,374*** |
| *Unsecured liabilities* | *106,597,683* | *6,034,623* | *7,375,840* | *18,528,816* | *12,517,878* | *11,137,639* | *1,769,859* | *2,155,607* | *1,708,005* | ***167,825,950*** |
| **Trading and Hedging Derivatives** | | | | | | | | | | |
| Receivable | - | 15,841,747 | 16,128,261 | 19,550,449 | 9,526,320 | 12,754,095 | 10,051,165 | 9,499,730 | 50,860,322 | **144,212,089** |
| Payable | - | 17,736,003 | 24,206,174 | 16,107,711 | 13,591,530 | 12,852,916 | 10,589,734 | 9,565,725 | 49,748,018 | **154,397,811** |
| **Net** | **-** | **(1,894,256)** | **(8,077,913)** | **3,442,738** | **(4,065,210)** | **(98,821)** | **(538,569)** | **(65,995)** | **1,112,304** | **(10,185,722)** |
| **Contingent risks** | | | | | | | | | | |
| Financial guarantees | 21,997 | 49,112 | 73,578 | 264,874 | 213,524 | 96,339 | 51,406 | 36,751 | 1,233,205 | **2,040,786** |

(*) For details of maturities of issues aimed at institutional investors, see the section entitled "Funding strategy and liquidity trends in 2019" in this note.

In this analysis, very short-term maturities traditionally represent funding requirements, as they include continuous maturities of short-term liabilities, which in typical banking activities see higher turnover rates than assets, but as they are continuously renewed they actually end up satisfying these requirements and even resulting in an increase in outstanding balances.

It should be noted that the Group's funding capacity in capital markets is systematically checked to ensure it can meet its short-, medium- and long-term needs.

With regard to the information included in this table, it is worth highlighting that the table shows residual time 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.

It should also be noted that cash flows broken down in the parent company have not been discounted.

In order to present the contractual maturities of financial liabilities with certain particular characteristics, the parent company has applied the following approach:

- For any transaction that includes flows corresponding to 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 amortisation 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 their control.

- Balances from financial guarantee contracts have been included in the parent company's table, assigning the maximum amount of the guarantee to the first year in which the guarantee can be enforced.

- Financing in the capital markets via instruments which include clauses that could lead to accelerated repayment (puttables or instruments with clauses linked to a downgrade in credit rating) 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 2019, the Group has no instruments in addition to those regulated by master agreements associated with the acquisition of derivatives and repos/reverse repos.

- The Group 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 2019.

- As at 31 December 2019, the Group does not have any instruments which are subject to master netting agreements.

*Funding strategy and evolution of liquidity in 2019*

The Group's primary source of funding is customer deposits (mainly demand deposit accounts and term deposits acquired through the branch network), supplemented by funding through interbank and capital markets in which the institution maintains various short-term and long-term funding programmes in effect in order to achieve an adequate level of diversification by type of product, term and investor. The institution maintains a diversified portfolio of liquid assets that are largely eligible as collateral in exchange for access to funding operations with the European Central Bank (ECB).

*On-balance sheet customer funds*

As at 31 December 2019 and 2018, on-balance sheet customer funds by maturity are shown below:

Million euro / %

| | Note | 2019 | 3 months | 6 months | 12 months | >12 months | No mat. |
|---|---|---|---|---|---|---|---|
| **Total on-balance sheet customer funds (*)** | | **146,309** | **6.1%** | **2.8%** | **5.9%** | **4.0%** | **81.2%** |
| Deposits with agreed maturity | | 25,748 | 31.2% | 15.1% | 33.7% | 20.0% | - |
| Sight accounts | 19 | 118,868 | - | - | - | - | 100.0% |
| Retail issues | | 1,693 | 42.3% | 13.2% | 0.1% | 44.4% | - |

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: non-convertible bonds issued by Banco Sabadell, commercial paper and others.

Million euro / %

| | Note | 2018 | 3 months | 6 months | 12 months | >12 months | No mat. |
|---|---|---|---|---|---|---|---|
| **Total on-balance sheet customer funds (*)** | | **137,343** | **7.3%** | **4.3%** | **7.4%** | **2.6%** | **78.4%** |
| Deposits with agreed maturity | | 26,593 | 32.9% | 18.7% | 37.3% | 11.1% | - |
| Sight accounts | 19 | 107,665 | - | - | - | - | 100.0% |
| Retail issues | | 3,085 | 42.3% | 31.1% | 5.5% | 21.2% | - |

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: non-convertible bonds issued by Banco Sabadell, commercial paper and others.

The downward trend of interest rates in financial markets has caused a shift in the composition of on-balance sheet customer funds from term deposits to demand deposit accounts.

Off-balance sheet customer funds managed by the Group and those sold but not under management are shown in Note 27 to these consolidated annual financial statements.

The Group's deposits are sold through the following business units/companies of the Group (Commercial Banking, Corporate Banking and Global Businesses, Private Banking, TSB and Mexico). Details of the volumes of these business units are included in the Section "Businesses" of the Consolidated Directors' Report.

In 2019, 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 with its policy to reduce the Group's Loan-to-Deposit (LtD) ratio (from 147% as at 2010 year-end to 98.6% as at 2019 year-end).

*Capital Markets*

During 2019, although the customer funding gap has shown a positive performance allowing the partial refinancing of maturities in the capital market, the level of funding in said market has increased due to the need to comply with regulatory requirements such as MREL (Minimum Requirement for own funds and Eligible Liabilities) focusing on those products in which, given the institution's rating, the cost/term ratio is more adjusted. The outstanding nominal balance of funding in capital markets by product type as at 31 December 2019 and 2018 is shown below:

Million euro

| | 2019 | 2018 |
|---|---|---|
| **Nominal balance** | **22,480** | **21,719** |
| Covered Bonds | 11,951 | 12,165 |
| *Of which: TSB* | *1,469* | *559* |
| Commercial paper and ECP | 633 | 2,353 |
| Senior debt | 3,626 | 1,805 |
| Senior non-preferred debt | 1,451 | - |
| Subordinated debt and preference shares | 3,025 | 3,001 |
| *Of which: TSB* | *453* | *430* |
| Securitisation bonds | 1,779 | 2,381 |
| *Of which: TSB* | *501* | *698* |
| Other | 14 | 14 |

Maturities of issues (excluding securitisations, ECP and commercial papers) by product type and considering its legal maturity aimed at institutional investors as at 31 December 2019 are analysed below:

Million euro

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | >2025 | Balance |
|---|---|---|---|---|---|---|---|---|
| Covered bonds (*) | 2,015 | 1,808 | 1,707 | 1,388 | 2,732 | 836 | 1,465 | 11,951 |
| Senior Debt (**) | - | 299 | 25 | 973 | 849 | 1,480 | - | 3,626 |
| Senior non-preferred debt (**) | - | - | - | - | 951 | 500 | - | 1,451 |
| Subordinated Debt and Preferred Securities (**) | 413 | - | - | - | - | - | 2,613 | 3,026 |
| Other medium/long term financial instruments (**) | - | 10 | - | - | 3 | - | - | 13 |
| **Total** | **2,428** | **2,117** | **1,732** | **2,361** | **4,535** | **2,816** | **4,078** | **20,067** |

(*) Secured issues.

(**) Unsecured issues.

Banco Sabadell Group is an active participant in capital markets and has a number of funding programmes in operation, with a view to diversifying its sources of liquidity.

In terms of short-term funding, the institution maintains a corporate commercial paper programme and a Euro Commercial Paper (ECP) programme:

- Corporate commercial paper programme: this programme regulates issues of commercial papers and is aimed at institutional and retail investors. On 16 May 2019, the commercial paper programme of Banco Sabadell for 2019 was registered with the CNMV (Spanish Securities Market Commission), with an issue limit of 7 billion euros, eligible to be extended up to 9 billion euros. The outstanding balance of the commercial paper programme has been declining over the year. As at 31 December 2019, the outstanding balance of the programme was of 790 million euros (net of commercial papers subscribed by Group companies), compared with the 2,565 million euros as at 31 December 2018.

- Euro Commercial Paper (ECP) Programme: this programme is aimed at institutional investors, whereby short-term securities are issued in various foreign currencies (EUR, USD and GBP). On 18 December 2015, Banco Sabadell renewed its Euro Commercial Paper Programme for a maximum nominal amount of 3.5 billion euros. As at 31 December 2019, the outstanding balance of the programme was of 290 million euros (net of Euro Commercial Papers subscribed by Group companies), decreasing when compared with the 696 million euros as at 31 December 2018.

Regarding medium- and long-term funding, the institution has the following programmes in effect:

- Programme for the issuance of non-equity securities ("Fixed Income Programme") registered with the CNMV on 4 July 2019, with a maximum issue amount of 16.5 billion euros: this programme regulates the issues of ordinary or non-preferential, subordinated or structured bonds and debentures, as well as covered bonds, public sector covered bonds and mortgage bonds carried out under Spanish legislation through the CNMV and aimed at both national and foreign institutional and retail investors. The limit available for new issues under the Programme for the issue of non-equity securities for 2019 of Banco Sabadell as at 31 December 2019 was of 14,080 million euros (as at 31 December 2018, the limit available under the 2018 Fixed Income Programme was of 12,280 million euros).

  During 2019, Banco Sabadell has carried out public issues under the Fixed-Income Programme in force at all times for a total of 1,027 million euros. Banco Sabadell has carried out the following issues throughout the year:

Million euro

| | ISIN Code | Type of investor | Issue Date | Amount | Term |
|---|---|---|---|---|---|
| Structured Bonds 1/2019 | ES03138603D5 | Institutional | February-19 | 3 | 3 |
| Sabadell bond I/2019 issue | ES03138603C7 | Retail | March-19 | 601 | 3 |
| Sabadell bond 3/2019 issue | ES03138603G8 | Institutional | April-19 | 300 | 2 |
| Structured Bonds 2/2019 | ES03138603F0 | Institutional | April-19 | 3 | 3 |
| Sabadell bond 4/2019 | ES03138603H6 | Institutional | November-19 | 120 | 4.5 |

- Euro Medium Term Notes (EMTN) programme, registered with the Irish Stock Exchange on 29 April 2019, and supplemented on 26 July and 25 October 2019. This programme allows (preferred and non-preferred) senior debt and subordinated bonds to be issued in any currency, with a maximum limit of 10 billion euros.

  During 2019, Banco Sabadell has carried out issues under the EMTN Programme in force at any given time for a total of 3 billion euros, including the inaugural issue of 5-year non-preferred senior debt for an amount of 1 billion on 10 May 2019 and a senior preferred issue with a nominal value of 500 million, maturing in 6 years, with an early cancellation option in favour of Banco Sabadell in the fifth year. Banco Sabadell has carried out the following issues throughout the year:

Million euro

| | ISIN Code | Type of investor | Issue Date | Amount | Term |
|---|---|---|---|---|---|
| Senior Non Preferred 1/2019 issue | XS1991397545 | Institutional | May-19 | 1,000 | 5 |
| Senior bond 1/2019 issue | XS2028816028 | Institutional | July-19 | 1,000 | 6 |
| Senior Non Preferred 2/2019 issue | XS2055190172 | Institutional | September-19 | 500 | 5.5 |
| Senior bond 2/2019 issue | XS2076079594 | Institutional | November-19 | 500 | 6 |

- In addition, on 15 February 2019, TSB issued 500 million pounds in covered bonds to the institutional market with a 5-year maturity, which it extended on 28 February by a further 250 million pounds to reach a total issue amount of 750 million pounds.

In relation to asset securitisation transactions:

- Since 1993, the Group has been an active participant in this market and has taken part in a number of securitisation programmes, in some cases together with other highly solvent institutions, awarding mortgage loans, SME loans, consumer loans and credit claims arising from finance lease agreements.
- There are currently 21 outstanding asset securitisation transactions recognised fully on the balance sheet (including those performed by Banco Guipuzcoano, Banco CAM, BMN, Banco Gallego and TSB). Although part of the bonds issued were retained by the institution as liquid assets eligible for funding operations with the European Central Bank, the rest of the bonds were placed in capital markets. As at the end of 2019, the balance of securitisation bonds placed in the market stood at 1,779 million euros.
- In the third quarter of 2019, Banco Sabadell sold all the tranches of the Sabadell Consumer Securitisation Fund 1 to the market, including the excess margin tranche. This is Banco Sabadell's first securitisation of consumer loans, amounting to 1 billion euros. This transaction has been implemented as a capital and liquidity management tool.

In March 2016, the European Central Bank announced new economic stimulus measures through a new targeted longer-term refinancing operations programme (TLTRO II), consisting of four auctions of liquidity at a term of four years, to be performed between June 2016 and March 2017. Banco Sabadell took part in TLTRO II for a total amount of 20.5 billion euros (10 billion euros in the first auction of June 2016 and 10.5 billion euros in the last auction of March 2017). In June and September 2019, Banco Sabadell carried out the early amortisation of TLTRO II for a value of 5 billion and 2 billion euros, respectively. The balance drawn down under this programme at the end of 2019 amounted to 13.5 billion euros, of which 3 billion euros will mature in June 2020 and 10.5 billion euros in March 2021.

In 2016, the Bank of England also implemented a package of measures to support economic growth. This package includes the introduction of the Term Funding Scheme (TFS), a scheme to incentivise lending which was implemented in August 2016 by the Bank of England, through which British banks could carry out 4-year drawdowns in exchange for the provision of collateral eligible as consideration. TSB, as a member of the Sterling Monetary Framework (SMF), made use of the TFS throughout 2017, drawing 6,606 million euros, and also in February 2018, with an additional drawdown of 999 million euros. In August and November 2019, TSB carried out early repayments of the amount drawn under the TFS amounting to 529 and 1,822 million euros, respectively. This brings the amount drawn down under this programme to 5,254 million euros at the end of 2019.

*Liquid Assets*

In addition to these sources of funding, the Group maintains a liquidity buffer in the form of liquid assets with which to meet potential liquidity needs.

Million euro

| | 2019 | 2018 |
|---|---|---|
| Cash(*) + Net Interbank Position | 7,044 | 18,229 |
| Funds available in Bank of Spain facility (**) | 7,633 | 4,081 |
| ECB eligible assets not pledged in facility | 21,335 | 12,468 |
| Other non-ECB eligible marketable assets | 3,518 | 2,177 |
| *Memorandum item:* | | |
| *Balance drawn from Bank of Spain facility(***)* | *14,613* | *21,548* |
| *Balance drawn from Bank of England Term Funding Scheme* | *5,254* | *7,233* |
| **Total Liquid Assets Available** | **39,530** | **36,955** |

(*) Excess reserves at Central Banks.

(**) Market value, and after applying the Liquidity Coverage Ratio (LCR) haircut. Includes Fixed Income qualifying as a high quality liquid asset according to LCR (HQLA) and other marketable assets from different Group entities.

(***) Includes TLTRO-II and borrowing of USD 1,250 million from the ECB for a period of 3 weeks.

With respect to 2018, the Group's first line of liquidity has grown by 2,575 million euros, mainly due to the generation of a positive customer funding gap and liquidity inflows associated with the sale of real estate portfolios during the year. The balance of Central Bank reserves and the net interbank position have decreased by 11,185 million euros in 2019, mainly due to the early repayment of TLTRO II, as well as a reduction in net repo funding during the year. There is also a volume of ECB eligible liquid assets, whose volume over the year has increased by 12,419 million euros, while available non-ECB eligible assets have grown by 1,341 million euros.

In the case of TSB, the first line of liquidity as at 31 December 2019 is mainly comprised of high quality and liquidity assets, mainly gilts, amounting to 2,578 million euros (1,372 million euros as at 31 December 2018) and a surplus of reserves in the Bank of England (BoE) amounting to 4,803 million euros (7,703 million euros as at 31 December 2018), mostly as a result of the TFS drawdowns made.

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 which meet the eligibility, availability and liquidity criteria set forth both internally and in regulations in order to comply with regulatory minima.

There are no significant amounts of cash or cash equivalents that are unavailable for use by the Group.

In addition to the first line of liquidity, a buffer is maintained by the institution comprising of real estate assets and loans to general governments eligible as collateral for covered bonds and public sector covered bonds respectively, which at the end of 2019 contributed 4,640 million euros in terms of the capacity to issue new treasury bonds eligible as collateral in return for access to the ECB facility. At the end of 2019, available liquidity amounted to 44,170 million euros in cash, corresponding to the amount of the first line of liquidity plus the Bank's capacity to issue covered bonds and public sector covered bonds as at this date.

*Compliance with regulatory ratios*

As part of its liquidity management approach, Banco Sabadell Group monitors the short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) and reports the necessary information to the regulator on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of the liquidity risk control in the set of UGLs.

In terms of LCR, as of 1 January 2018, the regulatory required minimum LCR is 100%, a level which is amply surpassed by all of the institution's UGLs. At Group level, throughout the year, the LCR has consistently been well above 100%. As at the end of December 2019, the LCR stands at 184% (excl. TSB) and at 231% in TSB.

As for the NSFR ratio, it is due to come into force in June 2021. However, the Group has already started to monitor this ratio as a liquidity metric for UGLs.

Given the Group's funding structure, with a preponderance of customer deposits, and as the majority of its market funding is in the medium-/long-term, the Group has maintained stable levels consistently well over 100%.

#### 4.4.3.2. Market risk

Market risk is defined as the risk of financial asset positions losing their market value due to changes in risk factors affecting their quoted price or market performance, their volatility, or the interconnections that exist between them.

Positions that generate market risk are usually held in connection with trading activity, which consists of hedging transactions arranged by the Bank to provide services to its customers as well as discretionary proprietary positions.

It may also arise simply due to maintaining overall balance sheet positions (also known as structural positions) that in net terms are left open. In the latter case, the institution uses the market risk management and monitoring system to manage its structural foreign exchange risk position.

The items of the consolidated balance sheet as at 31 December 2019 and 2018 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

| | On-balance sheet balance | Trading activity | Rest | Main risk factor for balance sheet under "Rest" |
|---|---|---|---|---|
| **Assets subject to market risk** | **223,753,641** | **1,757,516** | **221,996,125** | |
| Cash, cash balances at central banks and other demand deposits | 15,169,202 | - | 15,169,202 | Interest rate |
| Financial assets held for trading | 2,440,866 | 1,665,843 | 775,023 | Interest rate; credit spread |
| Non-trading financial assets mandatorily at fair value through profit or loss | 171,056 | - | 171,056 | Interest rate; credit spread |
| Financial assets at fair value through other comprehensive income | 7,802,025 | 91,673 | 7,710,352 | Interest rate; credit spread |
| Financial assets at amortised cost | 181,422,646 | - | 181,422,646 | Interest rate |
| Derivatives – Hedge accounting | 468,516 | - | 468,516 | Interest rate |
| Investments in joint ventures and associates | 733,930 | - | 733,930 | - |
| Other financial assets | 249,552 | - | 249,552 | Interest rate |
| Other non-financial assets | 15,295,848 | - | 15,295,848 | - |
| **Liabilities subject to market risk** | **210,779,235** | **2,012,614** | **208,766,621** | |
| Financial liabilities held for trading | 2,714,365 | 2,012,614 | 701,751 | Interest rate |
| Derivatives – Hedge accounting | 728,769 | - | 728,769 | Interest rate |
| Financial liabilities measured at amortised cost | 205,636,018 | - | 205,636,018 | Interest rate |
| Provisions | 430,434 | - | 430,434 | Interest rate |
| Other financial liabilities | 234,537 | - | 234,537 | Interest rate |
| Other non-financial liabilities | 1,035,112 | - | 1,035,112 | - |
| **Equity** | **12,974,406** | **-** | **12,974,406** | |

Thousand euro

| | On-balance sheet balance | Trading activity | Rest | Main risk factor for balance sheet under "Rest" |
|---|---|---|---|---|
| **Assets subject to market risk** | **222,322,421** | **1,974,271** | **220,348,150** | |
| Cash, cash balances at central banks and other demand deposits | 23,494,479 | - | 23,494,479 | Interest rate |
| Financial assets held for trading | 2,044,965 | 1,564,828 | 480,137 | Interest rate |
| Non-trading financial assets mandatorily at fair value through profit or loss | 141,314 | - | 141,314 | Interest rate; credit spread |
| Financial assets at fair value through other comprehensive income | 13,247,055 | 409,443 | 12,837,612 | Interest rate; credit spread |
| Financial assets at amortised cost | 164,415,563 | - | 164,415,563 | Interest rate |
| Derivatives – Hedge accounting | 301,975 | - | 301,975 | Interest rate |
| Investments in joint ventures and associates | 574,940 | - | 574,940 | Equity; Exchange rate |
| Other financial assets | 56,972 | - | 56,972 | Interest rate |
| Other non-financial assets | 18,045,158 | - | 18,045,158 | |
| **Liabilities subject to market risk** | **210,205,421** | **1,319,238** | **208,886,183** | |
| Financial liabilities held for trading | 1,738,354 | 1,319,238 | 419,116 | Interest rate |
| Derivatives – Hedge accounting | 633,639 | - | 633,639 | Interest rate |
| Financial liabilities measured at amortised cost | 206,076,860 | - | 206,076,860 | Interest rate |
| Provisions | 466,379 | - | 466,379 | Interest rate |
| Other financial liabilities | 36,502 | - | 36,502 | Interest rate |
| Other non-financial liabilities | 1,253,687 | - | 1,253,687 | |
| **Equity** | **12,117,000** | **-** | **12,117,000** | |

The market risk acceptance, management and oversight system is based on managing positions expressly assigned to different trading desks and the establishment of limits for each one, in such a way that the trading desks have the obligation to manage their positions within the limits established by the risks unit.

*Trading activity*

The main market risk factors considered by the Group in its trading activity are:

- Interest rate risk: risk associated with the possibility of interest rate fluctuations adversely affecting the value of a financial instrument. This is reflected, for example, in transactions involving interbank deposits, fixed income and interest rate derivatives.

- Credit spread risk: this risk arises from fluctuations in the credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This risk occurs mainly in fixed-income instruments.

- Exchange rate risk: risk associated with the fluctuation in 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 their derivatives.

- Equity price risk: risk arising from fluctuations in the value of capital instruments (shares and 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, since the Group's has residual (both direct and underlying) exposures.

Market risk in trading activities is measured using the VaR and stressed VaR methodologies. This allows for a standardisation of risks 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 that influence 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 liquidity level 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 the full revaluation of the transactions under recent historical scenarios, and that no assumptions are required concerning the distribution of market prices. The main limitation to this methodology is its reliance on historical data, given that, if a potential 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 considered confidence level. Backtesting consists of comparing daily VaR against daily results. If losses exceed the level of VaR, an exception occurs. In 2019, there were no exceptions in the backtesting due to the low exposure within the trading activity to the significant events of the year, such as pound fluctuations due to Brexit uncertainty and the devaluations of the euro against the dollar throughout the year in an environment of trade tensions between China and the US.

Stressed VaR is calculated in the same way as VaR but with a historical insight into variations of the risk factors in stressed market conditions. This stress situation is determined on the basis of currently outstanding transactions, and it can vary if the portfolios' risk profile changes. The methodology used for this risk metric is historical simulation.

Its supervision is supplemented with additional measurements such as risk sensitivities, which refer to a change in the value of a position or portfolio in response to a change in a specific risk factor, and also with the calculation of management results, which are used to monitor stop-loss limits.

Furthermore, specific simulation exercises are carried out applying extreme market scenarios (stress testing), which analyse the impacts of different historical and theoretical scenarios on the portfolios.

Market risks are monitored on a daily basis and reports are made to the control bodies on the existing risk levels and on the compliance with the limits set forth by the Board Risk Committee for each management unit (limits based on nominal, VaR and sensitivity, as applicable). This makes it possible to keep track of changes in exposure levels and measure the contribution of market risk factors.

Market risk incurred on trading activity in terms of the 1-day VaR with a 99% confidence interval for 2019 and 2018 is as follows:

Million euro

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Average | Maximum | Minimum | Average | Maximum | Minimum |
| Interest rate risk | 0.63 | 1.23 | 0.42 | 2.35 | 26.73 | 0.41 |
| Currency risk-trading | 0.04 | 0.13 | 0.01 | 0.11 | 0.27 | 0.04 |
| Equities | 0.43 | 1.36 | 0.13 | 0.59 | 1.59 | 0.29 |
| Credit spread | 0.54 | 1.27 | 0.08 | 0.15 | 0.61 | 0.07 |
| **Aggregate VaR** | **1.64** | **2.32** | **0.97** | **3.19** | **27.46** | **0.97** |

The preceding table shows the market risk associated with trading activity, initially including interest rate derivatives (swaps) under accounting hedges, which were discontinued in 2018, between the date of discontinuation of the accounting hedge and the subsequent final cancellation of the derivative. Taking into account only trading activity excluding discontinued hedging derivatives, the average VaR over 1 day and with a 99% confidence interval stood at 1.73 million euros in 2018.

*Structural interest rate risk*

Structural interest rate risk is inherent in banking activities and is defined as the current or future risk to both the income statement (income and expenses) and the economic value (present value of assets, liabilities and off-balance sheet positions) arising from adverse interest rate fluctuations affecting interest rate-sensitive instruments in non-trading activities (also known as IRRBB, Interest Rate Risk in the Banking Book).

The Group identifies three interest rate sub-risks:

- Repricing risk arising from the different rate at which assets and liabilities renew their interest rate. It covers both parallel changes in the interest rate curve and non-parallel changes (i.e. changes in the slope and shape of the curve).
- Basis risk arising from having financial instruments with similar pricing terms but based on different benchmarks.
- Optionality risk arising from explicit or implicit options on assets and liabilities, in which the institution or the customer or counterparty may alter the level and/or timing of their flows. Automatic options, related to the behaviour of interest rates, and those related to the behaviour of customers that do not only depend on interest rates are considered.

The Group's management of this risk pursues two fundamental objectives:

- To stabilise and protect net interest income by preventing interest rate movements from causing excessive variations in the budgeted margin.
- To minimise the volatility of economic value, this perspective being complementary to that of the margin.

Interest rate risk is managed through a global approach at Group level 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 divisions, each UGB has the autonomy and capacity to carry out risk management and control duties.

The Group’s current interest rate risk management strategy is based particularly on the following principles, in line with the business model and the defined strategic objectives:

- Each UGB has appropriate tools and processes and robust systems in order to properly identify, measure, manage, control and report on IRRBB. Thus, the Group obtains information from all of the identified sources of IRRBB, assesses their effect on net interest margin and the economic value of equity and measures the vulnerability of the Group/UGB in the event of potential losses deriving from IRRBB under different stress scenarios.
- At the corporate level, the Group establishes a set of limits for overseeing and monitoring the level of IRRBB exposure that are appropriate to its internal risk tolerance policies. However, each UGB is given discretions to set any other additional limits deemed necessary, based on their specific needs and the nature of their activities.
- The existence of a funds transfer pricing system.
- The set of systems, processes, metrics, limits, reporting and governance system covered by the IRRBB strategy must comply with regulatory requirements at all times.

As defined in the IRRBB’s management and control policy, the first line of defence is undertaken by the various Balance Sheet Management Units (UGB), which report to the various local Asset and Liability Committees. Their main function is to manage interest rate risk, guaranteeing its recurrent evaluation through management and regulatory metrics, taking into account the modelling of the various balance sheet items 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 consistently implemented across all UGBs and by 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 monthly are as follows:

- Interest rate gap: static metric showing the distribution of maturities and repricing of sensitive balance sheet items. This metric compares the amounts of assets that are reviewed or mature in a given period and the liabilities that mature or reprice in that same period.
- Net interest margin sensitivity: dynamic metric that measures the short- and medium-term impact of interest rate fluctuations. It is obtained by comparing the 1-year net interest margin in the baseline scenario, which would be the one obtained from implicit market rates, and the one obtained in a scenario of instant disruption, always considering the result obtained in the most unfavourable scenario.
- Economic value sensitivity: static metric that measures the long-term impact of interest rate fluctuations. It is obtained by comparing the economic value of the balance sheet in the baseline scenario and the one obtained in a scenario of instantaneous disruption, always considering the result obtained in the most unfavourable scenario. This is done by calculating the present value of interest rate-sensitive items as a discount to the risk-free interest rate curve on the reference date of future principal and interest flows without taking account of the trade margins, in line with the IRRBB management strategy followed.

In the quantitative estimates of interest rate risk made by each UGB, a series of interest rate scenarios are designed to capture the various sources of risk mentioned above. These scenarios include, for each significant currency, parallel movements and non-parallel movements in the interest rate curve. On this basis, the sensitivity is calculated as the difference of:

- Baseline scenario: market interest rate movements based on implicit interest rates.
- Stressed scenario: from the baseline scenario, a shift in interest rates is caused depending on the scenario to be calculated. A minimum post-disruption interest rate is applied, starting with -100 bps for immediate maturities and increasing by 5 bps to 0% in 20 years or more.

Also, in accordance with the Group's corporate principles, each UGB periodically performs stress exercises that enable it to project situations of high impact and low likelihood of occurrence that could place the UGB in an extreme exposure with respect to interest rate risk and to propose mitigating actions in such situations.

The following table gives details of the Group's interest rate gap as at 31 December 2019 and 2018:

Thousand euro

| | 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Time to revision or 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 | 21,543,319 | 1,954,473 | 1,962,692 | 517,913 | - | - | - | - | **25,978,397** |
| Loans and receivables | 27,264,599 | 21,283,491 | 43,205,289 | 12,641,452 | 11,260,049 | 7,310,346 | 6,420,801 | 13,494,195 | **142,880,223** |
| Debt securities | 1,061,383 | 479,475 | 923,979 | 514,499 | 421,461 | 245,479 | 1,644,314 | 18,294,589 | **23,585,179** |
| Other assets | 988 | 3,968 | 4,885 | - | - | - | 13 | 289 | **10,142** |
| **Total assets** | **49,870,288** | **23,721,407** | **46,096,845** | **13,673,865** | **11,681,510** | **7,555,825** | **8,065,128** | **31,789,073** | **192,453,941** |
| Money Market | 12,966,939 | 2,882,156 | 4,826,662 | 10,894,996 | 2,064 | 3,020 | 5,724 | 4,135 | **31,585,695** |
| Customer funds | 49,578,257 | 8,212,963 | 22,966,153 | 12,377,149 | 8,905,463 | 6,977,402 | 5,704,302 | 26,853,284 | **141,574,973** |
| Marketable debt securities | 3,235,822 | 3,182,537 | 2,543,807 | 2,408,515 | 2,526,659 | 2,539,000 | 3,630,000 | 4,338,136 | **24,404,477** |
| *Of which: Subordinated liabilities* | - | - | *424,600* | *452,515* | *1,150,000* | *500,000* | - | *515,025* | ***3,042,140*** |
| Other liabilities | 114,192 | 193,420 | 605,057 | 257,827 | 203,178 | 166,437 | 143,618 | 884,860 | **2,568,589** |
| **Total liabilities** | **65,895,211** | **14,471,076** | **30,941,679** | **25,938,488** | **11,637,363** | **9,685,859** | **9,483,645** | **32,080,414** | **200,133,735** |
| **Hedging Derivatives** | **2,428,864** | **1,720,442** | **(1,612,692)** | **(1,398,947)** | **408,036** | **1,608,952** | **1,716,271** | **(4,818,364)** | **52,562** |
| **Interest rate gap** | **(13,596,059)** | **10,970,773** | **13,542,474** | **(13,663,570)** | **452,183** | **(521,082)** | **297,755** | **(5,109,704)** | **(7,627,231)** |

Thousand euro

| Time to revision or 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 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2018 | | | | |
| Money Market | 26,460,370 | 1,118,971 | 1,314,982 | - | - | - | - | - | **28,894,323** |
| Loans and receivables | 26,838,230 | 22,028,374 | 42,528,912 | 12,223,494 | 7,448,807 | 6,510,695 | 5,646,026 | 11,405,410 | **134,629,948** |
| Debt securities | 291,199 | 903,015 | 873,122 | 704,444 | 644,694 | 373,207 | 1,241,635 | 20,332,395 | **25,363,711** |
| Other assets | 341 | 2,637 | 3,886 | - | - | - | - | 215 | **7,079** |
| **Total assets** | **53,590,140** | **24,052,997** | **44,720,902** | **12,927,938** | **8,093,501** | **6,883,902** | **6,887,661** | **31,738,020** | **188,895,061** |
| Money Market | 17,313,677 | 1,835,407 | 1,182,646 | 10,264,338 | 10,501,470 | 1,520 | 1,890 | 2,644 | **41,103,592** |
| Customer funds | 48,587,726 | 8,343,466 | 22,920,529 | 9,252,506 | 6,620,567 | 4,984,132 | 5,072,770 | 26,659,539 | **132,441,235** |
| Marketable debt securities | 3,272,029 | 4,373,927 | 3,170,893 | 2,646,285 | 2,086,393 | 1,919,244 | 2,554,000 | 4,858,136 | **24,880,907** |
| *Of which: Subordinated liabilities* | - | - | - | *424,600* | *430,393* | *1,150,000* | *500,000* | *515,025* | ***3,020,018*** |
| Other liabilities | 147,304 | 220,654 | 721,221 | 195,361 | 126,033 | 76,811 | 51,152 | 196,056 | **1,734,592** |
| **Total liabilities** | **69,320,736** | **14,773,454** | **27,995,289** | **22,358,490** | **19,334,463** | **6,981,707** | **7,679,812** | **31,716,375** | **200,160,326** |
| **Hedging Derivatives** | **3,740,385** | **2,299,075** | **(4,509,003)** | **(2,713,692)** | **664,994** | **425,705** | **2,801,867** | **(1,981,448)** | **727,883** |
| **Interest rate gap** | **(11,990,211)** | **11,578,618** | **12,216,610** | **(12,144,244)** | **(10,575,968)** | **327,900** | **2,009,716** | **(1,959,803)** | **(10,537,382)** |

The following table shows the interest rate risk levels in terms of the sensitivity of the Group's main currencies, as at 2019 year-end, to the most frequently used interest rate scenarios in the sector.

| Interest rate sensitivity | Instant and parallel increase of 100 bps | |
|---|---|---|
| | Impact on net interest margin | Impact on economic value of equity |
| EUR | 2.8% | (2.2%) |
| GBP | 1.6% | 0.5% |
| USD | (0.1%) | (0.0%) |

In addition to the impact on the net interest margin within the time horizon of one year shown in the previous table, the Group calculates the impact on the margin over a time horizon of two years, the result of which is notably more positive for all of the currencies. In particular, the net interest margin's sensitivity for the second year considering the Group main currencies with a high "pass through", i.e. the rate of increase of benchmark interest rates which is transferred to customers' term deposits and interest-bearing sight accounts is the majority, and the results obtained are shown in the following table:

| Impact on net interest margin 2nd year | Instant and parallel increase of 100 bps | |
|---|---|---|
| | High "Pass Through" | Medium "Pass Through" |
| Total | 7.8% | 11.0% |
| *Of which EUR* | *4.8%* | *6.3%* |
| *Of which GBP* | *3.0%* | *4.3%* |

The calculation of the metrics takes into account the assumptions on the behaviour of items with no contractual maturity and those whose expected maturity is different from the maturity established in the agreements, in order to obtain a more realistic view and therefore more effective for management purposes. Among the most relevant are:

- Prepayment of the loan portfolio and early cancellation of term deposits (implicit optionality): in order to reflect the behaviour of customers in relation to interest rate movements, prepayment/cancellation assumptions are defined and segmented by product type. To this end, the institution uses historical data to allow such assumptions to be aligned with the market's best practices.
- Modelling of sight accounts and other liabilities with no contractual maturity: a model has been defined on the basis of monthly historical data with the aim of reproducing customer behaviour, establishing stability parameters, the percentage of translation of interest rate movements to remuneration and the delay with which this occurs, according to product and customer type, enabling the institution to meet current regulatory requirements.
- Modelling of non-performing loans: a model has been defined that enables the expected flows associated with these non-performing loans (net of provisions), i.e. those expected to be recovered, to be included within the scope of interest rate-sensitive items. Accordingly, both the balances and the estimated recovery periods have been incorporated.

The approval and updating of the IRRBB models is part of the corporate governance of models whereby these models are reviewed and validated by a division independent from the one that has developed 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 captured and recorded taking into account their interest rate characteristics, the sources of information being the official ones of the institution on which quality, consistency and completeness controls have been established. These transactions are aggregated according to predefined criteria, so that greater agility is allowed in the calculations without losing quality or reliability of data. Additionally, a regular reconciliation process of the information loaded into the measurement tool with the accounting information is carried out.

Based on the positioning of the balance sheet and the market situation and outlook, mitigation strategies are proposed and agreed upon to adapt this positioning to the one desired by the Group. As such techniques, interest rate instruments are used in addition to the natural hedges of balance sheet items, such as fixed-income bond portfolios or hedging derivatives that enable the metrics to be placed at levels appropriate to the institution's risk appetite. In addition, it may be proposed 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-hedging are used:

- Interest rate risk macro-hedging of cash flows, the purpose of which is to reduce the volatility of the net interest margin in the event of interest rate fluctuations, for a one-year time horizon.
- Interest rate risk macro-hedging of fair value, the purpose of which is to maintain the economic value of the hedged items, consisting of assets and liabilities at a fixed interest rate.

For each type of macro-hedging, there is a framework document that includes the hedging strategy, defining it in terms of management and accounting, as well as 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.

#### 4.4.3.3. Structural foreign exchange risk

Structural exchange rate risk arises in the event that changes in market exchange rates between different currencies generate losses on financial investments and on permanent investments in foreign branches and subsidiaries with functional currencies other than the euro.

The purpose of managing structural foreign exchange risk is to minimise the impact on the value of the portfolio/the institution's equity in the event of any adverse movements in currency markets. The foregoing takes into account the potential impacts on the capital (CET1) ratio and on the net interest margin, subject to the risk appetite defined in the RAS. Furthermore, the established levels for the risk metrics must be complied with at all times.

Foreign exchange risk is monitored regularly, and reports on current risk levels and on compliance with the limits set forth by the Board Risk Committee are sent to the risk control bodies. The main monitoring metric is currency exposure (measured as a percentage of Tier 1), which measures the sum of the net open position (assets less liabilities) maintained by the institution in each currency through any type of financial instrument (FX spots, forwards and options), valued in euros and in terms of Tier 1.

Compliance with, and the effectiveness of, the Group's objectives and policies are monitored and reported on a monthly basis to the Board Risk Committee and to the Audit and Control Committee, respectively.

The Bank’s Financial Division, through the ALCO, designs and executes strategies to hedge structural FX positions in order to achieve its objectives in relation to the management of structural foreign exchange risk.

As regards permanent investments in US dollars, the structural position in this currency has gone from 968 million US dollars as at 31 December 2018 to 1,051 million US dollars as at 31 December 2019. With regard to this structural position, as at 31 December 2019, a hedge is in place for 19% of the total investment. See Note 12, on the *"Hedges of net investments in foreign operations”* section.

In terms of permanent investments in Mexican pesos, the evolution of balances deriving from the business in Mexico is monitored, as is the EUR/MXN currency pair, in order to maintain a coverage level of over 70% of the total exposure in this currency. This has enabled the capital buffer to go from 11,050 million Mexican pesos as at 31 December 2018 (of a total exposure of 14,703 million Mexican pesos) to 10,418 million Mexican pesos as at 31 December 2019 (of a total exposure of 14,069 million Mexican pesos). See Note 12 on the *“Hedges of net investments in foreign operations”* section.

As for the structural position in pounds sterling, the Group has been implementing a hedging policy that seeks to mitigate any negative effects on capital ratios and on revenue generated by its business in GBP that may result from fluctuations in the aforementioned EUR/GBP exchange rate. Accordingly, Banco de Sabadell, S.A. has continuously monitored the political situation in the United Kingdom and its impact on the exchange rate. Considering the foregoing, during 2019 the capital buffer has gone from 1,368 million pounds as at 31 December 2018 to 573 million pounds as at 31 December 2019, representing 30% of the total investment made (excluding intangibles). See Note 12, on the *“Hedges of net investments in foreign operations”* section.

Currency hedges are continuously monitored in light of market fluctuations.

The exchange value in euros of assets and liabilities in foreign currencies maintained by the Group as at 31 December 2019 and 2018, classified in accordance with their nature, is as follows:

Thousand euro

| | 2019 | | | |
|---|---|---|---|---|
| | USD | GBP | Other currencies | Total |
| **Assets denominated in foreign currency:** | **10,166,192** | **47,844,236** | **3,098,367** | **61,108,795** |
| Cash, cash balances at central banks and other demand deposits | 552,780 | 5,417,198 | 674,941 | 6,644,919 |
| Debt securities | 1,331,485 | 2,536,718 | 132,003 | 4,000,206 |
| Loans and advances | 8,076,877 | 39,060,902 | 2,076,900 | 49,214,679 |
| Central banks and Credit institutions | 130,837 | 583,399 | 49,496 | 763,732 |
| Customers | 7,946,040 | 38,477,503 | 2,027,404 | 48,450,947 |
| Other assets | 205,050 | 829,418 | 214,523 | 1,248,991 |
| **Liabilities denominated in foreign currency:** | **9,957,441** | **44,310,409** | **2,276,797** | **56,544,647** |
| Deposits | 9,688,145 | 41,133,452 | 2,218,839 | 53,040,436 |
| Central banks and Credit institutions | 2,278,017 | 5,312,836 | 264,517 | 7,855,370 |
| Customers | 7,410,128 | 35,820,616 | 1,954,322 | 45,185,066 |
| Other liabilities | 269,296 | 3,176,957 | 57,958 | 3,504,211 |

Thousand euro

| | 2018 | | | |
|---|---|---|---|---|
| | USD | GBP | Other currencies | Total |
| **Assets denominated in foreign currency:** | **11,011,621** | **47,111,002** | **2,424,043** | **60,546,666** |
| Cash, cash balances at central banks and other demand deposits | 446,509 | 8,017,603 | 304,241 | 8,768,353 |
| Debt securities | 1,708,755 | 2,802,081 | 87,501 | 4,598,337 |
| Loans and advances | 8,618,739 | 35,629,011 | 1,890,111 | 46,137,861 |
| Central banks and Credit institutions | 962,860 | 565,559 | 218,533 | 1,746,952 |
| Customers | 7,655,879 | 35,063,452 | 1,671,578 | 44,390,909 |
| Other assets | 237,618 | 662,307 | 142,190 | 1,042,115 |
| **Liabilities denominated in foreign currency:** | **10,019,381** | **44,214,461** | **1,478,222** | **55,712,064** |
| Deposits | 9,237,300 | 41,551,588 | 1,436,092 | 52,224,980 |
| Central banks and Credit institutions | 2,786,229 | 7,359,098 | 231,348 | 10,376,675 |
| Customers | 6,451,071 | 34,192,490 | 1,204,744 | 41,848,305 |
| Other liabilities | 782,081 | 2,662,873 | 42,130 | 3,487,084 |

The net position of foreign currency assets and liabilities includes the structural position of the institution, valued at the exchange rates at the end of the analysed month, which amounted to 2,580 million euros, of which 1,608 million euros corresponded to permanent shareholdings in GBP, 757 million euros corresponded to permanent shareholdings in USD, 172 million euros corresponded to permanent shareholdings in MXN and 43 million euros to permanent shareholdings in MAD. Net assets and liabilities valued at a historic exchange rate are hedged with forwards and options denominated in foreign currencies in line with the Group's risk management policy.

As at 31 December 2019, the equity exposure sensitivity to a 2% devaluation in exchange rates against the euro of the main currencies to which the Bank is exposed amounted to 52 million euros, of which 62% correspond to the pound sterling, 29% to the US dollar and 7% to the Mexican peso. This potential devaluation is in line with historical quarterly volatility in recent years.

### 4.4.4. 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.

The effective 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 specialised in the management of operational risk, whose main functions are to coordinate, oversee and promote the identification, assessment and management of risks by the process managers, based on the management model adopted by Banco Sabadell Group.

Senior Management and the Board of Directors are directly involved and effectively take part in managing this risk by approving the management framework and its implementation as proposed by the Board Risk Committee. The latter is formed of Senior Management members from different functional areas within the institution. The management of this risk also requires regular audits to be carried out of the application of the management framework and the reliability of the information provided, as well as internal validation tests of the operational risk model. Operational risk management is based on two lines of action:

The first line of action is based on the analysis of processes, the identification of risks associated with such 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 which lets the Bank know its future exposure to the risk in terms of expected and unexpected loss and also allows trends to be foreseen and the corresponding mitigating actions to be adequately planned.

This is complemented by the identification, monitoring and active management of the risk through the use of key risk indicators. These allow warnings to be established, which alert the Bank to any increase in this exposure, and also enable the identification of the causes for this increase, and the measurement of the effectiveness of the implemented controls and improvements.

At the same time, a check is carried out to ensure that processes identified as being highly critical in the event of discontinued service have specific business continuity plans defined and in place. In terms of the identified risks, a qualitative estimate is made of the reputational impact that these risks could cause in the event of their occurrence.

The second line of action is based on experience. It consists in recording all losses incurred by the institution in a database, which provides information about operational risks encountered by each line of business as well as their causes, so that action may be taken to minimise these risks and detect potential weaknesses in the processes that require action plans aimed at mitigating the associated risks. Also included are the recoveries that make it possible to reduce the level of loss either as a result of direct management or by having an insurance policy that covers all or part of the resulting impacts.

Additionally, this information allows the consistency between the estimated losses and the 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:

- Technology risk: Technology risk (or ICT risk) is defined as the current or future risk of losses due to the inadequacy or deficiencies of hardware and software of technical infrastructures, which may compromise the availability, integrity, accessibility and security of infrastructures and data. This includes security risks resulting from inadequate or deficient internal processes or external events, including cyberattacks or inadequate physical security.

- Outsourcing risk: the possibility of incurring losses deriving from 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 or risk of non-compliance.

- Model risk: the possibility of losses arising from decisions made using inadequate models.

- Tax risk is defined as the probability of failing to comply with the objectives set out in Banco Sabadell's tax strategy from a dual perspective and due to either internal or external factors:

    - On one hand, the probability of failing to comply with tax obligations, potentially resulting in an undue shortfall of income, or the occurrence of any other event that generates potential damages for the Bank in terms of meeting its objectives.

    - On the other hand, the probability of incurring an undue income when complying with tax obligations, thus negatively affecting shareholders and other stakeholders.

- Compliance risk is 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 and codes of conduct applicable to the Group's activity.

Reputational risk, understood as the possibility of incurring losses arising from negative publicity related to the institution's practices and businesses, is also managed and controlled according to the methodological framework of Operational Risk, as this is a potential relevant source of reputational risk. This risk also considers the loss of trust in the institution that may affect its solvency.

#### 4.4.4.1 Technology risk

In relation to technology risk, it should be noted that this has become a key focus area in the risk management of Banco Sabadell Group for different reasons:

- Increase in the significance, complexity and use of technology in banking processes.

- Increase in external threats (cybercrime) and their potential impacts on institutions and the financial system in general.

- Implementation of new business models based on data and new technologies and which therefore bring about new risks (emerging risks) which could potentially change Banco Sabadell's risk profile.

Additionally, this risk is not only applicable to the Bank's 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.

#### 4.4.4.2 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, measured 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 comply with its tax obligations at all times, adhering to the current legal framework in matters relating to taxation.

Banco Sabadell Group's tax strategy reflects its commitment to promoting responsible taxation, promoting preventive measures and developing key transparency schemes in order to gain the confidence and trust of its various stakeholders.

The tax strategy is governed by the principles of efficiency, prudence, transparency and mitigation of tax risk, and is generally aligned with the business strategy of Banco Sabadell Group.

The Board of Directors of Banco Sabadell, under the mandate set out in the Spanish Capital Companies Act for the improvement of corporate governance, is responsible, and cannot delegate such responsibility, for the following:

- Setting the institution's tax strategy.

- Approving investments and operations of all types which are considered strategic or that have a particular tax risk due to their amounts or special 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 regions classified as tax havens.

- Approving any transaction which, due to its complexity, might undermine the transparency of the institution and its Group.

Thus, 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.

#### 4.4.4.3 Compliance risk

As regards compliance risk, one of the essential aspects of Banco Sabadell Group's policy, and the basis of its organisational culture, is strict compliance with all legal provisions, so that the achievement of business objectives must be made compatible, at all times, with subjection 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 current legislation and ensure that professional ethics is manifest in all areas of the Group's activities.

This Division assesses and manages compliance risk in order to minimise the possibility of any failure to comply with such legislation, and to ensure that any instances of non-compliance are identified, reported and diligently resolved. It does this by:

- Monitoring and overseeing the adaptation to new regulations through proactive management to ensure regular and systematic monitoring of legal updates.

- Identifying and periodically evaluating the risks of regulatory compliance in the different areas of activities and contributing to their management in an efficient manner. To this end, to establish, apply and maintain appropriate procedures to prevent, detect, correct and minimise any compliance risk.

- Establishing, in accordance with the above, an updated oversight and control programme, with the appropriate tools and methodologies for control.

- Supervising the risk management activities carried out by the 1st line of defence to ensure that they are aligned with the established policies and procedures.

- Keeping, for at least the period of time established by the legislation in force at any given time, the documentary verification of the controls carried out by the Compliance Division, as well as any other policies and procedures implemented for the best compliance with the regulatory obligations.

- Submitting to the administrative and management bodies the regular or ad-hoc reports on regulatory compliance that are legally required at any given time.

- Reporting to the administrative and management bodies any relevant information on regulatory compliance arising from all areas and activities of each of the Group's entities.

- 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 (Directorate General of Insurance and Pension Plans) and data protection (AEPD).

- Assigning functional responsibilities for regulatory compliance when necessary.

- Intervening in the development process of 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 registration and during the business relationship; applying due diligence measures in accordance with the risk assigned to customers, with special attention to those classified as high risk to which reinforced measures will be applied at the time of registration for their prior acceptance and due updating; managing tracking alerts and identifications of lists of designated persons and transactions of countries subject to international sanctions; performing special analysis of suspicious activities and their communication via alerts; preparing training plans; approving new products, services, channels and business areas and preparing a periodic risk analysis of internal control procedures in the area of AML/CTF and international sanctions, providing support to the Internal Control Body (ICB) responsible for legal compliance on 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 established internal procedures.

- Informing, reviewing or proposing corrective measures and/or responses to incidents detected in matters of conduct or to consultations submitted to the Corporate Ethics Committee (CEC), whose mission is to promote the Group's ethical conduct to ensure compliance with the principles of action set forth in Banco Sabadell Group Code of Conduct, the Internal Code of Conduct relating to the securities market of Banco Sabadell Group, Banco Sabadell Group General Policy on Conflicts of Interest and the Policy on Criminal Liability Prevention of Banco Sabadell Group.

## Note 5 – Minimum own funds and capital management

### Regulatory Framework

The Group calculates minimum capital requirements based on Directive 2013/36/EU (CRD-IV) and Regulation (EU) 575/2013 (hereinafter, CRR), which regulates the minimum capital to be held by credit institutions. This framework came into force on 1 January 2014 and was enacted in Spain through the following regulations:

(i) Royal Decree Law 14/2013 on urgent measures for adapting Spanish law to European Union regulations in terms of supervision and solvency of financial institutions;

(ii) Law 10/2014 on the regulation, supervision and solvency of credit institutions;

(iii) Royal Decree 84/2015 that implements the previous Law 10/2014, as well as other lower-ranking provisions; and

(iv) Bank of Spain Circulars 2/2014 and 2/2016.

The new regulatory framework amending the previous one was published on 7 June 2019 and entered into force on 27 June. Its implementation will be carried out in successive stages from that date, although most of the provisions will be implemented from 28 June 2021:

- Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempt entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (CRD V); and

- Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) 648/2012 (hereinafter, CRR II).

Accordingly, credit institutions must comply with a total capital ratio of 8% at all times. However, regulators may exercise their authority and require institutions to maintain additional capital.

On 8 February 2019, the bank received a notification from the European Central Bank, subsequent to the Supervisory Review and Evaluation Process (SREP), with regard to the minimum prudential requirements applicable to the bank for 2019, based on which the Group had to maintain a Common Equity Tier 1 (CET1) ratio of 9.64%, measured through phase-in regulatory capital. This requirement included the minimum required by Pillar 1 (4.50%) and Pillar 2R (2.25%), the capital conservation buffer (2.50%) and the systemic buffer (other systemically important institutions, or O-SIIs) (0.25%). Additionally, the Group had to comply with the requirement arising from the calculation of the institution's specific counter-cyclical capital buffer, which, as at December 2019, stands at 0.14%.

On 4 December 2019, Banco Sabadell received the decision of the European Central Bank in relation to the minimum prudential requirements applicable to the institution for 2020 as a result of the Supervisory Review and Evaluation Process (SREP). At consolidated level Banco Sabadell is required to maintain a minimum Common Equity Tier 1 (phased-in CET1) of 9.64% and a minimum phased-in Total Capital ratio of 13.14%. These ratios include the minimum required under Pillar 1 (4.50%), the Pillar 2R requirement (2.25%), the capital conservation buffer (2.50%), the requirement arising from the institution's perceived status as an "other systemically important institution" (0.25%) and the counter-cyclical buffer (0.14%). Following that decision, the capital requirement remains unchanged relative to 2019.

Furthermore, this is the consolidated CET1 level below which the Group would be obligated to calculate the maximum distributable amount (MDA), which would limit its distributions in the form of dividends, variable remuneration and coupon payments to holders of AT1 capital securities.

As at 31 December 2019, the Group's CET1 capital ratio stood at 12.4% (12% as at 31 December 2018) therefore, with regard to the capital requirements indicated in the preceding points, this does not imply any of the limitations mentioned.

The following table sets out the minimum prudential requirements applicable to Banco Sabadell following the Supervisory Review and Evaluation Process (SREP) for the years 2018-2020:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Pillar 1 CET1 | 4.50% | 4.50% | 4.50% |
| Pillar 2 Requirement | 2.25% | 2.25% | 1.75% |
| Capital conservation buffer (*) | 2.50% | 2.50% | 1.875% |
| Systemic buffer (*) | 0.25% | 0.25% | 0.1875% |
| Contracyclical buffer | 0.14% | 0.14% | - |
| Common Equity Tier 1 ratio (CET 1) | 9.64% | 9.64% | 8.3125% |
| Dates of communication of the SREP outcome | 04/12/2019 | 08/02/2019 | 14/10/2017 |

(*) 2018 transition period

On an individual basis, the requisite Common Equity Tier 1 (CET1) ratio resulting from the 2019 SREP process was 9.34% and the phased-in Total Capital ratio was 12.84%. This requirement included the minimum required by Pillar 1 (4.50%), the Pillar 2R requirement (2.25%), the capital conservation buffer (2.50%) and the requirement arising from the calculation of the counter-cyclical capital buffer which, as at December 2019, was 0.089%. The decision reported for 2020, with regard to the capital requirements, on both an individual and a consolidated basis, remains unchanged relative to 2019.

As at 31 December 2019, Banco Sabadell's CET1 capital ratio stood at 14.11%, and its phased-in Total Capital ratio stood at 16.81%; consequently, with regard to the individual capital requirements, it also comfortably exceeds the SREP requirements.

On 15 May 2014 the following two regulations were published: Directive 2014/59/EU, of the European Parliament and of the Council, establishing a framework for the recovery and resolution of credit institutions and investment firms, and Regulation (EU) 806/2014, of the European Parliament and of the Council (BRRD), establishing the Single Resolution Mechanism, which aims to ensure an orderly resolution of failing banks with minimal costs for taxpayers and the real economy.

With a view to achieving these objectives, the bank recovery and resolution directive (BRRD) considers a series of instruments available to the competent resolution authority, which include the bail-in tool. The BRRD introduces a minimum requirement for own funds and eligible liabilities (MREL), which banks are required to comply with at all times in order to ensure that they have a buffer in place to absorb losses and guarantee the effective implementation of resolution tools.

Within the scope of banking restructuring and resolution, Banco Sabadell is subject to the Single Resolution Board (SRB) as a resolution authority, and to Spanish competent authorities:

- Bank of Spain, which acts as a preventive resolution authority.
- Fondo de Reestructuración Ordenada Bancaria (FROB), the Fund for Orderly Bank Restructuring, which is the executive resolution authority.

On 19 November 2019, Banco Sabadell received a notification from the Bank of Spain, in its capacity as the domestic preventive resolution authority, regarding the decision taken by the Single Resolution Board concerning the minimum requirement for own funds and eligible liabilities (MREL) applicable to the institution on a consolidated basis. The decision is based on current legislation and may be subject to subsequent amendments by the resolution authority. The MREL requirement established for Banco Sabadell on a consolidated basis is 8.31% of total liabilities and own funds (TLOF), of which 5.99% must consist of subordinated debt instruments, taking into consideration an allowance of 2.2% on the total risk exposure amount (TREA). The decision establishes that the requirement must be met by 1 January 2020 at the latest,and must be complied with at all times as from that date.

Banco Sabadell currently complies with this MREL requirement, which is consistent with Banco Sabadell’s expectations and in line with the institution’s funding plans. In this respect, in 2019 the Group successfully completed the issue of MREL-eligible instruments for a total amount of approximately 4,000 million euros, of which 1,500 million euros correspond to senior non-preferred debt.

## Capital management

The management of capital funds is the result of the ongoing capital planning process. This process considers the expected evolution of the economic, regulatory and sectoral environment, as well as more adverse scenarios. It takes into account the expected capital consumption in different activities, under the various envisaged scenarios, and the market conditions that could determine the effectiveness of the various actions that could be considered for implementation. The process is enshrined within the strategic objectives of the bank and aims to achieve an attractive return for shareholders, whilst also ensuring that its own funds are appropriate in terms of the inherent risks of banking activity.

As regards capital management, as a general policy, the Group aims to adjust its overall available capital to the incurred risks.

The Group follows the guidelines set out in CRD-IV and associated regulations in order to establish own funds requirements that are inherent to the risks that have been incurred by the Group, based on internal risk measurement models that have been previously validated by independent parties. To this end, the Group has been authorised by the supervisor to use the majority of its internal models in place to calculate regulatory capital requirements.

The following table outlines the status of credit rating models developed by Banco Sabadell Group with regard to the authorisation by the supervisor for their usage when calculating own funds requirements.

**Breakdown of portfolios authorised by the Supervisor for the use or gradual application of the internal ratings-based (IRB) approach.**

| Bank | Regulatory Exposure Portfolio | Internal Portfolio | Internal Estimates Used | Internal Ratings Based approach | Status |
|---|---|---|---|---|---|
| BSab | Corporates | Portfolios subject to rating models ranging from corporate banking customers to SMEs, RE Developers and holding companies | PD<br>LGD<br>CCF | Advanced IRB | Authorised on 06/2008 |
| BSab | Retail | Mortgages | PD<br>LGD | Advanced IRB | Authorised on 06/2008 |
| BSab | Retail | Consumer loans | PD<br>LGD | Advanced IRB | Authorised on 06/2008 |
| BSab | Corporates | Project finance | PD | Supervisory Slotting Criteria | Authorised on 12/2009 |
| BSab | Retail | Retailers and Self-Employed | PD<br>LGD<br>CCF | Advanced IRB | Authorised on 12/2010 |
| BSab | Retail | Credit cards | PD<br>LGD<br>CCF | Advanced IRB | Authorised on 12/2011 |
| BSab | Retail | Loans | PD<br>LGD<br>CCF | Advanced IRB | Authorised on 12/2011 |
| BSab | Institutions | Financial institutions | PD | Foundation IRB | Authorised on 12/2012 |
| TSB | Retail | Mortgages | PD<br>LGD<br>CCF | Advanced IRB (PRA)<br>Waiver SSM | Authorised on 06/2014 (PRA) |
| TSB | Retail | Consumer loans | PD<br>LGD<br>CCF | Advanced IRB (PRA)<br>Waiver SSM | Authorised on 10/2014 (PRA) |
| TSB | Retail | Credit cards | PD<br>LGD<br>CCF | Advanced IRB (PRA)<br>Waiver SSM | Authorised on 06/2015 (PRA) |
| TSB | Retail | Current accounts | PD<br>LGD<br>CCF | Advanced IRB (PRA)<br>Waiver SSM | Authorised on 06/2015 (PRA) |

Data of models approved by the Supervisor, as at 31 December 2019.
The date of authorisation refers to the date on which the Supervisor authorised the use of IRB models for each specific portfolio.

The Group carries out frequent backtesting exercises on its IRB models, at least once a year. These backtesting exercises are independently reviewed by the Internal Validation unit and reported for their monitoring to the internal governing bodies, such as the Technical Risks Committee and the Risks Committee (delegated Board committees). Additionally, the backtesting results that affect the risk parameters, and the main conclusions from these results, taking into account the criteria established by the EBA in its disclosure Guidelines, are included in the annual Pillar III Disclosures report.

The Group has a model in place that comprehensively measures its risks using an internal measurement of allocated capital, and this model is based on the risk measurements provided by the new methodologies.

The Group has defined a risk classification system which encompasses the most important risks to which it is exposed, distinguishing between two levels; specifically, the first level risks are Credit Risk, Strategic Risk, Financial Risk and Operational Risk. All risks are assessed internally in the self-assessment exercise, thereby determining whether they represent a high, medium or low risk. In the case of important risks representing a significant risk, the Group has a complex capital measurement system using internal models, calculating capital under stress situations. In this way, internal methods ensure that capital needs are consistent with the risk inventory.

Each year the Group carries out an internal capital adequacy assessment process. This process, as mentioned in the previous paragraph, starts from a broad spectrum of previously identified risks and a qualitative internal assessment of policies, procedures and systems for accepting, measuring and controlling each type of risk as well as the corresponding mitigation techniques.

The next stage involves a comprehensive quantitative assessment of the necessary capital based on internal parameters and using the Group's own models (such as borrower credit rating and scoring systems) and other internal estimates appropriate to each type of risk. The assessments for each type of risk are then integrated and a figure is calculated to be used as an indicator in terms of allocated capital. In addition, the institution's business and financial plans and stress testing exercises are taken into account to determine whether certain business developments or extreme scenarios could endanger its solvency when compared to its available own funds.

Assessing the risk in terms of the capital that needs to be allocated enables the risk to be linked to the profitability obtained at both transaction and customer level, all the way up to business unit level. The Group has implemented a risk adjusted return on capital (RaRoC) system which provides this assessment, enabling uniform comparisons to be made and included in the transaction pricing process.

The level and quality of capital are metrics corresponding to the Risk Appetite Statement, and are included within the Group's Risk Appetite Framework, which is detailed in Note 4.

For more information on capital management see the Pillar III Disclosures report, published annually, which is available on the bank's website (www.grupbancsabadell.com), in the section on Information for Shareholders and investors / Financial information.

## Eligible capital and capital ratios

As at 31 December 2019, the Group's eligible capital amounted to 12,755 million euros (11,834 million euros as at 31 December 2018), representing a surplus of 6,257 million euros (5,407 million euros as at 31 December 2018), as shown below:

Thousand euro

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| Capital | 703,371 | 703,371 | - |
| Reserves | 12,364,430 | 11,893,256 | 3.96 |
| Convertible bonds | - | - | - |
| Minority interests | 14,961 | 13,769 | 8.66 |
| Deductions | (2,972,809) | (2,981,577) | (0.29) |
| **CET1 resources** | **10,109,953** | **9,628,818** | **5.00** |
| *CET1 (%)* | 12.4 | 12.0 | 3.88 |
| Preference shares, convertible bonds and deductions | 1,153,095 | 1,153,147 | - |
| **Additional Tier 1 resources** | **1,153,095** | **1,153,147** | **-** |
| AT1 (%) | 1.4 | 1.4 | (1.11) |
| **Tier 1 resources** | **11,263,048** | **10,781,965** | **4.46** |
| Tier 1 (%) | 13.9 | 13.4 | 3.31 |
| **Tier 2 resources** | **1,492,440** | **1,052,303** | **41.83** |
| Tier 2 (%) | 1.8 | 1.3 | 40.26 |
| **Capital base** | **12,755,488** | **11,834,268** | **7.78** |
| Minimum capital requirement | 6,498,467 | 6,426,806 | 1.12 |
| **Capital surplus** | **6,257,021** | **5,407,462** | **15.71** |
| **Total capital ratio (%)** | **15.7** | **14.7** | **6.60** |
| **Risk weighted assets (RWAs)** | **81,230,838** | **80,335,078** | **1.12** |

Common Equity Tier 1 (CET1) capital accounted for 79.26% of eligible capital. Deductions are mainly comprised of goodwill and intangible assets.

Tier 1 capital is comprised, in addition to CET1 funds, by items that largely make up Additional Tier 1 capital (9.04% of own funds), which are capital items comprised of preference shares.

Tier 2 capital provides 11.70% of the total capital ratio and is made up largely of subordinated debt.

In its strategic business plan, the Group expects to continue managing capital in such a way as to maintain the same comfortable capital position of recent years, as demonstrated by the results of the Supervisory Review and Evaluation Process (SREP), which are given in the first section of this Note.

In 2019, the Group increased its capital base organically, on a fully loaded basis, by more than 566 million euros. It is important to note also the impact of the Subordinated Bond issue for 500 million euros that took place in 2018, which the European Central Bank authorised for inclusion in Tier 2 in February 2019. In terms of risk-weighted assets, the impact of the sale of non-performing asset portfolios during the period and the securitisation issued in the third quarter of the year are also included. As a result of all this, the bank was able to offset the increase in risk-weighted assets (1,117 million euros) arising from changes to accounting standards, regulatory effects such as the introduction of IFRS 16, or the results of the Targeted Review of Internal Models (TRIM). Therefore, the fully loaded CET1 ratio stood at 11.71% at year end.

With reference to phased-in capital, all of these actions and events, both in terms of available capital and in terms of risk-weighted assets, have enabled Banco Sabadell to reach a phased-in Common Equity Tier 1 (CET 1) ratio of 12.45%, and a total capital ratio of 15.70% as at 31 December 2019, substantially above regulatory minima.

The following table shows movements in the various regulatory capital components during 2019:

Thousand euro

| | |
|---|---|
| **CET1 balance as at 31 December 2018** | **9,628,818** |
| Profit attributable to the Group, net of dividends | 544,465 |
| Reserves | (73,290) |
| Minority interests | 1,192 |
| Valuation adjustments | 145,513 |
| Deductions and transition effects | (136,745) |
| **CET1 balance as at 31 December 2019** | **10,109,953** |

Thousand euro

| | |
|---|---|
| **Additional Tier 1 balance as at 31 December 2018** | **1,153,147** |
| Eligible instruments | - |
| Minority interests | (52) |
| Deductions and transition effects | - |
| **Additional Tier 1 balance as at 31 December 2019** | **1,153,095** |

Thousand euro

| | |
|---|---|
| **Tier 2 balance as at 31 December 2018** | **1,052,303** |
| Eligible instruments | 440,206 |
| Credit risk adjustments | (199,213) |
| Minority interests | (69) |
| Deductions and transition effects | 199,213 |
| **Tier 2 balance as at 31 December 2019** | **1,492,440** |

The table below shows the reconciliation of equity and regulatory capital as at 31 December 2019 and 2018:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Shareholders' equity | 13,171,806 | 12,544,931 |
| Accumulated other comprehensive income | (266,746) | (491,470) |
| Minority interests | 69,346 | 63,539 |
| **Total equity** | **12,974,406** | **12,117,000** |
| Goodwill and intangibles | (2,594,020) | (2,461,142) |
| Other adjustments | (270,433) | (27,040) |
| **Regulatory accounting adjustments** | **(2,864,453)** | **(2,488,182)** |
| **Common Equity Tier 1 capital** | **10,109,953** | **9,628,818** |
| **Additional Tier 1 capital** | **1,153,095** | **1,153,147** |
| **Tier 2 capital** | **1,492,440** | **1,052,303** |
| **Total regulatory capital** | **12,755,488** | **11,834,268** |

As at 31 December 2019 and 2018, there is no significant difference between the public scope of consolidation and the regulatory scope of consolidation.

Risk-weighted assets (RWAs) for the period stand at 81,231 million euros as at 31 December 2019, which represents and increase of 1.12% relative to the previous year.

The following table shows the reasons for changes in RWAs weighted by credit risk occurring during 2019. It is worth noting that the impact on risk-weighted assets of the securitisation issued in the third quarter of the year amounted to -488 million euros.

Thousand euro

| | RWA | Capital requirements (*) |
|---|---|---|
| **Balance as at 31 December 2018** | **71,796,346** | **5,743,708** |
| Change in business volume | 723,318 | 57,865 |
| Asset quality | (488,872) | (39,110) |
| Changes in models | - | - |
| Methodology, parameters and policies | (1,078,000) | (86,240) |
| Acquisitions and disposals | (1,669,369) | (133,550) |
| Exchange rate | 640,096 | 51,208 |
| Other | (48,090) | (3,847) |
| **Balance as at 31 December 2019** | **69,875,429** | **5,590,034** |

Excludes credit valuation adjustment (CVA) requirements and contributions to the default guarantee fund of CCPs.

(*) Calculated as 8% of RWAs.

The breakdown of risk-weighted assets by type of risk, as at 31 December 2019 and 2018, is shown below, with credit risk accounting for the largest proportion.

%

| | 2019 | 2018 |
|---|---|---|
| Credit risk (*) | 89.05% | 88.71% |
| Operational risk | 10.09% | 10.37% |
| Market risk | 0.87% | 0.92% |
| **Total** | **100%** | **100%** |

(*) Includes counterparty credit risk and other risk exposure amounts.

The tables below show risk-weighted assets for the most significant risk in terms of volume (credit risk), broken down by geography and sector:

%

| | 2019 |
|---|---|
| Spain | 76.76% |
| United Kingdom | 13.24% |
| Rest of European Union | 3.93% |
| Americas | 5.10% |
| Rest of the world | 0.98% |
| **Total** | **100%** |

Includes counterparty credit risk.

%

| | 2019 |
|---|---|
| Finance, retailers and other services | 40.14% |
| Individuals | 26.56% |
| Transportation, distribution and hospitality | 11.08% |
| Real estate | 7.67% |
| Manufacturing industries | 5.47% |
| Generation and distribution of energy | 6.41% |
| Construction | 1.76% |
| Agriculture, livestock and fishing | 0.65% |
| Mining and quarrying | 0.27% |
| **Total** | **100%** |

Includes counterparty risk. Not includes equity.

The table below sets out regulatory exposures and risk-weighted assets, broken down by segment and by calculation approach, as at 31 December 2019:

%

| | EAD | IRB | STDA | RWA | IRB | STDA |
|---|---|---|---|---|---|---|
| Public sector | 22.80% | - | 100.00% | 0.63% | - | 100.00% |
| Financial institutions | 2.17% | 27.05% | 72.95% | 1.86% | 38.83% | 61.17% |
| Corporates | 12.53% | 90.60% | 9.40% | 22.49% | 89.46% | 10.54% |
| SMEs (Business banking) | 7.84% | 81.26% | 18.74% | 11.87% | 85.75% | 14.25% |
| SMEs (Retail banking) | 5.91% | 90.08% | 9.92% | 6.17% | 89.73% | 10.27% |
| Retailers and self-employed | 1.44% | 80.83% | 19.17% | 1.45% | 77.87% | 22.13% |
| Mortgage loans | 32.46% | 76.81% | 23.19% | 17.55% | 49.67% | 50.33% |
| Loans | 1.97% | 59.51% | 40.49% | 4.99% | 65.36% | 34.64% |
| Other retail banking customers | 3.51% | 78.42% | 21.58% | 3.29% | 72.79% | 27.21% |
| Other | 8.99% | - | 100.00% | 26.87% | - | 100.00% |
| Equities | 0.39% | 100.00% | - | 2.82% | 100.00% | - |
| **Total** | **100%** | | | **100%** | | |

Includes counterparty credit risk.

The Leverage Ratio (LR) aims to strengthen capital requirements by providing a supplementary measure which is not linked to the level of risk. The leverage ratio is the ratio of eligible Tier 1 capital to exposures, calculated according to the criteria set forth for this ratio in Commission Delegated Regulation (EU) 62/2015.

Part seven of the CRR sets forth calculation and reporting requirements, and the disclosure requirements for the ratio are set out in Article 451 of part eight. A minimum requirement is not specified, although Article 92 of the recently published CRR II already sets forth a mandatory requirement of 3%. The bank reports to the supervisor on a quarterly basis.

The leverage ratio as at 31 December 2019 and 2018 is shown below:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Tier 1 capital | 11,263,048 | 10,781,965 |
| Exposure | 224,618,208 | 221,804,098 |
| **Leverage ratio** | **5.01%** | **4.86%** |

The capital and leverage ratios as at 31 December 2019 do not include either the results or the reduction of exposure arising from the sale of SDIN Residencial, S.L.U. and a portfolio of outstanding real estate assets, nor do they include the results of the sale of Sabadell Asset Management, S.A., S.G.I.I.C, Sociedad Unipersonal, since these transactions had not yet been completed. If this impact had been included, the CET1 ratio would stand at 12.87%, the Tier 1 ratio would stand at 14.29%, the total capital ratio at 16.13% and the total pro forma leverage ratio would stand at 5.16%

In 2018, following the entry into force of IFRS 9, the Group opted to apply the transitional arrangements established in Regulation (EU) 2017/2395.

The following table shows the impact that the application of the transitional arrangements in force in 2019 has had on the various capital ratios compared to the impact if the IFRS 9 rules had been applied in full (in fully-loaded terms):

Thousand euro

| | 2019 |
|---|---|
| **Available capital** | |
| Common Equity Tier 1 (CET1) capital | 10,109,953 |
| Common Equity Tier 1 (CET1) capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied | 9,524,757 |
| Tier 1 (T1) capital | 11,263,048 |
| Tier 1 (T1) capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied | 10,677,852 |
| Total capital | 12,755,488 |
| Total capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied | 12,184,660 |
| **Risk weighted assets** | |
| Total risk weighted assets | 81,230,838 |
| Total risk weighted assets if the IFRS 9 or analogous ECL transitional arrangements had not been applied | 81,310,988 |
| **Capital ratios** | |
| Common Equity Tier 1 (CET1) capital (expressed as percentage of risk exposure amount) | 12.45% |
| Common Equity Tier 1 (CET1) capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied | 11.71% |
| Tier 1 (T1) capital (expressed as percentage of risk exposure amount) | 13.87% |
| Tier 1 (T1) capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied | 13.13% |
| Total capital (expressed as percentage of risk exposure amount) | 15.70% |
| Total capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied | 14.99% |
| **Leverage ratio** | |
| Total exposure measure corresponding to leverage ratio | 224,618,208 |
| Leverage ratio | 5.01% |
| Leverage ratio if the IFRS 9 or analogous ECL transitional arrangements had not been applied | 4.75% |

The main impact arising from the application of these transitional arrangements has been the inclusion of 585 million euros in CET1, which partly mitigates the decrease in equity resulting from the entry into force of IFRS 9, due to the increase in accounting provisions. The impact generated a reduction of risk-weighted assets by 80 million euros.

For more information on capital ratios and the leverage ratio, their composition, details of parameters and their management, see the Pillar III Disclosures, which is published annually and is available on the bank's website (www.grupbancsabadell.com), in the section Information for shareholders and investors / Financial information.

## Note 6 – Fair value of assets and liabilities

### Financial assets and financial liabilities

The fair value of a financial asset or financial liability at a given date is understood as the amount at which it could be sold or transferred, respectively, as at that date, between two independent and knowledgeable parties acting freely and prudently and without coercion, under market conditions. The most objective and commonly used reference for the fair value of a financial asset or financial liability is the price that would be paid in an organised, transparent and deep market ("quoted price" or "market price").

When there is no market price for a particular financial asset or financial liability, the fair value is estimated from the values established for similar instruments in recent transactions or, alternatively, by using mathematical valuation models that have been suitably tested by the international financial community. When using these models, the particular characteristics of the financial asset or financial liability to be valued are taken into account, particularly the different types of risk that may be associated therewith. The above notwithstanding, the limitations inherent in the valuation models that have been developed and possible inaccuracies in the assumptions and parameters required by these models may result in the estimated fair value of a financial asset or financial liability not precisely matching the price at which the asset or liability could be delivered or settled on the valuation date.

The fair value of financial derivatives quoted on an active market is the daily quoted price.

In the case of instruments for which quoted prices cannot be determined, prices are estimated using internal models developed by the bank, most of which take data based on observable market parameters as significant inputs. Otherwise, the models make use of other inputs which rely on internal assumptions based on generally accepted practices within the financial community.

For financial instruments, the fair values disclosed in the financial statements are classified according to the following fair value levels:

- Level 1: Fair values are obtained from the (unadjusted) prices quoted on active markets for that instrument.

- Level 2: Fair values are obtained from the prices being quoted on active markets for similar instruments, the prices of recent transactions, expected flows or other valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

- Level 3: Fair values are obtained through valuation techniques in which some significant inputs are not based on observable market data.

Set out below are the main valuation methods, assumptions and inputs used when estimating the fair value of financial instruments classified in Levels 2 and 3, according to the type of 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:<br>- An estimate of pre-payment rates<br>- Issuers' credit risk | - Issuers' credit spreads<br>- 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<br>- Share price listings in organised markets |
| Simple derivatives (a) | Net present value method | Implicit curves calculated based on quoted market prices | This model assumes:<br>- Observable yield curve<br>- FX swaps curve and spot curve |
| Rest of derivatives (a) | For equity derivatives, currencies and commodities:<br>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.)<br>- Volatility surfaces of options.<br>- For forex derivatives Probability of default for the calculation of CVA and DVA (b) |
| | For equity derivatives, currencies and commodities:<br>- Monte Carlo simulations<br>- SABR | Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term.<br>- SABR: stochastic volatility model. | |
| | For interest rate derivatives:<br>- Standard Model<br>- Shifted Libor Market Model | These models assume that:<br>- The standard and shifted models allow negative interest rates.<br>- Forward rates in the term structure of the interest rate curve are fully correlated. | - Term structure of interest<br>- Volatility surfaces of Libor rate options (caps) and swap rates (swaptions)<br>Probability of default to calculate CVA and DVA (b). |
| | For credit derivatives:<br>- Intensity models | These models assume a default probability structure resulting from term-based default intensity rates. | - Price listings of Credit Default Swaps (CDS)<br>- 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.

| 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:<br>- An estimate of pre-payment rates<br>- Issuers' credit risk<br>- Other estimates for variables that affect future cash flows: claims, losses, amortisations | - Estimated credit spreads of the issuer or a similar issuer.<br>- Rates of claims, losses and/or amortisations |
| Equity instruments | Cash flow discount method | Calculation of the present value of future cash flows discounted at current market interest rates adjusted for risk (CAPM method), taking into account:<br>- An estimate of the company's estimated cash flows<br>- Risk in the company's sector<br>- Macroeconomic inputs | - Entity's business plans<br>- Risk premiums of the company's sector<br>- Adjustment for systemic risk (Beta Parameter) |
| Derivatives (a) | For equity derivatives, currencies and commodities:<br>- Monte Carlo simulations | Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term.<br>- SABR: stochastic volatility model. | For equity derivatives, inflation, currencies and commodities:<br>- Historic volatility<br>- Historic correlation<br>- Probability of internal default for the calculation of CVA and DVA (b) |
| | For credit derivatives:<br>- Intensity models | These models assume a default probability structure resulting from term-based default intensity rates. | For credit derivatives:<br>- Estimated credit spreads of the issuer or a similar issuer.<br>- Historic volatility of credit spreads |
| | For interest rate derivatives:<br>- Standard Model - Libor Market Model | These models assume that:<br>- The standard model allows negative interest rates<br>- Forward rates in the term structure of the interest rate curve are fully correlated. | For interest rate derivatives:<br>- Internal probability of default for the calculation of CVA and DVA (b) |

(a) Given the small net position of Banco Sabadell, the funding value adjustment (FVA) is estimated to have a non-material impact on the valuation of derivatives.

(b) To calculate CVA and DVA, levels of severity fixed at 60% have been used, which corresponds to the market standard for senior debt. Average future, positive and negative exposures have been estimated using market models, Libor for interest rates and the Black-Scholes model for currencies, using market inputs. The probability of default of customers with no quoted debt instruments or CDS have been obtained using the IRB model and for Banco Sabadell those obtained from the CDS stock prices have been assigned.

### Determination of the fair value of financial instruments

A comparison between the value at which the Group's financial assets and liabilities are recognised on the accompanying consolidated balance sheets and their corresponding fair values is shown below:

Thousand euro

| | Note | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | Carrying amount | Fair value | Carrying amount | Fair value |
| **Assets:** | | | | | |
| Cash, cash balances at central banks and other demand deposits | 7 | 15,169,202 | 15,169,202 | 23,494,479 | 23,494,479 |
| Financial assets held for trading | 8, 9, 10 | 2,440,866 | 2,440,866 | 2,044,965 | 2,044,965 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 8 | 171,056 | 171,056 | 141,314 | 141,314 |
| Financial assets designated at fair value through profit or loss | | - | - | - | - |
| Financial assets at fair value through other comprehensive income | 8, 9 | 7,802,025 | 7,802,025 | 13,247,055 | 13,247,055 |
| Financial assets at amortised cost | 8, 11 | 181,422,646 | 188,332,900 | 164,415,563 | 170,494,967 |
| Derivatives – Hedge accounting | 12 | 468,516 | 468,516 | 301,975 | 301,975 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 249,552 | 249,552 | 56,972 | 56,972 |
| **Total assets** | | **207,723,863** | **214,634,117** | **203,702,323** | **209,781,727** |

Thousand euro

| | Note | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | Carrying amount | Fair value | Carrying amount | Fair value |
| **Liabilities:** | | | | | |
| Financial liabilities held for trading | 10 | 2,714,365 | 2,714,365 | 1,738,354 | 1,738,354 |
| Financial liabilities designated at fair value through profit or loss | | - | - | - | - |
| Financial liabilities measured at amortised cost | 18, 19, 20, 21 | 205,636,018 | 204,760,043 | 206,076,860 | 205,522,865 |
| Derivatives – Hedge accounting | 12 | 728,769 | 728,769 | 633,639 | 633,639 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 234,537 | 234,537 | 36,502 | 36,502 |
| **Total liabilities** | | **209,313,689** | **208,437,714** | **208,485,355** | **207,931,360** |

In relation to financial instruments whose book value differs from their fair value, the latter has been calculated as follows:

– The fair value of the heading "*Cash, cash balances at central banks and other demand deposits*" has been likened to its book value, as these are mainly short-term balances.

– The fair value of the headings "*Financial assets at amortised cost*" and "*Financial liabilities measured at amortised cost*" has been estimated 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 these financial assets 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 consolidated balance sheets, adjustments (positive or negative) are recorded measured at the fair value of the financial assets or financial liabilities included in the amortised cost portfolio, which correspond exclusively to hedged interest rate risk. Fair value is calculated using internal models and observable market data variables.

The following tables show the main financial instruments recognised at fair value in the accompanying consolidated balance sheets, broken down according to the valuation method used to estimate their fair value:

Thousand euro

| | | 2019 | | | |
|---|---|---|---|---|---|
| | Note | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | | |
| Financial assets held for trading | | 568,196 | 1,872,570 | 100 | 2,440,866 |
| Derivatives | 10 | - | 1,840,245 | - | 1,840,245 |
| Equity instruments | 9 | 1,817 | 1,884 | - | 3,701 |
| Debt securities | 8 | 566,379 | 30,441 | 100 | 596,920 |
| Loans and advances – Customers | | - | - | - | - |
| Non-trading financial assets mandatorily at fair value through profit or loss | | 51,007 | 2,663 | 117,386 | 171,056 |
| Equity instruments | | - | - | - | - |
| Debt securities | 8 | 51,007 | 2,663 | 117,386 | 171,056 |
| 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 | | 7,420,035 | 282,809 | 99,181 | 7,802,025 |
| Equity instruments | 9 | 22,365 | 106,389 | 83,320 | 212,074 |
| Debt securities | 8 | 7,397,670 | 176,420 | 15,861 | 7,589,951 |
| Loans and advances | | - | - | - | - |
| Derivatives – Hedge accounting | 12 | - | 468,516 | - | 468,516 |
| **Total assets** | | **8,039,238** | **2,626,558** | **216,667** | **10,882,463** |

Thousand euro

| | | 2019 | | | |
|---|---|---|---|---|---|
| | Note | Level 1 | Level 2 | Level 3 | Total |
| **Liabilities:** | | | | | |
| Financial liabilities held for trading | | 871,812 | 1,842,553 | - | 2,714,365 |
| Derivatives | 10 | - | 1,842,553 | - | 1,842,553 |
| Short positions | | 871,812 | - | - | 871,812 |
| Deposits with credit institutions | | - | - | - | - |
| Financial liabilities designated at fair value through profit or loss | | - | - | - | - |
| Derivatives – Hedge accounting | 12 | - | 728,769 | - | 728,769 |
| **Total liabilities** | | **871,812** | **2,571,322** | **-** | **3,443,134** |

Thousand euro

| | Note | 2018 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Financial assets held for trading | | 320,241 | 1,724,724 | - | 2,044,965 |
| Derivatives | 10 | - | 1,720,274 | - | 1,720,274 |
| Equity instruments | 9 | 4,246 | 3,008 | - | 7,254 |
| Debt securities | 8 | 315,995 | 1,442 | - | 317,437 |
| Loans and advances – Customers | | - | - | - | - |
| Non-trading financial assets mandatorily at fair value through profit or loss | | 24,412 | 42,648 | 74,254 | 141,314 |
| Equity instruments | 9 | - | - | - | - |
| Debt securities | | 24,412 | 42,648 | 74,254 | 141,314 |
| Loans and advances | | - | - | - | - |
| Financial assets at fair value through other comprehensive income | | 12,722,944 | 468,627 | 55,484 | 13,247,055 |
| Equity instruments | 9 | 59,027 | 155,825 | 55,484 | 270,336 |
| Debt securities | 8 | 12,663,917 | 312,802 | - | 12,976,719 |
| Loans and advances | | - | - | - | - |
| Derivatives – Hedge accounting | 12 | 737 | 301,238 | - | 301,975 |
| **Total assets** | | **13,068,334** | **2,537,237** | **129,738** | **15,735,309** |

Thousand euro

| | Note | 2018 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **Liabilities:** | | | | | |
| Financial liabilities held for trading | | 48,121 | 1,690,233 | - | 1,738,354 |
| Derivatives | 10 | - | 1,690,233 | - | 1,690,233 |
| Short positions | | 48,121 | - | - | 48,121 |
| Deposits with credit institutions | | - | - | - | - |
| Financial liabilities designated at fair value through profit or loss | | - | - | - | - |
| Derivatives – Hedge accounting | 12 | 35,871 | 597,768 | - | 633,639 |
| **Total liabilities** | | **83,992** | **2,288,001** | **-** | **2,371,993** |

Derivatives without a collateral contract (CSAs) include the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA) in their fair value. The fair value of these derivatives represents 7.18% of the total, and their adjustment for credit and debit risks represents 3.04% of their fair value.

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

Thousand euro

| | Assets | Liabilities |
|---|---|---|
| **Balance as at 31 December 2017** | **176,282** | **-** |
| Valuation adjustments recognised in profit and loss (*) | (17,810) | - |
| Valuation adjustments not recognised in profit and loss | (129,245) | - |
| Purchases, sales and write-offs | (8,601) | - |
| Net additions/removals in Level 3 | 109,090 | - |
| Exchange differences and other | 22 | - |
| **Balance as at 31 December 2018** | **129,738** | **-** |
| Valuation adjustments recognised in profit and loss (*) | (38,415) | - |
| Valuation adjustments not recognised in profit and loss | 7,335 | - |
| Purchases, sales and write-offs | 16,134 | - |
| Net additions/removals in Level 3 | 102,886 | - |
| Exchange differences and other | (1,011) | - |
| **Balance as at 31 December 2019** | **216,667** | **-** |

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

Net level 3 inflows primarily correspond to debt instruments previously classified as level 1 and level 2 whose fair value is now calculated using valuation techniques in which the main significant inputs are based on unobservable data.

Details of financial instruments that were transferred between valuation levels in 2019 are as follows:

Thousand euro

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | From | Level 1 | | Level 2 | | Level 3 | |
| | To: | Level 2 | Level 3 | Level 1 | Level 3 | Level 1 | Level 2 |
| **Assets:** | | | | | | | |
| Financial assets held for trading | | - | - | - | - | - | - |
| Non-trading financial assets mandatorily at fair value through profit or loss | | - | 22,399 | - | 62,229 | - | 505 |
| Financial assets designated at fair value through profit or loss | | - | - | - | - | - | - |
| Financial assets at fair value through other comprehensive income | | 5,209 | 4,147 | - | 15,453 | - | 837 |
| Derivatives | | - | - | - | - | - | - |
| **Liabilities:** | | | | | | | |
| Financial liabilities held for trading | | - | - | - | - | - | - |
| Financial liabilities designated at fair value through profit or loss | | - | - | - | - | - | - |
| Derivatives – Hedge accounting | | - | - | - | - | - | - |
| **Total** | | **5,209** | **26,546** | **-** | **77,682** | **-** | **1,342** |

In 2018 there were no transfers between different valuation levels.

As at 31 December 2019, 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.

The instruments considered as Level 3 correspond, among other things, to the interest that the Group holds in the Spanish company for the management of assets arising from the restructuring of the banking system (Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, SAREB), and which, given the unique nature of this investment, is measured at fair value calculated based on the business plan and financial projections of that entity.

Transfers from Level 1 to Level 2 are due to the fact that the markets in which these instruments (mainly bonds issued by Autonomous Communities) are traded are no longer considered as active markets; therefore, their valuation is now calculated using valuation techniques in which all significant inputs are based on directly or indirectly observable market data.

In addition, transfers from Level 1 to Level 3 are due to the fact that the markets in which these instruments (mainly asset-backed securities) are traded are no longer considered as active markets; therefore, their value is now calculated using valuation techniques in which one of the main significant inputs (prepayment rate of securitised loans) is based on data that is unobservable in the market.

In addition, transfers from Level 2 to Level 3 are due to the fact that these instruments (mainly perpetual convertible preferred stock) are now calculated using valuation techniques in which one of the main significant inputs (illiquidity discount rate) is based on data that is unobservable in the market.

At the end of both years there were no derivatives using equity instruments as underlying assets or material interests in discretionary gains in any companies.

**Loans and financial liabilities at fair value through profit or loss**

As at 31 December 2019 and 2018, there were no loans or financial liabilities recognised at fair value through profit or loss.

**Financial instruments at cost**

As at the end of 2019 and 2018, there were also no equity instruments valued at their cost of acquisition that could be considered significant.

## Non-financial assets

**Real estate assets**

As at 31 December 2019 and 2018, the net carrying values of real estate assets do not differ significantly from the fair values of these assets (see Notes 13, 15 and 17).

The selection criteria for valuation suppliers and the update of appraisals are defined in the section on "Guarantees", in Note 1.3.4. to these consolidated annual financial statements.

Valuation techniques are generally used by all appraisal companies based on the type of each real estate asset.

As per regulatory requirements, in the valuation techniques used, the valuation companies maximise the use of observable market data and other factors which would be taken into account by market operators when setting prices, endeavouring to keep the use of subjective considerations and unobservable or non-verifiable data to a minimum.

The main valuation methods used fall into the following measurement levels:

Level 2

- Comparison method: applicable to all kinds of properties provided that there is a representative market of comparable properties and that sufficient data is available relating to transactions that reflect the current market situation.

- Rental update method: applicable when the valued property generates or may generate rental income and there is a representative market of comparable data.

- Statistical model: this model adjusts the value of the assets based on the date of acquisition and their location, updating the value in accordance with price trends in the area concerned as from the date of purchase. To this end, it includes statistical information on price trends in all provinces, as provided by external valuation firms, as well as demographic data from the Spanish Office for National Statistics (INE) to calculate sensitivity at a municipality level. The value obtained is in turn adjusted based on the construction progress (finished product, development in progress, plots or land under management) and use (residential, industrial, etc.) of the asset.

Level 3

- Cost method: applicable to determine the value of buildings being planned, under construction or undergoing renovations.

- Residual method: in the present macroeconomic climate, the dynamic calculation procedure is being used preferentially in new land valuations to the detriment of the static procedure, which is reserved for specific cases in which the envisaged time frames for project completion are in line with the relevant regulations.

Depending on the type of asset, the methods used in the valuation of the Group'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 2019 and 2018:

Thousand euro

| | 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Housing | - | 881,028 | - | 881,028 |
| Offices, retail establishments and other real estate | - | 1,192,568 | - | 1,192,568 |
| Land and building plots | - | - | 574,306 | 574,306 |
| Work in progress | - | - | 216,728 | 216,728 |
| **Total assets** | **-** | **2,073,596** | **791,034** | **2,864,630** |

Thousand euro

| | 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Housing | - | 3,298,398 | - | 3,298,398 |
| Offices, retail establishments and other real estate | - | 1,928,348 | - | 1,928,348 |
| Land and building plots | - | - | 999,575 | 999,575 |
| Work in progress | - | - | 312,457 | 312,457 |
| **Total assets** | **-** | **5,226,746** | **1,312,032** | **6,538,778** |

Significant unobservable variables used in valuations classed as Level 3 have not been developed by the Group but by the independent third party valuation companies that performed the appraisals. Given the widespread use of the appraisals, the valuation techniques of which are clearly set out in the regulation governing the valuation of properties, the unobservable variables used reflect the assumptions frequently used by all valuation firms. In terms of proportional weight, unobservable variables represent almost all of the value of these appraisals.

The main unobservable variables used in the valuation of assets in accordance with the dynamic residual method are the future sale price, the estimated construction costs, the costs of development, the time required for land planning and development and the discount rate. The main unobservable variables used in accordance with the static residual method are construction costs, the costs of development and the profit for the developer.

The number of plots in the Group'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 2019 and 2018 are shown below:

Thousand euro

| | For house purchase | Offices, retail establishments and other real estate | Land, building plots and work in progress |
|---|---|---|---|
| **Balance as at 31 December 2017** | **-** | **-** | **1,865,836** |
| Purchases | - | - | 93,658 |
| Sales | - | - | (174,596) |
| Impairments recognised on income statement (*) | - | - | (473,444) |
| Net additions/removals in Level 3 | - | - | 578 |
| **Balance as at 31 December 2018** | **-** | **-** | **1,312,032** |
| Purchases | - | - | 129,964 |
| Sales | - | - | (31,106) |
| Impairments recognised on income statement (*) | - | - | (18,359) |
| Net additions/removals in Level 3 | - | - | (601,497) |
| **Balance as at 31 December 2019** | **-** | **-** | **791,034** |

(*) Relates to assets kept on the balance sheet as at 31 December 2019 and 2018 (see Note 35).

During 2019, certain real estate assets have been transferred between the different valuation levels, due to the transformation of assets that were in the process of construction into finished products.

The following table shows a comparison between the value at which the Group's real estate assets were recognised under the headings "*Non-current assets and disposal groups classified as held for sale*", "*Investment properties*" and "*Inventories*" and their appraisal value, as at the end of 2019 and 2018:

Thousand euro

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount (*) | Impairment | Net carrying amount | Valuation amount | Carrying amount (*) | Impairment | Net carrying amount | Valuation amount |
| Investment properties | 570,029 | (56,298) | 513,731 | 601,035 | 772,959 | (72,894) | 700,065 | 811,492 |
| Inventories | 1,724,085 | (855,508) | 868,577 | 1,100,376 | 1,859,878 | (925,018) | 934,860 | 1,204,111 |
| Non-current assets held for sale | 889,607 | (203,797) | 685,810 | 1,071,967 | 6,908,521 | (2,805,971) | 4,102,550 | 6,994,966 |
| **Total** | **3,183,721** | **(1,115,603)** | **2,068,118** | **2,773,378** | **9,541,358** | **(3,803,883)** | **5,737,475** | **9,010,569** |

(*) 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*", "*Investment properties*" and "*Inventories*" in 2019 are as follows:

Thousand euro

| Valuation firm | Non-current assets held for sale | Investment properties | Inventories |
|---|---|---|---|
| Afes Técnicas de Tasación, S.A. | - | 3,138 | - |
| Alia Tasaciones, S.A. | 98,585 | 72,215 | 109,409 |
| Aplicaciones Estadistícas y Consultoría, S.L. | 926 | - | - |
| Col.lectiu d'Arquitectes Taxadors | 11,703 | - | - |
| Cushman & Wakefield | - | 16,747 | - |
| Eurovaloraciones, S.A. | 18,912 | 13,396 | 164,282 |
| Gestión de Valoraciones y Tasaciones, S.A. | 25,630 | 132,489 | 193,894 |
| Gloval Valuation, S.A.U. | 17,464 | 8,637 | 39,216 |
| Ibertasa, S.A. | 10,729 | 4,347 | 17,511 |
| Instituto de Valoraciones, S.A. | 1,371 | - | 58,161 |
| JLL Valoraciones, S.A. | 396 | - | - |
| Krata, S.A. | 887 | 1,865 | 3,378 |
| Peritand | 4,194 | 12,096 | - |
| Sociedad de Tasación, S.A. | 354,774 | 184,833 | 64,962 |
| Tabimed Gestión de Proyectos, S.L. | 311 | - | - |
| Tasasur Sociedad de Tasaciones, S.A. | 66 | - | 129 |
| Tecnitasa Técnicos en Tasación, S.A | 6,329 | 12,778 | 1,139 |
| Thirsa | 192 | - | 352 |
| Tinsa Tasaciones Inmobiliarias, S.A. | 44,139 | 22,837 | 162,136 |
| Valoraciones Mediterráneo, S.A. | 57,625 | 28,069 | 53,404 |
| Resto | 31,577 | 284 | 604 |
| **Total** | **685,810** | **513,731** | **868,577** |

The fair value of property, plant and equipment for own use does not differ significantly from its net carrying amount.

## Note 7 – Cash, cash balances at central banks and other demand deposits

The composition of this heading on the asset side of the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By nature:** | | |
| Cash | 897,745 | 814,761 |
| Cash balances at central banks | 13,587,274 | 22,065,440 |
| Other demand deposits | 684,183 | 614,278 |
| **Total** | **15,169,202** | **23,494,479** |
| **By currency:** | | |
| In euro | 8,524,283 | 14,726,126 |
| In foreign currency | 6,644,919 | 8,768,353 |
| **Total** | **15,169,202** | **23,494,479** |

Cash balances at central banks include balances held to comply with the central bank's mandatory minimum reserve requirement. Throughout 2019 Banco Sabadell has complied with minimum requirements set out in applicable regulations regarding this ratio.

## Note 8 – Debt securities

Debt securities reported in the consolidated balance sheets as at 31 December 2019 and 2018 are broken down below:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By heading:** | | |
| Financial assets held for trading | 596,920 | 317,437 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 171,056 | 141,314 |
| Financial assets designated at fair value through profit or loss | - | - |
| Financial assets at fair value through other comprehensive income | 7,589,951 | 12,976,719 |
| Financial assets at amortised cost | 19,218,721 | 13,131,824 |
| **Total** | **27,576,648** | **26,567,294** |
| **By nature:** | | |
| Central banks | - | - |
| General governments | 24,290,371 | 23,732,596 |
| Credit institutions | 1,376,147 | 987,601 |
| Other sectors | 1,452,604 | 1,575,346 |
| Stage 3 assets | 73 | 357 |
| Impairment allowances | (234) | (236) |
| Other valuation adjustments (interest, fees and commissions, other) | 457,687 | 271,630 |
| **Total** | **27,576,648** | **26,567,294** |
| **By currency:** | | |
| In euro | 23,576,442 | 21,968,957 |
| In foreign currency | 4,000,206 | 4,598,337 |
| **Total** | **27,576,648** | **26,567,294** |

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 11.

Details of debt instruments included under the "*Financial assets at fair value through other comprehensive income*" heading are as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Amortised cost (*) | 7,597,159 | 13,020,937 |
| Fair value | 7,589,951 | 12,976,719 |
| Accumulated losses recognised in equity | (81,823) | (138,296) |
| Accumulated capital gains recognised in equity | 76,695 | 99,906 |
| Value adjustments made for credit risk | (2,080) | (5,828) |

(*) Includes net gains/(-) losses due to impairment in the profit and loss account for 2019 and 2018 of 3,748 and (2,472) thousand euros, of which those due to provisions during the year amount to (1,093) and (7,685) thousand euros, and those due to reversal of impairment amount to 4,841 and 5,213 thousand in 2019 and 2018 (see Note 34).

The breakdown of public debt securities classified as "*Financial assets at fair value through other comprehensive income*" is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Amortised cost | 6,292,827 | 10,979,744 |
| Fair value | 6,272,501 | 10,939,940 |
| Accumulated losses recognised in equity | (73,085) | (120,525) |
| Accumulated capital gains recognised in equity | 52,861 | 81,236 |
| Value adjustments made for credit risk | (102) | (515) |

The portfolio of "*Financial assets at amortised cost*" breaks down as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Central banks | - | - |
| General governments | 18,112,781 | 12,606,171 |
| Credit institutions | 565,924 | 81,007 |
| Other sectors | 540,219 | 444,900 |
| Impairment allowances | (203) | (254) |
| **Total** | **19,218,721** | **13,131,824** |

## Note 9 – Equity instruments

Equity instruments reported in the consolidated balance sheets as at 31 December 2019 and 2018 are broken down below:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By heading:** | | |
| Financial assets held for trading | 3,701 | 7,254 |
| Non-trading financial assets mandatorily at fair value through profit or loss | - | - |
| Financial assets at fair value through other comprehensive income | 212,074 | 270,336 |
| **Total** | **215,775** | **277,590** |
| **By nature:** | | |
| Resident sector | 173,618 | 156,226 |
| Credit institutions | 7,065 | 8,869 |
| Other | 166,553 | 147,357 |
| Non-resident sector | 16,325 | 64,487 |
| Credit institutions | - | 52,815 |
| Other | 16,325 | 11,672 |
| Participations in investment vehicles | 25,832 | 56,877 |
| **Total** | **215,775** | **277,590** |
| **By currency:** | | |
| In euro | 214,428 | 220,951 |
| In foreign currency | 1,347 | 56,639 |
| **Total** | **215,775** | **277,590** |

As at 2019 year-end there were no investments in listed equity instruments for which their quoted market price has not been considered as a reference of their fair value.

As at 31 December 2019 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

| | 2019 | 2018 |
|---|---|---|
| Cost of acquisition | 288,025 | 347,586 |
| Fair value | 212,074 | 270,336 |
| Accumulated capital losses recognised in equity at reporting date | (146,067) | (140,597) |
| Accumulated capital gains recognised in equity at reporting date | 70,116 | 63,347 |
| Transfers of gains or losses within equity during the period | - | - |
| Recognised dividends from investments held at the end of the year | 4,480 | 7,611 |
| Recognised dividends from investments derecognised during the year | - | 569 |

At the end of 2019, the Group, based on the last strategic plan presented by the company for the management of assets proceeding from the restructuring of the banking system (SAREB, for its acronym in Spanish) has reduced the book value of the investment held in this company by 4,535 thousand euros, which has been recognised in the consolidated statement of equity, with the book value of the investment being impaired by 100%. Furthermore, the Group has reduced the book value of the subordinated debt it holds in this company by 46,749 thousand euros, which have been 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 consolidated income statement as at the end of 2019. As at 31 December 2019, the book value of subordinated debt in SAREB amounted to 27,000 thousand euros (73,749 thousand euros as at 31 December 2018).

On 13 March 2019, the bank made a transfer to Glenoaks Investments, S.A. of the 8,238,084 shares of Colombian bank Banco GNB Sudameris, S.A. (Banco GNB Sudameris), owned by Banco Sabadell, representing 4.99% of the share capital of Banco GNB Sudameris, for a total price of 60,352 thousand US dollars.

The transaction was executed through the exercise of the purchase option granted by Banco Sabadell to Starmites Corporation, S.à r.l. On 1 October 2015, which was assigned by the latter to Glenoaks Investments, S.A.

## Note 10 – Asset and liability derivatives held for trading

The breakdown by type of risk of this heading on the asset and liability sides of the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Securities risk | 98,229 | 97,909 | 162,458 | 165,141 |
| Interest rate risk | 1,202,760 | 1,182,667 | 1,073,148 | 1,057,141 |
| Currency risk | 351,656 | 373,614 | 473,271 | 456,015 |
| Other types of risk | 187,600 | 188,363 | 11,397 | 11,936 |
| **Total** | **1,840,245** | **1,842,553** | **1,720,274** | **1,690,233** |
| **By currency:** | | | | |
| In euro | 1,595,590 | 1,593,692 | 1,545,066 | 1,519,317 |
| In foreign currency | 244,655 | 248,861 | 175,208 | 170,916 |
| **Total** | **1,840,245** | **1,842,553** | **1,720,274** | **1,690,233** |

The fair values of derivatives held for trading, broken down by type of derivative instrument as at 31 December 2019 and 2018, are shown below:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Swaps, CCIRS, Call Money Swap | 1,360,018 | 1,050,903 |
| Currency options | 30,743 | 95,011 |
| Interest rate options | 28,660 | 33,717 |
| Index and securities options | 97,584 | 162,383 |
| Currency forwards | 320,913 | 378,260 |
| Fixed income forwards | 1,715 | - |
| Equity forward | 583 | - |
| Interest rate forwards | 29 | - |
| **Total derivatives on asset side held for trading** | **1,840,245** | **1,720,274** |
| **Liabilities** | | |
| Swaps, CCIRS, Call Money Swap | 1,337,427 | 1,030,712 |
| Currency options | 30,773 | 95,289 |
| Interest rate options | 24,574 | 29,857 |
| Index and securities options | 105,362 | 173,649 |
| Currency forwards | 342,842 | 360,726 |
| Fixed income forwards | 927 | - |
| Equity forward | 583 | - |
| Interest rate forwards | 65 | - |
| **Total derivatives on liability side held for trading** | **1,842,553** | **1,690,233** |

## Note 11 – Loans and advances

### Central banks and Credit institutions

The breakdown of the headings "*Loans and advances – Central banks*" and "*Loans and advances – Credit institutions*" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **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 | 14,388,424 | 8,296,917 |
| **Total** | **14,388,424** | **8,296,917** |
| **By nature:** | | |
| Deposits with agreed maturity | 1,768,595 | 2,414,351 |
| Repos | 11,805,180 | 5,367,349 |
| Hybrid financial assets | - | - |
| Other | 811,986 | 512,058 |
| Stage 3 assets | 304 | 299 |
| Impairment allowances | (492) | (1,861) |
| Other valuation adjustments (interest, fees and commissions, other) | 2,851 | 4,721 |
| **Total** | **14,388,424** | **8,296,917** |
| **By currency:** | | |
| In euro | 13,624,692 | 6,549,965 |
| In foreign currency | 763,732 | 1,746,952 |
| **Total** | **14,388,424** | **8,296,917** |

## Customers

The breakdown of the heading "*Loans and advances – Customers*" (General governments and Other sectors) of the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **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 | 147,815,501 | 142,986,822 |
| **Total** | **147,815,501** | **142,986,822** |
| **By nature:** | | |
| Overdrafts, etc. | 7,376,969 | 7,807,725 |
| Commercial loans | 6,443,041 | 6,185,828 |
| Finance leases | 2,558,211 | 2,564,586 |
| Secured loans | 87,049,502 | 83,639,258 |
| Repos | 235,749 | 595,917 |
| Other term loans | 41,144,218 | 39,168,359 |
| Stage 3 assets | 5,922,593 | 6,471,569 |
| Impairment allowances | (2,933,267) | (3,433,070) |
| Other valuation adjustments (interest, fees and commissions, other) | 18,485 | (13,350) |
| **Total** | **147,815,501** | **142,986,822** |
| **By sector:** | | |
| General governments | 10,509,796 | 10,875,811 |
| Other sectors | 134,297,894 | 129,085,862 |
| Stage 3 assets | 5,922,593 | 6,471,569 |
| Impairment allowances | (2,933,267) | (3,433,070) |
| Other valuation adjustments (interest, fees and commissions, other) | 18,485 | (13,350) |
| **Total** | **147,815,501** | **142,986,822** |
| **By currency:** | | |
| In euro | 99,364,554 | 98,595,913 |
| In foreign currency | 48,450,947 | 44,390,909 |
| **Total** | **147,815,501** | **142,986,822** |
| **By geography:** | | |
| Spain | 95,659,236 | 96,209,799 |
| United Kingdom | 39,702,191 | 36,704,792 |
| Rest of European Union | 4,464,943 | 3,822,923 |
| Americas | 9,082,619 | 7,615,135 |
| Rest of the world | 1,839,779 | 2,067,243 |
| Impairment allowances | (2,933,267) | (3,433,070) |
| **Total** | **147,815,501** | **142,986,822** |

The "*Loans and advances*" heading on the consolidated 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 the "Credit risk" section of Note 4.

## Finance leases

Certain information concerning financial leasing transactions carried out by the Group in which it acts as lessor is set out below:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Finance leases** | | |
| Total gross investment | 2,789,636 | 2,651,777 |
| Impairment allowances | (55,454) | (52,887) |
| Interest income | 72,471 | 51,392 |

At 31 December 2019, the reconciliation of undiscounted lease receipts to the net investment on the leases is as follows:

Thousand euro

| | 2019 |
|---|---|
| Undiscounted lease receipts | 2,594,150 |
| Unguaranteed residual value | 195,486 |
| **Gross investment in the lease** | **2,789,636** |
| Unearned financial income | 214,854 |
| **Net investment in the lease (*)** | **2,574,782** |

(*) Relates mainly to finance leases granted to customers in the amount of 2,558,211 euros.

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

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Up to 1 year | 732,175 | 636,359 |
| 1-2 years | 575,586 | 494,820 |
| 2-3 years | 383,798 | 377,550 |
| 3-4 years | 243,542 | 238,811 |
| 4-5 years | 172,350 | 165,774 |
| More than 5 years | 486,699 | 554,002 |
| **Total** | **2,594,150** | **2,467,316** |

## 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 2019 amounted to 126,793 thousand euros (130,322 thousand euros as at 31 December 2018). Of this total, over 78% of the balance as at 31 December 2019 (52% of the balance as at 31 December 2018) had become due in a period no longer than one month.

## Financial assets classified on the basis of their credit risk

The breakdown of the gross book values, excluding valuation adjustments, of financial assets classified on the basis of their credit risk as at 31 December 2019 and 2018 is as follows:

Thousand euro

| *Stage* 1 | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Debt securities | 27,119,124 | 26,279,110 |
| Loans and advances | 151,262,299 | 139,376,896 |
| Customers | 136,888,126 | 131,106,667 |
| Central banks and Credit institutions | 14,374,173 | 8,270,229 |
| **Total *stage* 1** | **178,381,423** | **165,656,006** |
| **By sector:** | | |
| General governments | 34,762,568 | 34,573,924 |
| Central banks and Credit institutions | 15,750,320 | 9,244,381 |
| Other private sectors | 127,868,535 | 121,837,701 |
| **Total *stage* 1** | **178,381,423** | **165,656,006** |
| *Stage* 2 | | |
| Debt securities | - | 16,435 |
| Loans and advances | 7,931,152 | 8,878,533 |
| Customers | 7,919,564 | 8,855,004 |
| Central banks and Credit institutions | 11,588 | 23,529 |
| **Total *stage* 2** | **7,931,152** | **8,894,968** |
| **By sector:** | | |
| General governments | 37,598 | 34,482 |
| Central banks and Credit institutions | 11,588 | 36,978 |
| Other private sectors | 7,881,966 | 8,823,508 |
| **Total *stage* 2** | **7,931,152** | **8,894,968** |
| *Stage* 3 | | |
| Debt securities | 73 | 357 |
| Loans and advances | 5,922,896 | 6,471,868 |
| Customers | 5,922,593 | 6,471,569 |
| Central banks and Credit institutions | 304 | 299 |
| **Total *stage* 3** | **5,922,969** | **6,472,225** |
| **By sector:** | | |
| General governments | 11,772 | 20,434 |
| Central banks and Credit institutions | 304 | 299 |
| Other private sectors | 5,910,894 | 6,451,492 |
| **Total *stage* 3** | **5,922,969** | **6,472,225** |
| **Total *stages*** | **192,235,545** | **181,023,199** |

Movements of gross values, excluding valuation adjustments, of assets subject to impairment by the Group during the years ended 31 December 2019 and 2018 were as follows:

Thousand euro

| | *Stage* 1 | *Stage* 2 | *Stage* 3 | *Of which: purchased credit-impaired* | Total |
|---|---|---|---|---|---|
| **Balance as at 1 January 2018** | **161,415,810** | **7,505,184** | **8,134,973** | ***480,525*** | **177,055,967** |
| Transfers between impairment stages | (3,364,981) | 2,194,203 | 1,170,778 | - | - |
| *Stage* 1 | 1,713,189 | (1,698,333) | (14,856) | - | - |
| *Stage* 2 | (4,157,125) | 4,512,248 | (355,123) | - | - |
| *Stage* 3 | (921,045) | (619,712) | 1,540,757 | - | - |
| Increases | 35,841,425 | 867,615 | 279,016 | *17,774* | 36,988,056 |
| Decreases | (28,097,540) | (1,634,236) | (2,250,806) | *(78,137)* | (31,982,582) |
| Transfers to write-offs | (2,680) | (346) | (857,144) | - | (860,170) |
| Adjustments for exchange differences | (136,028) | (37,452) | (4,592) | - | (178,072) |
| **Balance as at 31 December 2018** | **165,656,006** | **8,894,968** | **6,472,225** | ***420,162*** | **181,023,199** |
| Transfers between impairment stages | (1,802,973) | 619,908 | 1,183,065 | - | - |
| *Stage* 1 | 5,489,037 | (5,420,825) | (68,212) | - | - |
| *Stage* 2 | (6,965,516) | 7,321,554 | (356,038) | - | - |
| *Stage* 3 | (326,494) | (1,280,821) | 1,607,315 | - | - |
| Increases | 50,880,311 | 669,178 | 322,849 | *7,523* | 51,872,338 |
| Decreases | (36,880,578) | (2,288,401) | (1,452,585) | *(171,815)* | (40,621,564) |
| Transfers to write-offs | (152) | (932) | (609,784) | - | (610,868) |
| Adjustments for exchange differences | 528,809 | 36,431 | 7,199 | *9,663* | 572,439 |
| **Balance as at 31 December 2019** | **178,381,423** | **7,931,152** | **5,922,969** | ***265,533*** | **192,235,544** |

The breakdown of assets classified as Stage 3 by type of guarantee as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | **31/12/2019** | **31/12/2018** |
|---|---|---|
| Secured with a mortgage (*) | 3,191,551 | 3,480,089 |
| *Of which: Stage 3 financial assets with guarantees covering all of the risk* | *2,373,708* | *2,487,184* |
| Other collateral (**) | 354,338 | 343,581 |
| *Of which: Stage 3 financial assets with guarantees covering all of the risk* | *184,704* | *192,788* |
| Rest | 2,377,080 | 2,648,555 |
| **Total** | **5,922,969** | **6,472,225** |

(*) 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 geography of the balance of assets classed as stage 3 as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | **31/12/2019** | **31/12/2018** |
|---|---|---|
| Spain | 5,192,312 | 5,785,832 |
| United Kingdom | 503,588 | 516,602 |
| Rest of European Union | 40,710 | 47,458 |
| Americas | 146,024 | 76,668 |
| Rest of the world | 40,336 | 45,665 |
| **Total** | **5,922,970** | **6,472,225** |

Accumulated financial income on impaired financial assets incurred but not recorded in the consolidated income statement amounted to 333,191 thousand euros as at 31 December 2019 and to 402,022 thousand euros as at 31 December 2018.

The movements in impaired financial assets derecognised due to the remote likelihood of their recovery during 2019 and 2018 are as follows:

| Thousand euro | |
|---|---|
| **Balance as at 31 December 2017** | **4,826,898** |
| **Additions** | **940,386** |
| Use of accumulated impairment balance | 850,289 |
| Directly recognised on income statement | 5,718 |
| Contractually payable interests | 59,911 |
| Other items | 24,468 |
| **Disposals** | **(335,096)** |
| Collections of principal in cash from counterparties | (72,305) |
| Collections of interest in cash from counterparties | (4,151) |
| Debt forgiveness | (44,311) |
| Referrals | - |
| Forbearance | (21) |
| Sales | (214,146) |
| Other items | (162) |
| **Exchange differences** | **648** |
| **Balance as at 31 December 2018** | **5,432,836** |
| **Additions** | **669,726** |
| Use of accumulated impairment balance | 578,035 |
| Directly recognised on income statement | 36,367 |
| Contractually payable interests | 50,724 |
| Other items | 4,600 |
| **Disposals** | **(1,084,717)** |
| Collections of principal in cash from counterparties | (80,613) |
| Collections of interest in cash from counterparties | (1,041) |
| Debt forgiveness | (29,324) |
| Referrals | - |
| Forbearance | (41) |
| Sales | (894,762) |
| Other items | (78,936) |
| **Exchange differences** | **25,924** |
| **Balance as at 31 December 2019** | **5,043,769** |

## Allowances

The values of financial asset impairment allowances under the different headings on the asset side of the consolidated balance sheets, listed according to credit risk, as at 31 December 2019 and 2018 are as follows:

Thousand euro

| Stage 1 | 2019 | 2018 |
|---|---|---|
| Debt securities | 234 | 236 |
| Loans and advances | 399,628 | 372,856 |
| Central banks and Credit institutions | 191 | 1,539 |
| Customers | 399,437 | 371,317 |
| **Total stage 1** | **399,862** | **373,092** |
| **Stage 2** | | |
| Debt securities | - | - |
| Loans and advances | 268,743 | 324,782 |
| Central banks and Credit institutions | - | 24 |
| Customers | 268,743 | 324,759 |
| **Total stage 2** | **268,743** | **324,782** |
| **Stage 3** | | |
| Debt securities | - | - |
| Loans and advances | 2,265,388 | 2,737,293 |
| Central banks and Credit institutions | 300 | 298 |
| Customers | 2,265,087 | 2,736,995 |
| **Total stage 3** | **2,265,388** | **2,737,293** |
| **Total stages** | **2,933,992** | **3,435,167** |

Movements in impairment allowances allocated by the Group to cover credit risk during 2019 and 2018 are as follows:

Thousand euro

| | Individually measured | | Collectively measured | | | Total |
|---|---|---|---|---|---|---|
| | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| **Balance as at 1 January 2018 (*)** | **39,594** | **857,590** | **638,877** | **360,671** | **2,836,309** | **4,733,041** |
| **Movements reflected in impairment gains/(losses) (**)** | **15,116** | **72,482** | **(75,831)** | **79,771** | **427,520** | **519,058** |
| Increases due to origination | - | - | 174,318 | - | - | 174,318 |
| Changes due to credit risk variance | 13,404 | 100,904 | (154,297) | 114,568 | 466,534 | 541,113 |
| Other movements | 1,712 | (28,422) | (95,852) | (34,797) | (39,014) | (196,373) |
| **Movements not reflected in impairment gains/(losses)** | **(27,807)** | **(192,959)** | **(188,411)** | **(142,543)** | **(1,262,468)** | **(1,814,188)** |
| Transfers between impairment stages | (27,807) | 91,167 | 18,401 | (99,172) | 17,411 | - |
| Stage 1 | (1,532) | (20,746) | 135,809 | (67,168) | (46,363) | - |
| Stage 2 | 2,994 | (496) | (78,873) | 158,017 | (81,642) | - |
| Stage 3 | (29,269) | 112,409 | (38,535) | (190,021) | 145,416 | - |
| Utilisation of allocated provisions | - | (277,292) | (6,192) | (42,938) | (1,124,688) | (1,451,110) |
| Other movements (***) | - | (6,834) | (200,620) | (433) | (155,191) | (363,078) |
| **Adjustments for exchange differences** | **(19)** | **(1,077)** | **(1,544)** | **(38)** | **(66)** | **(2,744)** |
| **Balance as at 31 December 2018** | **26,884** | **736,036** | **373,091** | **297,861** | **2,001,295** | **3,435,167** |
| **Movements reflected in impairment gains/(losses) (**)** | **(5,113)** | **110,129** | **(22,871)** | **119,756** | **347,568** | **549,469** |
| Increases due to origination | - | - | 244,151 | - | - | 244,151 |
| Changes due to credit risk variance | (4,738) | 101,761 | (158,349) | 89,180 | 420,152 | 448,006 |
| Other movements | (375) | 8,368 | (108,673) | 30,576 | (72,583) | (142,687) |
| **Movements not reflected in impairment gains/(losses)** | **(5,630)** | **(355,166)** | **45,709** | **(167,430)** | **(577,101)** | **(1,059,618)** |
| Transfers between impairment stages | (5,629) | 104,483 | 46,026 | (128,792) | (16,087) | - |
| Stage 1 | (1,832) | (5,359) | 137,436 | (109,553) | (20,691) | - |
| Stage 2 | 2,763 | (570) | (65,503) | 95,188 | (31,878) | - |
| Stage 3 | (6,560) | 110,412 | (25,907) | (114,427) | 36,482 | - |
| Utilisation of allocated provisions | (1) | (456,919) | (225) | (38,306) | (451,725) | (947,176) |
| Other movements (***) | - | (2,729) | (92) | (332) | (109,288) | (112,442) |
| **Adjustments for exchange differences** | **8** | **527** | **3,933** | **2,406** | **2,100** | **8,974** |
| **Balance as at 31 December 2019** | **16,149** | **491,526** | **399,862** | **252,593** | **1,773,862** | **2,933,992** |

(*) Includes the impact of the first application of IFRS 9 which has entailed an increase in impairment allowances for the amount of 992,586 thousand euros.

(**) This figure, corresponding to the amortisation charged to results on impaired financial assets derecognised from the asset side of the balance sheet and the recovery of write-offs, has been recognised with a contra account under the heading 'Impairment and gains or losses on changes in cash flows of financial assets not measured at fair value through profit or loss and net gains or (-) losses on changes' (see Note 34)

(***) Relates mainly to the transfer of 112,442 thousand euros in 2019 to cover credit risk on non-current assets held for sale (note 13) and investment property (note 15). In 2018, it related mainly to the transfer of 200,615 thousand euro of impairment booked for the outcome of contingencies related to interest rate floor clauses and to the transfer of 162,463 thousand euro for risk cover to non-current assets held for sale and to investment property.

The breakdown by geography of the balance of impairment allowances as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Spain | 2,557,901 | 3,051,311 |
| United Kingdom | 235,516 | 252,032 |
| Rest of European Union | 34,042 | 32,266 |
| Americas | 72,288 | 61,752 |
| Rest of the world | 34,245 | 37,806 |
| **Total** | **2,933,992** | **3,435,167** |

*Sensitivity analysis of the key variables of macroeconomic scenarios*

An analysis of the sensitivity of cost or risk and of its impact by stage in the event of a change, ceteris paribus, from the actual macroeconomic environment, relative to the most probable baseline macroeconomic scenario included in the Group's business plan, is set out below. The results of this analysis are shown below:

| | **Change in the variable** | **Impact on cost of risk** | ***Of which: stage 2*** | ***Of which: stage 3*** |
|---|---|---|---|---|
| **Deviation in GDP growth** | - 100 bps | + 7 bps | + 2 bps | + 4 bps |
| | + 100 bps | - 6 bps | - 2 bps | - 3 bps |
| **Deviation in unemployment rate** | + 350 bps | + 10 bps | + 2 bps | + 6 bps |
| | - 350 bps | - 8 bps | - 3 bps | - 5 bps |
| **Changes in housing prices** | - 300 bps | + 14 bps | + 2 bps | + 11 bps |
| | + 300 bps | - 7 bps | - 3 bps | - 4 bps |

## Note 12 – Derivatives - asset and liability hedge accounting

### Hedging management

The main hedges arranged by the Group are described below:

**Interest rate risk hedge**

Based on the balance sheet positioning and the market situation and outlook, interest rate risk mitigation strategies are proposed and agreed in order to adjust the aforesaid positioning to that desired by the Group. With this aim in mind, Banco Sabadell Group establishes interest rate hedging strategies for positions that are not included in the trading book and, to that end, derivative instruments are used, whether fair value instruments or cash flows, and a distinction is made between them depending on the items hedged:

- Macro-hedges: hedges intended to mitigate the risk of balance sheet components.
- Micro-hedges: hedges intended to mitigate the risk of a particular asset or liability.

When a transaction is designated as a hedging operation, it is classified as such from the outset of the transaction or the inception of the instruments included in the hedge, and a document is prepared which covers the hedging strategy, defining it in management and accounting terms, and setting out its governance. The said document clearly identifies the item or items hedged and the hedging instrument, the risk that it seeks to hedge and the criteria or methodologies followed by the Group to evaluate its effectiveness.

The Group operates with the following types of hedges intended to mitigate structural interest rate risk:

- Fair value hedges: hedges against the exposure to changes in the fair value of assets and liabilities recognised on the balance sheet, or against the analogous exposure of a specific selection of such assets and liabilities, that can be attributed to interest rate risk. These are used to keep a stable economic value of equity.

  The main types of balance sheet items hedged are:

  - Fixed-rate loans included in the lending portfolio.
  - Debt securities included in the portfolio of "*Financial assets at fair value through other comprehensive income*" and the portfolio of "*Financial assets at amortised cost*".
  - Fixed-rate liabilities, including fixed-term deposits and the institution's capital market funding transactions.

  Banco Sabadell generally uses macro-hedging for balance sheet items, both assets and liabilities, while TSB uses macro-hedging for fixed-rate loans or deposits and micro-hedging for debt securities or the bank's funding operations in the capital markets, for which they arrange derivative contracts, typically for a nominal amount identical to the item hedged and with the same financial features.

If the hedge relates to assets, the Group enters into a fixed-for-floating swap, whereas if the macro-hedge relates to liabilities, it enters into a floating-to-fixed interest rate swap. These derivatives can be traded in cash or as F&O. The hedged risk is the interest rate risk arising from a potential change in the risk-free interest rate that gives rise to changes in the value of the hedged balance sheet items. As such, the hedge will not cover any risk inherent to the hedged items other than the risk of a change in the risk-free interest rate.

In order to asses the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated monthly variance in the fair value of the hedged item against the accumulated monthly variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that future changes to the fair value of the hedged balance sheet items are offset by future changes in the fair value of the derivative.

- Cash flows: hedging against the exposure to changes in cash flows arising from a particular risk associated with a previously recognised asset or liability, or a forecast transaction that is highly likely to materialise and which could affect the results for the year. They are used to reduce net interest income volatility.

  The main types of balance sheet items hedged are:

  - Floating rate mortgage loans indexed to the mortgage Euribor.
  - Floating rate liabilities indexed to the 3-month Euribor.

  Banco Sabadell generally uses macro-hedging for balance sheet items, both assets and liabilities, while TSB also uses micro-hedging for floating-rate issues of its own debt securities, for which they arrange derivative contracts, typically for a nominal amount identical to the item hedged and with the same financial features.

  If the hedge relates to assets, the Group 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 as cash or F&O. The hedged risk is the interest rate risk associated with the effect that a potential change in the benchmark interest rate could have on the future interest accrued on balance sheet items. The credit spread and risk premium which, together with the benchmark index, make up the contractual interest rate applicable to the hedged balance sheet items is expressly excluded from the hedge.

  In order to asses 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 Group 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 Group through its policies and procedures.

Hedging of net investments in foreign operations

The positions of subsidiaries and foreign branches implicitly entail exposure to exchange rate risk, which is managed by creating hedges through the use of forward contracts.

The maturities of these instruments are periodically renewed on the basis of prudential and forward-looking criteria.

## 2019 hedging disclosures

The nominal values and the fair values of the hedging instruments as at 31 December 2019 and 2018, broken down by risk category and type of hedge, are as follows:

Thousand euro

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Nominal | Assets | Liabilities | Nominal | Assets | Liabilities |
| **Micro-hedges:** | | | | | | |
| Fair value hedges | **7,245,991** | **55,400** | **67,932** | **13,000,928** | **47,422** | **82,045** |
| Exchange rate risk | 1,976 | 113 | - | 57,838 | 347 | 58 |
| *For funding operations (A)* | - | - | - | *5,000* | - | *58* |
| *Of permanent investments* | - | - | - | - | - | - |
| *Of non-monetary items (B)* | *1,976* | *113* | - | *52,838* | *347* | - |
| Interest rate risk | 5,185,382 | 48,275 | 57,533 | 10,983,284 | 47,041 | 55,117 |
| *For funding operations (A)* | *468,381* | *9,882* | *1,010* | *3,708,940* | *12,139* | *16,266* |
| *For lending operations (C)* | *4,717,001* | *38,393* | *56,523* | *7,274,344* | *34,902* | *38,851* |
| Risk associated with shares | 2,058,633 | 7,012 | 10,399 | 1,959,806 | 34 | 26,870 |
| *For funding operations (A)* | *2,058,633* | *7,012* | *10,399* | *1,959,806* | *34* | *26,870* |
| Cash flow hedges | **5,931,234** | **238,985** | **17,570** | **6,443,227** | **140,787** | **13,150** |
| Exchange rate risk | 317,492 | 51,254 | - | 554,999 | 72,952 | - |
| *Of non-monetary items (D)* | *317,492* | *51,254* | - | *554,999* | *72,952* | - |
| Interest rate risk | 3,602,746 | 6,171 | 17,335 | 3,636,428 | 77 | 9,123 |
| *Of future transactions (E)* | *223,319* | *3,384* | - | *786,546* | - | *7,254* |
| *For funding operations (A)* | *500,525* | *2,753* | *14,663* | - | - | - |
| *For securitisation operations (F)* | *2,878,902* | *34* | *2,672* | *2,844,909* | - | *1,869* |
| *Rest* | - | - | - | *4,973* | *77* | - |
| Risk associated with shares | 9,996 | - | 100 | 800 | 1 | 3 |
| *For funding operations (G)* | *9,996* | - | *100* | *800* | *1* | *3* |
| Other risks | 2,001,000 | 181,560 | 135 | 2,251,000 | 67,757 | 4,024 |
| *For inflation-linked bonds (H)* | *2,001,000* | *181,560* | *135* | *2,251,000* | *67,757* | *4,024* |
| Hedge of net investment in foreign operations | **1,648,059** | **2,678** | **25,212** | **2,155,118** | **5,315** | **22,956** |
| Exchange rate risk (I) | *1,648,059* | *2,678* | *25,212* | 2,155,118 | 5,315 | 22,956 |
| **Macro-hedges:** | | | | | | |
| Fair value hedges | **23,279,606** | **171,453** | **605,689** | **23,356,122** | **87,174** | **493,492** |
| Interest rate risk | 23,279,606 | 171,453 | 605,689 | 23,356,122 | 87,174 | 493,492 |
| *For funding operations (J)* | *10,735,569* | *161,693* | *7,132* | *10,571,060* | *60,863* | *20,778* |
| *For lending operations (K)* | *12,544,037* | *9,760* | *598,557* | *12,785,062* | *26,311* | *472,714* |
| Cash flow hedges | **400,000** | **-** | **12,366** | **2,050,000** | **21,277** | **21,996** |
| Interest rate risk | 400,000 | - | 12,366 | 2,050,000 | 21,277 | 21,996 |
| *For funding operations (L)* | *400,000* | - | *12,366* | *700,000* | - | *21,996* |
| *For lending operations (M)* | - | - | - | *1,350,000* | *21,277* | - |
| **Total** | **38,504,890** | **468,516** | **728,769** | **47,005,395** | **301,975** | **633,639** |
| **By currency:** | | | | | | |
| In euro | *18,817,424* | *357,989* | *382,743* | 25,734,732 | 182,794 | 242,786 |
| In foreign currency | *19,687,466* | *110,527* | *346,026* | 21,270,663 | 119,181 | 390,853 |
| **Total** | **38,504,890** | **468,516** | **728,769** | **47,005,395** | **301,975** | **633,639** |

The types of hedges according to their composition that are identified in the table are as follows:

A. Micro-hedges of the institution's funding transactions in capital markets, transactions involving term deposits and demand deposit accounts opened by customers and recognised under the heading "*Financial liabilities measured at amortised cost*". As at 31 December 2019, micro-hedges against interest rate risk on customer sight accounts are not current.
B. Micro-hedges against the exchange rate risk of equity transactions recognised under the heading "*Financial assets at fair value through other comprehensive income*" and *"Financial assets not intended for trading mandatorily measured at fair value through profit or loss"*. As at 31 December 2019, micro-hedges against the exchange rate risk of equity transactions recognised under the heading "*Financial assets at fair value through other comprehensive income*" are not current.
C. Micro-hedges of transactions involving customer loans, recognised under the heading "*Financial assets at amortised cost*" and debt securities classified in the portfolio under the "fair value through other comprehensive income" and "amortised cost" categories.
D. Micro-hedges against exchange rate risk to reduce the volatility in the event of exchange rate fluctuations of securitisation bonds, recognised under the heading "*Financial liabilities measured at amortised cost*", and transactions involving currency futures. As at 31 December 2019, the micro-hedges against the exchange rate risk of currency futures transactions are not current.
E. Micro-hedges against interest rate risk on futures transactions, mainly fixed-income securities. The institution designates as a hedging item derivative contracts that will be settled at their gross value by transferring the underlying asset (according to the contracted price) which, in accordance with the implementation guidelines of IAS 39, can be considered as a cash flow hedge in respect of the consideration that will be settled in a future transaction arising from the settlement of the derivative itself in gross terms. If no derivative had been arranged, the Group would be exposed to changes in price.
F. Micro-hedging operations carried out by the Group's securitisation funds.
G. Micro-hedges for transactions involving term deposits arranged by customers and which are currently being sold.
H. Micro-hedges of interest rates on inflation-linked bonds recognised under the headings "*Financial assets at fair value through other comprehensive income*" and "*Financial assets at amortised cost*". The bank has arranged financial swaps to hedge future changes in cash flows that will be settled by ILBs.
I. Hedges against exchange rate risk on permanent shareholdings currently cover 573 million pounds sterling and 10,418 million Mexican pesos corresponding to shareholdings in Group entities (1,368 million pounds sterling and 11,050 million Mexican pesos as at 31 December 2018); and 200 million US dollars corresponding to shareholdings in foreign branches (40 million US dollars as at 31 December 2018). All of these hedges are carried out through currency forwards.
J. Macro-hedges of the institution's funding transactions in capital markets, transactions involving term deposits and demand deposit accounts opened by customers and recognised under the heading "*Financial liabilities measured at amortised cost*".
K. Macro-hedges of debt securities classified in the portfolio under the "fair value through other comprehensive income" and "amortised cost" categories, and of fixed-rate mortgage loans granted to customers (recognised under the heading "*Financial assets at amortised cost*").
L. Cash flow macro-hedges the purpose of which is to reduce the volatility of the buy-sell spread as a result of interest rate fluctuations, for a one-year time horizon. Thus, this macro-hedge covers future cash flows based on the net exposure of a portfolio consisting of floating rate liabilities recognised under the heading "*Financial liabilities measured at amortised cost*". The average rate of interest rate swaps used for this hedge was -0.40% (-0.32% as at 31 December 2018).
M. Macro-hedges for floating rate mortgage loans granted to customers recognised under the heading "*Financial assets at amortised cost*". As at 31 December 2019, the macro-hedge for fixed-rate mortgage loans was not in effect. The average rate of interest rate swaps used for this hedge was -0.18% as at 31 December 2018.

The maturity profiles of the hedging instruments used by the Group as at 31 December 2019 and 2018 are shown below:

Thousand euro

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Nominal | | | | | |
| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 and 5 years | More than 5 years | Total |
| Exchange rate risk | 706,675 | 921,589 | 339,263 | - | - | **1,967,527** |
| Interest rate risk | 1,869,952 | 223,319 | 4,140,362 | 12,038,165 | 14,195,936 | **32,467,734** |
| Risk associated with shares | 15,406 | 59,835 | 242,785 | 1,717,835 | 32,768 | **2,068,629** |
| Other risks | - | - | - | 11,000 | 1,990,000 | **2,001,000** |
| **Total** | **2,592,033** | **1,204,743** | **4,722,410** | **13,767,000** | **16,218,704** | **38,504,890** |

Thousand euro

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 827,595 | 1,561,679 | 23,675 | 355,006 | - | **2,767,955** |
| Interest rate risk | 6,954,835 | 733,234 | 3,122,764 | 16,008,965 | 13,206,036 | **40,025,834** |
| Risk associated with shares | 4,600 | 263,626 | 288,737 | 1,378,902 | 24,741 | **1,960,606** |
| Other risks | - | - | - | 261,000 | 1,990,000 | **2,251,000** |
| **Total** | **7,787,030** | **2,558,539** | **3,435,176** | **18,003,873** | **15,220,777** | **47,005,395** |

In 2019 and 2018 there were no reclassifications from equity to the consolidated income statement due to cash flow hedges and hedges of net investments in foreign operations for transactions that were ultimately not executed.

The following table shows the accounting information of items covered by the fair value micro-hedges contracted by the Group:

Thousand euro

| | 2019 | | | | | 2018 | |
|---|---|---|---|---|---|---|---|
| | 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 | - | - | - | - | - | 52,838 | 4,984 |
| Interest rate risk | 4,074,896 | 532,354 | (22,345) | 10,090 | 18,312 | 7,033,252 | 3,755,456 |
| Risk associated with shares | - | 2,182,389 | - | 28,272 | (28) | - | 2,052,016 |
| **Total** | **4,074,896** | **2,714,743** | **(22,345)** | **38,362** | **18,284** | **7,086,090** | **5,812,456** |

In terms of fair value macro-hedges, the book value of the hedged items recognised in assets and liabilities for 2019 amounts to 28,007,949 and 51,284,438 thousand euros, respectively (16,067,394 and 55,300,022 thousand euros in 2018, respectively). Similarly, fair value adjustments of the hedged items amount to 249,552 and 234,537 thousand euros as at 31 December 2019, respectively (56,972 and 36,502 thousand euros as at 31 December 2018, respectively).

In relation to fair value hedges, the losses and gains recognised in 2019 and 2018, arising from both hedging instruments and hedged items are detailed hereafter:

Thousand euro

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Hedging instruments | Hedged items | Hedging instruments | Hedged items |
| **Micro-hedges** | **(139,860)** | **139,610** | **(93,700)** | **89,053** |
| Fixed-rate assets | (53,512) | 53,574 | (49,663) | 45,989 |
| Capital markets | (12,052) | 12,242 | (15,011) | 14,561 |
| Fixed-rate liabilities | 24,045 | (24,354) | (13,214) | 12,594 |
| Assets denominated in foreign currency | (98,341) | 98,148 | (15,812) | 15,909 |
| **Macro-hedges** | **(143,466)** | **143,309** | **(11,728)** | **38,895** |
| Capital markets and fixed-rate liabilities | 132,659 | (133,410) | 80,892 | (61,467) |
| Fixed-rate assets | (276,125) | 276,719 | (92,620) | 100,362 |
| **Total** | **(283,326)** | **282,919** | **(105,428)** | **127,948** |

In cash flow hedges, the amounts recognised in the statement of consolidated equity during the year and the amounts derecognised from consolidated equity and included in earnings during the year are indicated in the statement of total changes in equity of the Group.

The hedge ineffectiveness in the results for 2019 related to cash flow hedges amounted to losses of 508 thousand euros (losses of 602 thousand euros in 2018).

## Note 13 – Non-current assets and assets and liabilities included in disposal groups classified as held for sale

The composition of these headings in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Assets** | **976,084** | **7,409,293** |
| Cash, cash balances at central banks and other demand deposits | - | - |
| Loans and advances | 1,850 | 421,422 |
| Credit institutions | - | 14 |
| Customers | 1,850 | 421,408 |
| Debt securities | - | - |
| Equity instruments | - | - |
| Real estate exposure | 915,557 | 6,920,693 |
| Tangible assets for own use | 30,967 | 104,451 |
| Investment properties | - | 20,533 |
| Foreclosed assets | 884,590 | 6,795,709 |
| Leased out under operating leases | 13,141 | 8,608 |
| Rest of other assets | 45,536 | 58,570 |
| **Impairment allowances** | **(211,881)** | **(2,822,370)** |
| **Non-current assets and disposal groups classified as held for sale** | **764,203** | **4,586,923** |
| **Liabilities** | | |
| Financial liabilities measured at amortised cost | 4,016 | 44,150 |
| Tax liabilities | 2,759 | 7,489 |
| Liabilities under insurance or reinsurance contracts | - | - |
| Rest | 3,380 | 30,966 |
| **Liabilities included in disposal groups classified as held for sale** | **10,155** | **82,605** |

Tangible assets for own use relate mainly to commercial establishments.

In respect of real estate assets originating in foreclosures, 91.01% of the balance corresponds to residential properties, 8.53% to industrial properties and 0.46% 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 23.2 months in 2019 (refer to Note 4 for policies on selling or otherwise disposing of these assets).

The percentage of foreclosed assets sold with financing granted to the buyer in 2019 was 12.19% (in 2018 it was 20.74%).

Movements in "*Non-current assets and disposal groups classified as held for sale*" during 2019 and 2018 were as follows:

Thousand euro

| | Note | Non-current assets held for sale |
|---|---|---|
| **Cost:** | | |
| **Balances as at 31 December 2017** | | **3,559,232** |
| Additions | | 1,011,285 |
| Disposals | | (1,831,457) |
| Transfer of credit losses (*) | | (169,904) |
| Other transfers/reclassifications | | 4,840,137 |
| **Balances as at 31 December 2018** | | **7,409,293** |
| Additions | | 489,292 |
| Disposals | | (6,979,478) |
| Transfer of credit losses (*) | | (112,400) |
| Other transfers/reclassifications | | 169,377 |
| **Balances as at 31 December 2019** | | **976,084** |
| **Impairment allowances:** | | |
| **Balances as at 31 December 2017** | | **997,488** |
| Impairment through profit or loss | 37 | 708,949 |
| Reversal of impairment through profit or loss | 37 | (636,650) |
| Utilisations | | (1,103,674) |
| Other transfers/reclassifications | | 2,856,256 |
| **Balances as at 31 December 2018** | | **2,822,370** |
| Impairment through profit or loss | 37 | 345,881 |
| Reversal of impairment through profit or loss | 37 | (176,668) |
| Utilisations | | (2,857,647) |
| Other transfers/reclassifications | | 77,945 |
| **Balances as at 31 December 2019** | | **211,881** |
| **Net balances as at 31 December 2018** | | **4,586,923** |
| **Net balances as at 31 December 2019** | | **764,203** |

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

Details of the net carrying value of transfers shown in the table above are as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Loans and advances | | 1,064 | 409,129 |
| Tangible assets | 15 | 29,170 | 865,165 |
| Inventories | 17 | 51,925 | 697,533 |
| Rest | | 9,273 | 12,054 |
| **Total** | | **91,432** | **1,983,881** |

Changes in the balance under this heading during 2019 are mainly due to the closing of transactions agreed in 2018, described in note 2 (the transfer of Challenger and Coliseum portfolios to Cerberus, the sale of Solvia Servicios Inmobiliarios, S.L. To Intrum Holding Spain, S.A.U. and the transfer of a loan portfolio and real estate assets to Deutsche Bank and to Carval Investors).

## Note 14 – Investments in joint ventures and associates

Movements in this heading of the consolidated balance sheets as at 31 December 2019 and 2018 are as follows:

Thousand euro

| | |
|---|---|
| **Balance as at 31 December 2017** | **575,644** |
| Scope additions / exclusions | - |
| Profit/(loss) for the year | 56,554 |
| Acquisition or capital increase (*) | 46,178 |
| Sale or dissolution | (3,894) |
| Dividends | (83,772) |
| Transfer | (11,800) |
| Impairment, allowances, translation differences and other | (3,970) |
| **Balance as at 31 December 2018** | **574,940** |
| Scope additions / exclusions | 150,669 |
| Profit/(loss) for the year | 56,551 |
| Acquisition or capital increase (*) | 14,653 |
| Sale or dissolution | (53,328) |
| Dividends | (55,416) |
| Transfer | 57,930 |
| Impairment, allowances, translation differences and other | (12,069) |
| **Balance as at 31 December 2019** | **733,930** |

(*) See cash flow statement.

The section of the cash flow statement *"Investment activities -- Collections from investments in joint ventures and associates"* shows 114,615 thousand euros which correspond to the sum of 53,328 thousand euros on sales or settlements, 55,416 thousand euros on dividends charged and 5,871 thousand euros, which correspond to derecognitions or settlements included in the breakdown shown in Schedule I. Furthermore, the section "*Investment activities -- Payments for investments in joint ventures and associates*" of this statement shows 14,653 thousand euros, which correspond to the acquisitions carried out during 2019.

The main investee companies included for the first time in the balance sheet and those no longer in the balance sheet in 2019 y 2018 are indicated in Schedule I.

In the section concerning additions to and withdrawals from the scope of consolidation, the addition of Promontoria Challenger I. S.A. Is included (see Note 2), which had a book value of 161,958 thousand euros as at 31 December 2019.

As at 31 December 2019 goodwill linked to investments in joint ventures and associates corresponding to the investee Solvia Servicios Inmobiliarios, S.L.U., amounted to 29,037 thousand euros. This goodwill arose as a result of the recognition at fair value of the interest held in this entity following the sale of 80% of its share capital to a non-Group third party (see Note 2).

As at 31 December 2019 and 2018, no support agreements or other type of significant contractual commitment had been provided by the bank or its subsidiaries to associates.

The reconciliation between the Group's investment in investees and the balance recorded under the heading "*Investments in joint ventures and associates*" is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Group investment in investees (Schedule I) | 446,496 | 291,056 |
| Contributions due to retained earnings | 310,830 | 262,859 |
| Valuation adjustments | (23,396) | 21,025 |
| **Total** | **733,930** | **574,940** |

The following table shows the key financial data relating to the investment considered to be individually significant, BanSabadell Vida, as at 31 December 2019 and 2018. This institution is an associate through which Banco Sabadell completes its product and service offering for customers by distributing this firm's insurance products through the bank's branch network:

Thousand euro

| | BanSabadell Vida (*) | |
|---|---|---|
| | 2019 | 2018 |
| Total assets | 11,202,448 | 10,072,813 |
| *Of which: financial investments* | *10,033,236* | *9,307,566* |
| Total liabilities | 10,531,615 | 9,408,757 |
| *Of which: technical provisions* | *9,198,607* | *9,043,282* |
| Result of the technical account of insurer | 110,618 | 73,361 |
| *Of which: premiums allocated to the year* | *1,668,940* | *2,404,090* |
| *Of which: claims ratio for the year* | *(1,471,879)* | *(1,574,663)* |
| *Of which: technical financial yield* | *129,928* | *143,423* |

(*) Figures taken from BanSabadell Vida accounts without taking into consideration consolidation adjustments nor the Group's percentage holding.

As at 31 December 2019 and 2018, the book value of the investment in BanSabadell Vida, S.A. amounted to 291,429 and 312,803 thousand euros, respectively. As at 31 December 2019 and 2018, the aggregate book value of investments in associates considered as non-material on an individual basis was of 442,501 and 262,137 thousand euros, respectively.

## Note 15 – Tangible assets

The composition of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | Depreciation and amortisation | Impairment | Net value | Cost | Depreciation and amortisation | Impairment | Net value |
| **Property, plant and equipment** | **4,567,235** | **(1,595,540)** | **(23,925)** | **2,947,770** | **3,273,845** | **(1,461,375)** | **(15,788)** | **1,796,682** |
| For own use (*): | 4,200,109 | (1,543,640) | (17,985) | 2,638,484 | 2,933,404 | (1,396,127) | (10,301) | 1,526,976 |
| Computer equipment and related facilities | 525,018 | (370,452) | - | 154,566 | 510,945 | (378,773) | - | 132,172 |
| Furniture, vehicles and other facilities | 1,274,106 | (698,969) | (4,078) | 571,059 | 1,276,404 | (691,182) | (4,078) | 581,144 |
| Buildings | 2,312,108 | (459,600) | (13,907) | 1,838,601 | 1,094,086 | (309,497) | (6,223) | 778,366 |
| Work in progress | 53,371 | - | - | 53,371 | 7,987 | (1) | - | 7,986 |
| Other | 35,506 | (14,619) | - | 20,887 | 43,982 | (16,674) | - | 27,308 |
| Leased out under operating leases | 367,126 | (51,900) | (5,940) | 309,286 | 340,441 | (65,248) | (5,487) | 269,706 |
| **Investment properties** | **614,308** | **(43,381)** | **(56,298)** | **514,629** | **821,885** | **(47,970)** | **(72,894)** | **701,021** |
| Buildings | 610,531 | (42,796) | (55,752) | 511,983 | 818,128 | (47,444) | (72,362) | 698,322 |
| Rural property, plots and sites | 3,777 | (585) | (546) | 2,646 | 3,757 | (526) | (532) | 2,699 |
| **Total** | **5,181,543** | **(1,638,921)** | **(80,223)** | **3,462,399** | **4,095,730** | **(1,509,345)** | **(88,682)** | **2,497,703** |

(*) As at 31 December 2019, the cost of property, plant and equipment for own use includes right-of-use assets relating to the leased properties in which the Group acts as lessee amounting to 1,192,180 thousand euros, of which 113,940 thousand euros have been depreciated at that date (see Note 1 under "Implementation of IFRS 16 - Leases").

Movements in the balance under the "*Tangible assets*" heading during 2019 and 2018 were as follows:

Thousand euro

| | Note | Own use - Buildings, work in progress and other | Own use - Computer equipment, furniture and related facilities | Investment properties | Leased out under operating leases | Total |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| **Balances as at 31 December 2017** | | **1,214,502** | **1,863,907** | **2,483,103** | **299,611** | **5,861,123** |
| Additions | | 17,279 | 100,697 | 76,758 | 105,796 | 300,530 |
| Disposals | | (24,052) | (142,650) | (513,080) | (64,631) | (744,413) |
| Transfer of credit losses (*) | | - | - | (6,266) | - | (6,266) |
| Other transfers | | (59,512) | (33,799) | (1,218,629) | (260) | (1,312,200) |
| Exchange rate | | (2,162) | (806) | - | (75) | (3,044) |
| **Balances as at 31 December 2018** | | **1,146,055** | **1,787,349** | **821,885** | **340,441** | **4,095,730** |
| Additions (**) | | 1,303,088 | 103,462 | 25,255 | 120,821 | 1,552,626 |
| Disposals | | (51,950) | (110,943) | (202,257) | (94,606) | (459,756) |
| Transfer of credit losses (*) | | - | - | (42) | - | (42) |
| Other transfers | | (10,856) | 14,645 | (30,533) | - | (26,744) |
| Exchange rate | | 14,648 | 4,611 | - | 470 | 19,729 |
| **Balances as at 31 December 2019** | | **2,400,985** | **1,799,124** | **614,308** | **367,126** | **5,181,543** |
| **Accumulated depreciation:** | | | | | | |
| **Balances as at 31 December 2017** | | **311,727** | **1,116,156** | **122,586** | **62,491** | **1,612,960** |
| Additions | | 34,064 | 109,658 | 38,084 | 39,253 | 221,060 |
| Disposals | | (9,397) | (138,093) | (46,972) | (31,917) | (226,379) |
| Other transfers | | (9,084) | (17,230) | (65,728) | (4,534) | (96,577) |
| Exchange rate | | (1,138) | (536) | - | (44) | (1,718) |
| **Balances as at 31 December 2018** | | **326,172** | **1,069,955** | **47,970** | **65,248** | **1,509,345** |
| Additions (***) | | 149,305 | 109,231 | 13,374 | 45,479 | 317,389 |
| Disposals | | (3,032) | (116,898) | (11,951) | (58,503) | (190,384) |
| Other transfers | | (5,497) | 3,545 | (6,012) | - | (7,964) |
| Exchange rate | | 7,271 | 3,588 | - | (324) | 10,535 |
| **Balances as at 31 December 2019** | | **474,219** | **1,069,421** | **43,381** | **51,900** | **1,638,921** |
| **Impairment losses:** | | | | | | |
| **Balances as at 31 December 2017** | | **16,914** | **8,580** | **395,724** | **422** | **421,640** |
| Impairment through profit or loss | 35 | - | - | 211,212 | - | 211,212 |
| Reversal of impairment through profit or loss | 35 | (907) | - | (149,877) | - | (150,784) |
| Utilisations | | (78) | (4,502) | (38,105) | (243) | (42,927) |
| Other transfers | | (9,706) | - | (346,060) | 5,308 | (350,458) |
| **Balances as at 31 December 2018** | | **6,223** | **4,078** | **72,894** | **5,487** | **88,682** |
| Impairment through profit or loss | 35 | 16 | - | 25,360 | - | 25,376 |
| Reversal of impairment through profit or loss | 35 | - | - | (30,093) | - | (30,093) |
| Utilisations | | (409) | - | (14,176) | 453 | (14,132) |
| Other transfers | | 8,077 | - | 2,313 | - | 10,390 |
| **Balances as at 31 December 2019** | | **13,907** | **4,078** | **56,298** | **5,940** | **80,223** |
| **Net balances as at 31 December 2018** | | **813,660** | **713,316** | **701,021** | **269,706** | **2,497,703** |
| **Net balances as at 31 December 2019** | | **1,912,859** | **725,625** | **514,629** | **309,286** | **3,462,399** |

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

(**) Includes 1,192,180 thousand euro corresponding to recognition on the consolidated balance sheet of the cost of the right-of-use assets in leased property, plant and equipment where the group acts as lessee, of which 1,107,452 correspond to the impact of the first-time application of IFRS 16 (see 'IFRS 16 - Leases' in note 1).

(***) Includes 113,385 thousand euros relating to the recognition in the consolidated income statement of the depreciation of the right-of-use assets of the leased properties in which the Group acts as lessee (see Note 1 under "Implementation of IFRS 16 - Leases").

Details of the net carrying value of transfers shown in the table above are as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Non-current assets and disposal groups classified as held for sale | 13 | (29,170) | (865,165) |
| Credit losses | | (42) | (6,266) |
| Other assets | | - | - |
| **Total** | | **(29,212)** | **(871,431)** |

Specific information relating to tangible assets as at 31 December 2019 and 2018 is shown hereafter:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Gross value of tangible assets for own use in use and fully amortised | 411,143 | 459,417 |
| Net carrying value of tangible assets of foreign operations | 434,609 | 232,636 |

*Lease contracts in which the Group acts as lessee*

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

Thousand euro

| | 2019 |
|---|---|
| Interest expense on lease liabilities | (14,940) |
| Expense related to short-term low-value leases (*) | (21,733) |
| Total lease payments in cash (**) | 137,710 |

(*) Recognised in the "Administrative expenses" heading, in the item on "Of property, plant and equipment" (see note 33).

(**) Payments of the principal and interest components of the lease liability are recognised as cash flows from financing activities in the group's consolidated cash flow statement.

The future cash outflows to which the Group may potentially be exposed as lessee and which are not included under Lease liabilities are not significant.

Minimum future payments over the period that cannot be cancelled for lease contracts in effect as at 31 December 2019 are indicated below:

Thousand euro

| | 2019 |
|---|---|
| **Undiscounted future lease payments** | |
| Up to 1 month | 16,262 |
| 1 to 3 months | 14,542 |
| 3 to 12 months | 89,207 |
| 1 to 5 years | 372,888 |
| More than 5 years | 757,501 |

*Sale and leaseback transactions*

Between 2009 and 2012, the Group 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). The main characteristics of the most significant lease contracts in effect as at the end of 2019 are as follows:

| | 2019 | | | |
|---|---|---|---|---|
| Operating lease contracts | No. properties sold | No. contracts with purchase option | No. contracts without purchase option | Mandatory term |
| 2009 | 68 | 28 | 40 | 10 to 20 years |
| 2010 | 379 | 378 | 1 | 10 to 25 years |
| 2011 (acquisition B.Guipuzcoano) | 82 | 64 | 18 | 8 to 20 years |
| 2012 (acquisition Banco CAM) | 15 | 15 | - | 10 to 25 years |
| 2012 | 4 | 4 | - | 15 years |

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

Thousand euro

| | 2019 |
|---|---|
| **Undiscounted future lease payments** | |
| Up to 1 month | 9,936 |
| 1 to 3 months | 2,768 |
| 3 to 12 months | 38,113 |
| 1 to 5 years | 198,032 |
| More than 5 years | 579,049 |

During 2019 no individually material gain or loss was obtained through sale and leaseback transactions.

*Contracts in which the Group acts as lessor*

The lease contracts entered into by the Group in which it acts as lessor are mainly operating leases.

The Group implements strategies to reduce risks related to the rights held over the underlying assets. For example, the lease contracts include a clause which stipulates a minimum non-cancellable lease period, a deposit which the lessor may retain as compensation if the asset sustains excessive wear during the lease period, and additional guarantees or sureties to limit losses in the event of non-payment.

With regard to the tangible assets leased out under operating leases, the bulk of the operating lease operations is carried out by BanSabadell Renting, S.A. and consists of vehicle leases.

As regards the investment properties item, the rental income from these investment properties and the direct costs associated with the investment properties that produced rental income during 2019 amounted to 17,591 and 27,489 thousand euros, respectively. Direct expenses associated with investment properties that did not produce income were not significant in the context of the consolidated annual financial statements.

## Note 16 – Intangible assets

The composition of this item as at 31 December 2019 and 2018 was as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Goodwill:** | **1,031,824** | **1,032,618** |
| Banco Urquijo | 473,837 | 473,837 |
| Grupo Banco Guipuzcoano | 285,345 | 285,345 |
| From acquisition of Banco BMN Penedés assets | 245,364 | 245,364 |
| Rest | 27,278 | 28,072 |
| **Other intangible assets:** | **1,533,159** | **1,428,524** |
| With a finite useful life: | 1,533,159 | 1,428,524 |
| Contractual relations with customers (Banco Guipuzcoano) | 5,007 | 10,495 |
| Private Banking Business, Miami | 16,244 | 19,730 |
| Contractual relations with TSB customers and brand | 167,681 | 199,497 |
| Computer applications | 1,342,902 | 1,197,357 |
| Other | 1,325 | 1,445 |
| **Total** | **2,564,983** | **2,461,142** |

### Goodwill

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

The valuation method used in this analysis was that of discounting future net distributable profit associated with the activity carried out by the bank over a 5-year projection period (to 2024). Given the current environment of zero or negative interest rates estimated for the entire projection period, by 2024 the Bank's income statement will still not have reached its normal level. Nevertheless, 2024 has been taken as the reference year for calculating the terminal value, using a perpetual growth rate of 1.7%. A discount rate of 9.1% was used, a figure reached using the CAPM (Capital Asset Pricing Model) approach.

The key variables on which the financial projections are based are: growth in the buy-sell spread (determined by expected trading volumes and interest rates) and changes of other items on the income statement and solvency levels.

Recoverable values, both at Group-wide level and at the level of the Cash Generating Units (CGUs), namely Commercial Banking, Corporate Banking, Private Banking, TSB and others, are higher than their respective book values and therefore no impairment has been recognised.

In addition, the Group has carried out a sensitivity analysis using reasonable adjustments to the most significant assumptions for the calculation of a recovery value for each of the CGUs.

This analysis consisted of adjusting the following:

- Discount rate +/- 0.5%.
- Growth rate in perpetuity +/- 0.5%.
- Minimum capital requirement +/-0.5%.
- NIM/ATAs +/- 5pbs.
- Recurrent cost of risk for the year 2024 +/- 10pbs.

The sensitivity analysis does not alter the conclusions drawn from the goodwill impairment test. Of the 30 sensitivity analyses that the group has carried out, there would only be an impairment in one, relative to the change in cost of risk, and this would affect the Commercial Banking CGU by -0.9% of its book value. This value of this CGU is overstated in the baseline scenario by +8% of its book value.

The impairment of goodwill is calculated taking into account the central macroeconomic scenario described in Note 1.3.4.

## Evaluation of whether there is any evidence of significant impairment to goodwill:

**Banco Urquijo**

The goodwill of Banco Urquijo is assigned to cash generating units (CGUs), which are expected to benefit from identified synergies. The CGUs and their weight as a percentage of Banco Urquijo's total goodwill are: Private Banking CGU (12.7%), Commercial Banking CGU (21.2%), Corporate Banking CGU (1.9%) and Other CGU (2.3%). Synergies that could not be assigned to a specific CGU due to limited available historical information of the acquired entity have been assigned to the overall set of CGUs (61.9%).

**Banco Guipuzcoano**

Banco Guipuzcoano's goodwill was assigned to the Commercial Banking CGU and reflects the future income-generating capacity of the acquired assets and liabilities, the value of the potential income and cost synergies identified and the costs associated with the transaction.

**BMN-Penedès**

Goodwill generated from the business combination corresponding to the acquisition of assets from BMN-Penedès was assigned to the Commercial Banking CGU.

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

## Other intangible assets

**Contractual relations with customers (Banco Guipuzcoano)**

The intangible assets associated with the acquisition of Banco Guipuzcoano mainly include the value of the contractual rights arising from relationships with customers taken over from Banco Guipuzcoano for core deposits and mutual funds. The valuation of core deposits has been carried out with the income approach using the cost savings method. The fair value was mainly determined by estimating the net present value of the cash flows generated by the lower cost of core deposits compared with alternative sources of funding. Mutual fund management was valued by the income approach using the excess earnings method. The fair value was mainly determined by estimating the net present value of the cash flows generated by the fees received for the sale of mutual funds. These assets are amortised within ten years from the date of acquisition of Banco Guipuzcoano.

**Private Banking business, Miami**

Intangible assets associated with the acquisition in 2008 of the Private Banking business in Miami include the value of contractual rights arising from relationships with customers taken over from this business, mainly short-term lending and deposits. These assets are amortised within 15 years from their creation.

**Contractual relations with TSB customers and brand**

The intangible assets associated with the acquisition of TSB include the value of the contractual rights arising from relationships with customers taken over from TSB for core deposits. This asset is amortised within 8 years. The valuation of these intangible assets was carried out by calculating the value in use based on the income approach (discounted cash flows) with the multi-period excess earnings technique. To determine whether there is any evidence of impairment, the balance of deposits currently in TSB linked to existing customers at the time of its acquisition by the bank has been compared against the estimated balance that such customers would have at the end of 2019, forecast at the time of the initial valuation. Based on this comparison, the conclusion can be drawn that there is no evidence of any impairment.

The value of the exclusive right of use of the TSB brand was also estimated at 73 million euros. The value attributable to this asset was determined through the replacement cost method, consisting of establishing the cost of rebuilding or acquiring an exact replica of the asset in question. This asset is amortised within 12 years. For the brand, the assessment of the recoverable value of the TSB CGU included an implicit analysis of its valuation and concluded that there is no impairment.

**IT applications**

Software purchase costs comprise mainly the capitalised costs of developing the Group’s computer software and the purchase of software licences.

## Movements

Movements in goodwill in 2019 and 2018 were as follows:

Thousand euro

| | Goodwill | Impairment | Total |
|---|---|---|---|
| **Balance as at 31 December 2017** | **1,019,440** | **-** | **1,019,440** |
| Additions | 13,178 | - | 13,178 |
| Disposals | - | - | - |
| Exchange differences | - | - | - |
| Other | - | - | - |
| **Balance as at 31 December 2018** | **1,032,618** | **-** | **1,032,618** |
| Additions | 334 | - | 334 |
| Disposals | (1,128) | - | (1,128) |
| Exchange differences | - | - | - |
| **Balance as at 31 December 2019** | **1,031,824** | **-** | **1,031,824** |

Movements in other intangible assets in 2019 and 2018 were as follows:

Thousand euro

| | Cost | Depreciation and amortisation | Impairment | Total |
|---|---|---|---|---|
| **Balance as at 31 December 2017** | **2,488,373** | **(1,261,954)** | **(1)** | **1,226,418** |
| Additions | 375,093 | (171,289) | (286) | 203,518 |
| Disposals | (55,839) | 54,926 | 286 | (627) |
| Other | (279) | - | - | (279) |
| Exchange differences | 762 | (1,267) | - | (506) |
| **Balance as at 31 December 2018** | **2,808,109** | **(1,379,584)** | **(1)** | **1,428,524** |
| Additions | 333,321 | (197,373) | (6,964) | 128,984 |
| Disposals | (179,924) | 138,418 | 5,857 | (35,649) |
| Other | - | - | 1,108 | 1,108 |
| Exchange differences | 19,920 | (9,728) | - | 10,192 |
| **Balance as at 31 December 2019** | **2,981,426** | **(1,448,267)** | **-** | **1,533,159** |

The gross value of other intangible assets that were still in use and had been fully amortised as at 31 December 2019 and 2018 amounted to 863,110 thousand euros and 896,451 thousand euros, respectively.

## Note 17 – Other assets

The "*Other assets*" heading on the consolidated balance sheets as at 31 December 2019 and 2018 breaks down as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Insurance contracts linked to pensions | 22 | 133,960 | 132,299 |
| Inventories | | 868,577 | 934,857 |
| Rest of other assets | | 493,399 | 572,829 |
| **Total** | | **1,495,936** | **1,639,985** |

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

Movements in inventories in 2019 and 2018 were as follows:

Thousand euro

| | Note | Land | Buildings under construction | Finished buildings | Total |
|---|---|---|---|---|---|
| **Balance as at 31 December 2017** | | **1,207,350** | **218,500** | **650,444** | **2,076,294** |
| Additions | | 74,926 | 88,263 | 183,873 | 347,062 |
| Disposals | | (148,208) | (53,806) | (249,017) | (451,032) |
| Impairment through profit or loss | 35 | (503,145) | (38,461) | (156,914) | (698,520) |
| Reversal of impairment through profit or loss | 35 | 215,714 | 40,255 | 102,618 | 358,586 |
| Other transfers | 13 | (245,214) | (109,322) | (342,997) | (697,533) |
| **Balance as at 31 December 2018** | | **601,422** | **145,428** | **188,006** | **934,857** |
| Additions | | 47,395 | 93,699 | 72,273 | 213,367 |
| Disposals | | (21,391) | (950) | (121,392) | (143,733) |
| Impairment through profit or loss | 35 | (54,495) | (6,813) | (77,593) | (138,901) |
| Reversal of impairment through profit or loss | 35 | 31,991 | 2,970 | 19,951 | 54,912 |
| Other transfers | 13 | (88,361) | (58,948) | 95,384 | (51,925) |
| **Balance as at 31 December 2019** | | **516,561** | **175,386** | **176,629** | **868,577** |

As at 31 December 2019 and 2018, there are no inventories associated with debt secured with mortgages.

## Note 18 – Deposits in central banks and credit institutions

The breakdown of the deposits in central banks and credit institutions heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By heading:** | | |
| Financial liabilities measured at amortised cost | 31,535,828 | 40,798,721 |
| **Total** | **31,535,828** | **40,798,721** |
| **By nature:** | | |
| Demand deposits | 470,512 | 399,836 |
| Deposits with agreed maturity | 23,153,219 | 32,517,567 |
| Repurchase agreements | 7,607,237 | 7,600,498 |
| Deposits redeemable at notice | - | - |
| Hybrid financial liabilities | 58,800 | 59,504 |
| Other accounts | 229,414 | 198,300 |
| Valuation adjustments | 16,646 | 23,016 |
| **Total** | **31,535,828** | **40,798,721** |
| **By currency:** | | |
| In euro | 23,680,458 | 30,422,046 |
| In foreign currency | 7,855,370 | 10,376,675 |
| **Total** | **31,535,828** | **40,798,721** |

## Note 19 – Customer deposits

The customer deposits heading on the consolidated balance sheets as at 31 December 2019 and 2018 breaks down as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By heading:** | | |
| Financial liabilities measured at amortised cost | 147,362,353 | 139,078,942 |
| **Total** | **147,362,353** | **139,078,942** |
| **By nature:** | | |
| Demand deposits | 118,868,376 | 107,665,339 |
| Deposits with agreed maturity | 25,174,407 | 26,705,427 |
| Fixed term | 22,815,482 | 23,925,215 |
| Non-marketable covered bonds and bonds issued | 1,476,891 | 1,962,867 |
| Rest | 882,034 | 817,345 |
| Hybrid financial liabilities | 2,164,716 | 2,003,569 |
| Repurchase agreements | 951,258 | 2,532,968 |
| Valuation adjustments | 203,596 | 171,639 |
| **Total** | **147,362,353** | **139,078,942** |
| **By sector:** | | |
| General governments | 6,609,279 | 5,943,438 |
| Other sectors | 140,549,479 | 132,963,865 |
| Other valuation adjustments (interest, fees and commissions, other) | 203,595 | 171,639 |
| **Total** | **147,362,353** | **139,078,942** |
| **By currency:** | | |
| In euro | 102,177,287 | 97,230,637 |
| In foreign currency | 45,185,066 | 41,848,305 |
| **Total** | **147,362,353** | **139,078,942** |

## Note 20 – Debt securities issued

The breakdown of the balance of debt securities issued by the Group by type of issuance and recognised on the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Straight bonds/debentures | 6,329,322 | 3,979,311 |
| Straight bonds | 6,219,012 | 3,759,097 |
| Structured bonds | 110,310 | 220,214 |
| Commercial paper | 1,094,222 | 3,276,336 |
| Covered bonds | 8,925,100 | 9,525,100 |
| Covered Bonds (TSB) | 1,469,205 | 558,953 |
| Asset-backed bonds | 1,691,596 | 2,247,953 |
| Subordinated marketable debt securities | 3,010,465 | 2,986,344 |
| Subordinated liabilities | 1,860,465 | 1,836,344 |
| Preference shares | 1,150,000 | 1,150,000 |
| Valuation and other adjustments | 49,986 | 24,656 |
| **Total** | **22,569,896** | **22,598,653** |

Schedule V shows details of the outstanding issuances at 2019 and 2018 year-end.

Two issues of preference shares contingently convertible into the Bank's ordinary shares (Additional Tier 1), offered exclusively to qualified investors, were carried out in 2017. On 18 May 2017, Banco Sabadell carried out its first Additional Tier 1 issuance, amounting to 750,000 thousand euros with a fixed coupon rate of 6.5%. Subsequently, on 23 November 2017, it carried out a second Additional Tier 1 issuance, amounting to 400,000 thousand euros with a fixed coupon rate of 6.125%.

These securities are perpetual, although they may be converted into newly issued Banco Sabadell shares, if Banco Sabadell, or its consolidated Group had a Common Equity Tier 1 (CET1) ratio lower than 5.125%, calculated in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June, on prudential requirements for credit institutions and investment firms.

Expenses relating to the remuneration for preference shares contingently convertible into ordinary shares amount to 73,250 thousand euros as at 31 December 2019 (73,250 thousand euros as at 31 December 2018) and are recognised under the heading *"Other reserves"* of consolidated equity.

## Note 21 – Other financial liabilities

The breakdown of the balance of other financial liabilities in the consolidated balance sheet as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By heading:** | | |
| Financial liabilities designated at fair value through profit or loss | - | - |
| Financial liabilities measured at amortised cost | 4,167,941 | 3,600,544 |
| **Total** | **4,167,941** | **3,600,544** |
| **By nature:** | | |
| Debentures payable | 247,622 | 421,562 |
| Guarantee deposits received | 83,494 | 77,907 |
| Clearing houses | 537,099 | 647,274 |
| Collection accounts | 1,584,924 | 1,789,344 |
| Other financial liabilities (*) | 1,714,802 | 664,457 |
| **Total** | **4,167,941** | **3,600,544** |
| **By currency:** | | |
| In euro | 3,801,986 | 3,421,501 |
| In foreign currency | 365,955 | 179,043 |
| **Total** | **4,167,941** | **3,600,544** |

(*) Includes balances payable to suppliers. At 31 December 2019, the balance also includes a lease liability for an amount of 1,103,834 thousand euro due to application of IFRS 16 (see section on 'IFRS 16 - Leases' in note 1).

The following table shows information relating to the average payment period to suppliers, as required by Additional Provision Three of Law 15/2010, taking into account the amendments introduced by Law 31/2014 of 3 December, amending the Capital Companies Act in order to improve corporate governance:

Number of days and thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Days** | | |
| Average time taken to pay suppliers (*) | 37.28 | 32.89 |
| Ratio of paid operations | 37.28 | 32.89 |
| Ratio of operations pending payment | 29.65 | 42.73 |
| **Amount** | | |
| Total payments made | 1,165,832 | 1,115,620 |
| Total payments pending | 171 | 11 |

(*) Refers to the average period of payment to suppliers by consolidated undertakings based in Spain.

## Note 22 – Provisions and contingent liabilities

Movements during 2019 and 2018 under the heading of provisions are shown below:

Thousand euro

| | Pensions and other post employment defined benefit obligations | Other long term employee benefits | Pending legal issues and tax litigation | Commitments and guarantees given | Other provisions | Total |
|---|---|---|---|---|---|---|
| **Balance as at 31 December 2017** | **84,843** | **16,491** | **76,958** | **84,949** | **54,297** | **317,538** |
| **Impact of first application of IFRS 9** | **-** | **-** | **-** | **8,468** | **-** | **8,468** |
| **Scope additions / exclusions** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Interest and similar charges - pension commitments** | **1,202** | **114** | **-** | **-** | **-** | **1,316** |
| **Allowances charged to income statement - staff expenses (*)** | **1,771** | **4** | **-** | **-** | **-** | **1,775** |
| **Allowances not charged to income statement** | **-** | **-** | **-** | **14,360** | **-** | **14,360** |
| **Allowances charged to income statement - provisions** | **(896)** | **1,586** | **14,202** | **(5,516)** | **151,330** | **160,706** |
| Allocation of provisions | 217 | 1,880 | 16,976 | 85,996 | 158,344 | 263,413 |
| Reversal of provisions | - | - | (2,773) | (91,512) | (7,015) | (101,300) |
| Actuarial losses / (gains) | (1,113) | (294) | - | - | - | (1,407) |
| **Exchange differences** | **-** | **-** | **-** | **(369)** | **(630)** | **(999)** |
| **Utilisations:** | **(8,590)** | **(6,595)** | **(32,948)** | **-** | **(195,400)** | **(243,533)** |
| Contributions by the sponsor | 29 | 1 | - | - | - | **30** |
| Pension payments | (8,619) | (6,596) | - | - | - | **(15,215)** |
| Other | - | - | (32,948) | - | (195,400) | **(228,348)** |
| **Other movements** | **10,126** | **804** | **14** | **6,676** | **189,128** | **206,748** |
| **Balance as at 31 December 2018** | **88,456** | **12,404** | **58,226** | **108,568** | **198,725** | **466,379** |
| **Scope additions / exclusions** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Interest and similar charges - pension commitments** | **1,574** | **169** | **-** | **-** | **-** | **1,743** |
| **Allowances charged to income statement - staff expenses (*)** | **2,596** | **145** | **-** | **-** | **35,932** | **38,673** |
| **Allowances not charged to income statement** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Allowances charged to income statement - provisions** | **1,667** | **1,758** | **23,088** | **4,787** | **(4,705)** | **26,595** |
| Allocation of provisions | 517 | 817 | 36,925 | 129,393 | 13,863 | 181,515 |
| Reversal of provisions | - | - | (13,837) | (124,606) | (18,568) | (157,011) |
| Actuarial losses / (gains) | 1,150 | 941 | - | - | - | 2,091 |
| **Exchange differences** | **182** | **62** | **-** | **(486)** | **1,717** | **1,475** |
| **Utilisations:** | **(8,841)** | **(5,549)** | **(22,911)** | **-** | **(111,589)** | **(148,890)** |
| Net contributions by the sponsor | (136) | 2 - | | - | - | (134) |
| Pension payments | (8,705) | (5,551) - | | - | - | (14,256) |
| Other | - | - | (22,911) | - | (111,589) | (134,500) |
| **Other movements** | **13,712** | **(2,051)** | **8,486** | **(2,123)** | **26,435** | **44,459** |
| **Balance as at 31 December 2019** | **99,346** | **6,938** | **66,889** | **110,746** | **146,515** | **430,434** |

(*) See Note 33.

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 guarantees given as a result of financial guarantees or other types of contract.

During the usual course of business, the Group is exposed to fiscal, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of third party experts when necessary and, where appropriate, provisions are recognised under the headings "*Pending legal issues and tax litigation*" and "*Other provisions*". As at 31 December 2019 and 2018, these headings mainly include:

- Provisions for tax contingencies amounting to 4 million euros as at 31 December 2019 (5 million euros as at 31 December 2018) which mainly include inspections by the tax authority signed on a contested basis (see Note 39) and contested tax settlements.

- Operational losses in the commercialisation of products for TSB customers for the amount of 14 million euros (17 million euros as at 31 December 2018). TSB is protected against the losses arising from historic operations through coverage provided by Lloyds Bank Plc, therefore recognising an account receivable for the same amount recognised under the heading "*Other assets*". These losses are shown as a provision with no impact on the profit/loss shown in the table above.

- Provisions carried out to compensate customers for the incidents which occurred subsequent to the migration to TSB's new technology platform in April 2018 for the amount of 4 million euros as at 31 December 2019 (46 million euros as at 31 December 2018).

- Liabilities for legal contingencies amounting to 38 million euros at the end of 2019 (33 million euros at the end of 2018).

- Provisions to cover the anticipated costs relating to reduction of personnel and branch closures at TSB in 2020 amounting to 34 million euros.

- 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 76.7 million euros as at 31 December 2019 (110 million euros as at 31 December 2018). In the unlikely scenario in which all potential existing claims are made through the procedures established by the entity, in accordance with that set forth in Royal Decree, applying the percentages set forth in the current agreement, the maximum contingency would amount to 481.2 million euros.

  With regards to these provisions, the bank considers its floor clauses to be transparent and clear to customers, and in general, these have not been definitively cancelled with a final ruling. On 12 November 2018, Section 28 of the Civil Division of the Provisional Court of Madrid issued a ruling in which it partially supported the appeal brought forth by Banco de Sabadell, S.A. against the ruling issued by the Commercial Court no.11 of Madrid on the invalidity of the restrictive interest rate clauses, considering that some of the clauses established by Banco Sabadell, S.A. are transparent and valid in their entirety. With regards to the rest of the clauses, the bank considers that it has legal arguments which should be reviewed in the legal appeal which the entity presented to the Supreme Court, with regards to the ruling made by the Provincial Court of Madrid.

The final disbursement amount and the payment schedule are uncertain due to the difficulties inherent in estimating the factors used to determine the provision amount.

## Pensions and similar obligations

The origins of liabilities recognised in respect of post-employment benefits and other similar long-term obligations on the Group's balance sheet are shown below:

Thousand euro

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Obligations arising from pension and similar commitments | 803,905 | 768,695 | 793,871 | 862,218 | 858,877 |
| Fair value of defined benefit plan assets | (697,621) | (667,835) | (692,537) | (749,295) | (744,256) |
| **Net liability recognised on balance sheet** | **106,284** | **100,860** | **101,334** | **112,923** | **114,621** |

The return on the Banco Sabadell pension plan was 2.33% and that of E.P.S.V. was 1.15% in 2019.

The return on the Banco Sabadell pension plan was negative at 2.57% and that of E.P.S.V. was also negative at 0.06% in 2018.

Movements during 2019 and 2018 in obligations due to pensions and similar commitments and the fair value of the scheme assets are as follows:

Thousand euro

| | Obligations arising from pension and similar commitments | Fair value of defined benefit plan assets |
|---|---|---|
| **Balance as at 31 December 2017** | **793,871** | **692,537** |
| Interest costs | 11,424 | - |
| Interest income | - | 10,108 |
| Normal cost in year | 1,775 | - |
| Past service cost | 1,880 | - |
| Benefits paid | (52,465) | (37,250) |
| Settlements, curtailments and terminations | 11,761 | 12,874 |
| Net contributions by the institution | - | (215) |
| Actuarial gains or losses from changes in demographic assumptions | - | - |
| Actuarial gains or losses from changes in financial assumptions | - | - |
| Actuarial gains or losses from changes in actuarial assumptions | 7,054 | - |
| Yield on defined benefit plan assets excluding interest income | - | (2,738) |
| Other movements | (6,605) | (7,481) |
| **Balance as at 31 December 2018** | **768,695** | **667,835** |
| Interest costs | 11,487 | - |
| Interest income | - | 9,745 |
| Normal cost in year | 2,741 | - |
| Past service cost | 1,301 | - |
| Benefits paid | (50,291) | (36,035) |
| Settlements, curtailments and terminations | 5,013 | 3,483 |
| Net contributions by the institution | - | (44) |
| Actuarial gains or losses from changes in demographic assumptions | - | - |
| Actuarial gains or losses from changes in financial assumptions | 65,454 | - |
| Actuarial gains or losses from changes in actuarial assumptions | 3,016 | - |
| Yield on defined benefit plan assets excluding interest income | - | 57,389 |
| Other movements | (3,511) | (4,752) |
| **Balance as at 31 December 2019** | **803,905** | **697,621** |

The breakdown of Group pension commitments and similar obligations as at 31 December 2019 and 2018, based on its financing vehicle, coverage and the interest rate applied in its calculation is listed below:

Thousand euro

| | | 2019 | |
|---|---|---|---|
| **Financing vehicle** | **Coverage** | **Amount** | **Interest rate** |
| **Pension plans** | | **415,354** | |
| Insurance policies with related parties | Matched | 35,067 | 0.75% |
| Insurance policies with unrelated parties | Matched | 380,287 | 0.75% |
| **Insurance policies** | | **377,386** | |
| Insurance policies with related parties | Matched | 86,958 | 0.75% |
| Insurance policies with unrelated parties | Matched | 290,428 | 0.75% |
| **Internal funds** | Without cover | **11,165** | 0.75% |
| **Total obligations** | | **803,905** | |

Thousand euro

| | | 2018 | |
|---|---|---|---|
| **Financing vehicle** | **Coverage** | **Amount** | **Interest rate** |
| **Pension plans** | | **408,264** | |
| Insurance policies with related parties | Matched | 34,565 | 1.50% |
| Insurance policies with unrelated parties | Matched | 373,699 | 1.50% |
| **Insurance policies** | | **348,127** | |
| Insurance policies with related parties | Matched | 84,865 | 1.50% |
| Insurance policies with unrelated parties | Matched | 263,262 | 1.50% |
| **Internal funds** | Without cover | **12,304** | 1.50% |
| **Total obligations** | | **768,695** | |

The amount of the commitments covered by matched insurance policies at 31 December 2019 stands at 792,740 thousand euros (756,391 thousand euros as at 31 December 2018) and therefore in 98.61% of its commitments (98.40% as at 31 December 2018) there is no mortality risk (mortality tables) or profitability risk (interest rate) for the Group. Therefore, the evolution of interest rates throughout the year has not had an impact on the bank's financial situation.

The sensitivity analysis for each key actuarial assumption, as at 31 December 2019 and 2018, shows how the obligation would have been affected, and the cost of the services during the current year, by reasonably likely changes on such date.

%

| | 2019 | 2018 |
|---|---|---|
| **Sensitivity analysis** | **Percentage change** | |
| **Discount rate** | | |
| **Discount rate -50 basis points:** | | |
| Assumption | 0.25% | 1.00% |
| Change in obligation | 6.16% | 5.68% |
| Change of service cost in current year | 10.09% | 8.48% |
| **Discount rate +50 basis points:** | | |
| Assumption | 1.25% | 2.00% |
| Change in obligation | (5.52%) | (5.31%) |
| Change of service cost in current year | (8.87%) | (7.49%) |
| **Rate of salary increase** | | |
| **Rate of salary increase -50 basis points:** | | |
| Assumption | 2.50% | 2.50% |
| Change in obligation | (0.25%) | (0.31%) |
| Change of service cost in current year | (3.29%) | (3.62%) |
| **Rate of salary increase +50 basis points:** | | |
| Assumption | 3.50% | 3.50% |
| Change in obligation | 0.28% | 0.33% |
| Change of service cost in current year | 3.80% | 3.72% |

The estimate of probable present values, as at 31 December 2019, of benefits payable for the next ten years, is set out below:

Thousand euro

| | Years | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | Total |
| Future benefit payments | 11,837 | 10,086 | 8,773 | 8,310 | 8,073 | 8,633 | 8,328 | 8,029 | 7,724 | 7,415 | **87,208** |

The fair value of assets linked to pensions recognised on the consolidated balance sheet amount to 133,960 thousand euros as at 31 December 2019 and 132,299 thousand euros as at 31 December 2018 (see Note 17).

The principal categories of the plan assets as a percentage of the total plan assets are listed below:

%

| | 2019 | 2018 |
|---|---|---|
| Equity instruments issued by Banco Sabadell | 0.02% | 0.01% |
| Debt securities | 0.21% | 1.39% |
| Mutual funds | 2.03% | 1.53% |
| Deposits and guarantees | 0.10% | 0.05% |
| Derivatives | 0.01% | - |
| Other (non-linked insurance policies) | 97.63% | 97.02% |
| **Total** | **100%** | **100%** |

The following financial instruments issued by the Bank are included in the fair value of the plan assets:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Equity instruments | 105 | 100 |
| Debt securities | - | 1,000 |
| Deposits and guarantees | 397 | 314 |
| **Total** | **502** | **1,414** |

*Contingent commitments*

- In its ruling of 22 November 2017, the Supreme Court ruled on the validity of the use of the IRPH (Spanish mortgage market index) as a reference index for the variation of interest rates on mortgage loans as it is not possible to control its transparency since it is an index defined and regulated by a rule of law. The criterion established in this Supreme Court ruling has been followed in practically all national courts and tribunals that have considered that the use of IRPH as a reference index does not imply a lack of transparency for the consumer.

  Barcelona's Court no. 38, deviating from the criteria of the Supreme Court and most Courts and Tribunals, has referred a case to the Court of Justice of the European Union (CJEU) for a preliminary ruling on whether or not this index is subject to a transparency control when applied to consumers, requesting that it be determined whether to replace it with another index or simply stop applying it altogether.

  Although the Bank considers that the criterion established by the Supreme Court is the correct one, in the event that the CJEU resolves the issue differently from the case law established by the Supreme Court, the impact that this change of criterion could have would depend on multiple factors that the CJEU judgement would have to resolve, such as the applicable interest rate in that case; whether it would have some retroactive effect (issue not raised in the case referred for a preliminary ruling); and in any case, the conditions that the hypothetical lack of transparency would require. As at 31 December 2019, the outstanding balance of mortgage loans to IRPH-indexed consumers was 751 million euros.

- As at the date of preparation of these consolidated annual financial statements, the investigation by the British authorities into the incidents that occurred subsequent to the migration to TSB's new technology platform in April 2018 is still under way. The decision to recognise a provision for this item requires the use of judgement in order to determine whether there is a current payment obligation and, if so, to reliably estimate the same. Based on the information available regarding the progress of the aforementioned investigation, the Group's management considers that the circumstances do not require a provision for potential sanctions to be recognised, as there is currently no payment obligation and, if such obligation were to exist, there is no way to reliably estimate the amount that would need to be disbursed.

## Note 23 – Own funds

The breakdown of the balance of own funds recognised on the consolidated balance sheets as at 31 December 2019 and 2018 is the following:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Capital | 703,371 | 703,371 |
| Share premium | 7,899,227 | 7,899,227 |
| Equity instruments issued other than capital | - | - |
| Other equity | 39,742 | 35,487 |
| Retained earnings | 4,858,681 | - |
| Revaluation reserves | - | - |
| Other reserves | (977,687) | 3,832,935 |
| (-) Treasury shares | (8,533) | (143,452) |
| Profit or loss attributable to owners of the parent | 767,822 | 328,102 |
| (-) Interim dividends | (110,817) | (110,739) |
| **Total** | **13,171,806** | **12,544,931** |

### Capital

The bank's share capital as at 31 December 2019 and 2018 stood at 703,370,587.63 euros, represented by 5,626,964,701 registered shares with a par value of 0.125 euros each. All shares are fully paid-up and are numbered in sequential order from 1 through 5,626,964,701, inclusive.

The bank's shares are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and on Spain's continuous securities market managed by Sociedad de Bolsas, S.A.

The other companies included in the consolidated Group are not listed, with the exception of Duncan de Inversiones, S.I.C.A.V., S.A., which is listed on the Mercado Alternativo Bursátil (MAB).

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.

There were no changes in share capital in 2019 and 2018.

### Significant investments in the bank's capital

As required by Articles 23 and 32 of Royal Decree 1362/2007 of 19 October, implementing the Securities Market Law 24/1988 of 28 July, on transparency requirements relating to information on the issuers whose securities have been admitted to trading on an official secondary market or on any other European Union regulated market, the following table gives details of significant investments in the capital of Banco Sabadell as at 31 December 2019:

| 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 | 5.08% | 0.13% | 5.21% | Blackrock Inc. |
| Fintech Europe S.A.R.L. | 3.49% | - | 3.49% | David Martínez Guzmán |
| Coltrane Master Fund, L.P. | - | 1.07% | 1.07% | - |

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 2019 amounted to 7,899,227 thousand euros, remaining unchanged from the amount as at 31 December 2018.

## Retained earnings and Other reserves

The balance of these headings are broken down as follows on the consolidated balance sheets as at 31 December 2019 and 2018:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Restricted reserves:** | **322,094** | **325,020** |
| Statutory reserve | 140,674 | 140,674 |
| Reserves for treasury shares pledged as security | 133,149 | 136,459 |
| Capitalisation reserve Law 27/2014 | 35,985 | 35,985 |
| Canary Island investment reserve | 9,171 | 8,787 |
| Reserve for share capital redenomination in euro | 113 | 113 |
| Capital redemption reserve | 3,002 | 3,002 |
| **Unrestricted reserves** | **3,334,925** | **3,301,766** |
| **Reserves of entities valued using the equity method** | **223,975** | **206,149** |
| **Total** | **3,880,994** | **3,832,935** |

Information on the reserves for each of the consolidated companies is indicated in Schedule I.

## Other equity

Items incorporated under Other equity include share-based remuneration pending settlement which as at 31 December 2019 and 2018 amounted to 39,743 and 35,487 thousand euros, respectively.

## Business on own equity instruments

The movements of the parent company's shares acquired by the bank are as follows:

| | No. of shares | Nominal value *(in thousand euro)* | Average price *(in euro)* | % Shareholding |
|---|---|---|---|---|
| **Balance as at 31 December 2017** | **48,233,246** | **6,029.16** | **1.82** | **0.86** |
| Purchases | 188,236,870 | 23,529.61 | 1.41 | 3.34 |
| Sales | 147,681,602 | 18,460.20 | 1.46 | 2.62 |
| **Balance as at 31 December 2018** | **88,788,514** | **11,098.57** | **1.57** | **1.58** |
| Purchases | 225,036,359 | 28,129.54 | 0.93 | 4.00 |
| Sales | 307,818,009 | 38,477.25 | 0.98 | 5.47 |
| **Balance as at 31 December 2019** | **6,006,864** | **750.86** | **1.42** | **0.11** |

Net gains and losses arising from transactions in own equity have been included under the heading "*Own funds - Other reserves*" on the consolidated 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 2019 TSB owns 19,297 Banco Sabadell shares (2,488,704 at the end of 2018), at a cost of 30 thousand euros (3,692 thousand euros at the end of 2018), which are recognised as own shares on the consolidated balance sheet.

As at 31 December 2019, the number of shares of the Bank pledged as collateral for transactions amounted to 128,027,778, with a nominal value of 16,003 thousand euros (136,390,382 shares with a nominal value of 17,049 thousand euros as at 31 December 2018).

The number of Banco de Sabadell, S.A. equity instruments owned by third parties, yet managed by different Group companies, amounts to 21,638,760 and 21,506,506 securities as at 31 December 2019 and 2018, respectively. Their nominal value amounts to 2,705 thousand euros and 2,688 thousand euros, respectively. In both years, 100% of the securities corresponded to Banco Sabadell shares.

## Note 24 – Accumulated other comprehensive income

The composition of this heading of consolidated equity as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Items that will not be reclassified to profit or loss | (44,677) | (52,564) |
| Actuarial gains or (-) losses on defined benefit pension plans | (2,361) | (329) |
| Non-current assets and disposal groups classified as held for sale | - | - |
| Share of other recognised income and expense of investments in joint ventures and associates | - | - |
| Fair value changes of equity instruments measured at fair value through other comprehensive income | (42,316) | (52,235) |
| 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 | (222,069) | (438,906) |
| Hedge of net investments in foreign operations [effective portion] (*) | 114,237 | 213,031 |
| Foreign currency translation | (445,169) | (640,720) |
| Hedging derivatives. Cash flow hedges [effective portion] (**) | 89,845 | 4,306 |
| Amount deriving from outstanding operations | 38,280 | 6,002 |
| Amount deriving from discontinued operations | 51,565 | (1,696) |
| Fair value changes of debt instruments measured at fair value through other comprehensive income | (2,137) | (22,958) |
| Hedging instruments [not designated elements] | - | - |
| Non-current assets and disposal groups classified as held for sale | - | - |
| Share of other recognised income and expense of investments in joint ventures and associates | 21,155 | 7,435 |
| **Total** | **(266,746)** | **(491,470)** |

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

(**) Cash flow hedges mainly mitigate interest rate risk and other risks (see note 12).

The breakdown of corporation tax in relation to each heading on the statement of recognised income and expense as at 31 December 2019 and 2018 is shown below:

Thousand euro

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Tax effect | Net | Gross amount | Tax effect | Net |
| Items that will not be reclassified to profit or loss | (2,709) | 10,597 | 7,888 | (145,616) | 43,609 | (102,007) |
| Actuarial gains or (-) losses on defined benefit pension plans | (2,902) | 871 | (2,031) | (10,138) | 3,041 | (7,097) |
| Non-current assets and disposal groups classified as held for sale | - | - | - | - | - | - |
| Share of other recognised income and expense of investments in joint ventures and associates | - | - | - | - | - | - |
| Fair value changes of equity instruments measured at fair value through other comprehensive income | 193 | 9,726 | 9,919 | (135,478) | 40,568 | (94,910) |
| 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 | 261,283 | (44,323) | 216,960 | (264,197) | 80,810 | (183,387) |
| Hedge of net investments in foreign operations [effective portion] | (98,793) | - | (98,793) | (23,616) | - | (23,616) |
| Foreign currency translation | 195,549 | - | 195,549 | 38,813 | (1,082) | 37,731 |
| Hedging derivatives. Cash flow hedges reserve [effective portion] | 122,152 | (36,614) | 85,538 | 121,163 | (36,455) | 84,708 |
| Fair value changes of debt instruments measured at fair value through other comprehensive income | 28,654 | (7,709) | 20,945 | (396,409) | 118,347 | (278,062) |
| Hedging instruments [not designated elements] | - | - | - | - | - | - |
| Non-current assets and disposal groups classified as held for sale | - | - | - | - | - | - |
| Share of other recognised income and expense of investments in joint ventures and associates | 13,721 | - | 13,721 | (4,148) | - | (4,148) |
| **Total** | **258,574** | **(33,726)** | **224,848** | **(409,813)** | **124,419** | **(285,394)** |

## Note 25 – Minority interests (non-controlling interests)

The companies comprising this consolidated equity heading as at 31 December 2019 and 2018 are the following:

Thousand euro

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | % Minority interests | Amount | *Of which: Profit/ (loss) attributed* | % Minority interests | Amount | *Of which: Profit/ (loss) attributed* |
| BancSabadell d'Andorra, S.A. | 49.03% | 44,199 | *5,213* | 49.03% | 40,265 | *4,073* |
| Business Services for Operational Support, S.A.U. | 20.00% | 389 | *689* | 20.00% | 381 | *553* |
| Aurica Coinvestment, S.L. | 38.24% | 23,646 | *3,105* | 38.24% | 21,831 | 2,488 |
| Rest | | 1,112 | *49* | | 1,062 | *14* |
| **Total** | | **69,346** | ***9,056*** | | **63,539** | ***7,128*** |

The movements in the balance of this heading in 2019 and 2018 were as follows:

Thousand euro

| | |
|---|---|
| **Balances as at 31 December 2017** | **61,176** |
| Valuation adjustments | (88) |
| Rest | 2,451 |
| Scope additions / exclusions | - |
| Percentage shareholding and other | (4,677) |
| Changes in consolidation method | - |
| Profit or loss for the year | 7,128 |
| **Balances as at 31 December 2018** | **63,539** |
| Valuation adjustments | 124 |
| Rest | 5,683 |
| Scope additions / exclusions | - |
| Percentage shareholding and other | (3,373) |
| Changes in consolidation method | - |
| Profit or loss for the year | 9,056 |
| **Balances as at 31 December 2019** | **69,346** |

The dividends distributed to minority shareholders of Group companies in 2019 amounted to 3,503 thousand euros (1,533 thousand euros to BancSabadell d’Andorra, S.A., 1,290 thousand euros to Aurica Coinvestment, S.L. and 680 to Business Services for Operational Support, S.A.U.) and 1,533 thousand euros in 2018 (to BancSabadell d’Andorra, S.A.).

In 2019, the companies Aurica Coinvestment S.L., Business Services for Operational Support, S.A.U. Duncan de Inversiones SICAV, S.A., Ederra S.A and BancSabadell d'Andorra, S.A. and their investees are allocated to banking business Spain (see note 38).

## Note 26 – Off-balance sheet exposures

The breakdown of this heading for the annual periods ended 31 December 2019 and 2018 is the following:

Thousand euro

| **Commitments and guarantees given** | **Note** | **2019** | **2018** |
|---|---|---|---|
| **Loan commitments provided** | | **27,563,836** | **22,645,948** |
| *Of which, amount classified as Stage 2* | | *889,215* | *501,605* |
| *Of which, amount classified as Stage 3* | | *56,253* | *55,932* |
| Can be drawn by third parties | | 27,563,836 | 22,645,948 |
| By credit institutions | | 96 | 549 |
| By general governments | | 1,213,587 | 638,858 |
| By other resident sectors | | 16,341,791 | 15,640,631 |
| By non-residents | | *10,008,362* | 6,365,910 |
| Amount recognised within liabilities on the balance sheet | 22 | 48,204 | 45,759 |
| **Financial guarantees provided (*)** | | **2,107,412** | **2,040,786** |
| *Of which, amount classified as Stage 2* | | *90,063* | *125,649* |
| *Of which, amount classified as Stage 3* | | *41,534* | *25,890* |
| | | | - |
| Amount recognised within liabilities on the balance sheet (**) | 22 | 21,041 | 22,617 |
| | | | - |
| **Other commitments provided** | | **10,398,913** | **8,233,226** |
| *Of which, amount classified as Stage 2* | | *315,842* | *397,675* |
| *Of which, amount classified as Stage 3* | | *156,918* | *55,305* |
| Other guarantees given | | 7,506,189 | 7,341,297 |
| Assets earmarked for third-party obligations | | - | - |
| Irrevocable letter of credit | | 806,348 | 921,336 |
| Additional settlement guarantee | | 20,000 | 20,000 |
| Other guarantees and sureties given | | 6,679,841 | 6,399,961 |
| Other contingent risks | | - | - |
| Other commitments provided | | 2,892,724 | 891,929 |
| Financial asset forward purchase commitments | | 2,468,533 | 557,375 |
| Conventional financial asset purchase contracts | | 275,922 | 158,985 |
| Capital subscribed but not paid up | | 1,939 | 1,939 |
| Underwriting and subscription commitments | | - | - |
| Other loan commitments given | | 146,330 | 173,630 |
| | | | - |
| Amount recognised within liabilities on the balance sheet | 22 | 41,501 | 40,192 |
| **Total** | | **40,070,161** | **32,919,960** |

(*) Includes 135,624 thousand euros and 137,481 thousand euros as at 31 December 2019 and 2018, respectively, relating to financial guarantees given in relation to construction and real estate development.
(**) Includes 5,225 thousand euros and 6,410 thousand euros as at 31 December 2019 and 2018, respectively, in relation to construction and real estate development.

The total contingent commitments drawable by third parties as at 31 December 2019 includes mortgage-secured lending commitments amounting to 4,773,615 thousand euros (4,415,019 thousand euros as at 31 December 2018). As regards other commitments, in the majority of cases there are other types of guarantees which are in line with the Group's risk management policy.

## Guarantees given classed as stage 3

The movement of the balance of guarantees given classed as stage 3 during 2019 was the following:

| Thousand euro | |
|---|---|
| **Balances as at 31 December 2018** | **81,195** |
| Additions | 125,443 |
| Disposals | (8,186) |
| **Balances as at 31 December 2019** | **198,452** |

The breakdown by geography of the balance of guarantees given classed as stage 3 as at 31 December 2019 and 2018 is as follows:

| Thousand euro | 2019 | 2018 |
|---|---|---|
| Spain | 195,951 | 80,507 |
| United Kingdom | 5 | - |
| Rest of European Union | 437 | 387 |
| Americas | 1,726 | 131 |
| Rest of the world | 333 | 170 |
| **Total** | **198,452** | **81,195** |

Credit risk allowances corresponding to guarantees given as at 31 December 2019 and 2018, broken down by the method used to determine such allowances and the credit risk of off-balance sheet exposures, are as follows:

| Thousand euro | 2019 | 2018 |
|---|---|---|
| **Specific individually measured allowances:** | **38,939** | **36,008** |
| *Stage 2* | 1,403 | 2,663 |
| *Stage 3* | 37,536 | 33,345 |
| **Specific collectively measured allowances:** | **22,762** | **26,725** |
| *Stage 1* | 8,399 | 11,727 |
| *Stage 2* | 4,571 | 5,153 |
| *Stage 3* | 9,284 | 9,432 |
| Allowances for country risk | 508 | 413 |
| **Total** | **61,701** | **62,733** |

The movement of this coverage during the periods 2019 and 2018, together with the coverage of other commitments given is shown in Note 22.

## Note 27 – Off-balance sheet customer funds

Off-balance sheet customer funds managed by the Group, those sold but not under management and the financial instruments deposited by third parties as at 31 December 2019 and 2018 are shown below:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Managed by the Group:** | **21,680,784** | **21,893,067** |
| Investment firms and funds | 18,318,071 | 18,297,797 |
| Asset management | 3,362,713 | 3,595,270 |
| **Marketed by the Bank:** | **21,482,232** | **22,140,730** |
| Mutual Funds | 7,685,237 | 8,081,426 |
| Pension funds | 3,666,512 | 3,594,186 |
| Insurance | 10,430,483 | 10,465,118 |
| **Financial instruments deposited by third parties** | **77,041,761** | **76,324,331** |
| **Total** | **120,204,777** | **120,358,128** |

## Note 28 – Interest income and expense

These headings in the consolidated income statement include interest accrued during the year on all financial assets and liabilities the yield of which, implicit or explicit, is obtained by applying the effective interest rate approach, irrespective of whether they are measured at fair value or otherwise, and using product adjustments due to accounting hedges. Interest is recorded at its gross value, without subtracting any tax withholdings deducted at source.

The majority of interest income is generated by the Group's financial assets measured either at amortised cost or at fair value through other comprehensive income.

The average annual interest rate during 2019 and 2018 of the indicated balance sheet headings is shown below:

%

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Banco Sabadell Group | Ex TSB | Banco Sabadell Group | Ex TSB |
| **Assets** | | | | |
| Cash, cash balances at central banks and other demand deposits | 0.21 | 0.04 | 0.08 | (0.11) |
| Debt securities | 1.27 | 1.30 | 1.36 | 1.41 |
| Loans and advances | | | | |
| Customers | 2.91 | 2.81 | 2.96 | 2.86 |
| **Liabilities** | | | | |
| Deposits | | | | |
| Central banks and Credit institutions | 0.15 | (0.04) | 0.11 | (0.03) |
| Customers | 0.27 | 0.22 | 0.22 | 0.15 |

The breakdown of quarterly net interest income for the years 2019 and 2018, as well as returns and average costs of the different components which comprise the total investment and funds, is as follows:

Thousand euro

| | 2019 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1st quarter | | | 2nd quarter | | | 3rd quarter | | | 4th quarter | | | TOTAL |
| | Average balance | Rate % | Profit/(loss) | Average balance | Rate % | Profit/(loss) | Average balance | Rate % | Profit/(loss) | Average balance | Rate % | Profit/(loss) | |
| **Return on the investment** | **221,188,996** | **2.19** | **1,193,977** | **226,600,010** | **2.13** | **1,203,204** | **222,971,888** | **2.16** | **1,211,663** | **223,103,539** | **2.13** | **1,195,372** | **4,804,216** |
| Cash and cash equivalents (*) | 31,206,664 | 0.19 | 14,989 | 33,178,163 | 0.21 | 17,454 | 27,695,451 | 0.26 | 18,269 | 26,688,855 | 0.19 | 12,770 | **63,482** |
| Loans and advances | 138,025,608 | 2.97 | 1,010,944 | 139,416,656 | 2.94 | 1,022,383 | 139,633,777 | 2.90 | 1,020,772 | 141,582,861 | 2.81 | 1,003,940 | **4,058,039** |
| Fixed-income portfolio (**) | 25,213,037 | 1.34 | 83,350 | 26,672,089 | 1.30 | 86,716 | 28,355,594 | 1.20 | 85,935 | 27,468,523 | 1.25 | 86,242 | **342,243** |
| Equity portfolio | 869,033 | - | - | 935,022 | - | - | 856,452 | - | - | 859,230 | - | - | - |
| Tangible and intangible assets | 5,331,343 | - | - | 5,364,135 | - | - | 5,405,272 | - | - | 5,492,564 | - | - | - |
| Rest of other assets | 20,543,311 | 1.67 | 84,694 | 21,033,945 | 1.46 | 76,651 | 21,025,342 | 1.64 | 86,687 | 21,011,506 | 1.75 | 92,420 | **340,452** |
| **Cost of resources** | **221,188,996** | **(0.54)** | **(293,245)** | **226,600,010** | **(0.53)** | **(297,859)** | **222,971,888** | **(0.54)** | **(305,253)** | **223,103,539** | **(0.51)** | **(285,463)** | **(1,181,820)** |
| Credit institutions | 32,238,040 | (0.15) | (12,161) | 31,913,401 | (0.12) | (9,492) | 26,510,777 | (0.20) | (13,507) | 23,988,625 | (0.15) | (8,773) | **(43,933)** |
| Customer deposits (***) | 144,271,153 | (0.27) | (97,186) | 148,279,109 | (0.29) | (107,149) | 147,936,923 | (0.28) | (104,270) | 149,653,131 | (0.22) | (83,364) | **(391,969)** |
| Capital markets | 24,639,120 | (1.39) | (84,635) | 24,855,118 | (1.45) | (89,686) | 24,527,227 | (1.50) | (92,757) | 24,932,361 | (1.44) | (90,185) | **(357,263)** |
| Other liabilities | 7,697,988 | (5.23) | (99,263) | 8,893,319 | (4.13) | (91,532) | 11,108,719 | (3.38) | (94,719) | 11,508,944 | (3.56) | (103,141) | **(388,655)** |
| Own funds | 12,342,695 | - | - | 12,659,063 | - | - | 12,888,242 | - | - | 13,020,478 | - | - | **-** |
| **Net interest income** | | | **900,732** | | | **905,345** | | | **906,410** | | | **909,909** | **3,622,396** |
| **Average total assets** | | | **221,188,996** | | | **226,600,010** | | | **222,971,888** | | | **223,103,539** | **223,470,000** |
| **Ratio (margin/ATA)** | | | **1.65** | | | **1.60** | | | **1.62** | | | **1.62** | **1.62** |

(*) Includes cash, central banks, credit institutions and reverse repos.

(**) Includes 1,410 thousand euros corresponding to interest on financial assets held for trading.

(***) Includes repos.

Financial income and expense arising from the application of negative interest rates are assigned to the associated instrument. Thus, profit/(loss) on investments and the cost of resources include financial expenses and income amounting to 68,868 and 111,807 thousand, respectively, arising from such assignment. In particular, the credit institutions row on the liabilities side includes financial income on negative interest rates applied to balances of credit institutions in the liabilities side, mainly those relating to TLTRO II.

Thousand euro

| | 2018 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1st quarter | | | 2nd quarter | | | 3rd quarter | | | 4th quarter | | | TOTAL |
| | Average balance | Rate % | Profit/(loss) | Average balance | Rate % | Profit/(loss) | Average balance | Rate % | Profit/(loss) | Average balance | Rate % | Profit/(loss) | |
| **Return on the investment** | **216,880,053** | **2.10** | **1,124,649** | **217,038,607** | **2.10** | **1,136,182** | **216,813,203** | **2.19** | **1,194,286** | **217,933,850** | **2.21** | **1,211,641** | **4,666,758** |
| Cash and cash equivalents (*) | 29,544,269 | 0.01 | 507 | 28,180,392 | 0.01 | 542 | 27,865,203 | 0.15 | 10,771 | 28,761,958 | 0.16 | 11,479 | **23,299** |
| Loans and advances | 133,924,261 | 3.00 | 991,874 | 135,992,318 | 2.90 | 983,334 | 137,034,035 | 2.95 | 1,019,236 | 136,621,255 | 2.97 | 1,022,242 | **4,016,686** |
| Fixed-income portfolio (**) | 25,407,251 | 1.41 | 88,606 | 26,158,261 | 1.42 | 92,621 | 25,885,654 | 1.28 | 83,698 | 26,339,944 | 1.32 | 87,541 | **352,466** |
| Equity portfolio | 988,827 | - | - | 1,021,333 | - | - | 836,220 | 0.00 | - | 891,160 | 0.00 | - | - |
| Tangible and intangible assets | 3,873,886 | - | - | 4,061,192 | - | - | 4,178,935 | 0.00 | - | 4,220,475 | 0.00 | - | - |
| Rest of other assets | 23,141,559 | 0.77 | 43,662 | 21,625,111 | 1.11 | 59,685 | 21,013,156 | 1.52 | 80,581 | 21,099,058 | 1.70 | 90,379 | **274,307** |
| **Cost of resources** | **216,880,053** | **(0.40)** | **(213,101)** | **217,038,607** | **(0.44)** | **(237,612)** | **216,813,203** | **(0.48)** | **(261,667)** | **217,933,850** | **(0.51)** | **(279,194)** | **(991,574)** |
| Credit institutions | 31,880,652 | (0.11) | (8,877) | 32,137,191 | (0.09) | (6,978) | 31,924,079 | (0.10) | (8,089) | 32,190,104 | (0.14) | (11,746) | **(35,690)** |
| Customer deposits (***) | 138,805,488 | (0.20) | (68,878) | 140,271,284 | (0.22) | (76,126) | 142,223,843 | (0.22) | (77,675) | 142,883,019 | (0.24) | (86,757) | **(309,436)** |
| Capital markets | 25,588,125 | (1.34) | (84,344) | 25,004,552 | (1.29) | (80,727) | 23,715,312 | (1.31) | (78,366) | 24,173,861 | (1.31) | (79,578) | **(323,015)** |
| Other liabilities | 7,848,422 | (2.64) | (51,002) | 7,326,734 | (4.04) | (73,781) | 6,799,142 | (5.69) | (97,537) | 6,581,339 | (6.10) | (101,113) | **(323,433)** |
| Own funds | 12,757,366 | - | - | 12,298,846 | - | - | 12,150,827 | 0 | - | 12,105,527 | 0.00 | - | **-** |
| **Net interest income** | | | **911,548** | | | **898,570** | | | **932,619** | | | **932,447** | **3,675,184** |
| **Average total assets** | | | **216,880,053** | | | **217,038,607** | | | **216,813,203** | | | **217,933,850** | **217,168,348** |
| **Ratio (margin/ATA)** | | | **1.70** | | | **1.66** | | | **1.71** | | | **1.70** | **1.69** |

(*) Includes cash, central banks, credit institutions and reverse repos.

(**) Includes 3,235 thousand euros corresponding to interest on financial assets held for trading.

(***) Includes repos.

Financial income and expense arising from the application of negative interest rates are assigned to the associated instrument. Thus, profit/(loss) on investments and the cost of resources include financial expenses and income amounting to 70,605 and 124,580 thousand, respectively, arising from such assignment. In particular, the credit institutions row on the liabilities side includes financial income on negative interest rates applied to balances of credit institutions in the liabilities side, mainly those relating to TLTRO II.

In terms of annual average, net interest margin on average total assets stood at 1.62% (1.50% without TSB), declining by 7 basis points in comparison with the previous year (1.69% in 2018). With regards to the evolution of quarterly net interest margin, net interest margin on average total assets in the fourth quarter of 2019 stood at 1.62% (1.48% excluding TSB). In the fourth quarter of 2018 this margin stood at 1.70%.

## Note 29 – Fee and commission income and expenses

Income and expenses arising from fees and commission for financial operations and the provision of services are as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Fees from risk transactions** | **252,262** | **240,612** |
| Lending operations | 143,621 | 137,964 |
| Sureties and other guarantees | 108,641 | 102,648 |
| **Service fees** | **809,565** | **722,296** |
| Payment cards | 266,796 | 224,871 |
| Payment orders | 64,097 | 61,602 |
| Securities | 63,085 | 61,058 |
| Sight accounts | 193,151 | 220,962 |
| Rest | 222,436 | 153,803 |
| **Asset management fees** | **376,914** | **372,393** |
| Mutual funds | 152,855 | 157,740 |
| Sale of pension funds and insurance products | 194,042 | 185,463 |
| Asset management | 30,017 | 29,190 |
| **Total** | **1,438,741** | **1,335,301** |
| **Memorandum item** | | |
| Fee and commission income | 1,628,892 | 1,558,648 |
| Fee and commission expenses | (190,151) | (223,347) |
| **Fees and commissions (net)** | **1,438,741** | **1,335,301** |

## Note 30 – Gains or (-) losses on financial assets and liabilities, net

Net trading income groups together a series of headings from the consolidated income statement for the years ended 31 December 2019 and 2018 which are shown below:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By heading:** | | |
| Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net | 152,483 | 208,106 |
| Financial assets at fair value through other comprehensive income | 87,269 | 292,256 |
| Financial assets at amortised cost | 65,277 | (75,870) |
| Financial liabilities measured at amortised cost | (63) | (8,280) |
| Gains or (-) losses on financial assets and liabilities held for trading, net | (111,151) | 10,568 |
| Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net | (2,470) | (13,902) |
| Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net | - | 19 |
| Gains or (-) losses from hedge accounting, net | (915) | 21,918 |
| **Total** | **37,947** | **226,709** |
| **By type of financial instrument:** | | |
| Net gain/(loss) on debt securities | 93,697 | 203,620 |
| Net gain/(loss) other equity instruments | 1,800 | (1,174) |
| Net gain/(loss) on derivatives | (117,319) | 29,896 |
| Net gain/(loss) on other items (*) | 59,769 | (5,633) |
| **Total** | **37,947** | **226,709** |

(*) Includes mainly the proceeds from securitising consumer loans and from the sale of a number of portfolios during the year.

During the years 2019 and 2018 the Group 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 87,215 thousand euros as at 31 December 2019 (292,249 thousand euros as at 31 December 2018). Of this profit, 81,723 thousand euros (289,366 thousand euros in 2018) derive from the sale of debt securities held with general governments.

On 20 September 2019, the bank securitised consumer loans with a principal amount of 1,000 million euros in the *Sabadell Consumo 1, Fondo de Titulización* securitisation vehicle; all of the asset-backed securities issued by this vehicle were acquired by third parties outside of the Group. In this transaction a substantial portion of the risks and profits from the securitised portfolio were transferred and the bank proceeded to derecognise the portfolio from the balance sheet, recognising a gain of 87,774 thousand euros 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 2019 consolidated income statement.

Likewise, the "*Net gain/(loss) on derivatives*" heading in the table above includes, mainly, the change in the fair value of derivatives used to hedge against the foreign exchange risk of debit and credit balances denominated in foreign currencies. The results obtained from these derivatives are recognised under the heading "*Gains or (-) losses on financial assets and liabilities held for trading, net*" of the income statement, while the exchange differences generated by debit and credit balances denominated in foreign currencies hedged with these derivatives are recognised under the heading "*Exchange differences (gain or (-) loss), net*" of the income statement.

## Note 31 – Other operating income

The composition of this item of the consolidated income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Income from use of investment properties (*) | 49,981 | 84,907 |
| Sales and other income from the provision of non-financial services | 34,178 | 78,441 |
| Other operating income (*) | 150,081 | 93,334 |
| **Total** | **234,240** | **256,682** |

(*) The amounts relate mainly to revenues from operating leases in which the group acts as lessor.

The decrease in "Income from use of investment properties" and "Sales and other income from the provision of non-financial services" in 2019 compared to the previous year is mainly due to the sale of Solvia, a subsidiary company that generated income from this type of activities (see Note 2).

Sales and income from the provision of non-financial services include income generated by the management of real estate asset portfolios of other institutions (SAREB).

The income recognised in "Other operating income" basically corresponds to income from Group entities engaging in non-financial activities (mostly operating leases).

## Note 32 – Other operating expenses

The composition of this item of the consolidated income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Contribution to deposit guarantee schemes | (121,381) | (106,332) |
| Banco Sabadell | (110,673) | (103,317) |
| TSB | (694) | 1,558 |
| BS IBM México | (10,014) | (4,573) |
| Contribution to resolution fund | (58,647) | (49,744) |
| Other items | (370,794) | (390,989) |
| Monetisation rates (*) | (48,133) | (44,996) |
| Other | (322,661) | (345,993) |
| **Total** | **(550,822)** | **(547,065)** |

(*) See Note 39.

The "*Other*" subheading includes expenses corresponding to Tax on Deposits to Credit Institutions, amounting to 31,239 thousand euros in 2019 (30,650 thousand euros in 2018), as well as expenses associated with non-financial activities.

## Note 33 – Administrative expenses

This heading in the consolidated income statement includes expenses incurred by the Group in respect of staff and other general administrative expenses.

### Staff expenses

The staff expenses recognised in the consolidated income statement for the years ended 31 December 2019 and 2018 are as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Payrolls and bonuses for active staff | | (1,197,000) | (1,159,614) |
| Social Security payments | | (251,960) | (239,243) |
| Contributions to defined benefit pension plans | 22 | (2,741) | (1,775) |
| Contributions to defined contribution pension plans | | (70,655) | (71,096) |
| Other staff expenses | | (126,480) | (118,862) |
| **Total** | | **(1,648,836)** | **(1,590,590)** |

As at 31 December 2019 and 2018, the breakdown of the average workforce for all companies within the Group by category and by gender is as follows:

Average number of employees

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| Management staff | 523 | 175 | 698 | 507 | 173 | 680 |
| Technical staff | 9,687 | 10,694 | 20,381 | 10,015 | 10,812 | 20,827 |
| Administrative staff | 976 | 3,294 | 4,270 | 1,038 | 3,502 | 4,540 |
| **Total** | **11,186** | **14,163** | **25,349** | **11,560** | **14,487** | **26,047** |

The breakdown of the bank's average workforce by category as at 31 December 2019 and 2018 with a disability of 33% of more is as follows:

Average number of employees

| | Banco Sabadell Group | |
|---|---|---|
| | 2019 | 2018 |
| Management staff | 5 | 6 |
| Technical staff | 203 | 189 |
| Administrative staff | 51 | 19 |
| **Total** | **259** | **214** |

As at 31 December 2019 and 2018, the breakdown of Group workforce by category and gender is as follows:

Number of employees

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| Management staff | 511 | 168 | 679 | 501 | 173 | 674 |
| Technical staff | 9,418 | 10,494 | 19,912 | 10,025 | 10,855 | 20,880 |
| Administrative staff | 863 | 3,000 | 3,863 | 1,079 | 3,548 | 4,627 |
| **Total** | **10,792** | **13,662** | **24,454** | **11,605** | **14,576** | **26,181** |

Of the total workforce as at 31 December 2019, 531 had some form of recognised disability (188 as at 31 December 2018).

Non-recurring staff expenses in 2019 amounted to 59,027 thousand euros (61,009 thousand euros in 2018). Expenses which do not form part of the institution's ordinary activities are considered non-recurring. Staff expenses are those linked to business transformation and reduction of the workforce at TSB.

**Long-term share-based complementary incentive scheme**

The Group has various long-term complementary incentive schemes which are described below:

Share-based complementary incentive scheme

At the Annual General Meeting held on 31 March 2016, the shareholders approved an incentive scheme, based on the increase in value of Banco de Sabadell, S.A. Shares, for 3 Executive Directors, 7 members of Senior Management and 472 Group Management Staff (ICLP 2016). During the valid period of this scheme 264,972 stock options were derecognised with settlement by delivery of 91,262 shares. In March 2019 this scheme expired with no settlement since the exercise price (1.494 euros) was above the listed share price.

The Group has two long-term share-based complementary incentive schemes currently in effect, the ICLP 2017, approved on 30 March 2017 and the ICLP 2018, approved on 19 April 2018.

- At the Annual General Meeting held on 30 March 2017, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for 3 Executive Directors, 7 members of Senior Management and 466 Group Management Staff ("ICLP 2017"). It consists of assigning a certain number of rights to the beneficiaries, including the right to receive the increase in value of the same number of Banco de Sabadell, S.A. shares over a period which began on 30 January 2017 and will end on the last day of the twenty trading sessions of March 2020, using as a reference their share price, which shall be made effective by means of the delivery of the bank's shares. A necessary condition for the rights coming into effect will be that the beneficiary exceed the minimum compliance percentage (i.e. level of achievement) of the individual target called "Professional Effectiveness Appraisal" ('Valoración de Eficacia Profesional') set by the bank's Remuneration Committee.

- At the Annual General Meeting held on 19 April 2018, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for Executive Directors, Senior Management and other management staff included in the Group's Identified Staff ("ICLP 2018"). As at 31 December 2018, the beneficiaries of the Incentive are 4 Executive Directors, 8 Senior Management staff and 71 other management staff that form part of the Group's Identified Staff. It consists of assigning a specific number of rights to the beneficiaries of the ICLP 2018, which carry the right to receive the increase in value of the same number of shares of Banco de Sabadell, S.A., based on the share's market price, while also being tied to the Bank's attainment of certain multi-year indicators over a given period of time, to be paid 55% in the form of shares of Banco de Sabadell, S.A. and the remaining 45% in cash. The number of rights to be settled may be equal to or less than the number of vested rights in the first quarter of 2019, depending on the level to which Banco de Sabadell, S.A. attains four indicators during the lifetime of the ICLP 2018. The period for evaluating the level of attainment will cover the years 2018, 2019 and 2020, and during this period targets are established for the following indicators and with the following weights: shareholder return (25%), for which the benchmark will be the share's closing price, rounded to the third decimal place, in the first 20 sessions of 2018 and the first 20 sessions of 2021; liquidity coverage ratio (25%); CET1 capital (25%); and the bank's return on risk-adjusted capital - RoRAC (25%). The last three indicators will be measured at the end of the multi-year period, taking the average of the last three months of the year 2020.

Their main characteristics are shown below:

| Incentives Schemes in effect | End date | Exercise price | Maximum number of rights affected |
|---|---|---|---|
| ICLP 2017 | 30/03/2020 | 1.353 | 35,000,000 |
| ICLP 2018 | 18/04/2022 | 1.841 | 21,000,000 |

The fair value of services is calculated based on the fair value of pledged capital instruments, i.e. bank stock options, as indicated in Note 6, employing the Monte Carlo simulations valuation technique and the Black-Scholes valuation model.

Movements in rights associated with the aforementioned schemes were as follows:

Rights - ICLP 2017

| | |
|---|---|
| **Balance as at 31 December 2017** | **31,229,996** |
| Granted | - |
| Cancelled | (1,158,003) |
| **Balance as at 31 December 2018** | **30,071,993** |
| Granted | - |
| Cancelled | (633,003) |
| **Balance as at 31 December 2019** | **29,438,990** |

Rights - ICLP 2018

| | |
|---|---|
| **Balance at 30 April 2018** | **21,000,000** |
| Granted | - |
| Cancelled | (400,000) |
| **Balance as at 31 December 2018** | **20,600,000** |
| Granted | - |
| Cancelled | (2,247,500) |
| **Balance as at 31 December 2019** | **18,352,500** |

Employees of the TSB Banking Group have a complementary incentive scheme linked to the achievement of annual targets by 2026.

Long-term remuneration schemes

In line with the Group Remuneration Policy, in 2019 Long Term Remuneration was established for the period 2019 to 2021 aimed at Executive Directors, members of Senior Management and other management staff that form part of the Group's Identified Staff who may receive allocated remuneration, with the exception of any management staff assigned to TSB Banking Group plc or its subsidiaries.

The remuneration consists of the allocation of a certain amount to each beneficiary determined as a percentage of his/her fixed remuneration, calculated in two periods:

- In the first period, which ends on 31 December 2019, the initial amount is established according to the attainment of individual annual targets adjusted by a Risk Correction Factor, for capital (CET1) and liquidity (LCR) indicators. The amount obtained will be subject to the conditions of the second period and will be payable in cash (45%) and shares (55%). The number of shares to be granted will be calculated based on the share price of the last 20 trading sessions of 2019.

- In the second period, which ends on 31 December 2021, the final remuneration is established based on the attainment of the Group's multi-year targets related to the following indicators: the total shareholder return (25%); the Group's liquidity coverage ratio (25%); the CET1 capital ratio (25%); and the Group's return on risk-adjusted capital or 'RORAC' (25%). The amount and number of shares to be granted will also be adjusted by the Risk Correction Factor.

In addition to the aforesaid conditions, in order to receive the remuneration, beneficiaries must continue to be a member of the Identified Staff until 31 December 2019 and must have an employment or commercial relationship with the institution.

As regards the staff expenses associated with share-based incentives schemes (see Note 1.3.15), the contra account for such expenses is recognised in equity in the case of rights settled using shares (see statement of equity – share-based payments), while those settled in cash are recognised in the "*Other liabilities*" heading of the consolidated balance sheet.

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Settled in Shares | 8,059 | 3,004 |
| Settled in Cash | 675 | 49 |
| **Total** | **8,734** | **3,053** |

## Other administrative expenses

The composition of this item in the consolidated income statement for the years 2019 and 2018 was as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Property, plant and equipment | (106,015) | (230,744) |
| Information technology | (334,868) | (439,292) |
| Communication | (41,123) | (46,820) |
| Publicity | (99,333) | (114,162) |
| Subcontracted administrative services | (156,280) | (109,533) |
| Contributions and taxes | (127,689) | (114,908) |
| Technical reports | (55,654) | (32,089) |
| Security services and fund transfers | (22,265) | (21,290) |
| Entertainment expenses and staff travel expenses | (21,531) | (23,531) |
| Membership fees | (44,512) | (31,181) |
| Other expenses | (85,353) | (166,210) |
| **Total** | **(1,094,623)** | **(1,329,760)** |

### Fees with Auditing Companies

The fees received by PricewaterhouseCoopers Auditores, S.L. in 2019 for statutory auditing services and other audit-related services provided in Spain amounted to 1,940 and 992 thousand euros, respectively (1,839 and 659 thousand euros in 2018). Auditing services provided by other companies in the PwC network in relation to foreign branches and subsidiaries amounted to 4,983 thousand euros in 2019 (4,649 thousand euros in 2018).

Fees received by other auditors in 2019 for auditing and other audit-related services provided in Spain amounted to 31 and 0 thousand euros, respectively (31 and 0 thousand euros in 2018). Fees for audit and other audit-related services for foreign branches and subsidiaries amounted to 18 and 21 thousand euros, respectively, in 2019 (17 and 21 thousand euros in 2018).

Fees received by other companies in the PwC network for tax advisory services and other services provided in 2019 amounted to 0 and 134 thousand euros. The amounts recognised for these services in 2018 amounted to 68 and 507 thousand euros, respectively.

**Other information**

Non-recurring administrative expenses in 2019 amounted to 44,483 thousand euros (230,506 thousand euros in 2018) including costs related to the TSB post-IT-migration process and commercial transformation.

The cost-to-income ratio as at 2019 year-end (staff and general expenses/gross income) stood at 55.63% (58.29% in 2018).

Information about the Group's branches and offices is given below:

Number of branches

| | 2019 | 2018 |
|---|---|---|
| **Branches** | **2,402** | **2,457** |
| Spain | 1,822 | 1,865 |
| Outside Spain | 580 | 592 |

## Note 34 – 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 item of the consolidated income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Financial assets at fair value through other comprehensive income | | 3,748 | (2,472) |
| Debt securities | 8 | 3,748 | (2,472) |
| Other equity instruments | | - | - |
| Financial assets at amortised cost | 11 | (670,773) | (753,620) |
| Debt securities | | 109 | 3,381 |
| Loans and advances | | (670,882) | (757,001) |
| **Total** | | **(667,025)** | **(756,092)** |

## Note 35 – Impairment or (-) reversal of impairment on non-financial assets

The composition of this item of the consolidated income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Property, plant and equipment | 15 | (16) | 907 |
| Investment properties | 15 | 4,733 | (61,335) |
| Goodwill and other intangible assets | 16 | (6,964) | (286) |
| Inventories | 17 | (83,989) | (339,934) |
| **Total** | | **(86,236)** | **(400,648)** |

The total allowance for the impairment of investment properties in 2019 and 2018 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 425,163 and 602,004 thousand euros in 2019 and 2018, respectively.

Of the total inventory impairment allowances for 2019 and 2018, 57,642 and 54,296 thousand euros were allocated based on Level 2 valuations, respectively, and 26,347 and 285,637 thousand euros based on Level 3 valuations, respectively. The fair value of impaired assets amounted to 686,976 and 730,494 thousand euros as at the end of 2019 and 2018.

## Note 36 – Gains or (-) losses on derecognition of non-financial assets, net

The composition of this item of the consolidated income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Property, plant and equipment | (6,396) | (2,398) |
| Investment properties | 4,001 | 32,172 |
| Intangible assets | 252 | (1,027) |
| Interests (*) | 16,951 | 5,826 |
| Other capital instruments | - | - |
| Other items | 26,549 | - |
| **Total** | **41,357** | **34,573** |

(*) See Note 2 and Schedule I – Companies no longer consolidated.

The sale of tangible assets under finance leases in which the Group acts as the lessor did not have a material impact on the 2019 consolidated income statement.

## Note 37 – Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The composition of this item of the consolidated income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Property, plant and equipment for own use and foreclosed | | (168,471) | (22,793) |
| Gains/losses on sales | | 742 | 49,506 |
| Impairment/Reversal | 13 | (169,213) | (72,299) |
| Investment properties | | 103 | (12,353) |
| Intangible assets | | - | 100 |
| Interests (*) | 2 | 132,741 | (194) |
| Other capital instruments | | - | - |
| Other items | | (41) | 39 |
| **Total** | | **(35,668)** | **(35,201)** |

(*) Refers to the profit obtained on the sale of Solvia Servicios Inmobiliarios, S.L.

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

The total provision for the impairment of non-current assets held for sale in 2019 y 2018 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 426,361 and 3,449,290 thousand euros as at the end of 2019 and 2018, respectively.

## Note 38 – Segment reporting

### Segmentation criteria

This section gives information regarding earnings and other indicators of the Group's business units.

This year, Banking Business Spain and the business of Other Geographies were reorganised. The Real Estate Asset Transformation business is integrated in Banking Business Spain thanks to the clean-up of real estate assets on the balance sheet. In addition, the foreign branches and representative offices also fall under the scope of Banking Business Spain within the perimeter of Corporate Banking, since their customers are mainly of Spanish origin.

For 2019, the criteria that Banco Sabadell Group uses to report on results for each segment are:

- Three geographies: Banking Business Spain, United Kingdom and Mexico.
- Each business unit is allocated capital equivalent to 11% of its risk-weighted assets (capital divided by RWAs) and the surplus of own funds is allocated to Banking Business Spain.

In terms of the other criteria applied, segment information is first structured with a breakdown by geography and then broken down based on the customers to which each segment is aimed.

### Segmentation by geography and business units

As regards the basis of presentation and approach used, information for each business unit is based on the individual accounting records of each Group company, after all consolidation disposals and adjustments have been made, and on analytical accounting of income and expenses where particular business lines are allocated to one or more legal entities, which allows income and expenses to be allocated to each customer in line with the business to which they are assigned.

Each business unit is treated as an independent business, therefore flows of income and expenses take place between businesses for the provision of services involving the distribution of products, services and systems. The final impact on the Group's income statement is nil.

Each business unit bears its own direct costs, on the basis of general and analytical accounting, as well as the indirect costs of corporate units.

Capital is allocated in such a way that each business is assigned capital equivalent to the minimum regulatory capital requirements for risk-weighted assets. This regulatory minimum requirement depends on the body responsible for supervising each business.

Details of profit attributable to the Group and other key figures for each business unit for the years 2019 y 2018, are shown in the table below, along with a reconciliation of the totals shown in the table with those shown in the consolidated Group accounts:

Million euro

| | 2019 (*) | | | |
|---|---|---|---|---|
| | Banking Business Spain | Banking Business UK | Banking Business Mexico | Total Group |
| **Net interest income** | **2,527** | **979** | **117** | **3,622** |
| Fees and commissions (net) | 1,304 | 117 | 19 | 1,439 |
| **Net banking revenues** | **3,830** | **1,095** | **136** | **5,061** |
| Net trading income and exchange differences | 110 | 15 | 1 | 126 |
| Equity-accounted affiliates and dividends | 61 | - | - | 61 |
| Other operating income/expense | (288) | (20) | (9) | (317) |
| **Gross income** | **3,714** | **1,091** | **127** | **4,932** |
| Operating expenses and depreciation and amortisation | (2,070) | (1,052) | (91) | (3,213) |
| **Pre-provisions income** | **1,644** | **39** | **36** | **1,719** |
| Provisions and impairments | (850) | (72) | (16) | (938) |
| Capital gains on asset sales and other revenue | 174 | (4) | 0 | 170 |
| **Profit/(loss) before tax** | **968** | **(38)** | **20** | **951** |
| Corporation tax | (165) | (8) | (2) | (174) |
| Profit or loss attributed to minority interests | 9 | - | - | 9 |
| **Profit attributable to the Group** | **794** | **(45)** | **19** | **768** |
| ROE (profit / average shareholders' equity) | 7.3% | - | 3.5% | 5.9% |
| Cost-to-income (general administrative expenses / gross income) | 47.% | 84.% | 62.9% | 55.6% |
| NPL ratio | 4.7% | 1.2% | 1.2% | 3.8% |
| NPL coverage ratio | 50.5% | 43.1% | 108.9% | 49.6% |
| Employees | 16,610 | 7,394 | 450 | 24,454 |
| Domestic and foreign branches | 1,847 | 540 | 15 | 2,402 |

(*) Exchange rates applied in the income statement: GBP 0.8782 (average), MXN 21.5648 (average), USD 1.1170 (average) and MAD 10.6881 (average).

Million euro

| | 2019 (*) | | | |
|---|---|---|---|---|
| | Banking Business Spain | Banking Business UK | Banking Business Mexico | Total Group |
| **Assets** | **172,610** | **46,449** | **4,695** | **223,754** |
| Outstanding gross loans and advances | 104,436 | 36,496 | 3,640 | 144,572 |
| Non-performing real estate assets (net) | 791 | - | - | 791 |
| **Liabilities** | **161,695** | **44,924** | **4,160** | **210,779** |
| On-balance sheet customer funds | 108,890 | 35,423 | 1,996 | 146,309 |
| Wholesale Funding Capital Markets | 19,912 | 2,423 | - | 22,335 |
| **Allocated capital** | **10,915** | **1,525** | **535** | **12,974** |
| **Off-balance sheet customer funds** | **43,163** | **-** | **-** | **43,163** |

(*) Exchange rates applied in the balance sheet: GBP 0.8508, MXN 21.2202, USD 1.1234 and MAD 10.7438.

Million euro

| | 2018 (*) | | | |
|---|---|---|---|---|
| | Banking Business Spain | Banking Business UK | Banking Business Mexico | Total Group |
| **Net interest income** | **2,585** | **1,000** | **91** | **3,675** |
| Fees and commissions (net) | 1,239 | 85 | 11 | 1,335 |
| **Net banking revenues** | **3,824** | **1,085** | **102** | **5,010** |
| Net trading income and exchange differences | 207 | 18 | 1 | 225 |
| Equity-accounted affiliates and dividends | 64 | - | 1 | 65 |
| Other operating income/expense | (224) | (60) | (6) | (290) |
| **Gross income** | **3,870** | **1,042** | **97** | **5,010** |
| Operating expenses and depreciation and amortisation | (2,049) | (1,148) | (76) | (3,273) |
| **Pre-provisions income** | **1,821** | **(106)** | **21** | **1,737** |
| Provisions and impairments | (1,066) | (231) | (23) | (1,320) |
| Capital gains on asset sales and other revenue | 1 | 1 | - | 2 |
| **Profit/(loss) before tax** | **757** | **(335)** | **(2)** | **419** |
| Corporation tax | (189) | 95 | 10 | (84) |
| Profit or loss attributed to minority interests | 7 | - | - | 7 |
| **Profit attributable to the Group** | **561** | **(240)** | **8** | **328** |
| ROE (profit / average shareholders' equity) | 5.2% | - | 1.9% | 2.6% |
| Cost-to-income (general administrative expenses / gross income) | 46.0% | 101.6% | 77.2% | 58.3% |
| NPL ratio | 5.2% | 1.3% | 0.4% | 4.2% |
| NPL coverage ratio | 53.9% | 50.4% | 284.5% | 54.1% |
| Employees | 17,373 | 8,353 | 455 | 26,181 |
| Domestic and foreign branches | 1,892 | 550 | 15 | 2,457 |

(*) Exchange rates used in the income statement: GBP 0.8851 (average), MXN 22.6901 (average), USD 1.1851 (average) and MAD 10.8753 (average)

Million euro

| | 2018 (*) | | | |
|---|---|---|---|---|
| | Banking Business Spain | Banking Business UK | Banking Business Mexico | Total Group |
| **Assets** | **172,246** | **46,182** | **3,894** | **222,322** |
| Outstanding gross loans and advances | 102,550 | 33,634 | 3,181 | 139,366 |
| Non-performing real estate assets (net) | 959 | - | - | 959 |
| **Liabilities** | **162,167** | **44,662** | **3,377** | **210,205** |
| On-balance sheet customer funds | 103,613 | 32,484 | 1,246 | 137,343 |
| Wholesale funding in the capital markets | 19,833 | 1,688 | - | 21,520 |
| **Allocated capital** | **10,080** | **1,520** | **517** | **12,117** |
| **Off-balance sheet customer funds** | **44,034** | - | - | **44,034** |

(*) Exchange rates used in the balance sheet: GBP 0.8945, MXN 22.4921, USD 1,145 and MAD 10,953

Average total assets for the institution as a whole as at 31 December 2019 amounted to 223,470,000 thousand euros, compared with 217,168,348 thousand euros on the same date in the preceding year.

The types of products and services from which ordinary income is derived are described below for each business unit:

- **Banking Business Spain**, which includes the following customer-centric business units:

  - Commercial Banking offers both investment and savings products. In terms of investment, the sale of mortgage products, working capital and revolving credit is particularly noteworthy. In terms of savings, the main products are deposits (demand deposits and term deposits), mutual funds, savings insurance and pension plans. Protection insurance products and payment services are also noteworthy, such as credit cards and the issues of transfers, amongst others. Private Banking offers value-added products and services for customers.

  - Corporate Banking offers specialised lending services together with a comprehensive offering of solutions ranging from transaction banking services to more complex and tailored solutions relating to the fields of financing and treasury, such as import and export activities, amongst others.

  - Asset Transformation comprehensively manages NPA risk and real estate exposures. It focuses on developing its asset transformation strategy and integrating the general overview of the Group's real estate balance sheet in order to maximise its value.

- **Banking Business United Kingdom:**

The TSB franchise includes business conducted in the United Kingdom, which includes current and savings accounts, loans, credit cards and mortgages.

- **Banking Business Mexico:**

Offers Corporate Banking and Commercial Banking financial services.

Details of income from ordinary activities, mainly for customers, and the pre-tax profit/(loss) generated by each business unit, are set out here below for 2019 and 2018:

Thousand euro

| | Consolidated | | | |
|---|---|---|---|---|
| | Income from ordinary activities | | Profit/(loss) before tax | |
| SEGMENTS | 2019 | 2018 | 2019 | 2018 |
| Banking Business Spain | 4,265,557 | 4,100,770 | 968,225 | 756,534 |
| Banking Business UK | 1,258,042 | 1,291,223 | (37,561) | (335,266) |
| Banking Business Mexico | 287,470 | 243,066 | 20,413 | (2,404) |
| (-) Adjustments and disposals of ordinary income between segments | (68,576) | (98,804) | - | - |
| **Total** | **5,742,493** | **5,536,255** | **951,077** | **418,864** |

The table below shows the balance of net interest income and net fees and commissions income generated by each business unit as a percentage of the total for 2019 and 2018:

%

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Breakdown net interest income and net fees and commissions | | | | |
| | Customer loans | | Customer deposits | | Income from services (*) |
| | % of average balance | % of total yield | % of average balance | % of total cost | % of total balance |
| SEGMENTS | | | | | |
| Banking Business Spain | 72.2% | 65.9% | 74.4% | 30.9% | 89.7% |
| Banking Business UK | 25.2% | 27.3% | 24.2% | 35.2% | 9.3% |
| Banking Business Mexico | 2.6% | 6.8% | 1.4% | 33.9% | 1.0% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

(*) Percentage by segment of total fees and commissions.

%

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Breakdown net interest income and net fees and commissions | | | | |
| | Customer loans | | Customer deposits | | Income from services (*) |
| | % of average balance | % of total yield | % of average balance | % of total cost | % of total balance |
| SEGMENTS | | | | | |
| Banking Business Spain | 74.0% | 66.5% | 75.4% | 37.6% | 89.3% |
| Banking Business UK | 23.8% | 28.0% | 23.7% | 46.5% | 10.0% |
| Banking Business Mexico | 2.2% | 5.5% | 0.9% | 15.9% | 0.7% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

(*) Percentage by segment of total fees and commissions.

Furthermore, a breakdown by geography of the *Interest income* heading of the 2019 and 2018 income statements is shown below:

Thousand euro

| | Breakdown of interest income by geography | | | |
|---|---|---|---|---|
| Geography | Individual | | Consolidated | |
| | 2019 | 2018 | 2019 | 2018 |
| Domestic market | 3,142,780 | 3,168,683 | 3,133,184 | 3,138,138 |
| International market | 308,251 | 256,764 | 1,851,707 | 1,723,805 |
| European Union | 90,556 | 73,096 | 1,288,626 | 1,281,538 |
| Euro zone | 32,735 | 22,420 | 32,735 | 22,420 |
| Non Euro zone | 57,821 | 50,676 | 1,255,891 | 1,259,118 |
| Other | 217,695 | 183,668 | 563,081 | 442,267 |
| **Total** | **3,451,031** | **3,425,447** | **4,984,891** | **4,861,943** |

The Directors' Report (see section 4 therein) gives a more detailed assessment of each of these business units.

## Note 39 – 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 companies in which Banco de Sabadell, S.A. holds an interest that meet the requirements of the Spanish Corporation Tax Law (see Schedule I).

The remaining Spanish companies in the accounting group pay corporation tax on an individual basis.

Companies in the accounting group that are not tax residents in Spain are taxed in accordance with the tax regulations applicable to them.

## Reconciliation

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

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Profit/(loss) before tax | 951,077 | 418,865 |
| Increases in taxable income | 779,695 | 982,757 |
| From profits | 779,695 | 982,757 |
| From equity | - | - |
| Decreases in taxable income | (1,485,555) | (1,927,772) |
| From profits | (1,412,305) | (1,286,215) |
| From equity | (73,250) | (641,557) |
| **Taxable income** | **245,217** | **(526,150)** |
| **Tax payable (30%)** | **73,565** | **(157,845)** |
| Deductions for double taxation, training and other | (11,476) | (4,292) |
| **Tax payable (less tax credits)** | **62,089** | **(162,137)** |
| Due to timing differences (net) | 121,570 | 247,407 |
| Other adjustments (net) | (9,460) | (1,635) |
| **Tax expense or (-) income related to profit or loss from continuing operations** | **174,199** | **83,635** |

The reconciliation between the Group's corporation tax expense calculated by applying the general tax rate and the expense recognised for this corporation tax in the consolidated income statements is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Profit or loss before tax | 951,076 | 418,865 |
| Domestic tax rate (30%) | 285,323 | 125,660 |
| Tax-exempt profit or loss on sales of equity interests | (42,853) | (3,741) |
| Remuneration of preference shares (*) | (21,975) | - |
| Income from associates | (16,928) | (16,966) |
| Difference in effective tax rate on companies outside Spain (**) | (5,540) | (15,273) |
| Generated deductions/Non-deductible expenses | (14,368) | (4,410) |
| Rest | (9,460) | (1,634) |
| **Tax expense or (-) income related to profit or loss from continuing operations** | **174,199** | **83,636** |
| *Effective tax rate* | *18.32%* | *19.97%* |

(*) See Note 1.2

(**) Calculated applying the difference between the current tax rate for the Group in Spain (30%) and the effective tax rate applied to the Group's profit/(loss) in each jurisdiction.

## 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

| | 2019 | 2018 |
|---|---|---|
| Permanent difference | 14,417 | - |
| Temporary difference arising during the year | 708,842 | 913,561 |
| Temporary difference arising in previous years | 56,436 | 69,196 |
| **Increases** | **779,695** | **982,757** |
| Permanent difference | (315,044) | (120,326) |
| Temporary difference arising during the year | (115,929) | (563,449) |
| Temporary difference arising in previous years | (1,054,582) | (1,243,997) |
| **Decreases** | **(1,485,555)** | **(1,927,772)** |

## 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 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. To retain the State guarantee, in order to keep their status as monetisable tax assets, deferred tax assets generated before January 1, 2016 (see note 32) are subject to an annual capital contribution of 1.5% of the deferred tax assets that comply with the legal requirements.

The sources of the deferred tax assets / liabilities recognised in the consolidated balance sheets as at 31 December 2019 and 2018 are as follows:

Thousand euro

| **Deferred tax assets** | **2019** | **2018** |
|---|---|---|
| **Monetisable** | **5,127,453** | **5,185,285** |
| Due to credit impairment | 3,356,167 | 3,491,405 |
| Due to real estate asset impairment | 1,643,538 | 1,569,466 |
| Due to pension funds | 127,748 | 124,414 |
| **Non-monetisable** | **979,288** | **1,025,949** |
| **Tax credits for losses carried forward** | **394,422** | **317,932** |
| **Deductions not applied** | **14,769** | **17,967** |
| **Total** | **6,515,932** | **6,547,133** |

| **Deferred tax liabilities** | **2019** | **2018** |
|---|---|---|
| Property restatements | 62,576 | 65,449 |
| Adjustments to value of wholesale debt issuances arising in business combinations | 29,336 | 43,394 |
| Other financial asset value adjustments | 53,802 | 40,714 |
| Other | 52,452 | 17,673 |
| **Total** | **198,166** | **167,230** |

The breakdown by country of deferred tax assets and liabilities is as follows:

Thousand euro

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Country** | **Deferred tax assets** | **Deferred tax liabilities** | **Deferred tax assets** | **Deferred tax liabilities** |
| Spain | 6,341,527 | 183,745 | 6,387,014 | 158,865 |
| United Kingdom | 116,754 | 14,334 | 123,433 | 8,365 |
| US | 7,780 | 12 | 59 | - |
| Mexico | 41,674 | - | 36,238 | - |
| Other | 8,197 | 75 | 389 | - |
| **Total** | **6,515,932** | **198,166** | **6,547,133** | **167,230** |

As indicated in Note 1.3.20, according to the information available as at year-end, and the projections taken from the Group's business plan for the coming years, the Group estimates that it will be able to generate sufficient taxable income to offset tax loss carry-forwards and non-monetisable tax assets when these can be deducted on the basis of current tax regulations, and that it will be able to generate this within a maximum of 9 years.

Monetisable tax assets are guaranteed by the State, therefore their recoverability does not depend on the generation of future tax benefits.

The Group has no material deferred tax assets that have not been recognised in the balance sheet.

## Years subject to tax inspections

In July 2016, the Spanish Tax Authority notified Banco de Sabadell, S.A. of the beginning of verification and investigation activities relating to the items and periods broken down below, having signed the relevant assessments containing the tax adjustment proposals on 9 January 2019:

| **Tax** | **Period** | **Assessment status** |
|---|---|---|
| Tax withholdings/prepayments from wages and professional | 07/2012 a 12/2014 | Accepted |
| Tax withholdings/prepayments from income from movable | 07/2012 a 12/2014 | Accepted |
| Income tax | 01/2011 a 12/2014 | Disputed |
| Value added tax | 07/2012 a 12/2014 | Disputed and Accepted |

The current situation concerning the corresponding procedures are summarised below:

- The procedures related to withholdings and payments on account are complete following final settlement of the notices of tax assessment approval within the one-month legal period established for that purpose. The total adjustment amount was 385 thousand euros, including the corresponding late payment interest.

- With regard to the procedures related to Corporation Tax, on 5 March 2019 a notice of settlement agreement was issued in which the the arguments raised against the signed notice of disputed tax assessment were fully addressed. The amount to be repaid pursuant to this agreement was 2,772 thousand euros, including the corresponding late payment interest.

- With regard to the procedures related to Value Added Tax (07/2012 to 12/2014), the signed notice of tax assessment approval was settled in full and final settlement within the one-month legal period established for that purpose, bringing the total adjusted amount to 4,823 thousand euros (including the corresponding late payment interest). In relation to the signed notice of disputed tax assessment, which contained an adjustment for 6,938 thousand euros in relation to various sectoral matters, a Tax Appeal was filed with the Central Tax Appeal Board (Tribunal económico-administrativo Central) on 25 March 2019, having submitted the corresponding arguments on 15 October 2019; as of 31 December 2019, the aforesaid body had not yet issued a decision in that regard.

The review of all taxes not verified and not legally required in accordance with tax regulations is still pending for other Group entities which are not taxed within the consolidated tax group in Spain.

The main tax litigations in progress as at the end of the year are listed below:

- Appeal for judicial review before the Spanish National Court in relation to the rebuttal of the settlement of the disputed tax assessment for the VAT between 2008-2010 of Banco Sabadell S.A. for an amount of tax due of 1,792 thousand euros.

- Appeal against decision of the regional tax appeal board of Catalonia (Tribunal Económico-Administrativo Regional de Cataluña) filed by BanSabadell Renting, S.L. against the disputed tax assessment regarding VAT for 2014-2015 for an amount due of 3,496 thousand euros.

- Appeals against the decision of the regional tax appeal board of Murcia (Tribunal Económico-Administrativo Regional de Murcia) filed by Sabadell Real Estate Development, S.L. relating to property transfer tax (impuesto de transferencia de propiedades) and stamp duty (actos jurídicos documentados) for an amount of tax due of 3,635 thousand euros.

The Group 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 Group 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 consolidated annual financial statements.

## Note 40 – Related party transactions

There are no transactions with the company's administrators or directors that could be considered significant. Those that did take place were in the normal course of the company's business or were conducted at market prices or under the terms normally applicable to employees.

The Bank is not aware of any transactions carried out at non-market prices with any persons or entities related to the Bank's administrators or Senior Management staff.

The most significant balances recognised in dealings with related parties, and the effect on the income statement of related party transactions, are shown below:

Thousand euro

| | 2019 | | | | | 2018 |
|---|---|---|---|---|---|---|
| | Joint control or signif. influence (in B.Sab) | Associates | Key personnel | Other related parties (*) | TOTAL | TOTAL |
| **Assets:** | | | | | | |
| Customer lending and other financial assets | - | 295,686 | 8,170 | 115,038 | **418,894** | **305,272** |
| **Liabilities:** | | | | | | |
| Customer deposits and other financial liabilities | - | 422,284 | 9,824 | 53,505 | **485,613** | **664,968** |
| **Off-balance sheet exposures:** | | | | | | |
| Financial guarantees provided | - | 494 | - | 941 | **1,435** | **24,226** |
| Loan commitments given | - | 1,105 | 753 | 23,236 | **25,094** | **11,254** |
| Other commitments provided | - | 8,368 | - | 880 | **9,248** | **23,634** |
| **Income statement:** | | | | | | |
| Interest and similar income | - | 5,772 | 83 | 1,383 | **7,238** | **3,342** |
| Interest and similar charges | - | (1,992) | (12) | (6) | **(2,010)** | **(4,257)** |
| Return on capital instruments | - | - | - | - | **-** | **-** |
| Fees and commissions (net) | - | 137,340 | 28 | 456 | **137,824** | **123,409** |
| Other operating income | - | 39,679 | 1 | 39 | **39,719** | **7,229** |

(*) Includes employee pension schemes.

## Note 41 – 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 2019 and 2018, 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 | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| José Oliu Creus (*) | 234 | 234 | 35 | 35 | 269 | 269 |
| José Javier Echenique Landiribar | 205 | 205 | - | - | 205 | 205 |
| Jaime Guardiola Romojaro (*) | 100 | 100 | - | - | 100 | 100 |
| Anthony Frank Elliott Ball (1) | 141 | 127 | - | - | 141 | 127 |
| Aurora Catá Sala | 160 | 160 | - | - | 160 | 160 |
| Pedro Fontana García | 195 | 127 | - | - | 195 | 127 |
| María José García Beato (*) (2) | 100 | 34 | - | - | 100 | 34 |
| Maria Teresa Garcia-Milà Lloveras | 161 | 192 | - | - | 161 | 192 |
| George Donald Johnston | 186 | 137 | - | - | 186 | 137 |
| José Manuel Lara García (3) | - | 47 | - | - | - | 47 |
| David Martínez Guzmán | 100 | 100 | - | - | 100 | 100 |
| José Manuel Martínez Martínez | 185 | 180 | - | - | 185 | 180 |
| José Ramón Martínez Sufrategui | 129 | 120 | - | - | 129 | 120 |
| José Luis Negro Rodríguez (*) | 100 | 100 | 18 | 18 | 118 | 118 |
| Manuel Valls Morató | 160 | 160 | - | - | 160 | 160 |
| David Vegara Figueras (*) (4) | 106 | 170 | - | - | 106 | 170 |
| **Total** | **2,262** | **2,193** | **53** | **53** | **2,315** | **2,246** |

(*) Perform executive functions.

(1) On 28 March 2019, he was appointed Lead Independent Director, succeeding Maria Teresa Garcia-Milà Lloveras.

(2) On 24 May 2018, the Board of Directors agreed to this appointment as a member of the Board of Directors, as an executive director, and the position was accepted on 17 September 2018.

(3) Submitted their withdrawal from the position of Director, effective on 24 May 2018.

(4) Executive director since 15 February 2019.

Aside from the items mentioned above, members of the Board of Directors have received 31 thousand euros as fixed remuneration in 2019 (46 thousand euros in 2018) by reason of their membership of boards of directors of Banco Sabadell Group companies or to advisory boards (these amounts are included in the annual report on directors' remuneration).

Contributions for life insurance premiums covering pension commitments in respect of pension rights accruing in 2019 amounted to 1,740 thousand euros (1,516 thousand euros in 2018), of which 53 thousand euros are detailed in the table above and 1,687 thousand euros correspond to directors for the discharge of their executive duties.

Remuneration earned by Directors for discharging their executive duties during 2019 amounted to 7,382 thousand euros (4,224 thousand euros in 2018).

Total risk transactions granted by the Bank and consolidated companies to directors of the parent company amounted to 2,284 thousand euros as at 31 December 2019, of which 2,067 thousand euros corresponded to loans and receivables and 217 thousand euros related to loan commitments given (7,722 thousand euros in 2018, consisting of 2,607 thousand euros in loans and receivables and 5,115 thousand euros in loan commitments given). The average interest rate charged was 1.38% (1.16% in 2018). Liabilities amounted to 8,839 thousand euros as at 31 December 2019 (7,609 thousand euros as at 31 December 2018).

Total Senior Management remuneration earned during 2019 amounted to 7,022 thousand euros. Pursuant to applicable regulations, this amount includes the remuneration of the Senior Management members plus the Internal Audit Officer.

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 6,556 thousand euros as at 31 December 2019 (10,028 thousand euros in 2018), comprising 6,020 thousand euros in loans and receivables and 536 thousand euros related to loan commitments given (and in 2018, 7,917 thousand euros relate to loans and receivables and 2,111 thousand euros to loan commitments given). Liabilities amounted to 985 thousand euros as at 31 December 2019 (987 thousand euros as at 31 December 2018).

In addition, stock appreciation rights granted under incentive schemes and the long-term remuneration scheme to members of Senior Management, including Executive Directors (see Note 33) in 2019, gave rise to staff expenses amounting to 2.0 million euros (2.0 million euros in 2018).

Details of existing agreements between the company and members of the Board and management staff with regard to severance pay are set out in the Group's annual Report on Corporate Governance, which forms part of the Directors' Report.

The directors and management staff mentioned above are specified below, indicating the positions they hold in the Bank as at 31 December 2019:

| | |
|---|---|
| **Executive Directors** | |
| José Oliu Creus | Chair |
| Jaime Guardiola Romojaro | Sabadell Group CEO |
| María José García Beato | Director Secretary General |
| José Luis Negro Rodríguez | Director-General Manager |
| David Vegara Figueras | Director-General Manager |
| **Senior Management** | |
| Tomás Varela Muiña | General Manager |
| Miquel Montes Güell | General Manager |
| Carlos Ventura Santamans | General Manager |
| Rafael García Nauffal | Deputy General Manager |
| Ramón de la Riva Reina | Deputy General Manager |
| Enric Rovira Masachs | Deputy General Manager |
| Manuel Tresànchez Montaner | Deputy General Manager |
| José Nieto de la Cierva | Deputy General Manager |
| Jaime Matas Vallverdú | Deputy General Manager |

### Other information relating to the Board

Pursuant to Article 229 of the Capital Companies Act, in accordance with the wording set out in Law 31/2014 of 3 December, amending the Spanish Capital Companies Act in order to improve corporate governance, and in order to strengthen transparency in public limited companies, the directors have notified the company that, during 2019, they or persons related to them, as defined in Article 231 of the Spanish Capital Companies Act:

a. Have not carried out transactions with the company, without taking into account usual operations, performed under standard conditions for customers and whose significance is immaterial, understanding such operations to be those that do not need to be reported to give a true and fair view of the company's equity, financial situation and income.

b. Have not used the name of the company or their position as administrator to unduly influence the performance of personal transactions.

c. Have not made use of corporate assets, including the company's confidential information, for personal purposes.

d. Have not taken undue advantage of the company's business opportunities.

e. Have not obtained advantages or remuneration from third parties other than the company or group in connection with the discharge of their duties, with the exception of acts of mere courtesy.

f. Have not carried out activities on their own behalf or on behalf of a third party that involve competition with the company, whether on an isolated or potential basis, or that might otherwise place them in permanent conflict with the company's interests.

The Bank has entered into a liability insurance policy for 2019 that covers the bank's administrators and Senior Management staff. The total premium paid was 752 thousand euros (722 thousand euros in 2018).

## Note 42 – Other information

### Transactions with significant shareholders

No major transactions with significant shareholders have been carried out during 2019 and 2018.

### Information relating to the environment

All operations of the Group as a whole are subject to legal requirements on environmental protection and health and safety in the workplace. The Group considers that it substantially complies with these laws and it has procedures in place which have been designed to foster and guarantee such compliance.

The Group has adopted the corresponding measures relating to the protection and improvement of the environment and the minimisation of any environmental impacts of its activities, complying with the regulations in force in this regard. During 2019, the Group has continued to implement a number of Group-wide waste treatment, consumables recycling and energy saving schemes. It has not considered it necessary to recognise any provision for risks or expenses relating to the environment, as there are no contingencies related to the protection and improvement of the environment.

For further details on the policies and activities adopted by the bank relating to the environment, see the non-financial disclosures report, which is included as part of the consolidated Directors' Report.

## Customer Care Service (SAC)

The Customer Care Service (hereinafter, the SAC) and its head, who is appointed by the Board of Directors, report directly to the Secretary General. Its main function is to handle and resolve complaints and claims brought forward by customers and users of the financial services of Banco de Sabadell, S.A., when these relate to their interests and legally recognised rights arising from contracts, transparency and customer protection regulations or good 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. y Sabadell Consumer Finance, S.A.U.

In addition to its main activity, which is to resolve complaints and claims, the SAC also provides assistance and information to customers and users on matters that do not take the form of complaints or claims, in accordance with Ministry of Economy Order 734/2004 of 11 March, and the Regulations for the Protection of Customers and Users of Financial Services of Banco Sabadell.

In 2019 a total of 34,789 complaints, claims and requests were received, 26.51% less than in 2018, of which 2,035 were complaints (5.85%), 31,662 were claims (91.01%) and 1,092 were requests (3.14%), in addition to a further 1,665 cases that were pending as at 31 December 2018.

Of this overall total, 35,677 were managed in 2019, of which a total of 27,315 were processed and resolved, 8,362 were rejected and 777 were pending as at 31 December 2019.

### Complaints and claims processed by the SAC at first instance

During 2019, the SAC received 31,794 complaints and claims, of which 25,021 were accepted for processing and resolved, in accordance with the provisions of Finance Ministry Order 734/2004 of 11 March. Of the 1,092 requests received, all were handled at first instance and 891 were accepted for processing and resolved.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 14,266 (57.02%) were resolved in the customer's favour and 10,755 (42.98%) in the institution's favour.

Of the total number of complaints and claims accepted for processing and resolved, 10,878 (43.48%) were processed within a period of 15 working days, 13,129 (52.47%) within a period of less than 1 month and 1,014 (4.05%) within a period in excess of 1 month. All were within the 2-month turnaround specified as the maximum response period Finance Ministry Order 734/2004, of 11 March.

To address the provisions of Royal Decree-Law 19/2018, of 23 November, on payment services and urgent measures on financial matters, which entered into force on 24 February 2019, the period for resolution of claims of this kind related to payment services was reduced from 2 months to 15 working days.

### Complaints and claims managed by the Customer and Stakeholder Ombudsman

At Banco Sabadell, the role of Customer Ombudsman is assumed by Mr José Luís Gómez-Dégano y Ceballos-Zúniga. The Ombudsman is responsible for resolving the complaints brought forward by the customers and users of Banco de Sabadell, S.A., and of the other aforementioned entities associated with it, both at first and second instance, and for resolving issues that are passed on by the SAC.

In 2019, the Customer Ombudsman received a total of 1,441 complaints and claims, 5.38% fewer than in 2018, of which 941 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 28 (2.98%) cases, and in favour of the institution in 251 (26.67%) cases. Furthermore, the SAC agreed to the claimant's request in 494 (52.50%) cases and in 1 (0.11%) single case the customer withdrew his/her claim. The other 167 complaints and claims (17.74%), remained pending final resolution by the Ombudsman, following dispatch of arguments by the SAC.

**Complaints and claims managed by the Bank of Spain, the Spanish National Securities Market Commission (CNMV) and the Directorate General for Insurance and Pension Plans**

Under current legislation, customers or users who are dissatisfied with the response received from the SAC or from the Customer Ombudsman may submit their claims and complaints to the Market Conduct and Complaints Department of the Bank of Spain, to the CNMV or to the Directorate General for Insurance and Pension Plans, subject to the essential prerequisite of having previously addressed their complaint or claim to the institution.

In 2019, the SAC received a total of 462 claims referred by the Bank of Spain, the CNMV or the Directorate General for Insurance and Pension Plans, 41% fewer than in 2018. During the year 462 claims were accepted for processing and resolved.

## Note 43 – Subsequent events

Since 31 December 2019, there have been no significant events worthy of mention, with the exception of those indicated here below:

On 21 January 2020, Banco Sabadell and Amundi Asset Management (Amundi) entered into a long-term strategic partnership for the distribution of Amundi products through Banco Sabadell's commercial network in Spain. The agreement includes the sale of 100% of the share capital of Sabadell Asset Management, S.A., S.G.I.I.C, Sociedad Unipersonal (SabAM) for 430 million euros. The agreement makes provision for an additional amount of up to 30 million euros payable in 2024 in respect of assets under management pertaining to customers of Banco Sabadell at that time.

As at 2019 year-end, the scope of SabAM's assets under management was approximately 21,800 million euros, excluding third-party funds, and it obtained net profit of 34 million euros (derived from, among other items, 65 million euros of net fees and commissions and 17 million euros of operating and staff expenses). The transfer of SabAM includes its subsidiary, Sabadell Asset Management Luxembourg, S.A., but excludes Sabadell Urquijo Gestión, S.A., S.G.I.I.C. Sociedad Unipersonal, which continues to belong to Banco Sabadell Group.

The closing of the transaction, which is subject to obtaining the relevant authorisations, is expected to take place in the third quarter of 2020. The transaction will generate a capital gain of approximately 351 million euros, net of tax, which will strengthen the capital position of Banco Sabadell by adding 43 basis points to its fully-loaded Common Equity Tier 1 (CET1) ratio.

Of the aforesaid capital gain, 58 million euros (corresponding to 7 basis points of fully-loaded CET1) are subject to certain guarantees in force throughout the 10-year duration of the distribution agreement and, as such, that amount will be recognised proportionately over the next 10 years. The remaining 293 million euros will be recognised upon closing of the transaction.

The strategic partnership entered into between Banco Sabadell and Amundi will enable customers of Banco Sabadell to access new investment opportunities and a more extensive and internationally recognised range of products, thereby building out the current offering of savings and investment products, without involving any change to the institution's existing mutual funds and pension plans. This agreement strengthens Banco Sabadell's commitment to continue leading the customer satisfaction and customer experience rankings, one of Banco Sabadell's commercial priorities for 2020.

## Schedule I – Banco Sabadell Group companies

### Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding Direct | % Shareholding Indirect | Consolidated taxation | Company data (a) Capital | Company data (a) Other equity | Company data (a) Profit/(loss) (b) | Company data (a) Dividends paid (c) | Company data (a) Total assets | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Arrendamiento De Bienes Inmobiliarios Del Mediterráneo, S.L. | Real estate | Alicante - Spain | 100.00 | - | Yes | 100 | 10,237 | (21) | - | 10,341 | 20,038 | (9,644) | 326 | 12/19 |
| Assegurances Segur Vida, S.A.U. | Other regulated companies | Andorra la Vella - Andorra | - | 50.97 | No | 602 | 419 | 215 | - | 45,786 | 602 | 214 | 110 | 12/19 |
| Aurica Capital Desarrollo, S.G.E.I.C., S.A.Unipersonal | UCITS management company | Barcelona - Spain | 100.00 | - | Yes | 3,601 | (435) | 1,169 | 3,450 | 5,158 | 4,342 | (226) | 1,169 | 12/19 |
| Aurica Coinvestments S.L. | Holding | Barcelona - Spain | - | 61.76 | Yes | 50,594 | (1,475) | 1,910 | 2,083 | 51,032 | 31,247 | (911) | (3,112) | 12/19 |
| Banco Atlantico (Bahamas) Bank & Trust Ltd. | Credit institution | Nassau - Bahamas | 99.99 | 0.01 | No | 1,598 | 849 | (39) | - | 3,134 | 2,439 | (243) | (54) | 09/19 |
| Banco de Sabadell, S.A. | Credit institution | Alicante - Spain | - | - | Yes | 703,371 | 9,559,869 | 1,053,267 | - | 178,398,801 | - | 11,239,253 | 701,793 | 12/19 |
| Banco Sabadell, S.A., Institución De Banca Múltiple | Credit institution | Mexico DF - Mexico | 99.99 | 0.01 | No | 554,267 | (22,998) | 9,744 | - | 3,718,149 | 598,718 | (45,015) | (3,431) | 12/19 |
| Bancsabadell d'Andorra, S.A. | Credit institution | Andorra la Vella - Andorra | 50.97 | - | No | 30,069 | 49,929 | 10,092 | 1,594 | 863,158 | 15,326 | 24,997 | 5,242 | 12/19 |
| Bansabadell Factura, S.L.U. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 100 | (1,264) | 605 | - | 2,229 | 299 | (1,462) | 605 | 12/19 |
| Bansabadell Financiación, E.F.C., S.A. | Credit institution | Sabadell - Spain | 100.00 | - | Yes | 24,040 | 4,895 | 337 | 24,300 | 781,267 | 24,040 | 4,895 | 337 | 12/19 |
| Bansabadell Inversió Desenvolupament, S.A.U | SPE | Barcelona - Spain | 100.00 | - | Yes | 16,975 | 73,457 | 26,585 | 53,000 | 161,805 | 108,828 | 41,004 | 4,412 | 12/19 |
| Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del Grupo Banco Sabadell, S.A. | Other regulated companies | Alicante - Spain | - | 100.00 | Yes | 301 | (3,940) | 6,748 | 8,306 | 48,472 | 524 | (164) | 6,748 | 12/19 |
| Bansabadell Renting, S.L.U. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 2,000 | (5,214) | 7,181 | 57,500 | 693,670 | 3,861 | (7,075) | 7,803 | 12/19 |
| Bitarte, S.A. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 6,506 | 1,464 | (440) | - | 34,660 | 9,272 | (1,187) | (465) | 12/19 |
| Bstartup 10, S.L.U. | SPE | Barcelona - Spain | - | 100.00 | Yes | 1,000 | 702 | 1,268 | - | 7,102 | 1,000 | (1,395) | (289) | 12/19 |
| Business Services For Operational Support, S.A.U. | Services | Sant Cugat del Valles - Spain | 80.00 | - | Yes | 530 | (2,647) | 3,194 | 2,720 | 31,350 | 1,160 | (2,357) | 2,754 | 12/19 |
| Caminsa Urbanismo, S.A.U. | Real estate | Alicante - Spain | - | 100.00 | Yes | 2,000 | (1,712) | (3) | - | 1,304 | 800 | (417) | (4) | 12/19 |
| Compañía De Cogeneración Del Caribe Dominicana, S.A. | Services | Santo Domingo - Dominican Republic | - | 100.00 | No | 5,016 | (4,272) | (330) | - | 431 | - | 18 | (330) | 12/19 |
| Desarrollos Y Participaciones Inmobiliarias 2006, S.L.U. | Real estate | Elche - Spain | - | 100.00 | No | 1,942 | (90,851) | (215) | - | 9 | 1,919 | (79,142) | (215) | 12/19 |
| Duncan 2016 -1 Holdings Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | - | - | 12/19 |
| Duncan de Inversiones SICAV, S.A. | UCITS, funds and similar financial corporations | Sant Cugat del Valles - Spain | 87.35 | - | No | 7,842 | (5,148) | (47) | - | 2,652 | 2,560 | (208) | (41) | 12/19 |
| Duncan Holdings 2015-1 Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | 21 | - | 12/19 |
| Duncan Holdings 2020-1-Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | - | - | - | 12/19 |
| Ederra, S.A. | Real estate | San Sebastián - Spain | 97.85 | - | No | 2,036 | 31,253 | 2,826 | - | 35,198 | 36,062 | (3,240) | 2,508 | 12/19 |
| Sabadell Asset Management Luxembourg, S.A. | Other regulated companies | Luxembourg - Luxembourg | - | 100.00 | No | 125 | 649 | (191) | - | 907 | 437 | 438 | (191) | 12/19 |
| Europea Pall Mall Ltd. | Real estate | London - United Kingdom | 100.00 | - | No | 20,843 | (1,013) | (314) | - | 22,254 | 20,843 | (3,305) | (377) | 12/19 |
| Fonomed Gestión Telefónica Mediterráneo, S.A.U. | Other investees with their own business | Alicante - Spain | 100.00 | - | Yes | 1,232 | 630 | 909 | 2,201 | 5,990 | 2,771 | (632) | 1,186 | 12/19 |
| **Subtotal** | | | | | | | | | **155,154** | | **887,090** | **11,154,217** | **726,484** | |

## Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding Direct | % Shareholding Indirect | Consolidated taxation | Company data (a) Capital | Company data (a) Other equity | Company data (a) Profit/(loss) (b) | Company data (a) Dividends paid (c) | Company data (a) Total assets | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fuerza Eólica de San Matias, S de RL de CV | Wind power generation | Nuevo León - Mexico | - | 99.99 | No | 7,115 | (7,089) | (3,429) | - | 60,684 | 6,036 | - | (2,792) | 12/19 |
| Galeban 21 Comercial, S.L.U. | SPE | A Coruña - Spain | 100.00 | - | Yes | 10,000 | (4,289) | (2) | - | 5,709 | 14,477 | (8,766) | (2) | 12/19 |
| Gate Huerta Solar 44, S.L | Other power generation | Vitoria-Gasteiz - Spain | - | 100.00 | No | 87 | 165 | 19 | - | 694 | 205 | - | 83 | 11/19 |
| Gazteluberri, S.L. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 53 | (20,442) | (230) | - | 5,735 | 23,891 | (44,280) | (228) | 12/19 |
| Gest 21 Inmobiliaria, S.L.U | SPE | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 7,810 | 17 | 591 | - | 8,430 | 80,516 | (35,626) | 2,706 | 12/19 |
| Gestión de Proyectos Urbanísticos Del Mediterráneo, S.L. en liquidación | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | No | 33,850 | (31,448) | (13) | - | 10,341 | 32,832 | (17,588) | (13) | 12/19 |
| Gestión Financiera del Mediterráneo, S.A.U. | SPE | Alicante - Spain | 100.00 | - | Yes | 13,000 | 2,604 | 13,715 | - | 29,343 | 78,971 | (58,961) | 5,305 | 12/19 |
| Grecoholdco, S.A.U. | Holding company | Madrid - Spain | 100.00 | - | Yes | 60 | - | - | - | 60 | 60 | - | - | 12/19 |
| Grecopropco 1, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 2, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 3, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 4, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 5, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 6, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 7, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 8, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 9, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 10, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 11, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 12, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 13, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 14, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 15, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Guipuzcoano Promoción Empresarial, S.L. | SPE | San Sebastián - Spain | - | 100.00 | No | 53 | (76,040) | (288) | - | 7,127 | 7,160 | (78,008) | (278) | 12/19 |
| Guipuzcoano Valores, S.A. | Real estate | Sant Cugat del Valles - Spain | 99.99 | 0.01 | Yes | 4,514 | 2,946 | (6) | - | 7,518 | 10,833 | (3,376) | 12 | 12/19 |
| Hotel Management 6 Holdco, S.L.U. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 29,074 | (29,204) | 4,034 | - | 60,569 | 27,611 | (17,984) | 977 | 12/19 |
| Hobalear, S.A.U. | Real estate | Barcelona - Spain | - | 100.00 | Yes | 60 | 46 | 5 | 650 | 111 | 414 | 46 | 5 | 12/19 |
| Hondarriberri, S.L. | SPE | San Sebastián - Spain | 99.99 | 0.01 | No | 41 | (11,553) | (1,748) | - | 64,709 | 120,669 | 122,491 | 225 | 12/19 |
| Hotel Management 6 Gestión Activa, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 135,730 | 31,977 | (1,081) | - | 166,756 | 136,335 | 54,847 | 3,319 | 12/19 |
| Hotel Value Added Primera, S.L.U. | Real estate development | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 3 | 20,823 | 3,555 | - | 25,810 | 27,527 | (6,701) | 3,540 | 12/19 |
| Interstate Property Holdings, Llc. | SPE | Miami - United States | 100.00 | - | No | 7,293 | (2,938) | 64 | - | 6,364 | 3,804 | 6,289 | 64 | 12/19 |
| Inverán Gestión, S.L. | Real estate | Sant Cugat del Valles - Spain | 44.83 | 55.17 | Yes | 90 | (11,894) | (162) | - | 22,670 | 45,090 | (56,894) | (168) | 12/19 |
| Inversiones Cotizadas del Mediterráneo, S.L. | SPE | Alicante - Spain | 100.00 | - | Yes | 308,000 | 194,349 | 1,719 | - | 505,243 | 589,523 | (88,586) | 1,719 | 12/19 |
| Inversiones en Resorts Mediterráneos, S.L. en liquidación | Real estate | Torre Pacheco - Murcia | - | 55.06 | No | 299,089 | (301,160) | (1,206) | - | 68 | 175,124 | - | - | 12/19 |
| Inversiones Samiac 14, S.L. | Wind power generation | Vitoria-Gasteiz - Spain | - | 100.00 | No | - | - | - | - | - | 178 | 16 | (37) | 11/19 |
| LSP Finance, S.L. | Provision of technology services | Barcelona - Spain | - | 100.00 | Yes | 252 | (555) | (569) | - | 1,955 | 6,484 | (565) | (572) | 12/19 |
| Manston Invest, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 33,357 | (12,760) | (49) | - | 20,513 | 33,357 | (15,430) | 3,412 | 12/19 |
| Mariñamendi, S.L. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 62 | (51,299) | (1,389) | - | 39,106 | 55,013 | (106,225) | (1,389) | 12/19 |
| Mediterráneo Sabadell, S.L. | SPE | Alicante - Spain | 50.00 | 50.00 | Yes | 85,000 | 17,028 | 106 | 120 | 102,201 | 510,882 | (408,882) | 106 | 12/19 |
| **Subtotal** | | | | | | | | | **770** | | **1,987,037** | **(764,183)** | **15,994** | |

## Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Mercurio Alicante Sociedad de Arrendamientos 1, S.L. | Real estate | Alicante - Spain | 100.00 | - | Yes | 795 | (3,048) | 48 | - | 5,162 | 986 | (3,239) | 48 | 12/19 |
| Orión Energía 1, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (136) | 5 | - | 94 | 36 | (72) | 4 | 12/19 |
| Orión Energía 10, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 8 | - | 95 | 36 | (79) | 7 | 12/19 |
| Orión Energía 11, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 99 | 36 | (80) | 4 | 12/19 |
| Orión Energía 12, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 4 | - | 98 | 36 | (79) | 3 | 12/19 |
| Orión Energía 13, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (145) | 5 | - | 97 | 36 | (82) | 4 | 12/19 |
| Orión Energía 14, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (141) | 5 | - | 96 | 36 | (78) | 4 | 12/19 |
| Orión Energía 15, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 96 | 36 | (79) | 4 | 12/19 |
| Orión Energía 16, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (145) | 5 | - | 97 | 36 | (81) | 4 | 12/19 |
| Orión Energía 17, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 97 | 36 | (79) | 4 | 12/19 |
| Orión Energía 18, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 97 | 36 | (79) | 4 | 12/19 |
| Orión Energía 19, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 96 | 36 | (79) | 4 | 12/19 |
| Orión Energía 2, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (138) | 5 | - | 94 | 36 | (75) | 4 | 12/19 |
| Orión Energía 20, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 97 | 36 | (79) | 4 | 12/19 |
| Orión Energía 21, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 98 | 36 | (80) | 4 | 12/19 |
| Orión Energía 22, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 97 | 36 | (79) | 4 | 12/19 |
| Orión Energía 23, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 100 | 36 | (80) | 5 | 12/19 |
| Orión Energía 24, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 97 | 36 | (79) | 5 | 12/19 |
| Orión Energía 25, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 97 | 36 | (80) | 4 | 12/19 |
| Orión Energía 26, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (139) | 2 | - | 97 | 36 | (76) | 1 | 12/19 |
| Orión Energía 27, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (139) | 2 | - | 99 | 36 | (76) | 1 | 12/19 |
| Orión Energía 28, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (141) | 2 | - | 103 | 36 | (77) | 1 | 12/19 |
| Orión Energía 29, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (139) | 1 | - | 97 | 36 | (76) | 1 | 12/19 |
| Orión Energía 3, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 89 | 36 | (80) | 4 | 12/19 |
| Orión Energía 30, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (141) | 2 | - | 99 | 36 | (78) | 1 | 12/19 |
| Orión Energía 4, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 95 | 36 | (79) | 4 | 12/19 |
| Orión Energía 5, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 4 | - | 97 | 36 | (79) | 3 | 12/19 |
| Orión Energía 6, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 99 | 36 | (79) | 4 | 12/19 |
| Orión Energía 7, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 95 | 36 | (79) | 4 | 12/19 |
| Orión Energía 8, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (144) | 4 | - | 94 | 36 | (81) | 3 | 12/19 |
| Orión Energía 9, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 97 | 36 | (79) | 5 | 12/19 |
| Parque Eólico Jaufil, S.L.U. | Wind power generation | Barcelona - Spain | 100.00 | - | Yes | 163 | (2,717) | 125 | - | 5,183 | 163 | (2,699) | 107 | 12/19 |
| Parque Eólico Las Lomas De Lecrín, S.L.U. | Wind power generation | Barcelona - Spain | 100.00 | - | Yes | 83 | (1,241) | 136 | - | 2,497 | 83 | (1,236) | 131 | 12/19 |
| Parque Eólico Lecrín, S.L.U. | Wind power generation | Barcelona - Spain | 100.00 | - | Yes | 4,003 | (8,466) | 397 | - | 14,498 | 4,003 | (8,430) | 361 | 12/19 |
| Parque Eólico Lomas De Manteca, S.L.U. | Wind power generation | Barcelona - Spain | 100.00 | - | Yes | 163 | (2,160) | 194 | - | 5,363 | 163 | (2,152) | 186 | 12/19 |
| Parque Eólico Tahuna, S.L.U. | Wind power generation | Barcelona - Spain | 100.00 | - | Yes | 3 | (10,371) | 285 | - | 12,240 | - | (10,151) | 68 | 12/19 |
| Parque Eólico Zorreras, S.L.U. | Wind power generation | Barcelona - Spain | 100.00 | - | Yes | 3 | (9,290) | 306 | - | 10,646 | - | (9,089) | 108 | 12/19 |
| PayTPV On Line Entidad de Pago, S.L. | Other financial services | Bilbao - Spain | - | 100.00 | No | 150 | 5 | (1) | - | 2,436 | 7,500 | - | (75) | 12/19 |
| **Subtotal** | | | | | | | | | - | | **13,978** | **(39,354)** | **1,042** | |

## Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Plataforma de Innovación Sabadell, S.L.U. | Hosting, data processing and related activities | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 3 | - | (1) | - | 3 | 3 | - | (1) | 12/19 |
| Ripollet Gestión, S.L.U. | Other financial services | Barcelona - Spain | 100.00 | - | Yes | 20 | (2) | (285) | - | 194,457 | 20 | (2) | (285) | 12/19 |
| Rubí Gestión, S.L.U. | Other financial services | Barcelona - Spain | 100.00 | - | Yes | 3 | (11) | (3) | - | 556,255 | 3 | (11) | (3) | 12/19 |
| Sabadell Asset Management, S.A., S.G.I.I.C | Other regulated companies | Madrid - Spain | 100.00 | - | Yes | 601 | (17,509) | 36,027 | 135,000 | 96,149 | 607 | 14,485 | 35,113 | 12/19 |
| Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg) | Other investees | Luxembourg - Luxembourg | 100.00 | - | No | 12,316 | (80) | - | - | 12,386 | 4,926 | - | (124) | 10/19 |
| Sabadell Brasil Trade Services - Assessoria Comercial Ltda. | Credit institution | São Paulo - Brazil | 99.99 | 0.01 | No | 905 | (821) | - | - | 106 | 250 | 393 | - | 12/19 |
| Sabcapital, S.A de C.V., SOFOM, E.R. | Credit institution | Mexico DF - Mexico | 49.00 | 51.00 | No | 154,915 | 4,271 | 24,153 | 13,595 | 1,076,508 | 144,158 | 25,880 | 24,437 | 12/19 |
| Sabadell Consumer Finance, S.A.U | Credit institution | Sabadell - Spain | 100.00 | - | Yes | 35,720 | 29,902 | 16,095 | 63,000 | 1,586,516 | 72,232 | 13,022 | 15,386 | 12/19 |
| Sabadell Corporate Finance, S.L. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 70 | 2,062 | 2,209 | - | 6,131 | 9,373 | 567 | 2,259 | 12/19 |
| Sabadell d'Andorra Inversions Sgoic, S.A.U. | Other regulated companies | Andorra la Vella - Andorra | - | 50.97 | No | 300 | 1,090 | 132 | 100 | 2,131 | 300 | 607 | 67 | 12/19 |
| Sabadell Information Systems Limited | Provision of technology services | London - United Kingdom | 100.00 | - | No | 12,036 | 22,072 | 558 | - | 78,564 | 41,296 | (8,342) | 558 | 12/19 |
| Sabadell Information Systems , S.A. | Other investees with their own business | Sabadell - Spain | 100.00 | - | Yes | 40,243 | 50,475 | (4,013) | - | 1,614,303 | 143,695 | 43,567 | (143,971) | 12/19 |
| Sabadell Innovation Capital, S.L.U. | Holding | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 1,000 | 6,977 | (681) | - | 41,455 | 1,000 | (382) | (681) | 12/19 |
| Sabadell Innovation Cells, S.L.U. | Other business management consulting activities | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 3 | (1,852) | (1,857) | - | 2,184 | 3 | (2,123) | (1,586) | 12/19 |
| Sabadell Patrimonio Inmobiliario, S.A.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 30,116 | 825,897 | (6,788) | - | 924,793 | 863,895 | 5,914 | (20,584) | 12/19 |
| Sabadell Real Estate Activos, S.A.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 100,060 | 234,750 | (1,907) | - | 333,298 | 500,622 | (161,120) | (1,706) | 12/19 |
| Sabadell Real Estate Development, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 15,807 | (2,234,020) | (102,884) | - | 2,528,948 | 2,147,442 | (3,996,919) | (98,215) | 12/19 |
| Sabadell Real Estate Housing, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 2,073 | 1,084 | (531) | - | 29,547 | 14,292 | (11,135) | (531) | 12/19 |
| Sabadell Securities Usa, Inc. | Other investees with their own business | Miami - United States | 100.00 | - | No | 551 | 3,488 | 849 | - | 5,104 | 551 | 3,096 | 849 | 12/19 |
| Sabadell Strategic Consulting, S.L.U. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 3 | 7 | 133 | 650 | 737 | 3 | 7 | 133 | 12/19 |
| Sabadell Venture Capital, S. L.U. | Holding | Barcelona - Spain | - | 100.00 | Yes | 3 | 7,490 | (929) | - | 45,499 | 3 | (623) | 336 | 12/19 |
| Sinia Capital S.A. De C.V. | Holding | Mexico DF - Mexico | - | 100.00 | No | 20,830 | (3,257) | (294) | - | 60,933 | 19,795 | 1,869 | 3,825 | 12/19 |
| Sinia Renovables, S.A.U. | Other regulated companies | Barcelona - Spain | 100.00 | - | Yes | 15,000 | (9,279) | (403) | - | 33,765 | 15,000 | (8,488) | (804) | 12/19 |
| Sdin Residencial S.L.U.(3) | Real estate development | Madrid - Spain | 100.00 | - | Yes | 25 | 1,798 | 791 | - | 10,317 | 15 | 1,809 | 8,303 | 12/19 |
| Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.(2) | Real estate | Alicante - Spain | 100.00 | - | Yes | 3 | 7,968 | 1,713 | - | 13,502 | 7,980 | 7,968 | 1,713 | 12/19 |
| Puerto Pacific Vallarta, S.A. de C.V.(1) | Real estate | Mexico DF - Mexico | - | 100.00 | No | 28,947 | (15,551) | (11) | - | 13,384 | 29,164 | (11,502) | (11) | 12/19 |
| Promontoria Challenger Industrial Assets, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 4 | - | - | - | 4 | 4 | - | - | 12/19 |
| Promontoria Challenger Land, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 4 | - | - | - | 4 | 4 | - | - | 12/19 |
| **Subtotal** | | | | | | | | | **212,345** | | **4,016,636** | **(4,081,463)** | **(175,523)** | |

## Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Promontoria Challenger Real Estate, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 4 | - | - | - | 4 | 4 | - | - | 12/19 |
| Promontoria Challenger Residential S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 4 | - | - | - | 4 | 4 | - | - | 12/19 |
| Stonington Spain, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 60,729 | (9,726) | (744) | - | 50,269 | 60,729 | (15,370) | 7,654 | 12/19 |
| Tasaciones de Bienes Mediterráneo, S.A. (En Liquidación) | Other investees with their own business | Alicante - Spain | 99.88 | 0.12 | Yes | 1,000 | 1,388 | - | - | 2,394 | 5,266 | (2,879) | 1 | 12/19 |
| Tenedora de Inversiones Y Participaciones, S.L. | SPE | Alicante - Spain | 100.00 | - | Yes | 296,092 | (515,434) | (7,120) | - | 629,958 | 2,564,914 | (2,605,545) | (6,330) | 12/19 |
| Tierras Vega Alta Del Segura, S.L. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 4,550 | (13,949) | (52) | - | 6,099 | 16,823 | (26,222) | (53) | 12/19 |
| TSB Bank Plc | Credit institution | Edinburgh - United Kingdom | - | 100.00 | No | 90,710 | 2,115,492 | 75,173 | - | 45,979,210 | 1,814,636 | 208,655 | 158,340 | 12/19 |
| TSB Banking Group Plc | Holding | London - United Kingdom | 100.00 | - | No | 7,028 | 1,844,280 | 368 | - | 2,326,053 | 2,231,817 | (107,401) | (39,385) | 12/19 |
| TSB Banking Group plc Employee Share Trust | Other regulated companies | Jesrsey - United Kingdom | - | 100.00 | No | 1 | (9,904) | (1) | - | 3,070 | - | (9,089) | - | 12/19 |
| TSB Coverd Bonds Holdings Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | - | - | 12/19 |
| TSB Covered Bonds (LM) Limited | Other regulated companies | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | - | - | 12/19 |
| TSB Covered Bonds LLP | Other regulated companies | London - United Kingdom | - | 100.00 | No | 1 | 7 | 3 | - | 46 | 1 | 7 | 3 | 12/19 |
| Urquijo Gestión, S.A.U., S.G.I.I.C. | Other regulated companies | Madrid - Spain | - | 100.00 | Yes | 3,606 | 3,022 | 3,309 | 2,000 | 16,654 | 3,084 | 3,544 | 1,538 | 12/19 |
| Urumea Gestión, S.L. (en liquidación) | Other investees with their own business | San Sebastián - Spain | - | 100.00 | No | 9 | (9) | (2) | - | 1 | 9 | (9) | (2) | 12/19 |
| VeA Rental Homes , S.A | Letting of own property | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 5,000 | (10,031) | (8,647) | - | 50,500 | 5,000 | (10,030) | (8,647) | 12/19 |
| Verum Inmobiliaria Urbanismo Y Promocion, S.A. | Real estate | Sant Cugat del Valles - Spain | - | 97.20 | Yes | 12,000 | (44,302) | (193) | - | 14,782 | 11,664 | (43,966) | (211) | 12/19 |
| Vitigudina Fv, S.L. | Engineering | Barcelona - Spain | - | 100.00 | Yes | 1,629 | (977) | 17 | - | 17,300 | - | 1,549 | 194 | 12/19 |
| Xunqueira Eolica, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 3 | (5,180) | 2 | - | 11,373 | 400 | (5,442) | (133) | 12/19 |
| **Subtotal** | | | | | | | | | **2,000** | | **6,714,353** | **(2,612,198)** | **112,969** | |
| **Total** | | | | | | | | | **370,269** | | **13,619,094** | **3,657,019** | **680,966** | |

(1) formerly Solvia Pacific S.A de CV

(2) formerly Solvia Gestora de Vivienda Social S.L.U.

(3) formerly Solvia Desarrollos Inmobiliarios S.L.

## Banco Sabadell Group companies as at 31 December 2019 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) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Aurica III, Fondo De Capital Riesgo | Other regulated companies | Barcelona - Spain | - | 48.15 | 48,855 | (3,037) | 387 | - | 46,211 | 23,525 | (1,463) | 186 | 12/19 |
| Aurica IIIB, Soc. De Capital Riesgo, S.A | Other regulated companies | Barcelona - Spain | - | 43.43 | 33,020 | (2,076) | 255 | - | 31,206 | 14,354 | (914) | 111 | 12/19 |
| Atrian Bakers, S.L. | Other associates | Castellgali - Spain | - | 22.41 | 26,249 | (6,243) | (1,030) | - | 38,734 | 2,000 | 140 | 85 | 09/19 |
| Bansabadell Pensiones, E.G.F.P., S.A. | Other regulated companies | Madrid - Spain | 50.00 | - | 7,813 | 35,200 | 597 | - | 49,105 | 40,378 | (18,883) | 298 | 12/19 |
| Sociedad de Cartera del Vallés, S.I.C.A.V., S.A. | Other associates | Sabadell - Spain | 48.46 | - | 4,818 | (535) | 273 | - | 4,586 | 397 | 1,679 | 132 | 12/19 |
| Bansabadell Seguros Generales, S.A. De Seguros Y Reaseguros | Other regulated companies | Madrid - Spain | 50.00 | - | 10,000 | 61,706 | 17,587 | - | 258,002 | 34,000 | 1,375 | 8,793 | 12/19 |
| Bansabadell Vida, S.A. De Seguros Y Reaseguros | Other regulated companies | Madrid - Spain | 50.00 | - | 43,858 | 548,242 | 78,732 | 48,500 | 11,202,448 | 27,106 | 231,844 | 46,207 | 12/19 |
| Energia Renovables Terra Ferma, S.L. | Engineering | Barcelona - Spain | - | 50.00 | 6 | - | - | - | - | 3 | - | - | 11/19 |
| Esus Energía Renovable, S.L. | Services | Vigo - Spain | - | 45.00 | 50 | (678) | (22) | - | 2,625 | 23 | (23) | - | 12/19 |
| Financiera Iberoamericana, S.A. | Credit institution | Havana - Cuba | 50.00 | - | 38,288 | 13,862 | 2,987 | - | 84,368 | 19,144 | 4,162 | 1,493 | 12/19 |
| Flex Equipos De Descanso, S.A. | Manufacturing | Getafe - Spain | - | 19.16 | 66,071 | 22,396 | 9,166 | - | 252,946 | 50,930 | 3,756 | 8,127 | 11/19 |
| Gate Solar Gestión, S.L. | Services | Vitoria-Gasteiz - Spain | 50.00 | - | 300 | 2,612 | (9) | - | 3,684 | 1,860 | (626) | (7) | 09/19 |
| Gestora De Aparcamientos Del Mediterráneo, S.L. | Services | Alicante - Spain | - | 40.00 | 1,000 | (9,600) | (472) | - | 2,457 | 7,675 | (7,486) | (189) | 12/19 |
| Hydrophytic, S.L. | Real estate | Vitoria-Gasteiz - Spain | - | 50.00 | 186 | 142 | 21 | - | 451 | 93 | 71 | 10 | 09/19 |
| Murcia Emprende, S.C.R. De R.S., S.A. | Other regulated companies | Murcia - Spain | 28.70 | - | 5,399 | (1,351) | (892) | - | 3,202 | 2,026 | (1,566) | (63) | 09/19 |
| Nueva Pescanova, S.L. | Wholesale trade | Redondela - Spain | 24.53 | - | 147,614 | (32,743) | (33,689) | - | 962,481 | 1,641 | 210 | (1,851) | 09/19 |
| Plaxic Estelar, S.L. | Real estate | Barcelona - Spain | - | 45.01 | 3 | (15,266) | (4) | - | 31,986 | 2,951 | (2,951) | - | 11/19 |
| Promontoria Challenger I, S.A. | Holding company | Madrid - Spain | 20.00 | - | 60 | 869,142 | (17,784) | - | 2,496,996 | 161,958 | - | - | 12/19 |
| Redes 2 Promotoro Unica S.L. | Holding | Madrid - Spain | - | 20.00 | 8,481 | 96,602 | (1,175) | - | 110,098 | 21,091 | (74) | (235) | 12/19 |
| Sabadell Asabys Health Innovation Investment, S.A. | Holding | Barcelona - Spain | - | 37.39 | 9,370 | (172) | (1,155) | - | 8,237 | 3,500 | (61) | (432) | 09/19 |
| Sbd Creixent, S.A. | Real estate | Sabadell - Spain | 23.05 | - | 5,965 | 411 | (1,707) | - | 5,299 | 3,524 | (2,054) | (393) | 11/19 |
| Solvia Servicios Inmobiliarios, S.L.U. | Real estate | Alicante - Spain | 20.00 | - | 660 | 173,726 | (22,270) | - | 196,175 | 16,517 | 16,839 | 24,583 | 10/19 |
| Termosolar Borges S.L. | Engineering | Barcelona - Spain | 47.50 | - | 14,700 | (37,021) | 3,213 | - | 144,113 | 11,800 | - | - | 09/19 |
| Villoldo Solar S.L. | Engineering | Barcelona - Spain | 50.00 | - | 3 | 44 | 38 | - | 207 | - | - | - | 09/19 |
| **Total** | | | | | | | | **48,500** | | **446,496** | **223,975** | **86,855** | |

"Balance sheet date" lists the date of the latest available figures.

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.

(a) Figures for foreign companies were translated to euro at the historical exchange rate, and amounts in the consolidated income statement were translated at the average exchange rate.

(b) Results pending approval at Annual General Meeting.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method and individually considered to be non-material amounted to 1,368,317 thousand euros as at 31 December 2019. The liabilities balance as at the end of 2019 totalled 3,181,583 thousand euros. See the key figures as at 2019 year-end for BanSabadell Vida in Note 14.

## Changes in the scope of consolidation in 2019

### Additions to the scope of consolidation:

Thousand euro

| Name of entity (or line of business) acquired or merged | Category | Effective date of the transaction | Cost of combination: Cost of acquisition | Cost of combination: Fair value of equity instruments issued for the acquisition | % Voting rights acquired | % Total voting rights | Type of shareholding | Method | Reason |
|---|---|---|---|---|---|---|---|---|---|
| Duncan Holdings 2020-1 Limited | Subsidiary | 08/04/2019 | - | - | 100.00% | 100.00% | Indirect | Full consolidation | a |
| Solvia Servicios Inmobiliarios, S.L.U. | Associate | 23/04/2019 | 57,930 | - | 20.00% | 20.00% | Direct | Equity method | d |
| Plataforma de Innovación Sabadell, S.L.U. | Subsidiary | 26/02/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Challenger Industrial Assets, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Challenger Land, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Challenger Real Estate, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Challenger Residential, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Coliseum Real Estate, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Coliseum Industrial Assets, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Coliseum Land, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Coliseum Residential, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Gate Huerta Solar 44, S.L | Subsidiary | 30/07/2019 | 205 | - | 100.00% | 100.00% | Indirect | Full consolidation | b |
| Inversiones Samiac 14, S.L. | Subsidiary | 31/10/2019 | 178 | - | 100.00% | 100.00% | Indirect | Full consolidation | b |
| Promontoria Challenger I, S.A. | Associate | 20/12/2019 | 161,958 | - | 20.00% | 20.00% | Direct | Equity method | b |
| Energíes Renovables Terra Ferma, S.L. | Associate | 11/11/2019 | 3 | - | 50.00% | 50.00% | Indirect | Equity method | c |
| Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg) | Subsidiary | 29/11/2019 | 4,926 | - | 55.44% | 55.44% | Direct | Full consolidation | d |
| Grecoholdco, S.A.U. | Subsidiary | 19/12/2019 | 60 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 1, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 2, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 3, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 4, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 5, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 6, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 7, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 8, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 9, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 10, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 11, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 12, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 13, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 14, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 15, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| **Total newly consolidated subsidiaries** | | | **5,449** | | | | | | |
| **Total newly consolidated associates** | | | **219,891** | | | | | | |

(a) Incorporation of subsidiaries.

(b) Acquisition of subsidiaries.

(c) Acquisition or incorporation of associates

(d) Change in consolidation method.

## Exclusions from the scope of consolidation:

Thousand euro

| Name of entity (or line of business) sold, spun off or otherwise disposed of | Category | Effective date of the transaction | % Voting rights disposed of | % Total voting rights following disposal | Profit/(loss) generated | Type of shareholding | Method | Reason |
|---|---|---|---|---|---|---|---|---|
| CAM Global Finance, S.A. en liquidación | Subsidiary | 14/01/2019 | 100.00% | - | - | Direct | Full consolidation | b |
| Grupo Luxiona, S.L. | Associate | 29/03/2019 | 20.00% | - | (141) | Indirect | Equity method | a |
| Malbrouck, S.I.C.A.V | Subsidiary | 13/06/2019 | 100.00% | - | (10) | Direct | Full consolidation | b |
| Placements Immobiliers France, S.A.S. | Subsidiary | 01/01/2019 | 100.00% | - | 811 | Indirect | Full consolidation | b |
| Societat d'Inversió dels Enginyers, S.L. | Associate | 27/05/2019 | 47.00% | - | 766 | Indirect | Equity method | b |
| Ac Dos Lerida, S.L.U. en liquidación | Subsidiary | 27/06/2019 | 100.00% | - | (142) | Indirect | Full consolidation | b |
| Hotel Calle de los Molinos 10, S.L.U. en liquidación | Subsidiary | 27/06/2019 | 100.00% | - | 19 | Indirect | Full consolidation | b |
| Hotel Calle Mayor 34, S.L.U. en liquidación | Subsidiary | 27/06/2019 | 100.00% | - | 43 | Indirect | Full consolidation | b |
| Hotel Mirador del Valle, S.L.U. en liquidación | Subsidiary | 27/06/2019 | 100.00% | - | 25 | Indirect | Full consolidation | b |
| Ribera Salud, S.A. | Associate | 28/06/2019 | 40.00% | 10.00% | 5,255 | Indirect | Equity method | a |
| Tratamientos y Aplicaciones, S.L.U. en liquidación | Subsidiary | 27/05/2019 | 100.00% | - | (22) | Direct | Full consolidation | b |
| Solvia Servicios Inmobiliarios, S.L.U. | Subsidiary | 23/04/2019 | 80.00% | 20.00% | 132,776 | Direct | Full consolidation | a |
| Emte Renovables, S.L. | Associate | 05/08/2019 | 62.11% | - | (9) | Indirect | Equity method | b |
| Bansabadell Securities Services, S.L.U | Subsidiary | 21/11/2019 | 100.00% | - | (47) | Direct | Full consolidation | b |
| Aurica XXI, S.C.R. de R.S., S.A.U. | Subsidiary | 20/11/2019 | 100.00% | - | (1,218) | Direct | Full consolidation | b |
| Promontoria Coliseum Real Estate, S.L.U. | Subsidiary | 20/12/2019 | 100.00% | - | - | Direct | Full consolidation | a |
| Promontoria Coliseum Industrial Assets, S.L.U. | Subsidiary | 20/12/2019 | 100.00% | - | - | Direct | Full consolidation | a |
| Promontoria Coliseum Land, S.L.U. | Subsidiary | 20/12/2019 | 100.00% | - | - | Direct | Full consolidation | a |
| Promontoria Coliseum Residential, S.L.U. | Subsidiary | 20/12/2019 | 100.00% | - | - | Direct | Full consolidation | a |
| Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg) | Associate | 29/11/2019 | 44.56% | - | - | Direct | Equity method | c |
| Other | | | | | 11,585 | | | |
| **Total** | | | | | **149,691** | | | |

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Derecognised due to reclassification to dependent companies.

## Banco Sabadell Group companies as at 31 December 2018 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| AC Dos Lérida, S.L.U. | Real estate development | Barcelona - Spain | - | 100.00 | Yes | 2,793 | 486 | 4 | - | 3,284 | 2,408 | 874 | 4 | 12/18 |
| Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L. | Real estate | Alicante - Spain | 100.00 | - | Yes | 100 | 10,146 | 96 | - | 10,410 | 20,038 | (9,487) | (156) | 12/18 |
| Assegurances Segur Vida, S.A.U. | Other regulated companies | Andorra la Vella - Andorra | - | 50.97 | No | 602 | 230 | 189 | - | 39,534 | 602 | 199 | 96 | 12/18 |
| Aurica Capital Desarrollo, S.G.E.I.C., S.A.Unipersonal | UCITS management company | Barcelona - Spain | 100.00 | - | Yes | 3,601 | 1,577 | 1,438 | - | 7,623 | 4,445 | 732 | 1,438 | 12/18 |
| Aurica Coinvestments S.L. | Holding | Barcelona - Spain | - | 61.76 | Yes | 50,594 | (11) | 1,909 | - | 52,494 | 31,247 | (7) | (2,496) | 12/18 |
| Aurica Xxi, S.C.R. De R.S., S.A.U. | Other regulated companies | Barcelona - Spain | 100.00 | - | Yes | 14,200 | 21,055 | 1,292 | - | 36,668 | 17,492 | 29,801 | 1,218 | 12/18 |
| Banco Atlantico (Bahamas) Bank & Trust Ltd. | Credit institution | Nassau - Bahamas | 99.99 | 0.01 | No | 1,598 | 852 | (34) | - | 3,127 | 2,439 | (204) | (40) | 12/18 |
| Banco de Sabadell, S.A. | Credit institution | Alicante - Spain | - | - | Yes | 703,371 | 9,295,348 | 539,867 | - | 178,987,816 | - | 10,367,453 | 739,733 | 12/18 |
| Banco Sabadell, S.A., Institución de Banca Múltiple | Credit institution | Mexico DF - Mexico | 99.99 | 0.01 | No | 554,267 | (38,016) | (14,551) | - | 2,416,644 | 568,446 | (35,923) | (16,526) | 12/18 |
| Bancsabadell d'Andorra, S.A. | Credit institution | Andorra la Vella - Andorra | 50.97 | - | No | 30,069 | 41,972 | 9,953 | 1,594 | 753,867 | 15,326 | 22,232 | 4,040 | 12/18 |
| Bansabadell Factura, S.L.U. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 100 | (1,951) | 687 | - | 2,678 | 299 | (2,150) | 687 | 12/18 |
| Bansabadell Financiación, E.F.C., S.A. | Credit institution | Sabadell - Spain | 100.00 | - | Yes | 24,040 | 29,190 | 5 | - | 739,561 | 24,040 | 29,190 | 5 | 12/18 |
| Bansabadell Inversió Desenvolupament, S.A.U. | SPE | Barcelona - Spain | 100.00 | - | Yes | 16,975 | 122,317 | 2,441 | - | 184,716 | 108,828 | 39,200 | 1,237 | 12/18 |
| Bansabadell Mediación, Operador de Banca-Seguros Vinculado del Grupo Banco Sabadell, S.A. | Other regulated companies | Alicante - Spain | - | 100.00 | Yes | 301 | 60 | 4,306 | 44,437 | 47,307 | 524 | (164) | 4,306 | 12/18 |
| Bansabadell Renting, S.L.U. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 2,000 | 42,140 | 10,146 | - | 606,530 | 3,861 | 40,279 | 10,146 | 12/18 |
| Bansabadell Securities Services, S.L.U. | Other investees with their own business | Barcelona - Spain | 100.00 | - | Yes | 2,500 | 40,031 | 5,362 | - | 50,863 | 2,500 | 39,483 | 5,910 | 12/18 |
| Bitarte, S.A. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 6,506 | 2,742 | (1,252) | - | 31,879 | 9,272 | 250 | (1,437) | 12/18 |
| Bstartup 10, S.L.U. | SPE | Barcelona - Spain | - | 100.00 | Yes | 1,000 | (184) | (29) | - | 5,357 | 1,000 | (1,370) | (25) | 12/18 |
| Business Services For Operational Support, S.A.U. | Services | Sant Cugat del Valles - Spain | 80.00 | - | Yes | 530 | (1,872) | 2,625 | - | 34,316 | 3,259 | (3,949) | 2,213 | 12/18 |
| Cam Global Finance, S.A. en liquidación (1) | Other regulated companies | Alicante - Spain | 100.00 | - | No | - | - | - | 154 | 16 | - | - | (16) | 12/18 |
| Caminsa Urbanismo, S.A.U. | Real estate | Alicante - Spain | - | 100.00 | Yes | 2,000 | (1,657) | (55) | - | 1,315 | 800 | (435) | 18 | 12/18 |
| Compañía de Cogeneración del Caribe Dominicana, S.A. | Services | Santo Domingo - Dominican Republic | - | 100.00 | No | 5,016 | (4,288) | - | - | 745 | - | 18 | - | 12/18 |
| Desarrollos y Participaciones Inmobiliarias 2006, S.L.U. | Real estate | Elche - Spain | - | 100.00 | No | 1,942 | (90,357) | (493) | - | 10 | 1,919 | (78,648) | (493) | 12/18 |
| Duncan 2016 -1 Holdings Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | 1 | - | 12/18 |
| Duncan de Inversiones SICAV, S.A. | UCITS, funds and similar financial corporations | Sant Cugat del Valles - Spain | 87.35 | - | No | 7,842 | 1,084 | (46) | - | 2,701 | 2,560 | (167) | (40) | 12/18 |
| Duncan Holdings 2015-1 Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | 1 | - | 12/18 |
| Ederra, S.A. | Real estate | San Sebastián - Spain | 97.85 | - | No | 2,036 | 30,590 | 928 | - | 33,823 | 36,062 | (4,121) | 891 | 12/18 |
| Sabadell Asset Management Luxembourg, S.A. | Other regulated companies | Luxembourg - Luxembourg | 22.00 | 78.00 | No | 125 | 563 | 86 | - | 951 | 51 | 352 | 86 | 12/18 |
| **Subtotal** | | | | | | | | | **46,185** | | **857,420** | **10,433,440** | **750,799** | |

## Banco Sabadell Group companies as at 31 December 2018 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Europea Pall Mall Ltd. | Real estate | London - United Kingdom | 100.00 | - | No | 20,843 | (1,519) | (2,765) | - | 19,003 | 20,843 | (2,346) | (852) | 12/18 |
| Fonomed Gestión Telefónica Mediterráneo, S.A. | Other investees with their own business | Alicante - Spain | 100.00 | - | Yes | 1,232 | 2,075 | 855 | - | 6,601 | 2,870 | 437 | 1,132 | 12/18 |
| Fuerza Eólica de San Matías, S de RL de CV | Wind energy | Nuevo León - Mexico | - | 99.99 | No | 4,617 | - | (1,153) | - | 7,627 | - | - | - | 11/18 |
| Galeban 21 Comercial, S.L.U. | SPE | A Coruña - Spain | 100.00 | - | Yes | 10,000 | (4,289) | (1) | - | 5,711 | 14,477 | (8,765) | (1) | 12/18 |
| Gazteluberri S.L. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 53 | (20,423) | (19) | - | 6,413 | 23,890 | (44,261) | (19) | 12/18 |
| Gest 21 Inmobiliaria, S.L.U | SPE | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 7,810 | 9 | 8 | - | 7,835 | 80,516 | (63,293) | 27,734 | 12/18 |
| Gestión de Proyectos Urbanísticos Del Mediterráneo, S.L. en liquidación (2) | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | No | 33,850 | (31,370) | (79) | - | 10,342 | 32,832 | (17,509) | (79) | 12/18 |
| Gestión Financiera del Mediterráneo, S.A.U. | SPE | Alicante - Spain | 100.00 | - | Yes | 13,000 | 2,628 | 93,002 | 33,273 | 60,233 | 123,492 | (63,533) | 162 | 12/18 |
| Guipuzcoano Promoción Empresarial, S.L. | SPE | San Sebastián - Spain | - | 100.00 | No | 53 | (75,349) | (691) | - | 7,450 | 7,160 | (77,671) | (337) | 12/18 |
| Guipuzcoano Valores, S.A. | Real estate | Sant Cugat del Valles - Spain | 99.99 | 0.01 | Yes | 4,514 | 2,754 | 189 | - | 7,721 | 10,833 | (3,566) | 189 | 12/18 |
| Hotel Management 6 Holdco, S.L.U.(3) | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 29,074 | (24,190) | (4,922) | - | 56,856 | 27,611 | (10,188) | (650) | 12/18 |
| Hobalear, S.A.U. | Real estate | Barcelona - Spain | - | 100.00 | Yes | 60 | 690 | 6 | - | 757 | 414 | 690 | 6 | 12/18 |
| Hondarriberri, S.L. | SPE | San Sebastián - Spain | 99.99 | 0.01 | No | 41 | (6,991) | (4,562) | - | 65,025 | 120,655 | 122,355 | 136 | 12/18 |
| Hotel Calle de Los Molinos 10, S.L.U | Real estate development | Barcelona - Spain | - | 100.00 | No | 2,077 | (1,798) | (176) | - | 132 | 2,837 | (1,946) | (195) | 12/18 |
| Hotel Calle Mayor 34, S.L.U | Real estate development | Barcelona - Spain | - | 100.00 | No | 2,124 | (1,300) | (157) | - | 673 | 2,499 | (1,214) | (209) | 12/18 |
| Hotel Management 6 Gestión Activa, S.L.U.(4) | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 135,730 | 22,529 | 9,107 | - | 174,219 | 136,335 | 35,550 | 3,608 | 12/18 |
| Hotel Mirador del Valle, S.L.U. | Real estate | Barcelona - Spain | - | 100.00 | No | 4,482 | (3,571) | (198) | - | 733 | 5,418 | (2,648) | (971) | 12/18 |
| Hotel Value Added Primera, S.L.U. | Real estate development | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 3 | 21,411 | (588) | - | 20,858 | 27,527 | (6,113) | (588) | 12/18 |
| Interstate Property Holdings, Llc. | SPE | Miami - United States | 100.00 | - | No | 7,293 | (3,053) | 33 | - | 6,160 | 3,804 | 6,256 | 33 | 12/18 |
| Inverán Gestión, S.L. | Real estate | Sant Cugat del Valles - Spain | 44.83 | 55.17 | Yes | 90 | (11,747) | (147) | - | 23,584 | 20,214 | (56,747) | (147) | 12/18 |
| Inversiones Cotizadas del Mediterráneo, S.L. | SPE | Alicante - Spain | 100.00 | - | Yes | 308,000 | 189,884 | 2,693 | - | 501,716 | 589,523 | (91,279) | 2,693 | 12/18 |
| Inversiones en Resorts Mediterráneos, S.L. en liquidación | Real estate | Torre Pacheco - Murcia | - | 55.06 | No | 299,090 | (300,569) | - | - | 94 | 175,124 | - | - | 12/18 |
| LSP Finance, S.L. | Provision of technology services | Barcelona - Spain | - | 100.00 | No | 252 | 12 | (565) | - | 1,165 | 6,150 | - | (565) | 12/18 |
| Malbrouck, S.I.C.A.V. | UCITS, funds and similar financial corporations | Madrid - Spain | 99.94 | - | No | 14,554 | 2,405 | (126) | - | 16,703 | - | - | - | 12/18 |
| Manston Invest, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 33,357 | (12,843) | 83 | - | 20,808 | 33,357 | (14,593) | (837) | 12/18 |
| Mariñamendi, S.L. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 62 | (48,026) | (3,248) | - | 49,383 | 55,013 | (102,977) | (3,248) | 12/18 |
| Mediterráneo Sabadell, S.L. | SPE | Alicante - Spain | 50.00 | 50.00 | Yes | 85,000 | 17,052 | 241 | 48,638 | 102,422 | 506,342 | (449,864) | 241 | 12/18 |
| Mercurio Alicante Sociedad de Arrendamientos 1, S.L. | Real estate | Alicante - Spain | 100.00 | - | Yes | 795 | (2,971) | (78) | - | 5,203 | 986 | (4,143) | 904 | 12/18 |
| Orión Energía 1, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (151) | 16 | - | 84 | 36 | (89) | 16 | 12/18 |
| Orión Energía 10, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (157) | 17 | - | 84 | 36 | (95) | 17 | 12/18 |
| Orión Energía 11, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 88 | 36 | (96) | 16 | 12/18 |
| Orión Energía 12, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 17 | - | 87 | 36 | (95) | 17 | 12/18 |
| Orión Energía 13, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (160) | 17 | - | 88 | 36 | (98) | 17 | 12/18 |
| Orión Energía 14, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (157) | 17 | - | 86 | 36 | (95) | 17 | 12/18 |
| Orión Energía 15, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 87 | 36 | (96) | 16 | 12/18 |
| Orión Energía 16, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (159) | 15 | - | 86 | 36 | (97) | 15 | 12/18 |
| Orión Energía 17, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 17 | - | 87 | 36 | (95) | 17 | 12/18 |
| Orión Energía 18, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 86 | 36 | (96) | 16 | 12/18 |
| Orión Energía 19, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (157) | 16 | - | 85 | 36 | (95) | 16 | 12/18 |
| **Subtotal** | | | | | | | | | **81,911** | | **2,031,118** | **(858,415)** | **28,320** | |

## Banco Sabadell Group companies as at 31 December 2018 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding Direct | % Shareholding Indirect | Consolidated taxation | Company data (a) Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Orión Energía 2, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (154) | 17 | - | 84 | 36 | (92) | 17 | 12/18 |
| Orión Energía 20, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 87 | 36 | (96) | 16 | 12/18 |
| Orión Energía 21, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 88 | 36 | (96) | 16 | 12/18 |
| Orión Energía 22, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 87 | 36 | (96) | 16 | 12/18 |
| Orión Energía 23, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 93 | 36 | (96) | 16 | 12/18 |
| Orión Energía 24, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 88 | 36 | (95) | 16 | 12/18 |
| Orión Energía 25, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 86 | 36 | (96) | 16 | 12/18 |
| Orión Energía 26, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 20 | - | 92 | 36 | (95) | 20 | 12/18 |
| Orión Energía 27, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 20 | - | 92 | 36 | (96) | 20 | 12/18 |
| Orión Energía 28, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (159) | 19 | - | 95 | 36 | (97) | 19 | 12/18 |
| Orión Energía 29, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 20 | - | 93 | 36 | (96) | 20 | 12/18 |
| Orión Energía 3, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 17 | - | 86 | 36 | (96) | 17 | 12/18 |
| Orión Energía 30, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (159) | 19 | - | 95 | 36 | (97) | 19 | 12/18 |
| Orión Energía 4, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (157) | 16 | - | 87 | 36 | (95) | 16 | 12/18 |
| Orión Energía 5, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 87 | 36 | (95) | 16 | 12/18 |
| Orión Energía 6, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 17 | - | 89 | 36 | (95) | 17 | 12/18 |
| Orión Energía 7, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 85 | 36 | (95) | 16 | 12/18 |
| Orión Energía 8, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 14 | - | 86 | 36 | (95) | 14 | 12/18 |
| Orión Energía 9, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 87 | 36 | (96) | 16 | 12/18 |
| Parque Eólico Jaufil, S.L.U. | Wind energy | Barcelona - Spain | 100.00 | - | Yes | 163 | (2,835) | 136 | - | 5,604 | 163 | (2,901) | 202 | 12/18 |
| Parque Eólico Las Lomas De Lecrín, S.L.U. | Wind energy | Barcelona - Spain | 100.00 | - | Yes | 83 | (1,340) | 104 | - | 2,671 | 83 | (1,330) | 94 | 12/18 |
| Parque Eólico Lecrín, S.L.U. | Wind energy | Barcelona - Spain | 100.00 | - | Yes | 4,003 | (9,171) | 740 | - | 15,069 | 4,003 | (9,079) | 648 | 12/18 |
| Parque Eólico Lomas De Manteca, S.L.U. | Wind energy | Barcelona - Spain | 100.00 | - | Yes | 163 | (2,371) | 219 | - | 5,658 | 163 | (2,360) | 208 | 12/18 |
| Parque Eólico Tahuna, S.L.U. | Wind energy | Barcelona - Spain | 100.00 | - | Yes | 3 | (10,447) | 273 | - | 13,790 | - | (8,737) | (1,414) | 12/18 |
| Parque Eólico Zorreras, S.L.U. | Wind energy | Barcelona - Spain | 100.00 | - | Yes | 3 | (9,545) | 433 | - | 12,242 | - | (8,405) | (684) | 12/18 |
| PayTPV On Line Entidad de Pago, S.L. | Other financial services | Bilbao - Spain | - | 100.00 | No | 150 | 57 | - | - | 663 | 36 | - | - | 12/18 |
| Placements Immobiliers France, S.A.S. | Real estate | Paris - France | - | 100.00 | No | 30,002 | 1,183 | (13) | - | 31,181 | 42,887 | (11,694) | (21) | 12/18 |
| Ripollet Gestión, S.L.U. | Other financial services | Barcelona - Spain | 100.00 | - | Yes | 20 | (2) | - | - | 18 | 20 | (2) | - | 12/18 |
| Rubí Gestión, S.L.U. | Other financial services | Barcelona - Spain | 100.00 | - | Yes | 3 | (6) | (4) | - | 329,005 | 3 | (6) | (4) | 12/18 |
| Sabadell Asset Management, S.A., S.G.I.I.C | Other regulated companies | Madrid - Spain | 100.00 | - | Yes | 601 | 71,563 | 45,927 | 40,000 | 201,326 | 607 | 79,960 | 37,524 | 12/18 |
| Sabadell Brasil Trade Services - Assessoria Comercial Ltda. | Credit institution | São Paulo - Brazil | 99.99 | 0.01 | No | 905 | (820) | - | - | 106 | 250 | 393 | - | 12/18 |
| Sabcapital, S.A de C.V., SOFOM, E.R. | Credit institution | Mexico DF - Mexico | 49.00 | 51.00 | No | 257,208 | (43,138) | 28,609 | 40,480 | 1,707,828 | 138,272 | 10,691 | 28,784 | 12/18 |
| Sabadell Consumer Finance, S.A.U. | Credit institution | Sabadell - Spain | 100.00 | - | Yes | 35,720 | 79,674 | 13,938 | - | 1,319,058 | 72,232 | 48,084 | 13,938 | 12/18 |
| Sabadell Corporate Finance, S.L. | Other investees with their own business | Madrid - Spain | 100.00 | - | Yes | 70 | 1,201 | 811 | - | 3,165 | 9,373 | (243) | 811 | 12/18 |
| Sabadell d'Andorra Inversions Sgoic, S.A.U. | Other regulated companies | Andorra la Vella - Andorra | - | 50.97 | No | 300 | 999 | 191 | - | 2,065 | 300 | 596 | 98 | 12/18 |
| Sabadell Information Systems Limited | Provision of technology services | London - United Kingdom | 100.00 | - | No | 12,036 | 26,508 | (6,138) | - | 124,340 | 41,296 | (2,204) | (6,138) | 12/18 |
| Sabadell Information Systems, S.A. | Other investees with their own business | Sabadell - Spain | 100.00 | - | Yes | 40,243 | 186,186 | (131,537) | - | 1,596,846 | 143,695 | 79,617 | (36,051) | 12/18 |
| Sabadell Innovation Capital, S.L.U. | Holding | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 1,000 | (17) | (365) | - | 26,175 | 1,000 | (18) | (364) | 12/18 |
| **Subtotal** | | | | | | | | | **80,480** | | **455,067** | **170,547** | **37,954** | |

## Banco Sabadell Group companies as at 31 December 2018 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Sabadell Innovation Cells, S.L.U. | Other business management consulting activities | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 3 | (269) | (1,854) | - | 3,366 | 3 | (269) | (1,854) | 12/18 |
| Sabadell Patrimonio Inmobiliario, S.A.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 30,116 | 802,096 | 25,465 | - | 938,616 | 863,895 | (19,489) | 37,119 | 12/18 |
| Sabadell Real Estate Activos, S.A.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 100,060 | 235,312 | (562) | - | 336,982 | 500,622 | (156,688) | (4,432) | 12/18 |
| Sabadell Real Estate Development, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 15,807 | (1,882,623) | (351,397) | - | 3,465,424 | 2,147,442 | (3,711,160) | (279,826) | 12/18 |
| Sabadell Real Estate Housing, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 2,073 | (61) | 1,145 | - | 30,672 | 14,292 | (12,280) | 1,145 | 12/18 |
| Sabadell Securities Usa, Inc. | Other investees with their own business | Miami - United States | 100.00 | - | No | 551 | 3,170 | 247 | - | 4,112 | 551 | 2,844 | 252 | 12/18 |
| Sabadell Strategic Consulting, S.L.U. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 3 | 504 | 153 | - | 1,316 | 3 | 504 | 153 | 12/18 |
| Sabadell Venture Capital, S. L.U. | Holding | Barcelona - Spain | - | 100.00 | Yes | 3 | 1,535 | 774 | - | 24,700 | 3 | 159 | 465 | 12/18 |
| Sinia Capital S.A. de C.V. | Holding | Mexico DF - Mexico | - | 100.00 | No | 20,830 | (1,309) | 3,686 | - | 42,019 | 18,675 | 1,118 | 751 | 12/18 |
| Sinia Renovables, S.A.U. | Other regulated companies | Barcelona - Spain | 100.00 | - | Yes | 15,000 | (14,825) | 5,569 | - | 22,393 | 15,000 | (8,956) | 4,032 | 12/18 |
| Solvia Desarrollos Inmobiliarios S.L. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 25 | 772 | 1,026 | - | 4,020 | 15 | 783 | 1,026 | 12/18 |
| Solvia Gestora de Vivienda Social, S.L.U. | Real estate | Alicante - Spain | 100.00 | - | Yes | 3 | 4,766 | 3,201 | - | 10,228 | 7,980 | 4,766 | 3,201 | 12/18 |
| Solvia Pacific, S.A. De C.V. | Real estate | Mexico DF - Mexico | - | 100.00 | No | 28,947 | (16,633) | 325 | - | 12,642 | 29,164 | (11,827) | 325 | 12/18 |
| Solvia Servicios Inmobiliarios, S.L.U. | Real estate | Alicante - Spain | 100.00 | - | Yes | 660 | 92,100 | 21,398 | - | 125,678 | 14,008 | 84,208 | 13,424 | 12/18 |
| Stonington Spain, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 60,729 | (9,880) | 167 | - | 51,319 | 60,729 | (15,619) | 249 | 12/18 |
| Tasaciones de Bienes Mediterráneo, S.A. (en Liquidación) | Other investees with their own business | Alicante - Spain | 99.88 | 0.12 | Yes | 1,000 | 1,387 | - | - | 2,393 | 5,266 | (2,879) | - | 12/18 |
| Tenedora de Inversiones y Participaciones, S.L. | SPE | Alicante - Spain | 100.00 | - | Yes | 296,092 | (391,121) | (124,845) | - | 1,788,476 | 2,564,914 | (2,516,082) | (89,462) | 12/18 |
| Tierras Vega Alta Del Segura, S.L. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 4,550 | (13,136) | (813) | - | 6,121 | 3,250 | (25,296) | (926) | 12/18 |
| Tratamientos y Aplicaciones, S.L.U. en Liquidación | Services | Alicante - Spain | 100.00 | - | Yes | 3,003 | (353) | - | - | 2,655 | 4,654 | (2,004) | - | 12/18 |
| TSB Bank Plc | Credit institution | Edinburgh - United Kingdom | - | 100.00 | No | 90,710 | 2,077,450 | (73,254) | - | 45,489,008 | 1,814,636 | 385,789 | (180,183) | 12/18 |
| TSB Banking Group Plc | Holding | London - United Kingdom | 100.00 | - | No | 7,028 | 1,755,605 | (1,840) | - | 2,211,972 | 2,168,320 | (66,114) | (41,287) | 12/18 |
| TSB Banking Group plc Employee Share Trust | Other regulated companies | Jesrsey - United Kingdom | - | 100.00 | No | 1 | (5,902) | (2,624) | - | 1,247 | - | (6,136) | (1,659) | 12/18 |
| TSB Coverd Bonds Holdings Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | - | - | 12/18 |
| TSB Covered Bonds (LM Limited) | Other regulated companies | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | - | - | 12/18 |
| TSB Covered Bonds LLP | Other regulated companies | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | 3 | - | 12/18 |
| Urquijo Gestión, S.A.U., S.G.I.I.C. | Other regulated companies | Madrid - Spain | - | 100.00 | Yes | 3,606 | 3,022 | 2,000 | 4,500 | 15,823 | 3,084 | 3,916 | 1,628 | 12/18 |
| Urumea Gestión, S.L. (en liquidación) | Other investees with their own business | San Sebastián - Spain | - | 100.00 | No | 9 | (7) | (2) | - | 1 | 9 | (7) | (2) | 12/18 |
| VeA Rental Homes , S.A (5) | Letting of own property | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 5,000 | (2,169) | (7,862) | - | 66,540 | 5,000 | (2,158) | (7,872) | 12/18 |
| Verum Inmobiliaria Urbanismo y Promoción, S.A. | Real estate | Sant Cugat del Valles - Spain | - | 97.20 | Yes | 12,000 | (43,502) | (800) | - | 16,536 | 11,664 | (43,149) | (817) | 12/18 |
| Vitigudina FV, S.L. | Engineering | Barcelona - Spain | - | 100.00 | Yes | - | 1,629 | (880) | (275) | - | 18,032 | 1,777 | (228) | 12/18 |
| Xunqueira Eólica, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 3 | (5,179) | 134 | - | 11,751 | 400 | (4,540) | (903) | 12/18 |
| **Subtotal** | | | | | | | | | **212,801** | | **13,615,219** | **3,626,786** | **271,392** | |

(1) Formerly, Cam Global Finance S.A.U.
(2) Formerly, Gestión de Proyectos Urbanísticos del Mediterráneo, S.L.
(3) Formerly, HI Partners Holdco Gestión Activa, S.L.
(4) Formerly, Hotel Investment Partners, S.L.
(5) Formerly, VeA Rental Homes SOCIMI, S.A

## Banco Sabadell Group companies as at 31 December 2018 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) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Aurica III, Fondo De Capital Riesgo | Other regulated companies | Barcelona - Spain | - | 48.15 | 48,855 | (1,951) | (1,086) | - | 46,101 | 1,272 | (940) | (523) | 12/18 |
| Aurica IIIB, Soc. De Capital Riesgo, S.A | Other regulated companies | Barcelona - Spain | - | 43.43 | 33,020 | (853) | (1,222) | - | 31,135 | 776 | (383) | (531) | 12/18 |
| Atrian Bakers, S.L. | Other associates | Castellgali - Spain | - | 22.41 | 26,249 | (6,966) | 622 | - | 35,633 | 2,000 | - | 140 | 09/18 |
| Bansabadell Pensiones, E.G.F.P., S.A. | Other regulated companies | Madrid - Spain | 50.00 | - | 7,813 | 35,402 | (225) | - | 48,733 | 40,378 | (18,771) | (113) | 12/18 |
| Bansabadell Seguros Generales, S.A. De Seguros Y Reaseguros | Other regulated companies | Madrid - Spain | 50.00 | - | 10,000 | 54,649 | 16,101 | 12,293 | 238,897 | 45,000 | (12,676) | 8,050 | 12/18 |
| Bansabadell Vida, S.A. De Seguros Y Reaseguros | Other regulated companies | Madrid - Spain | 50.00 | - | 43,858 | 540,903 | 68,591 | 68,500 | 10,072,813 | 27,106 | 244,745 | 35,599 | 12/18 |
| Emte Renovables, S.L. | SPE | Barcelona - Spain | - | 62.11 | 7,050 | (7,050) | 161 | - | 347 | 4,379 | (4,379) | 215 | 10/18 |
| Esus Energía Renovable, S.L. | Services | Vigo - Spain | - | 45.00 | 50 | (539) | (134) | - | 2,133 | 23 | (23) | - | 11/18 |
| Financiera Iberoamericana, S.A. | Credit institution | Havana - Cuba | 50.00 | - | 38,288 | 5,040 | 3,288 | 984 | 89,308 | 19,144 | 2,518 | 1,644 | 12/18 |
| Flex Equipos De Descanso, S.A. | Manufacturing | Getafe - Spain | - | 19.16 | 66,071 | 14,096 | 22,357 | 1,915 | 228,709 | 50,930 | - | 6,515 | 10/18 |
| Gate Solar Gestión, S.L. | Services | Vitoria-Gasteiz - Spain | 50.00 | - | 300 | 3,096 | (3) | - | 3,490 | 1,860 | (629) | 3 | 09/18 |
| Gestora De Aparcamientos Del Mediterráneo, S.L. | Services | Alicante - Spain | - | 40.00 | 1,000 | (9,600) | - | - | 2,823 | 7,675 | (7,675) | - | 11/18 |
| Grupo Luxiona, S.L. | Other investees | Barcelona - Spain | - | 20.00 | 2,561 | 4,732 | (1,976) | - | 60,312 | 10,835 | (10,835) | - | 09/18 |
| Hydrophytic, S.L. | Real estate | Vitoria-Gasteiz - Spain | - | 50.00 | 186 | 124 | 18 | - | 469 | 93 | 62 | 9 | 09/18 |
| Murcia Emprende, S.C.R. De R.S., S.A. | Other regulated companies | Murcia - Spain | 28.70 | - | 6,800 | (2,651) | (101) | - | 4,079 | 2,026 | (1,527) | (39) | 09/18 |
| Nueva Pescanova, S.L. | Wholesale trade | Redondela - Spain | 24.06 | - | 147,614 | (38,191) | 5,448 | - | 974,487 | 420 | - | 891 | 12/18 |
| Plaxic Estelar, S.L. | Real estate | Barcelona - Spain | - | 45.01 | 3 | (15,255) | (3) | - | 31,991 | 2,898 | (2,898) | - | 10/18 |
| Redes 2 Promotoro Unica S.L. | Holding | Madrid - Spain | - | 20.00 | 10,328 | 90,874 | (620) | - | 106,572 | 20,191 | 50 | (124) | 12/18 |
| Ribera Salud, S.A. | Services | Valencia - Spain | - | 50.00 | 9,518 | 113,473 | 20,093 | - | 407,535 | 30,203 | 16,843 | 4,704 | 12/18 |
| Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg) | Other investees | Luxembourg - Luxembourg | 44.64 | - | 12,900 | (55) | (25) | - | 12,931 | 4,926 | 3,052 | - | 10/18 |
| Sabadell Asabys Health Innovation Investment, S.A. | Holding | Barcelona - Spain | - | 49.92 | 4,587 | - | (175) | - | 4,412 | 2,260 | 30 | (87) | 11/18 |
| Sbd Creixent, S.A. | Real estate | Sabadell - Spain | 23.05 | - | 5,965 | (208) | 619 | - | 6,520 | 3,524 | (2,197) | 143 | 10/18 |
| Sociedad De Cartera Del Vallés, S.I.C.A.V., S.A. | Other associates | Sabadell - Spain | 48.43 | - | 4,818 | 170 | (523) | 80 | 4,494 | 422 | 1,994 | (253) | 12/18 |
| Societat D'Inversió Dels Enginyers, S.L. | SPE | Barcelona - Spain | - | 35.78 | 2,555 | (590) | (218) | - | 1,756 | 915 | (212) | (78) | 09/18 |
| Termosolar Borges S.L. | Engineering | Barcelona - Spain | 47.50 | - | 14,700 | (34,853) | 609 | - | 133,841 | 11,800 | - | - | 10/18 |
| Villoldo Solar S.L. | Engineering | Barcelona - Spain | 50.00 | - | 3 | 49 | (5) | - | 98 | - | - | - | 10/18 |
| Other | | | | | | | | | | | | 545 | |
| **Total** | | | | | | | | **83,772** | | **291,056** | **206,149** | **56,710** | |

Balance sheet date includes last available date.

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.

(a) Companies outside Spain have been translated to euros applying historical exchange rate and the average exchange rate for profit/(loss) during the year.

(b) Results pending approval at Annual General Meeting.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method amounted to 1,807,552 thousand euros as at 31 December 2018. The liabilities balance of associates as at the end of 2018 totalled 1,779,922 thousand euros.

## Changes in the scope of consolidation in 2018

### Additions to the scope of consolidation:

Thousand euro

| Name of entity (or line of business) acquired or merged | Category | Effective date of the transaction | Cost of combination: Cost of acquisition | Cost of combination: Fair value of equity instruments issued for the acquisition | % Voting rights acquired | % Total voting rights | Type of shareholding | Method | Reason |
|---|---|---|---|---|---|---|---|---|---|
| Solvia Desarrollos Inmobiliarios, S.L. | Subsidiary | 13/04/2018 | 15 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| LSP Finance , S.L. | Subsidiary | 14/06/2018 | 6,150 | - | 100.00% | 100.00% | Indirect | Full consolidation | b |
| Termosolar Borges. S.L. | Associate | 28/06/2018 | 11,800 | - | 47.50% | 47.50% | Direct | Equity method | c |
| Villoldo Solar, S.L. | Associate | 28/06/2018 | - | - | 50.00% | 50.00% | Direct | Equity method | c |
| Redes 2 Promotora Única, S.L. | Associate | 03/07/2018 | 20,191 | - | 20.00% | 20.00% | Indirect | Equity method | c |
| PayTPV On Line Entidad de Pago, S.L. | Subsidiary | 26/07/2018 | 7,500 | - | 100.00% | 100.00% | Indirect | Full consolidation | b |
| Sabadell Asabys Health Innovation Investments S.A. | Associate | 14/11/2018 | 2,260 | - | 49.92% | 49.92% | Indirect | Equity method | c |
| Fuerza Eólica de San Matías, S de RL de CV | Subsidiary | 15/11/2018 | 2,597 | - | 99.99% | 99.99% | Indirect | Full consolidation | b |
| **Total newly consolidated subsidiaries** | | | **16,262** | | | | | | |
| **Total newly consolidated associates** | | | **34,251** | | | | | | |

(a) Incorporation of subsidiaries.

(b) Acquisition of subsidiaries.

(c) Acquisition or incorporation of associates

## 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 |
|---|---|---|---|---|---|---|---|---|
| Cape Funding No.1 PLC | Subsidiary | 30/04/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Cape Holdings No.1 Limited | Subsidiary | 30/04/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| TSB Scotland (Investment) Nominees Limited | Subsidiary | 30/04/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| TSB Scotland Nominees Limited | Subsidiary | 30/04/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Parque Eólico Los Ausines, S.L | Associate | 30/06/2018 | 50.00% | - | 5,574 | Indirect | Equity method | a |
| HI Partners Starwood Capital Holdco Value Added, S.L.U. | Associate | 31/01/2018 | 30.00% | - | - | Indirect | Equity method | b |
| Sabadell Solbank Sociedad de Gestión de Activos Adjudicados, S.A.U. | Subsidiary | 31/01/2018 | 100.00% | - | 13 | Direct | Full consolidation | b |
| CAM International Issues, S.A.U. | Subsidiary | 27/09/2018 | 100.00% | - | 8 | Direct | Full consolidation | b |
| HIP Francia 184, S.L.U. en liquidación | Subsidiary | 28/12/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Hotel María Tarrida 6, S.L.U. en liquidación | Subsidiary | 28/12/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Hotel Autovía del Mediterráneo 165, S.L.U. en liquidación | Subsidiary | 28/12/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Hotel Carretera de Taull, S.L.U. en liquidación | Subsidiary | 28/12/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Hotel Cavall de Mar 25, S.L.U. en liquidación | Subsidiary | 28/12/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Gala Domus, S.A. (en concurso de acreedores) | Subsidiary | 17/10/2018 | 100.00% | - | (23) | Indirect | Full consolidation | b |
| Other | | | - | - | 60 | | | |
| **Subtotal** | | | | | **5,632** | | | |

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

## Schedule II – Structured entities - Securitisation funds

Thousand euro

| Year | Securitisation funds fully retained on the balance sheet | Entity | Total securitised assets as at 31/12/2019 |
|---|---|---|---|
| 2004 | GC SABADELL 1, F.T.H | Banco Sabadell | 94,043 |
| 2005 | TDA 23, F.T.A | Banco Guipuzcoano | 26,653 |
| 2005 | TDA CAM 4 F.T.A | Banco CAM | 224,827 |
| 2005 | TDA CAM 5 F.T.A | Banco CAM | 423,315 |
| 2006 | TDA 26-MIXTO, F.T.A | Banco Guipuzcoano | 74,554 |
| 2006 | TDA CAM 6 F.T.A | Banco CAM | 297,038 |
| 2006 | FTPYME TDA CAM 4 F.T.A | Banco CAM | 107,522 |
| 2006 | TDA CAM 7 F.T.A | Banco CAM | 451,853 |
| 2006 | CAIXA PENEDES 1 TDA, FTA | BMN- Penedés | 193,392 |
| 2007 | TDA 29, F.T.A | Banco Guipuzcoano | 94,931 |
| 2007 | TDA CAM 8 F.T.A | Banco CAM | 433,642 |
| 2007 | TDA CAM 9 F.T.A | Banco CAM | 423,251 |
| 2007 | CAIXA PENEDES PYMES 1 TDA, FTA | BMN- Penedés | 41,854 |
| 2007 | CAIXA PENEDES 2 TDA, FTA | BMN- Penedés | 152,921 |
| 2008 | CAIXA PENEDES FTGENCAT 1 TDA, FTA | BMN- Penedés | 62,348 |
| 2009 | GAT-ICO-FTVPO 1, F.T.H (CP) | BMN- Penedés | 6,210 |
| 2015 | DUNCAN FUNDING 2015-1 PLC | TSB | 1,400,690 |
| 2016 | DUNCAN FUNDING 2016-1 PLC | TSB | 2,452,783 |
| 2016 | IM SABADELL PYME 10 | Banco Sabadell | 427,291 |
| 2017 | TDA SABADELL RMBS 4, FT | Banco Sabadell | 5,061,085 |
| 2017 | IM SABADELL PYME 11, FT | Banco Sabadell | 796,263 |
| **Total** | | | **13,246,466** |

Thousand euro

| Year | Securitisation funds fully derecognised from the balance sheet | Entity | Total securitised assets as at 31/12/2019 |
|---|---|---|---|
| 2001 | TDA 14-MIXTO, F.T.A | Banco Guipuzcoano | 1,918 |
| 2001 | TDA 14-MIXTO, F.T.A | BMN- Penedés | 10,761 |
| 2002 | TDA 15-MIXTO, F.T.A | Banco Guipuzcoano | 6,031 |
| 2006 | TDA 25, FTA (*) | Banco Gallego | 4,832 |
| 2010 | FTPYMES 1 LIMITED | Banco CAM | 157,289 |
| 2019 | SABADELL CONSUMO 1,FT | Banco Sabadell | 880,762 |
| **Total** | | | **1,061,593** |

(*) Securitisation fund in process of early liquidation.

## Schedule III – Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register

Information concerning the data kept in the special accounting register of the issuer Banco Sabadell referred to in Article 21 of Royal Decree 716/2009, as required by Bank of Spain Circular 5/2011 is as follows, without taking account of the guarantee provided by the DGF.

A) Asset-side transactions

Details of the aggregate nominal values of mortgage loans and credit as at 31 December 2019 and 2018 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)**

| | 2019 | 2018 |
|---|---|---|
| **Total mortgage loan and credit portfolio** | **51,704,089** | **53,708,998** |
| **Participation mortgages issued** | **2,333,714** | **2,737,340** |
| *Of which: Loans held on balance sheet* | *2,267,172* | *2,652,901* |
| **Mortgage transfer certificates** | **6,505,016** | **7,126,535** |
| *Of which: Loans held on balance sheet* | *6,405,988* | *7,024,075* |
| **Mortgage loans pledged as security for financing received** | - | - |
| **Loans backing issues of mortgage bonds and covered bonds** | **42,865,358** | **43,845,123** |
| Ineligible loans | 11,478,524 | 13,712,492 |
| Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009 | 10,838,235 | 12,694,995 |
| Rest | 640,289 | 1,017,497 |
| Eligible loans | 31,386,834 | 30,132,631 |
| Non-qualifying portions | 68,264 | 80,012 |
| Qualifying portions | 31,318,570 | 30,052,619 |
| Loans covering mortgage bond issues | - | - |
| Loans eligible as coverage for covered bond issues | 31,318,570 | 30,052,619 |
| **Substitution assets for covered bond issues** | - | - |

A breakdown of these nominal values according to different classifications is given below:

Thousand euro

**Analysis of total mortgage loan and credit portfolio backing mortgage market issues**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Total | *Of which: Eligible loans* | Total | *Of which: Eligible loans* |
| **Total mortgage loan and credit portfolio** | 42,865,358 | *31,386,834* | 43,845,123 | *30,132,631* |
| **Origin of operations** | 42,865,358 | *31,386,834* | 43,845,123 | *30,132,631* |
| Originated by the institution | 42,270,777 | *30,974,128* | 43,165,526 | *29,696,214* |
| Subrogated from other entities | 278,494 | *233,425* | 312,754 | *257,131* |
| Rest | 316,087 | *179,281* | 366,843 | *179,286* |
| **Currency** | 42,865,358 | *31,386,834* | 43,845,123 | *30,132,631* |
| Euro | 42,797,267 | *31,349,794* | 43,758,869 | *30,083,348* |
| Other currencies | 68,091 | *37,040* | 86,254 | *49,283* |
| **Payment status** | 42,865,358 | *31,386,834* | 43,845,123 | *30,132,631* |
| Satisfactory payment | 37,958,995 | *28,923,510* | 39,344,180 | *28,875,322* |
| Other situations | 4,906,363 | *2,463,324* | 4,500,943 | *1,257,309* |
| **Average residual maturity** | 42,865,358 | *31,386,834* | 43,845,123 | *30,132,631* |
| Up to 10 years | 10,530,752 | *8,364,734* | 11,749,774 | *8,416,923* |
| 10 to 20 years | 16,913,750 | *13,114,430* | 17,276,398 | *12,762,148* |
| 20 to 30 years | 13,554,446 | *9,372,057* | 12,633,196 | *8,286,463* |
| More than 30 years | 1,866,410 | *535,613* | 2,185,755 | *667,097* |
| **Interest rate** | 42,865,358 | *31,386,834* | 43,845,123 | *30,132,631* |
| Fixed | 15,649,048 | *12,302,334* | 12,871,219 | *9,796,935* |
| Variable | 27,216,310 | *19,084,500* | 30,973,904 | *20,335,696* |
| Mixed | - | - | - | - |
| **Borrowers** | 42,865,358 | *31,386,834* | 43,845,123 | *30,132,631* |
| Legal entities and individual entrepreneurs | 13,064,592 | *8,615,114* | 14,750,289 | *8,641,999* |
| *Of which: Real estate developments* | *2,592,657* | *1,168,147* | *3,602,883* | *1,393,704* |
| Other individuals and NPISHs | 29,800,766 | *22,771,720* | 29,094,834 | *21,490,632* |
| **Type of guarantee** | 42,865,358 | *31,386,834* | 43,845,123 | *30,132,631* |
| Assets /finished buildings | 41,648,120 | *30,766,388* | 41,816,188 | *29,375,324* |
| *Residential* | *33,886,692* | *25,263,855* | *33,588,699* | *23,944,284* |
| *Of which: Subsidised housing* | *1,595,969* | *1,253,735* | *1,670,994* | *1,306,243* |
| *Commercial* | *7,544,133* | *5,341,589* | *8,038,216* | *5,298,139* |
| *Other* | *217,295* | *160,944* | *189,273* | *132,901* |
| Assets/ buildings under construction | 197,324 | *165,674* | 254,599 | *180,336* |
| *Residential* | *154,640* | *127,281* | *216,051* | *146,706* |
| *Of which: Subsidised housing* | *173* | *173* | *180* | *180* |
| *Commercial* | *41,050* | *36,759* | *37,945* | *33,027* |
| *Other* | *1,634* | *1,634* | *603* | *603* |
| Land | 1,019,914 | *454,772* | 1,774,336 | *576,971* |
| *Developed* | *322,786* | *69,652* | *738,779* | *121,329* |
| *Rest* | *697,128* | *385,120* | *1,035,557* | *455,642* |

The nominal values of available funds (i.e. undrawn commitments) within the total mortgage loans and credit portfolio were as follows:

Thousand euro

| Undrawn balances (nominal value). Total mortgage loans and credit backing the issue of mortgage bonds and covered bonds | | |
|---|---|---|
| | 2019 | 2018 |
| Potentially eligible | 1,099,810 | 1,083,230 |
| Ineligible | 2,824,979 | 2,816,709 |

The breakdown of nominal values based on the loan-to-value (LTV) ratio measuring the risk based on the last available valuation of the mortgage loans and credit portfolio eligible for the issuance of mortgage bonds and covered bonds is given hereafter:

Thousand euro

| LTV ratio by type of security. Eligible loans for the issue of mortgage bonds and covered bonds | | |
|---|---|---|
| | 2019 | 2018 |
| **Secured on residential property** | **25,411,025** | **24,114,006** |
| *Of which LTV <= 40%* | *7,362,006* | *7,235,411* |
| *Of which LTV 40%-60%* | *9,237,433* | *8,690,528* |
| *Of which LTV 60%-80%* | *8,811,586* | *8,188,067* |
| *Of which LTV > 80%* | - | - |
| | | - |
| **Secured on other property** | **5,975,809** | **6,018,625** |
| *Of which LTV <= 40%* | *3,510,121* | *3,568,263* |
| *Of which LTV 40%-60%* | *2,465,688* | *2,450,362* |
| *Of which LTV > 60%* | - | - |

Changes during 2019 and 2018 in the nominal values of mortgage loans that secure issues of mortgage bonds and covered bonds (eligible and non-eligible) are as follows:

Thousand euro

| Changes in nominal values of mortgage loans | | |
|---|---|---|
| | **Eligible** | **Ineligible** |
| **Balance as at 31 December 2017** | **28,781,826** | **15,943,345** |
| **Derecognised during the year** | **(5,853,849)** | **(5,414,693)** |
| Terminations at maturity | (2,137,409) | (354,755) |
| Early terminations | (1,197,883) | (627,906) |
| Subrogations by other entities | (26,166) | (8,384) |
| Derecognised due to securitisations | - | - |
| Rest | (2,492,391) | (4,423,648) |
| **Additions during the year** | **7,204,654** | **3,183,840** |
| Originated by the institution | 3,977,513 | 1,453,187 |
| Subrogations by other entities | 96,087 | 10,726 |
| Rest | 3,131,054 | 1,719,927 |
| **Balance as at 31 December 2018** | **30,132,631** | **13,712,492** |
| **Derecognised during the year** | **(4,405,522)** | **(3,913,259)** |
| Terminations at maturity | (2,433,595) | (283,965) |
| Early terminations | (1,032,207) | (285,039) |
| Subrogations by other entities | (11,474) | (2,836) |
| Derecognised due to securitisations | (928,246) | (3,341,419) |
| Rest | - | - |
| **Additions during the year** | **5,659,725** | **1,679,291** |
| Originated by the institution | 4,243,046 | 1,370,201 |
| Subrogations by other entities | 13,999 | 6,849 |
| Rest | 1,402,680 | 302,241 |
| **Balance as at 31 December 2019** | **31,386,834** | **11,478,524** |

## 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 | 2019 | 2018 |
|---|---|---|
| **Covered bonds issued** | **21,429,687** | **22,353,833** |
| *Of which: Not reflected under liabilities on the balance sheet* | *10,927,900* | *10,727,900* |
| **Debt securities. Issued through public offering** | **6,200,000** | **6,200,000** |
| Time to maturity up to one year | 1,750,000 | - |
| Time to maturity from one to two years | 1,350,000 | 1,750,000 |
| Time to maturity from two to three years | - | 1,350,000 |
| Time to maturity from three to five years | 2,000,000 | 1,000,000 |
| Time to maturity from five to ten years | 1,100,000 | 2,100,000 |
| Time to maturity more than ten years | - | - |
| **Debt securities. Other issues** | **13,653,000** | **14,053,000** |
| Time to maturity up to one year | 5,380,000 | 3,150,000 |
| Time to maturity from one to two years | 3,000,000 | 5,380,000 |
| Time to maturity from two to three years | 1,695,000 | 3,000,000 |
| Time to maturity from three to five years | 1,938,000 | 783,000 |
| Time to maturity from five to ten years | 1,640,000 | 1,740,000 |
| Time to maturity more than ten years | - | - |
| **Deposits** | **1,576,687** | **2,100,833** |
| Time to maturity up to one year | 145,833 | 524,146 |
| Time to maturity from one to two years | 300,000 | 145,833 |
| Time to maturity from two to three years | 694,444 | 300,000 |
| Time to maturity from three to five years | 100,000 | 794,444 |
| Time to maturity from five to ten years | 336,410 | 336,410 |
| Time to maturity more than ten years | - | - |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Nominal value (thousand euro) | Average residual maturity (years) | Nominal value (thousand euro) | Average residual maturity (years) |
| **Mortgage transfer certificates** | **6,505,016** | **22** | **7,126,535** | **23** |
| Issued through public offering | - | - | - | - |
| Other issues | 6,505,016 | 22 | 7,126,535 | 23 |
| | | | - | - |
| **Participation mortgages** | **2,333,714** | **12** | **2,737,340** | **13** |
| Issued through public offering | - | - | - | - |
| Other issues | 2,333,714 | 12 | 2,737,340 | 13 |

Banco de Sabadell, S.A.'s overcollateralisation ratio (the nominal value of the full mortgage lending portfolio backing the issuance of covered bonds, divided by the nominal value of issued covered bonds) stood at 200% as at 31 December 2019 (196% as at 31 December 2018).

As required by Royal Decree 716/2009, implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market and other matters relating to mortgage lending, the Board of Directors represents that it is responsible for ensuring that the institution has a set of policies and procedures in place to assure compliance with mortgage market regulations.

In line with these policies and procedures related to the Group's mortgage market activities, the Board of Directors is responsible for ensuring compliance with mortgage market regulations and for implementing the Group's risk management and control procedures (see Note 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 Committee, which then sub-delegates authority to the various decision-making levels. The internal procedures set up to handle the origination and monitoring of assets that make up the Group's lending and particularly those secured by mortgages, which back the Group's covered bond issues, are described in detail below for each type of loan applicant.

Retail customers

Loans to retail customers are approved and decided on using the credit scoring tools described in Note 4.4.2.2 “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 4.4.2.2 “Risk management models”, the Group has a comprehensive monitoring system in place which uses early warning tools that enable the early detection of borrowers that could be predisposed to compliance issues. A key part of this process consists of well-established procedures to review and validate the guarantees given.

Corporates unrelated to construction and/or real estate development

Analyses and decisions concerning the approval of risks (lending and guarantees) are based on rating tools and "basic risk management teams", formed by one person from the business side and one from the risks side at different decision-making levels, both described in Note 4.4.2.2 “Risk management models”. A range of other data and parameters are also taken into account, such as the consistency of the application, ability to pay and the nature of the security provided (as determined by an appraisal carried out by a Bank of Spain-authorised valuation firm which Banco Sabadell's own approval processes will, additionally, have shown to be free of any association with the Group) and considering any supplementary guarantees, the "fit" between the company's working capital and its total sales; the appropriateness of the total amount borrowed from the Group based on the business's capital strength, examinations of internal and external databases of defaulters, etc.

Reviews of charges and liens associated with the security provided and the registration of mortgages with the Property Registry are also applicable in this case.

Discretion figures are assigned based on the expected loss on the transaction/customer/risk group and the total risk of the customer or risk group. There are several levels in the approval process. In each such level there is a “basic management team", one member of which will be on the business side and one on the risk management side. All loan approvals must be the result of a joint decision. As with retail customers, a set of exceptional circumstances has been specified for borrowers and sectors, and these are provided for in the Group's internal procedures.

As in the case of retail customers, transactions are monitored using early warning tools. There are also procedures to ensure that the securities and guarantees provided are constantly being reviewed and validated.

### Corporates engaging in construction and/or real estate development

The bank’s management of real estate assets is covered by the Strategy and Risk Management Division and management of real estate developer loans are the remit of the Real Estate Development Financing Division. These divisions are organisationally structured to focus on the specialised management of assets of this type 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 bank’s Assets and Investees Risk Division, part of the Risk Management Division.

Risk assessments are carried out by teams of specialised analysts who operate in conjunction with the Real Estate Development Financing Divisions to ensure that a risk management perspective is combined with a view based on direct contact with customers.

Factors influencing the decision include an assessment of both the developer and the project together with a series of other supplementary considerations such as the financial position and net worth of the developer, revenue and cash flow projections, any business plans relating to the project and, most particularly, an in-depth analysis of the current risk situation, which may cover the finished development, plots or land or other developments.

There is a scale of maximum LTV ratios defined internally by the Group based on the purpose of the financing, quality of the developer and an internal appraisal of the development.

Decision-making powers and discretions are assigned according to the specific types of portfolios handled within this business segment, which may be related to new projects, sales, purchases or action plans. All these different circumstances are provided for in internal rules and procedures.

Loans are subject to the kind of continuous monitoring that asset management necessarily implies. For completed developments, monitoring will focus on sales or rental figures; for developments under construction, the progress of the work. A system of continuous control is established to check that commitments are being adhered to and, as with non-real estate businesses, procedures are in place for the continuous review and validation of the guarantees provided.

### Other matters

Banco Sabadell Group is an active participant in capital markets and has a number of funding programmes in operation (see section on “Funding strategy and evolution of liquidity in 2019” in note 4). As one element of the Group’s funding strategy, Banco de Sabadell, S.A. is an issuer of covered bonds. Covered bond issues are backed by the bank’s portfolio of mortgage loans granted by the issuer that meet the eligibility criteria defined in Royal Decree 716/2009 regulating the mortgage market and other standards of the financial mortgages system in Spain. The Group has control procedures in place to monitor its entire portfolio of mortgage loans and credit (one of which involves keeping special accounting records of all mortgage loans and credit – and any assets that replace them – used to back issues of covered bonds and mortgage bonds, as well as records of any associated financial derivatives). There are also procedures in place to verify that all loans meet the eligibility criteria for use as collateral in issues of covered bonds, and to ensure that bond issues are kept within their maximum limits at all times. These procedures are all regulated by current mortgage market regulations.

## Schedule IV – Information on issuers of public sector covered bonds and on the special accounting register of public sector covered bonds

Details of the data from the special accounting register of public sector covered bonds of the issuing entity Banco Sabadell, referred to in the sole additional provision of Royal Decree 579/2014, required by Bank of Spain Circular 4/2015, are given below:

A) Asset-side transactions

Details of the aggregate nominal values of loans and credit with general governments as at 31 December 2019 which are used as collateral for issuances, their eligibility and the extent to which they qualify as eligible collateral for public sector covered bonds are presented in the following table:

Thousand euro

| | 2019 | | |
|---|---|---|---|
| | Total | Residents in Spain | Residents in other countries of the Economic Area |
| Central governments | 217,896 | 217,896 | - |
| Regional governments or governments in autonomous communities | 2,396,736 | 2,396,736 | - |
| Local governments | 1,120,276 | 1,120,276 | - |
| Social Security Trust Funds | - | - | - |
| **Total loans and credit portfolio** | **3,734,908** | **3,734,908** | **-** |

Thousand euro

| | 2018 | | |
|---|---|---|---|
| | Total | Residents in Spain | Residents in other countries of the Economic Area |
| Central governments | 142,683 | 142,683 | - |
| Regional governments or governments in autonomous communities | 1,436,589 | 1,436,589 | - |
| Local governments | 1,036,998 | 1,036,998 | - |
| Social Security Trust Funds | - | - | - |
| **Total loans and credit portfolio** | **2,616,270** | **2,616,270** | **-** |

## B) Liability-side transactions

Information on issuances carried out and collateralised using the bank's portfolio of loans and credit with general governments is provided in the following table, disclosed by residual maturity and according to whether the sale was by public offering or otherwise:

Thousand euro

| Nominal value | 2019 | 2018 |
|---|---|---|
| **Public sector covered bonds issued** | **1,600,000** | **1,200,000** |
| *Of which: Not reflected under liabilities on the balance sheet* | - | - |
| **Issued through public offering** | **-** | **-** |
| Time to maturity up to one year | - | - |
| Time to maturity from one to two years | - | - |
| Time to maturity from two to three years | - | - |
| Time to maturity from three to five years | - | - |
| Time to maturity from five to ten years | - | - |
| Time to maturity more than ten years | - | - |
| **Other issues** | **1,600,000** | **1,200,000** |
| Time to maturity up to one year | - | 400,000 |
| Time to maturity from one to two years | - | - |
| Time to maturity from two to three years | 400,000 | - |
| Time to maturity from three to five years | 800,000 | - |
| Time to maturity from five to ten years | 400,000 | 800,000 |
| Time to maturity more than ten years | - | - |

The overcollateralisation ratio (the aggregate nominal value of the portfolio of loans and credit to general governments backing the issue of public sector covered bonds divided by the nominal value of issued public sector covered bonds) for Banco de Sabadell, S.A. stood at 233% as at 31 December 2019 (218% as at 31 December 2018).

As required by Royal Decree 579/2014, the Board of Directors represents that it is responsible for ensuring that the institution has a set of policies and procedures in place relating to the activities for the financing of public entities to assure compliance with regulations governing the issuance of these securities (see Note 4 "Risk management").

In terms of credit risk, in particular, the Board of Directors confers powers and discretions to the Delegated Committee, which then sub-delegates authority to the various decision-making levels. Internal procedures are in place to handle the origination and monitoring of the assets that make up the Group's loans and receivables and particularly assets with public entities, which back the Group's issues of public sector covered bonds.

## Schedule V – Details of outstanding issues and subordinate liabilities of the Group

### Debt securities issued

The breakdown of the Group's issues at 31 December 2019 and 2018 is as follows:

Thousand euro

| Issuer | Date of issue | Amount | | Interest rate ruling as at 31/12/2019 | Maturity/call date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|
| | | 31/12/2019 | 31/12/2018 | | | | |
| Banco Gallego, S.A. (*) | 28/10/2013 | - | 186 | 2.00% | 29/12/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 10/03/2014 | 324 | 1,049 | EURIBOR 6M + 3.50 | 10/03/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/03/2014 | - | 5,000 | EURIBOR 3M + 1.35 | 18/03/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/03/2014 | - | 11,500 | EURIBOR 3M + 1.65 | 18/03,2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/05/2014 | 461 | 1,354 | 4.42% | 10/05/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/05/2014 | 609 | 1,828 | EURIBOR 6M + 3.50 | 10/05/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 13/05/2014 | - | 20,000 | EURIBOR 3M + 0.90 | 13/05/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/06/2014 | 261 | 871 | EURIBOR 6M + 2.75 | 10/06/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/06/2014 | 284 | 940 | EURIBOR 6M + 3.00 | 10/06/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 27/06/2014 | - | 20,000 | EURIBOR 3M + 0.85 | 27/06/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/07/2014 | 401 | 802 | EURIBOR 6M + 2.75 | 10/07/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/08/2014 | 766 | 1,572 | EURIBOR 6M + 2.75 | 10/08/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/10/2014 | 462 | 924 | EURIBOR 6M + 2.35 | 10/10/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/11/2014 | 842 | 1,684 | EURIBOR 6M + 2.35 | 10/11/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/12/2014 | 789 | 1,940 | EURIBOR 6M + 2.35 | 10/12/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 05/12/2016 | 500,000 | 500,000 | 0.65% | 05/03/2020 | Euros | Retail |
| Banco de Sabadell, S.A. | 12/12/2016 | - | 15,000 | MAX(EURIBOR 3M; 0.5%) | 12/12/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 07/03/2017 | - | 591,066 | 0.40% | 07/03/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 24/04/2017 | - | 342,017 | 0.40% | 24/04/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 21/06/2017 | - | 464,764 | 0.40% | 21/06/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 03/07/2017 | 10,000 | 10,000 | MAX(EURIBOR 3M + 0.30; 0.3%) | 04/07/2022 | Euros | Retail |
| Banco de Sabadell, S.A. | 28/07/2017 | 26,800 | 26,800 | MAX(EURIBOR 3M; 0.60%) | 28/07/2022 | Euros | Retail |
| Banco de Sabadell, S.A. | 28/09/2017 | 10,000 | 10,000 | MAX(EURIBOR 3M + 0.30; 0.3%) | 28/09/2022 | Euros | Retail |
| Banco de Sabadell, S.A. | 05/12/2017 | 1,000,000 | 1,000,000 | 0.88% | 05/03/2023 | Euros | Institutional |
| Banco de Sabadell, S.A. | 26/02/2018 | 4,000 | 4,000 | MAX(EURIBOR 3M; 0.4%) | 27/02/2023 | Euros | Retail |
| Banco de Sabadell, S.A. | 16/03/2018 | 6,000 | 6,000 | MAX(EURIBOR 3M; 0.67%) | 17/03/2025 | Euros | Retail |
| Banco de Sabadell, S.A. | 03/04/2018 | 6,000 | 6,000 | MAX(EURIBOR 3M; 0.4%) | 03/04/2023 | Euros | Retail |
| Banco de Sabadell, S.A. | 31/05/2018 | 3,000 | 3,000 | MAX(EURIBOR 3M; 0.3%) | 31/05/2023 | Euros | Retail |
| Banco de Sabadell, S.A. | 07/09/2018 | 750,000 | 750,000 | 1.63% | 07/03/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 14/11/2018 | 1,000 | 1,000 | MAX(EURIBOR 3M; 1.1%) | 14/11/2023 | Euros | Retail |
| Banco de Sabadell, S.A. | 14/11/2018 | 2,500 | 2,500 | MAX(EURIBOR 3M; 1.5%) | 14/11/2025 | Euros | Retail |
| Banco de Sabadell, S.A. | 28/03/2019 | 601,415 | - | 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 | - | 1.75% | 10/05/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 22/07/2019 | 1,000,000 | - | 0.88% | 22/07/2025 | Euros | Institutional |
| Banco de Sabadell, S.A. | 27/09/2019 | 500,000 | - | 1.13% | 27/03/2025 | Euros | Institutional |
| Banco de Sabadell, S.A. (**) | 07/11/2019 | 500,000 | - | 0.63% | 07/11/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 15/11/2019 | 120,000 | - | MAX(0%; EURIBOR 3M+0.6%) | 15/05/2024 | Euros | Institutional |
| Subscribed by Group companies | | (126,902) | (42,699) | | | | |
| **Total straight bonds** | | **6,219,012** | **3,759,098** | | | | |

(*) Company merged with Banco Sabadell.

(**) "Maturity/call date" refers to the first call date.

Thousand euro

| Issuer | Date of issue | Amount | | Interest rate ruling as at 31/12/2019 | Maturity date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|
| | | 31/12/2019 | 31/12/2018 | | | | |
| 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. | 20/12/2012 | - | 3,000 | ref . underlying assets | 20/12/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 27/05/2014 | - | 5,000 | ref . underlying assets | 27/05/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 14/07/2014 | 10,000 | 10,000 | ref . underlying assets | 15/07/2024 | Euros | Retail |
| Banco de Sabadell, S.A. | 14/07/2014 | 3,000 | 3,000 | ref . underlying assets | 14/07/2021 | Euros | Retail |
| Banco de Sabadell, S.A. | 16/07/2014 | - | 5,000 | ref . underlying assets | 16/07/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 24/07/2014 | - | 4,000 | ref . underlying assets | 24/07/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 15/04/2015 | 4,000 | 4,000 | ref . underlying assets | 15/04/2020 | Euros | Retail |
| Banco de Sabadell, S.A. | 06/07/2015 | 1,300 | 1,800 | ref . underlying assets | 06/07/2020 | Euros | Retail |
| Banco de Sabadell, S.A. | 01/06/2016 | - | 6,000 | ref . underlying assets | 03/06/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 17/06/2016 | - | 75,000 | ref . underlying assets | 17/06/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 21/06/2016 | - | 8,500 | ref . underlying assets | 21/06/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 30/11/2016 | 45,000 | 45,000 | ref . underlying assets | 30/11/2021 | Euros | Retail |
| Banco de Sabadell, S.A. | 05/11/2018 | 10,000 | 10,000 | ref . underlying assets | 01/04/2025 | Euros | Retail |
| Banco de Sabadell, S.A. | 12/11/2018 | 3,200 | 13,200 | ref . underlying assets | 01/04/2025 | Euros | Retail |
| Banco de Sabadell, S.A. | 18/02/2019 | 3,000 | - | ref . underlying assets | 18/02/2022 | Euros | Retail |
| Banco de Sabadell, S.A. | 04/04/2019 | 3,000 | - | ref . underlying assets | 04/10/2022 | Euros | Retail |
| Subscribed by Group companies | | (190) | (1,286) | | | | |
| **Total structured bonds** | | **110,310** | **220,214** | | | | |

(*) Company merged with Banco Sabadell.

Thousand euro

| Issuer | Date of issue | Amount | | Average interest rate | | Maturity date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|---|
| | | 31/12/2019 | 31/12/2018 | 31/12/2019 | 31/12/2018 | | | |
| Banco de Sabadell, S.A. (London office) (*) | 18/12/2015 | 293,333 | 695,373 | -0.16% | -0.07% | Multiple dates | Euros | Institutional |
| Banco de Sabadell, S.A. (**) | 15/03/2018 | 1,612,490 | 5,111,812 | -0.10% | 0.04% | Multiple dates | Euros | Institutional |
| Subscribed by Group companies | | (811,601) | (2,530,849) | | | | | |
| **Total commercial paper** | | **1,094,222** | **3,276,336** | | | | | |

(*) Commercial paper (ECP).

(**) Prospectus for 7,000,000 thousand euros, eligible for extension up to 9,000,000 thousand euros, filed with the National Securities Market Commission (CNMV).

Thousand euro

| Issuer | Date of issue | Amount 31/12/2019 | Amount 31/12/2018 | Interest rate ruling as at 31/12/2019 | Maturity date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|
| Banco de Sabadell, S.A. | 08/05/2009 | 100,000 | 100,000 | EURIBOR 3M + 1 | 08/05/2021 | Euros | Institutional |
| Banco CAM, S.A. (*) | 27/04/2010 | 30,000 | 30,000 | 4.60% | 31/07/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/12/2010 | 150,000 | 150,000 | EURIBOR 3M + 2.35 | 10/12/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 11/01/2011 | - | 100,000 | EURIBOR 3M + 2.60 | 11/01/2019 | Euros | Institutional |
| Banco Guipuzcoano, S.A. (*) | 19/01/2011 | - | 100,000 | EURIBOR 3M + 2.75 | 19/01/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 07/06/2011 | - | 200,000 | EURIBOR 3M + 2.25 | 07/06/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 13/07/2011 | 50,000 | 50,000 | EURIBOR 3M + 2.60 | 13/07/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 12/12/2011 | 150,000 | 150,000 | EURIBOR 3M + 3.10 | 12/12/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 05/10/2012 | 95,000 | 95,000 | EURIBOR 3M + 4.80 | 05/10/2022 | Euros | Institutional |
| Banco de Sabadell, S.A. | 28/12/2012 | 200,000 | 200,000 | EURIBOR 3M + 4.15 | 28/12/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 09/12/2013 | 200,000 | 200,000 | EURIBOR 3M+ 1.60 | 09/12/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 26/09/2014 | 250,000 | 250,000 | EURIBOR 3M + 0.70 | 26/09/2022 | Euros | Institutional |
| Banco de Sabadell, S.A. | 03/10/2014 | 38,000 | 38,000 | EURIBOR 3M + 0.68 | 03/10/2023 | Euros | Institutional |
| Banco de Sabadell, S.A. | 12/11/2014 | 1,350,000 | 1,350,000 | 0.88% | 12/11/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 05/12/2014 | 100,000 | 100,000 | EURIBOR 3 M + 0.40 | 05/12/2022 | Euros | Institutional |
| Banco de Sabadell, S.A. | 29/01/2015 | - | 1,250,000 | EURIBOR 12 M + 0.232 | 29/01/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 23/04/2015 | - | 1,500,000 | EURIBOR 12 M + 0.08 | 23/04/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 04/05/2015 | 250,000 | 250,000 | EURIBOR 3 M + 0.13 | 04/05/2023 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/06/2015 | 750,000 | 750,000 | 0.38% | 10/06/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/06/2015 | 1,500,000 | 1,500,000 | EURIBOR 12 M + 0.05 | 18/06/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 03/07/2015 | 50,000 | 50,000 | EURIBOR 3 M + 0.20 | 03/07/2023 | Euros | Institutional |
| Banco de Sabadell, S.A. | 20/07/2015 | 1,500,000 | 1,500,000 | EURIBOR 12 M + 0.05 | 20/07/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 16/09/2015 | 1,000,000 | 1,000,000 | EURIBOR 12 M + 0.07 | 16/09/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 03/11/2015 | 1,000,000 | 1,000,000 | 0.63% | 03/11/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 26/01/2016 | 550,000 | 550,000 | EURIBOR 3M + 0.80 | 26/01/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 24/05/2016 | 50,000 | 50,000 | EURIBOR 3M + 0.535 | 24/05/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/06/2016 | 1,000,000 | 1,000,000 | 0.63% | 10/06/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 20/10/2016 | 1,000,000 | 1,000,000 | 0.13% | 20/10/2023 | Euros | Institutional |
| Banco de Sabadell, S.A. | 21/12/2016 | 500,000 | 500,000 | EURIBOR 12M + 0.27 | 21/12/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 29/12/2016 | 250,000 | 250,000 | 0.97% | 27/12/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 26/04/2017 | 1,100,000 | 1,100,000 | 1.00% | 26/04/2027 | Euros | Institutional |
| Banco de Sabadell, S.A. | 21/07/2017 | 500,000 | 500,000 | 0.89% | 21/07/2025 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/12/2018 | 1,000,000 | 1,000,000 | EURIBOR 12M + 0.027 | 18/09/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/12/2018 | 1,000,000 | 1,000,000 | EURIBOR 12M + 0.085 | 18/06/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/12/2018 | 1,000,000 | 1,000,000 | EURIBOR 12M + 0.086 | 18/07/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 21/12/2018 | 390,000 | 390,000 | 1.09% | 21/12/2026 | Euros | Institutional |
| Banco de Sabadell, S.A. | 30/01/2019 | 1,250,000 | - | EURIBOR 12M + 0.130 | 30/01/2022 | Euros | Institutional |
| Banco de Sabadell, S.A. | 20/12/2019 | 750,000 | - | EURIBOR 12M + 0.074 | 20/12/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 20/12/2019 | 750,000 | - | EURIBOR 12M + 0.104 | 22/12/2025 | Euros | Institutional |
| Subscribed by Group companies | | (10,927,900) | (10,727,900) | | | | |
| **Total covered bonds** | | **8,925,100** | **9,525,100** | | | | |

(*) Companies merged with Banco Sabadell.

Thousand euro

| Issuer | Date of issue | Amount 31/12/2019 | Amount 31/12/2018 | Interest rate ruling as at 31/12/2019 | Maturity date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|
| Banco de Sabadell, S.A. | 16/12/2015 | - | 400,000 | EURIBOR 12M + 0.33 | 16/12/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/12/2018 | 800,000 | 800,000 | EURIBOR 12M + 0.242 | 18/12/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 16/12/2019 | 400,000 | - | 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 | -1,200,000 | | | | |
| **Total public sector covered bonds** | | - | - | | | | |

Thousand euro

| Issuer | Date of issue | Amount 31/12/2019 | Amount 31/12/2018 | Interest rate ruling as at 31/12/2019 | Maturity date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|
| TSB Banking Group Plc | 07/12/2017 | 587,682 | 558,953 | LIBOR 3M + 0.24 | 07/12/2022 | Pounds sterling | Institutional |
| TSB Banking Group Plc | 15/02/2019 | 881,523 | - | SONIA + 0.870 | 15/02/2024 | Pounds sterling | Institutional |
| Subscribed by Group companies | | - | - | | | | |
| **Total Covered Bonds** | | **1,469,205** | **558,953** | | | | |

## Securitisations

The following table shows the bonds issued by asset securitisation funds outstanding as at 31 December 2019 and 2018, respectively:

Thousand euro

| Year | Type of assets securitised | Quotation | Issue: Number of securities | Issue: Amount | Outstanding balance of liabilities: 2019 | Outstanding balance of liabilities: 2018 | Yield |
|---|---|---|---|---|---|---|---|
| 2004 | GC SABADELL 1, F.T.H. (A) | RMBS | 12,000 | 1,200,000 | 63,573 | 80,501 | EURIBOR 3M + (between 0.06% and 0.78%) |
| 2005 | TDA CAM 4,FTA (A) | RMBS | 20,000 | 2,000,000 | 131,953 | 167,845 | EURIBOR 3M + (between 0.09% and 0.24%) |
| 2005 | TDA CAM 5,FTA (A) | RMBS | 20,000 | 2,000,000 | 169,568 | 194,632 | EURIBOR 3M + (between 0.12% and 0.35%) |
| 2006 | TDA CAM 6 F.T.A (A) | RMBS | 13,000 | 1,300,000 | 115,058 | 132,076 | EURIBOR 3M + (between 0.13% and 0.27%) |
| 2006 | TDA CAM 7 F.T.A (A) | RMBS | 15,000 | 1,500,000 | 136,916 | 157,718 | EURIBOR 3M + (between 0.14% and 0.30%) |
| 2006 | CAIXA PENEDES 1 TDA, FTA (A) | RMBS | 10,000 | 1,000,000 | 51,384 | 61,021 | EURIBOR 3M + (between 0.14% and 0.55%) |
| 2006 | FTPYME TDA CAM 4 F.T.A (A) | PYMES | 11,918 | 1,191,800 | 51,668 | 61,996 | EURIBOR 3M + (between 0.02% and 4%) |
| 2007 | TDA CAM 8 F.T.A (A) | RMBS | 17,128 | 1,712,800 | 114,230 | 129,892 | EURIBOR 3M + (between 0.13% and 3.50%) |
| 2007 | CAIXA PENEDES PYMES 1 TDA, FTA (A) | PYMES | 7,900 | 790,000 | 300 | 300 | EURIBOR 3M + (between 0.19% and 0.80%) |
| 2007 | TDA CAM 9 F.T.A (A) | RMBS | 15,150 | 1,515,000 | 157,081 | 175,861 | EURIBOR 3M + (between 0.12% and 3.50%) |
| 2015 | DUNCAN FUNDING 2015-1 PLC (B) (*) | RMBS | 20,912 | 2,940,691 | 418,231 | 468,627 | EURIBOR 3M +0.48% and £ LIBOR 3M + (between 0% and 1.5%) |
| 2016 | DUNCAN FUNDING 2016-1 PLC (B) (*) | RMBS | 30,120 | 4,354,356 | 83,119 | 229,603 | EURIBOR 3 M +0.40% and £ LIBOR 3 M + (between 0.77% and 2.5%) |
| 2017 | IM SABADELL PYME 11, F.T. (A) | PYMES | 19,000 | 1,900,000 | 198,515 | 387,881 | EURIBOR 3M + (between 0.75% and 0.90%) |
| **Total** | | | | | **1,691,596** | **2,247,953** | |

(*) TSB securitisation linked to TSB.

(A) Issues quoted on AIAF (Spanish Brokers' Association) fixed income market.

(B) Issues quoted on the LSE market.

## Subordinated liabilities

Subordinated liabilities issued by the Group as at 31 December 2019 and 2018 are as follows:

Thousand euro

| Issuer | Date of issue | Amount | | Interest rate ruling as at 31/12/2019 | Maturity/call date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|
| | | 31/12/2019 | 31/12/2018 | | | | |
| Banco de Sabadell, S.A. | 26/04/2010 | 424,600 | 424,600 | 6.250% | 26/04/2020 | Euro | Institutional |
| TSB Banking Group Plc (*) | 01/05/2014 | 452,515 | 430,394 | 5.750% | 06/05/2021 | Pound sterling | Institutional |
| Banco de Sabadell, S.A. | 06/05/2016 | 500,000 | 500,000 | 5.625% | 06/05/2026 | Euro | Institutional |
| Banco de Sabadell, S.A. (*) | 12/12/2018 | 500,000 | 500,000 | 5.375% | 12/12/2023 | Euro | Institutional |
| Subscribed by Group companies | | (16,650) | (18,650) | | | | |
| **Total subordinated bonds** | | **1,860,465** | **1,836,344** | | | | |

(*) Subordinated issue. "Maturity/call date" refers to the first call date.

Thousand euro

| Issuer | Date of issue | Amount | | Interest rate ruling as at 31/12/2019 | Maturity/call date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|
| | | 31/12/2019 | 31/12/2018 | | | | |
| Banco de Sabadell, S.A. (*) | 18/05/2017 | 750,000 | 750,000 | 6.500% | 18/05/2022 | Euros | Institutional |
| Banco de Sabadell, S.A. (*) | 23/11/2017 | 400,000 | 400,000 | 6.125% | 23/11/2022 | Euros | Institutional |
| Subscribed by Group companies | | - | - | | | | |
| **Total preference shares** | | **1,150,000** | **1,150,000** | | | | |

(*) Perpetual issue. "Maturity/call date" refers to the first call date.

The issues included in subordinated liabilities, for the purposes of credit priority, are ranked below all of the Group's unsecured creditors.

For the purpose of complying with the requirements of IAS 7, the table below shows the reconciliation of liabilities derived from funding activities, identifying the components that have entailed their movements:

Thousand euro

| | |
|---|---|
| **Total subordinated liabilities as at 31 December 2017** | **2,481,835** |
| New issuances | 500,000 |
| Amortised | - |
| Capitalisation | - |
| Exchange rate | (3,541) |
| Variation in subordinated liabilities subscribed by group companies. | 8,050 |
| **Total subordinated liabilities as at 31 December 2018** | **2,986,344** |
| New issuances | - |
| Amortised | - |
| Capitalisation | - |
| Exchange rate | 22,121 |
| Variation in subordinated liabilities subscribed by group companies. | 2,000 |
| **Total subordinated liabilities as at 31 December 2019** | **3,010,465** |

## 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 heading "*Loans and advances – Customers*" by activity and guarantee, excluding advances not classed as loans, as at 31 December 2019 and 2018, respectively, is as follows:

Thousand euro

| | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Collateralised loans. Carrying amount based on last available valuation. Loan to value | | | | |
| | TOTAL | Of which: secured with real estate | Of which: secured with other collateral | Less than or equal to 40% | Over 40% and less than or equal to 60% | Over 60% and less than or equal to 80% | Over 80% and less than or equal to 100% | Over 100% |
| **General governments** | **10,524,898** | **45,589** | **6,425** | **14,233** | **22,478** | **2,709** | **2,078** | **10,516** |
| **Other financial corporations and individual entrepreneurs (financial business activity)** | **1,016,161** | **345,606** | **81,667** | **109,731** | **229,585** | **43,815** | **38,954** | **5,188** |
| **Non-financial corporations and individual entrepreneurs (non-financial business activity)** | **56,181,367** | **14,244,242** | **9,687,652** | **8,532,188** | **5,889,168** | **3,407,264** | **2,414,739** | **3,688,535** |
| Construction and real estate development (including | 3,184,046 | 2,225,353 | 645,191 | 758,141 | 937,242 | 476,725 | 182,227 | 516,209 |
| Civil engineering construction | 802,490 | 40,222 | 62,737 | 21,662 | 24,486 | 10,919 | 7,419 | 38,473 |
| Other purposes | 52,194,831 | 11,978,667 | 8,979,724 | 7,752,385 | 4,927,440 | 2,919,620 | 2,225,093 | 3,133,853 |
| Large enterprises | 22,886,000 | 1,140,591 | 3,688,598 | 2,367,475 | 600,043 | 353,985 | 553,439 | 954,247 |
| SMES and individual entrepreneurs | 29,308,831 | 10,838,076 | 5,291,126 | 5,384,910 | 4,327,397 | 2,565,635 | 1,671,654 | 2,179,606 |
| **Rest of households** | **78,230,486** | **70,392,038** | **766,420** | **14,500,163** | **20,022,312** | **22,854,631** | **9,109,453** | **4,671,899** |
| Home loans | 69,559,754 | 69,032,294 | 38,639 | 13,899,046 | 19,460,093 | 22,451,028 | 8,885,914 | 4,374,852 |
| For consumption | 5,166,943 | 69,133 | 580,875 | 145,094 | 190,038 | 117,918 | 73,141 | 123,817 |
| Other purposes | 3,503,789 | 1,290,611 | 146,906 | 456,023 | 372,181 | 285,685 | 150,398 | 173,230 |
| **TOTAL** | **145,952,912** | **85,027,475** | **10,542,164** | **23,156,315** | **26,163,543** | **26,308,419** | **11,565,224** | **8,376,138** |
| **MEMORANDUM ITEM Forbearance (refinanced and restructured loans)** | 3,553,489 | 2,332,091 | 334,972 | 488,778 | 534,854 | 560,366 | 392,761 | 690,304 |

Thousand euro

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | TOTAL | Of which: secured with real estate | Of which: secured with other collateral | Collateralised loans. Carrying amount based on last available valuation. Loan to value | | | | |
| | | | | 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** | **10,903,834** | **45,647** | **17,374** | **12,359** | **19,416** | **8,266** | **8,258** | **14,722** |
| **Other financial corporations and individual entrepreneurs (financial business activity)** | **1,554,793** | **238,769** | **146,303** | **185,645** | **150,334** | **20,657** | **5,402** | **23,034** |
| **Non-financial corporations and individual entrepreneurs (non-financial business activity)** | **54,575,682** | **14,979,142** | **5,566,196** | **6,603,954** | **5,533,529** | **3,622,408** | **1,819,027** | **2,966,421** |
| Construction and real estate development (including | 3,381,901 | 2,321,336 | 419,198 | 712,568 | 933,791 | 437,157 | 348,969 | 308,047 |
| Civil engineering construction | 850,098 | 47,360 | 62,503 | 24,681 | 20,619 | 16,757 | 10,909 | 36,897 |
| Other purposes | 50,343,683 | 12,610,446 | 5,084,495 | 5,866,705 | 4,579,119 | 3,168,494 | 1,459,149 | 2,621,477 |
| Large enterprises | 22,905,473 | 1,476,018 | 1,420,937 | 1,382,835 | 417,740 | 312,119 | 216,339 | 567,923 |
| SMES and individual entrepreneurs | 27,438,210 | 11,134,428 | 3,663,558 | 4,483,870 | 4,161,379 | 2,856,375 | 1,242,810 | 2,053,554 |
| **Rest of households** | **74,833,439** | **66,639,215** | **723,446** | **13,792,603** | **19,000,096** | **20,951,511** | **8,399,367** | **5,219,085** |
| Home loans | 65,875,838 | 65,248,761 | 44,107 | 13,197,972 | 18,460,481 | 20,582,247 | 8,167,370 | 4,884,799 |
| For consumption | 5,472,717 | 79,849 | 514,153 | 136,264 | 150,312 | 88,219 | 78,769 | 140,438 |
| Other purposes | 3,484,884 | 1,310,605 | 165,186 | 458,367 | 389,303 | 281,045 | 153,228 | 193,848 |
| **TOTAL** | **141,867,748** | **81,902,773** | **6,453,319** | **20,594,561** | **24,703,375** | **24,602,842** | **10,232,054** | **8,223,262** |
| **MEMORANDUM ITEM Forbearance (refinanced and restructured loans)** | 4,636,003 | 2,428,753 | 387,203 | 453,285 | 478,979 | 524,743 | 434,534 | 924,416 |

In terms of risks with LTV >80%, these mainly correspond to transactions from acquired institutions or business operations in which, as a supplement to the valuation of the operation, a mortgage guarantee is available to cover that operation. Similarly, there are other additional reasons for approval, which mainly correspond to solvent borrowers with a proven payment capacity, as well as customers with a good profile who contribute guarantees (personal guarantees and/or pledges) which are additional to the mortgage guarantees already considered in the LTV ratio.

## Refinancing and restructuring operations

The outstanding balance of forborne and restructured loans as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Credit institutions** | **General governments** | **Other financial corporations and individual entrepreneurs (financial business activity)** | **Non-financial corporations and individual entrepreneurs (non-financial business activity)** | ***Of which: lending for construction and real estate development (including land)*** | **Rest of households** | **Total** |
| **TOTAL** | | | | | | | |
| **Not secured with collateral** | | | | | | | |
| Number of transactions | - | 12 | 71 | 17,928 | *434* | 48,601 | **66,612** |
| Gross carrying amount | - | 9,468 | 7,415 | 1,196,253 | *126,165* | 343,758 | **1,556,894** |
| **Secured with collateral** | | | | | | | |
| Number of transactions | - | 3 | 18 | 8,617 | *615* | 18,488 | **27,126** |
| Gross carrying amount | - | 914 | 21,731 | 1,431,372 | *239,124* | 1,543,459 | **2,997,476** |
| **Impairment allowances** | - | 1,306 | 10,418 | 714,477 | *119,723* | 274,681 | **1,000,882** |
| ***Of which, non-performing loans*** | | | | | | | |
| ***Not secured with collateral*** | | | | | | | |
| *Number of transactions* | - | *12* | *43* | *10,861* | *321* | *26,071* | ***36,987*** |
| *Gross carrying amount* | - | *9,468* | *780* | *836,649* | *118,037* | *200,883* | ***1,047,780*** |
| ***Secured with collateral*** | | | | | | | |
| *Number of transactions* | - | *3* | *15* | *6,122* | *456* | *11,823* | ***17,963*** |
| *Gross carrying amount* | - | *914* | *13,821* | *872,627* | *135,300* | *1,014,352* | ***1,901,714*** |
| ***Impairment allowances*** | - | *1,306* | *10,347* | *646,167* | *113,555* | *249,673* | ***907,493*** |
| **TOTAL** | | | | | | | |
| Number of transactions | - | 15 | 89 | 26,545 | *1,049* | 67,089 | **93,738** |
| Gross amount | - | 10,382 | 29,146 | 2,627,625 | *365,289* | 1,887,217 | **4,554,370** |
| Impairment allowances | - | 1,306 | 10,418 | 714,477 | *119,723* | 274,681 | **1,000,882** |
| **Additional information: lending included under non-current assets and disposal groups classified as held for sale** | - | - | - | - | - | - | - |

Thousand euro

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 |
| **TOTAL** | | | | | | | |
| **Not secured with collateral** | | | | | | | |
| Number of transactions | - | 15 | 76 | 16,400 | *496* | 55,503 | **71,994** |
| Gross carrying amount | - | 10,731 | 30,910 | 1,422,243 | *208,112* | 344,134 | **1,808,018** |
| Number of transactions | - | 4 | 20 | 11,112 | *1,135* | 22,479 | **33,615** |
| Gross carrying amount | - | 9,670 | 23,370 | 1,645,042 | *347,100* | 1,788,033 | **3,466,116** |
| **Impairment allowances** | - | 5,179 | 10,932 | 805,980 | *192,023* | 314,261 | **1,136,352** |
| ***Of which, non-performing loans*** | - | - | - | - | - | - | - |
| ***Not secured with collateral*** | - | - | - | - | - | - | - |
| *Number of transactions* | - | *14* | *38* | *8,444* | *355* | *29,602* | ***38,098*** |
| *Gross carrying amount* | - | *10,634* | *874* | *839,869* | *167,338* | *196,804* | ***1,048,182*** |
| *Number of transactions* | - | *4* | *13* | *6,468* | *805* | *11,675* | ***18,160*** |
| *Gross carrying amount* | - | *9,670* | *14,234* | *990,850* | *237,438* | *976,575* | ***1,991,329*** |
| ***Impairment allowances*** | - | *5,179* | *10,854* | *694,986* | *182,132* | *280,987* | ***992,006*** |
| **TOTAL** | | | | | | | |
| Number of transactions | - | 19 | 96 | 27,512 | *1,631* | 77,982 | **105,609** |
| Gross amount | - | 20,401 | 54,280 | 3,067,286 | *555,212* | 2,132,167 | **5,274,134** |
| Impairment allowances | - | 5,179 | 10,932 | 805,980 | *192,023* | 314,261 | **1,136,352** |
| **Additional information: lending included under non-current assets and disposal groups classified as held for sale** | - | - | - | - | - | - | - |

The value of the guarantees received to ensure collection associated with forborne and restructured transactions, broken down into collateral and other guarantees, as at 31 December 2019 and 2018, is as follows:

Thousand euro

| Guarantees received | 2019 | 2018 |
|---|---|---|
| Value of collateral | 2,762,628 | 2,970,068 |
| *Of which: securing Stage 3 loans* | *1,521,410* | *1,566,700* |
| | | - |
| Value of other guarantees | 441,249 | 461,294 |
| *Of which: securing Stage 3 loans* | *225,534* | *223,528* |
| **Total value of guarantees received** | **3,203,877** | **3,431,362** |

Detailed movements of the balance of forborne and restructured loans during 2019 and 2018 are as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Opening balance | 5,274,134 | 6,842,793 |
| (+) Forbearance (refinancing and restructuring) in the period | 1,031,681 | 1,158,444 |
| *Memorandum item: impact recognised on the income statement for the period* | *111,070* | *162,060* |
| (-) Debt amortisations | (886,887) | (1,272,884) |
| (-) Foreclosures | (76,111) | (159,046) |
| (-) Derecognised from the balance sheet (reclassified as write-offs) | (153,023) | (314,447) |
| (+)/(-) Other changes (*) | (635,424) | (980,726) |
| **Year-end balance** | **4,554,370** | **5,274,134** |

(*) Includes transactions no longer classified as refinancing, refinanced or restructured due to meeting the requirements for reclassification from stage 2 to stage 1 risks (see note 1.3.4).

The table below shows the value of transactions which, after forbearance or restructuring, have been classified as stage 3 exposures during 2019 and 2018:

Thousand euro

| | 2019 (*) | 2018 |
|---|---|---|
| **General governments** | - | - |
| **Other legal entities and individual entrepreneurs** | 152,315 | 183,345 |
| *Of which: Lending for construction and real estate development* | *11,876* | *12,419* |
| **Other natural persons** | 341,041 | 250,686 |
| **Total** | 493,356 | 434,031 |

(*) Includes the impact of the application of Bank of Spain Circular 2/2018, of 21 December, amending item 102 of Circular 4/2017, which establishes a minimum cure period of 1 year for refinancing, refinanced or restructured transactions with amounts over thirty days past due.

The average probability of default on current forborne and restructured loans broken down by activity as at 31 December 2019 and 2018 is as follows:

%

| | 2019 | 2018 |
|---|---|---|
| **General governments (*)** | - | - |
| **Other legal entities and individual entrepreneurs** | 8 | 8 |
| *Of which: Lending for construction and real estate development* | *7* | *7* |
| **Other natural persons** | 9 | 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 September 2019.

The probability of default (PD) of forborne exposures is the same as it was as at 31 December 2018.

## Concentration risk

### Geographical exposure

*Global*

The breakdown of risk concentration by activity and at global level as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | | | | |
|---|---|---|---|---|---|
| | TOTAL | Spain | Rest of European Union | Americas | Rest of the world |
| **Central banks and Credit institutions** | **31,188,227** | **9,284,592** | **8,154,854** | **13,460,595** | **288,186** |
| **General governments** | **35,372,796** | **24,234,966** | **9,960,740** | **1,057,996** | **119,094** |
| Central governments | 28,659,248 | 18,050,464 | 9,960,740 | 554,801 | 93,243 |
| Rest | 6,713,548 | 6,184,502 | - | 503,195 | 25,851 |
| **Other financial corporations and individual entrepreneurs** | **3,763,467** | **2,016,542** | **1,106,812** | **616,528** | **23,585** |
| **Non-financial corporations and individual entrepreneurs** | **60,413,597** | **46,139,954** | **5,047,220** | **8,571,417** | **655,006** |
| Construction and real estate | 3,319,641 | 2,934,240 | 10,498 | 290,401 | 84,502 |
| Civil engineering construction | 901,545 | 864,354 | 9,466 | 27,025 | 700 |
| Other purposes | 56,192,411 | 42,341,360 | 5,027,256 | 8,253,991 | 569,804 |
| Large enterprises | 26,244,735 | 14,919,231 | 4,510,013 | 6,476,444 | 339,047 |
| SMEs and individual entrepreneurs | 29,947,676 | 27,422,129 | 517,243 | 1,777,547 | 230,757 |
| **Rest of households** | **78,679,821** | **38,284,908** | **37,430,002** | **1,916,328** | **1,048,583** |
| Home loans | 69,864,435 | 32,203,418 | 34,809,627 | 1,853,325 | 998,065 |
| For consumption | 5,188,697 | 3,285,595 | 1,842,951 | 23,358 | 36,793 |
| Other purposes | 3,626,689 | 2,795,895 | 777,424 | 39,645 | 13,725 |
| **TOTAL** | **209,417,908** | **119,960,962** | **61,699,628** | **25,622,864** | **2,134,454** |

Thousand euro

| | 2018 | | | | |
|---|---|---|---|---|---|
| | TOTAL | Spain | Rest of European Union | Americas | Rest of the world |
| **Central banks and Credit institutions** | **32,994,694** | **16,025,194** | **15,610,804** | **1,040,379** | **318,317** |
| **General governments** | **35,006,761** | **23,278,571** | **10,544,893** | **1,084,237** | **99,060** |
| Central governments | 28,814,153 | 17,476,256 | 10,544,893 | 719,853 | 73,151 |
| Rest | 6,192,608 | 5,802,315 | - | 364,384 | 25,909 |
| **Other financial corporations and individual entrepreneurs** | **4,181,670** | **2,272,087** | **1,326,244** | **546,351** | **36,988** |
| **Non-financial corporations and individual entrepreneurs** | **57,792,891** | **45,387,201** | **4,244,419** | **7,525,521** | **635,750** |
| Construction and real estate | 3,520,222 | 3,203,431 | 33,004 | 199,736 | 84,051 |
| Civil engineering construction | 985,353 | 938,861 | 35,959 | 8,221 | 2,312 |
| Other purposes | 53,287,316 | 41,244,909 | 4,175,456 | 7,317,564 | 549,387 |
| Large enterprises | 25,229,294 | 14,526,525 | 3,543,004 | 6,869,579 | 290,186 |
| SMEs and individual entrepreneurs | 28,058,022 | 26,718,384 | 632,452 | 447,985 | 259,201 |
| **Rest of households** | **75,470,300** | **38,349,129** | **35,652,610** | **514,596** | **953,965** |
| Home loans | 66,076,478 | 31,702,369 | 33,307,632 | 161,014 | 905,463 |
| For consumption | 5,621,086 | 3,679,357 | 1,917,050 | 4,012 | 20,667 |
| Other purposes | 3,772,736 | 2,967,403 | 427,928 | 349,570 | 27,835 |
| **TOTAL** | **205,446,316** | **125,312,182** | **67,378,970** | **10,711,084** | **2,044,080** |

*By autonomous communities*

The risk concentration broken down by activity and at the level of Spanish autonomous communities as at 31 December 2019 and 2018, respectively, is as follows:

Thousand euro

| | 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | AUTONOMOUS COMMUNITIES | | | | | | | | |
| | TOTAL | Andalusia | Aragón | Asturias | Balearic Islands | Canary Islands | Cantabria | Castilla-La Mancha | Castilla y León | Catalonia |
| **Central banks and Credit institutions** | **9,284,592** | **7,867** | **1** | **37** | **6,105** | **3** | **584,764** | **2** | **35** | **321,105** |
| **General governments** | **24,234,966** | **132,854** | **25,109** | **250,550** | **250,242** | **32,135** | **34,779** | **74,523** | **501,109** | **1,167,624** |
| Central governments | 18,050,464 | - | - | - | - | - | - | - | - | - |
| Rest | 6,184,502 | 132,854 | 25,109 | 250,550 | 250,242 | 32,135 | 34,779 | 74,523 | 501,109 | 1,167,624 |
| **Other financial corporations and individual entrepreneurs** | **2,016,542** | **4,104** | **2,413** | **2,421** | **2,388** | **805** | **356** | **510** | **12,025** | **546,527** |
| **Non-financial corporations and individual entrepreneurs** | **46,139,954** | **2,396,251** | **945,194** | **1,390,499** | **2,131,098** | **1,392,454** | **242,384** | **610,089** | **1,111,539** | **14,058,351** |
| Construction and real estate | 2,934,240 | 172,201 | 48,788 | 75,440 | 108,127 | 34,809 | 10,893 | 23,804 | 27,071 | 690,271 |
| Civil engineering construction | 864,354 | 27,954 | 27,086 | 20,447 | 4,646 | 3,605 | 2,961 | 3,822 | 15,623 | 120,571 |
| Other purposes | 42,341,360 | 2,196,096 | 869,320 | 1,294,612 | 2,018,325 | 1,354,040 | 228,530 | 582,463 | 1,068,845 | 13,247,509 |
| Large enterprises | 14,919,231 | 612,165 | 260,510 | 276,313 | 885,038 | 325,445 | 101,668 | 160,104 | 287,006 | 5,436,446 |
| SMEs and individual | 27,422,129 | 1,583,931 | 608,810 | 1,018,299 | 1,133,287 | 1,028,595 | 126,862 | 422,359 | 781,839 | 7,811,063 |
| **Rest of households** | **38,284,908** | **2,646,155** | **500,660** | **1,184,455** | **1,393,873** | **580,771** | **107,762** | **512,165** | **760,032** | **14,510,918** |
| Home loans | 32,203,418 | 2,197,795 | 417,083 | 941,575 | 1,225,265 | 420,564 | 90,873 | 422,052 | 605,048 | 12,288,338 |
| For consumption | 3,285,595 | 293,760 | 46,961 | 92,918 | 92,007 | 136,607 | 7,531 | 55,315 | 80,174 | 1,120,240 |
| Other purposes | 2,795,895 | 154,600 | 36,616 | 149,962 | 76,601 | 23,600 | 9,358 | 34,798 | 74,810 | 1,102,340 |
| **TOTAL** | **119,960,962** | **5,187,231** | **1,473,377** | **2,827,962** | **3,783,706** | **2,006,168** | **970,045** | **1,197,289** | **2,384,740** | **30,604,525** |

Thousand euro

| | 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | AUTONOMOUS COMMUNITIES | | | | | | | | |
| | Extremadura | Galicia | Madrid | Murcia | Navarra | Valencia | Basque Country | La Rioja | Ceuta and Melilla |
| **Central banks and Credit institutions** | **-** | **3,968** | **7,656,942** | **16** | **180** | **166,542** | **537,025** | **-** | **-** |
| **General governments** | **69,491** | **200,394** | **1,724,337** | **40,956** | **241,551** | **658,006** | **664,432** | **78,261** | **38,149** |
| Central governments | - | - | - | - | - | - | - | - | - |
| Rest | 69,491 | 200,394 | 1,724,337 | 40,956 | 241,551 | 658,006 | 664,432 | 78,261 | 38,149 |
| **Other financial corporations and individual entrepreneurs** | **125** | **5,350** | **1,378,933** | **3,270** | **392** | **32,666** | **24,174** | **83** | **-** |
| **Non-financial corporations and individual entrepreneurs** | **138,741** | **2,006,521** | **11,220,806** | **1,098,702** | **451,494** | **4,507,992** | **2,230,047** | **191,230** | **16,562** |
| Construction and real estate | 2,291 | 59,956 | 1,317,390 | 50,281 | 20,157 | 184,676 | 98,693 | 8,889 | 503 |
| Civil engineering construction | 2,917 | 59,799 | 415,282 | 6,887 | 4,580 | 35,871 | 111,784 | 519 | - |
| Other purposes | 133,533 | 1,886,766 | 9,488,134 | 1,041,534 | 426,757 | 4,287,445 | 2,019,570 | 181,822 | 16,059 |
| Large enterprises | 33,797 | 577,432 | 4,181,661 | 192,354 | 131,924 | 513,556 | 891,825 | 51,475 | 512 |
| SMEs and individual | 99,736 | 1,309,334 | 5,306,473 | 849,180 | 294,833 | 3,773,889 | 1,127,745 | 130,347 | 15,547 |
| **Rest of households** | **134,177** | **791,874** | **5,015,644** | **2,081,432** | **162,817** | **6,576,926** | **1,178,491** | **78,893** | **67,863** |
| Home loans | 99,285 | 583,112 | 4,162,789 | 1,809,437 | 127,980 | 5,674,616 | 1,015,379 | 58,025 | 64,202 |
| For consumption | 27,495 | 124,422 | 552,443 | 123,769 | 19,477 | 417,210 | 80,831 | 12,552 | 1,883 |
| Other purposes | 7,397 | 84,340 | 300,412 | 148,226 | 15,360 | 485,100 | 82,281 | 8,316 | 1,778 |
| **TOTAL** | **342,534** | **3,008,107** | **26,996,662** | **3,224,376** | **856,434** | **11,942,132** | **4,634,169** | **348,467** | **122,574** |

Thousand euro

| | 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | TOTAL | AUTONOMOUS COMMUNITIES | | | | | | | | |
| | | Andalusia | Aragón | Asturias | Balearic Islands | Canary Islands | Cantabria | Castilla-La Mancha | Castilla y León | Catalonia |
| **Central banks and Credit institutions** | **16,025,194** | **6,015** | **11** | **1** | **36** | **64** | **443,267** | **-** | **54** | **337,657** |
| **General governments** | **23,278,571** | **60,252** | **22,708** | **183,956** | **98,193** | **2,752** | **31,596** | **16,613** | **244,184** | **1,150,231** |
| Central governments | 17,476,256 | - | - | - | - | - | - | - | - | - |
| Rest | 5,802,315 | 60,252 | 22,708 | 183,956 | 98,193 | 2,752 | 31,596 | 16,613 | 244,184 | 1,150,231 |
| **Other financial corporations and individual entrepreneurs** | **2,272,087** | **4,175** | **1,410** | **2,058** | **1,213** | **910** | **315** | **675** | **13,492** | **585,438** |
| **Non-financial corporations and individual entrepreneurs** | **45,387,201** | **2,392,741** | **830,013** | **1,281,308** | **1,758,705** | **1,206,604** | **262,286** | **542,171** | **1,144,897** | **13,957,619** |
| Construction and real estate development | 3,203,431 | 233,267 | 60,335 | 82,045 | 94,592 | 39,799 | 12,185 | 15,590 | 28,671 | 991,403 |
| Civil engineering construction | 938,861 | 27,868 | 28,332 | 14,996 | 5,241 | 2,580 | 3,431 | 4,412 | 14,769 | 192,402 |
| Other purposes | 41,244,909 | 2,131,606 | 741,346 | 1,184,267 | 1,658,872 | 1,164,225 | 246,670 | 522,169 | 1,101,457 | 12,773,814 |
| Large enterprises | 14,526,525 | 571,558 | 205,531 | 257,905 | 545,914 | 328,137 | 109,888 | 99,164 | 308,803 | 4,358,669 |
| SMEs and individual entrepreneurs | 26,718,384 | 1,560,048 | 535,815 | 926,362 | 1,112,958 | 836,088 | 136,782 | 423,005 | 792,654 | 8,415,145 |
| **Rest of households** | **38,349,129** | **2,617,767** | **495,100** | **1,226,063** | **1,402,881** | **577,340** | **110,002** | **526,007** | **748,917** | **14,340,386** |
| For house purchase | 31,702,369 | 2,151,965 | 401,467 | 944,987 | 1,216,735 | 423,782 | 91,043 | 433,592 | 585,218 | 11,853,634 |
| For consumption | 3,679,357 | 303,617 | 51,667 | 128,912 | 108,321 | 128,976 | 9,254 | 57,110 | 82,277 | 1,293,620 |
| Other purposes | 2,967,403 | 162,185 | 41,966 | 152,164 | 77,825 | 24,582 | 9,705 | 35,305 | 81,422 | 1,193,132 |
| **TOTAL** | **125,312,182** | **5,080,950** | **1,349,242** | **2,693,386** | **3,261,028** | **1,787,670** | **847,466** | **1,085,466** | **2,151,544** | **30,371,331** |

Thousand euro

| | 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | AUTONOMOUS COMMUNITIES | | | | | | | | |
| | Extremadura | Galicia | Madrid | Murcia | Navarra | Valencia | Basque Country | La Rioja | Ceuta and Melilla |
| **Central banks and Credit institutions** | **-** | **15,326** | **14,648,856** | **221** | **254** | **62,826** | **510,593** | **13** | **-** |
| **General governments** | **50,837** | **64,378** | **2,126,241** | **36,416** | **176,446** | **803,112** | **629,295** | **79,055** | **26,050** |
| Rest | 50,837 | 64,378 | 2,126,241 | 36,416 | 176,446 | 803,112 | 629,295 | 79,055 | 26,050 |
| **Other financial corporations and individual entrepreneurs** | **124** | **6,108** | **1,574,181** | **3,836** | **399** | **57,908** | **19,713** | **132** | **-** |
| **Non-financial corporations and individual entrepreneurs** | **139,572** | **1,910,473** | **10,933,844** | **1,167,020** | **455,821** | **4,336,609** | **2,871,382** | **177,671** | **18,465** |
| Construction and real estate development | 1,885 | 54,928 | 1,169,283 | 69,852 | 21,976 | 220,264 | 99,826 | 7,268 | 262 |
| Civil engineering construction | 2,286 | 49,594 | 438,540 | 6,776 | 5,208 | 27,911 | 114,070 | 445 | - |
| Other purposes | 135,401 | 1,805,951 | 9,326,021 | 1,090,392 | 428,637 | 4,088,434 | 2,657,486 | 169,958 | 18,203 |
| Large enterprises | 30,103 | 569,405 | 4,408,790 | 212,387 | 146,909 | 996,670 | 1,336,505 | 40,007 | 180 |
| SMEs and individual entrepreneurs | 105,298 | 1,236,546 | 4,917,231 | 878,005 | 281,728 | 3,091,764 | 1,320,981 | 129,951 | 18,023 |
| **Rest of households** | **125,436** | **780,781** | **4,819,131** | **2,170,452** | **166,565** | **6,950,685** | **1,145,867** | **81,514** | **64,235** |
| For house purchase | 96,423 | 561,454 | 3,963,559 | 1,847,955 | 128,384 | 5,913,415 | 972,796 | 56,833 | 59,127 |
| For consumption | 22,275 | 127,292 | 550,348 | 162,701 | 22,035 | 528,274 | 84,581 | 14,922 | 3,175 |
| Other purposes | 6,738 | 92,035 | 305,224 | 159,796 | 16,146 | 508,996 | 88,490 | 9,759 | 1,933 |
| **TOTAL** | **315,969** | **2,777,066** | **34,102,253** | **3,377,945** | **799,485** | **12,211,140** | **5,176,850** | **338,385** | **108,750** |

## Sovereign risk exposure

The breakdown of exposure to sovereign risk, by type of financial instrument, applying the criteria required by the European Banking Authority (EBA), as at 31 December 2019 and 2018, is as follows:

Thousand euro

| | 2019 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sovereign debt securities | | | | | | | Derivatives | | | | |
| Sovereign risk exposure by country (*) | Financial assets held for trading | Financial liabilities held for trading - Short positions | Mandatorily at fair value through profit or loss | Measured at fair value through other comprehensive income | Financial assets at amortised cost | Loans and advances to customers (**) | *Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value to equity* | With positive fair value | With negative fair value | Total | Other off-balance sheet exposures (***) | % |
| Spain | 339,969 | (788,822) | - | 2,960,341 | 10,411,251 | 11,880,486 | - | 19,679 | (54) | 24,822,850 | - | 69.1% |
| Italy | 20,150 | (54,598) | - | - | 5,712,700 | - | - | - | - | 5,678,253 | - | 15.8% |
| United States | - | - | 2,719 | 465,155 | 218,095 | 1 | - | - | - | 685,970 | - | 1.9% |
| United Kingdom | - | - | - | - | 120,958 | 3 | - | - | - | 120,961 | - | 0.3% |
| Portugal | - | - | - | 616,724 | 1,621,113 | - | - | - | - | 2,237,836 | - | 6.2% |
| Mexico | - | - | - | 179,339 | - | - | - | - | - | 179,339 | - | 0.5% |
| Rest of the world | 11,398 | - | - | 2,050,868 | 28,665 | 89,862 | - | - | - | 2,180,793 | - | 6.1% |
| **Total** | **371,517** | **(843,419)** | **2,719** | **6,272,427** | **18,112,781** | **11,970,352** | **-** | **19,679** | **(54)** | **35,906,002** | **-** | **100%** |

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (667 million euros as at 31 December 2019).

(***) Relates to commitments for cash purchases and sales of financial assets.

Thousand euro

| | 2018 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 (**) | *Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value to equity* | With positive fair value | With negative fair value | Total | Other off-balance sheet exposures (***) | % |
| Spain | 153,473 | (32,639) | - | 6,323,332 | 5,899,614 | 11,531,751 | - | 13,587 | (113) | 23,889,006 | 557,375 | 67.6% |
| Italy | 12,455 | - | - | - | 5,823,441 | - | - | - | - | 5,835,896 | - | 16.1% |
| United States | - | - | - | 359,312 | - | 1 | - | - | - | 359,313 | - | 1.0% |
| United Kingdom | 23 | - | - | 2,219,051 | 107,580 | 3 | - | - | - | 2,326,657 | - | 6.4% |
| Portugal | - | - | - | 1,268,579 | 753,943 | - | - | - | - | 2,022,522 | - | 5.6% |
| Mexico | - | - | - | 582,081 | - | - | - | - | - | 582,081 | - | 1.6% |
| Rest of the world | - | - | - | 498,873 | 27,626 | 87,015 | - | - | - | 613,513 | - | 1.7% |
| **Total** | **165,951** | **(32,639)** | **-** | **11,251,228** | **12,612,204** | **11,618,770** | **-** | **13,587** | **(113)** | **35,628,988** | **557,375** | **100%** |

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (798 million euros as at 31 December 2018).

(***) Relates to commitments for cash purchases and sales of financial assets.

### Exposure to construction and real estate development sector

Details of lending for construction and real estate development and the relevant allowances are as follows: The loans and credits shown have been classified in terms of their intended purpose, and not by the debtor's statistical classification of economic activities in the European Community (NACE). This implies, for example, that if a debtor is: (a) a real estate company, but uses the financing for a purpose other than construction or real estate development, it is not included in this table; or (b) a company whose primary activity is not construction or real estate, but where the loan is used for the financing of properties intended for real estate development, it is included in the table:

Million euro

| | 2019 | | |
|---|---|---|---|
| | Gross carrying amount | Excess value of the collateral | Adjustments due to impairment (*) |
| **Lending for construction and real estate development (including land) (business in Spain)** | 3,105 | 747 | 221 |
| *Of which: non-performing* | *437* | *161* | *197* |

Million euro

| | 2018 | | |
|---|---|---|---|
| | Gross carrying amount | Excess value of the collateral | Adjustments due to impairment (*) |
| **Lending for construction and real estate development (including land) (business in Spain)** | 3,493 | 898 | 380 |
| *Of which: non-performing* | *719* | *291* | *354* |

(*) 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** | **2019** | **2018** |
| Write-offs (*) | 145 | 251 |

Million euro

| | Amount | Amount |
|---|---|---|
| **Pro-memoria:** | **2019** | **2018** |
| Loans to customers, excluding General Governments (business in Spain) (carrying amount) | 87,450 | 87,296 |
| Total assets (total business) (carrying amount) | 223,754 | 222,322 |
| Allowances and provisions for exposures classed as Stage 2 or Stage 1 (total operations) | 400 | 373 |

(*) 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 2019 | Gross carrying amount 2018 |
|---|---|---|
| **Not secured with real estate** | **519** | **645** |
| **Secured with real estate** | **2,585** | **2,848** |
| Buildings and other finished constructions | 1,176 | 1,467 |
| Housing | 815 | 942 |
| Rest | 361 | 524 |
| Buildings and other construction in progress | 1,003 | 988 |
| Housing | 950 | 877 |
| Rest | 52 | 111 |
| Land | 407 | 393 |
| Consolidated urban land | 361 | 373 |
| Other land | 46 | 20 |
| **Total** | **3,105** | **3,493** |

The figures shown do not show the total value of guarantees received, but rather the net carrying value of the associated exposure.

Guarantees received associated with lending for construction and real estate development are shown hereafter, for both periods:

Million euro

| **Guarantees received** | **2019** | **2018** |
|---|---|---|
| Value of collateral | 2,415 | 2,584 |
| *Of which: securing Stage 3 loans* | *204* | *307* |
| Value of other guarantees | 202 | 208 |
| *Of which: securing Stage 3 loans* | *22* | *22* |
| **Total value of guarantees received** | **2,617** | **2,792** |

The breakdown of lending to households for house purchase for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

| | 2019 | |
|---|---|---|
| | Gross carrying amount | *Of which: securing Stage 3 loans* |
| **Lending for house purchase** | **34,018** | ***1,316*** |
| Not secured with real estate | 537 | *113* |
| Secured with real estate | 33,481 | *1,203* |

Million euro

| | 2018 | |
|---|---|---|
| | Gross carrying amount | *Of which: securing Stage 3 loans* |
| **Lending for house purchase** | **33,475** | **1,390** |
| Not secured with real estate | 604 | *116* |
| Secured with real estate | 32,871 | *1,274* |

The tables below show mortgage-secured lending to households for house purchase broken down by the loan to value of transactions recorded by credit institutions (business in Spain):

Million euro

| | 2019 | |
|---|---|---|
| | Gross amount | *Of which: securing Stage 3 loans* |
| **LTV ranges** | **33,481** | ***1,203*** |
| LTV <= 40% | 6,008 | *120* |
| 40% < LTV <= 60% | 8,402 | *169* |
| 60% < LTV <= 80% | 10,173 | *245* |
| 80% < LTV <= 100% | 4,678 | *231* |
| LTV > 100% | 4,220 | *438* |

Million euro

| | 2018 | |
|---|---|---|
| | Gross amount | *Of which: securing Stage 3 loans* |
| **LTV ranges** | **32,871** | **1,274** |
| LTV <= 40% | 5,780 | *112* |
| 40% < LTV <= 60% | 7,961 | *166* |
| 60% < LTV <= 80% | 9,258 | *239* |
| 80% < LTV <= 100% | 4,789 | *259* |
| LTV > 100% | 5,083 | *498* |

Lastly, the table below gives details of assets foreclosed or received in lieu of debt by the consolidated group entities, for transactions recorded by credit institutions within Spain, as at 31 December 2019 and 2018:

Million euro

| | 2019 | | | |
|---|---|---|---|---|
| | Gross carrying amount | Allowances | *Gross amount (*)* | *Allowances (*)* |
| **Real estate assets acquired through lending for construction and real estate development** | **2,382** | **1,007** | ***676*** | ***234*** |
| Finished buildings | 759 | 168 | *593* | *195* |
| Housing | 521 | 110 | *385* | *121* |
| Rest | 238 | 57 | *209* | *73* |
| Buildings under construction | 328 | 111 | *14* | *8* |
| Housing | 327 | 111 | *13* | *7* |
| Rest | 1 | - | *1* | *1* |
| Land | 1,296 | 728 | *69* | *32* |
| Building land | 484 | 220 | *27* | *10* |
| Other land | 812 | 508 | *42* | *22* |
| **Real estate assets acquired through mortgage lending to households for house purchase** | **442** | **86** | ***509*** | ***160*** |
| **Rest of real estate assets foreclosed or received in lieu of debt** | - | - | - | - |
| **Capital instruments foreclosed or received in lieu of debt** | **25** | **9** | - | - |
| **Capital instruments of institutions holding assets foreclosed or received in lieu of debt** | - | - | - | - |
| **Financing to institutions holding assets foreclosed or received in lieu of debt** | - | - | - | - |
| **TOTAL** | **2,849** | **1,102** | **1,185** | **394** |

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales (see reconciliation between assets foreclosed or received in payment of debt and non-performing assets, below).

Million euro

| | 2018 | | | |
|---|---|---|---|---|
| | Gross carrying amount | Allowances | *Gross amount (*)* | *Allowances (*)* |
| **Real estate assets acquired through lending for construction and real estate development** | **6,694** | **3,258** | ***1,210*** | ***582*** |
| Finished buildings | 2,934 | 794 | *650* | *201* |
| Housing | 1,609 | 273 | *397* | *120* |
| Rest | 1,325 | 521 | *253* | *80* |
| Buildings under construction | 503 | 201 | *24* | *14* |
| Housing | 476 | 183 | *21* | *12* |
| Rest | 27 | 18 | *3* | *2* |
| Land | 3,257 | 2,263 | *536* | *368* |
| Building land | 1,062 | 638 | *142* | *82* |
| Other land | 2,195 | 1,625 | *394* | *286* |
| **Real estate assets acquired through mortgage lending to households for house purchase** | **2,028** | **379** | ***515*** | ***185*** |
| **Rest of real estate assets foreclosed or received in lieu of debt** | - | - | - | - |
| **Capital instruments foreclosed or received in lieu of debt** | 5 | 5 | - | - |
| **Capital instruments of institutions holding assets foreclosed or received in lieu of debt** | - | - | - | - |
| **Financing to institutions holding assets foreclosed or received in lieu of debt** | - | - | - | - |
| **TOTAL** | **8,727** | **3,642** | **1,726** | **767** |

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales.

The table below sets out the reconciliation between assets foreclosed or received in lieu of debt and real estate assets considered problematic by the Group, as at 31 December 2019:

Million euro

| | 2019 | | |
|---|---|---|---|
| | Gross amount | Allowances | Net carrying value |
| **Total real estate portfolio in the national territory (in books)** | **2,824** | **1,093** | **1,731** |
| Performing real estate (*) | (41) | (1) | (39) |
| Total operations outside the national territory and others | 24 | 7 | 18 |
| Provision allocated in original loan | 275 | 275 | - |
| Credit risk transferred in portfolio sales (**) | (1,897) | (980) | (918) |
| **Total non-performing real estate** | **1,185** | **394** | **791** |

(*) Performing real estate refers to assets classified as investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment, on which a profit is expected to be realised.

(**) Relates mainly to the Solvia Desarrollos Inmobiliarios, S.L.U. sale (see note 2).

## Schedule VII – Annual banking report

INFORMATION REQUIRED UNDER ARTILE 89 OF DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 26 JUNE 2013

This information has been prepared pursuant to Article 89 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directive 2006/48/EC and Directive 2006/49/EC, and the transposition thereof into Spanish national legislation in accordance with Article 87 and Transitional Provision 12 of Law 10/2014 of 26 June on the management, supervision and solvency of credit institutions published in the Official State Gazette of 27 June 2014.

In accordance with the above regulations the following information is presented on a consolidated basis and corresponds to the end of the 2019 financial year:

Thousand euro

| | Revenue | No. full time equivalents | Gross income before tax | Corporation tax |
|---|---|---|---|---|
| Spain | 3,298,380 | 15,949 | 597,082 | (73,951) |
| United Kingdom | 1,242,393 | 6,677 | 228,024 | (74,582) |
| Mexico | 124,805 | 457 | 26,010 | (3,983) |
| United States | 201,090 | 251 | 95,906 | (23,259) |
| Rest | 65,085 | 249 | 4,054 | 1,576 |
| **Total** | **4,931,753** | **23,583** | **951,076** | **(174,199)** |

As at 31 December 2019, the return on Group assets, calculated by dividing the consolidated gains/(losses) for the year by total assets, amounts to 0.34%.

This information is available in Schedule I to these Group consolidated annual financial statements for the year ended 31 December 2019, in which the companies operating in each jurisdiction are listed, including among other details their corporate names, geographical location and line of business.

As can be seen in Schedule I, the main activity carried out by the Group in the different jurisdictions in which it operates is banking, and fundamentally commercial banking through a wide range of products and services for large and medium-sized enterprises, SMEs, retailers and self-employed, professional groups, other individuals and Bancassurance.

For the purposes of this information, business turnover is regarded as the gross income recognised on the consolidated income statement for December 2019. Data on full-time equivalent staff has been obtained from the workforce of each company/country as at the end of 2019.

The amount of public subsidies and aid received is not material.

According to the information included in section IV.7 of the Report by the special committee for the fostering of transparency and security in markets and listed companies, dated 8 January 2003, José Oliu Creus, Chairman of the Board of Directors, Jaime Guardiola Romojaro, Chief Executive Officer, and Tomás Varela Muiña, Chief Financial Officer – General Manager, hereby vouch for the accuracy and integrity of the consolidated annual financial statements submitted on the date hereof to be presented to the Board of Directors, certifying that these consolidated annual financial statements include the accounting statements of all national and international investees within the scope of consolidation, in accordance with applicable trade and accounting regulations.

The financial statements hereby certified are printed on class 8 series State paper, on the 257 pages preceding this annual banking report.

| | |
|---|---|
| José Oliu Creus<br>Chairman of the Board of Directors | Jaime Guardiola Romojaro<br>CEO for Banco Sabadell |

Tomás Varela Muiña
Chief Financial Officer
General Manager

## CONSOLIDATED DIRECTORS' REPORT 2019

This Directors' report was drafted in accordance with the recommendations of the *Guide for the preparation of management reports of listed companies* published by the Spanish National Securities Market Commission in July 2013.

CONTENTS

# 1- BANCO SABADELL GROUP

## 1.1 Organisational structure

Banco de Sabadell, S.A. ("Banco Sabadell" or the "Bank" or the "company") with registered office at Avenida Óscar Esplá, 37, in Alicante, has as its object to engage in banking and it is subject to the standards and regulations governing banking institutions operating in Spain. It has been subject to prudential supervision on a consolidated basis by the European Central Bank (ECB) since November 2014.

The Bank is the parent company of a group of institutions which it controls directly or indirectly and which, with it, comprise Banco Sabadell Group. Banco Sabadell offers a full range of financial services through its financial institutions, brands, subsidiaries and affiliates, operating basically in Spain, the United Kingdom and Mexico.

During the year, it was reorganised into Banking Business Spain and Other Geographies. The Real Estate Asset Transformation business was integrated into Banking Spain after the property assets on the balance sheet had been normalised. Additionally, the international branches and representative offices fall under Banking Spain within the scope of Corporate Banking since their main customers are Spanish.

The Group was organised into the following businesses in 2019:

- Banking Spain groups the following customer-facing business units:

  - Commercial Banking: the Group's largest single line of business, focused on offering financial products and services to large and medium enterprises, SMEs, shops and self-employed workers, private individuals and professionals, as well as providing consumer finance, asset management and bancassurance. Private Banking offers value-added products and services to its customers.

    Sabadell is the main brand used in most of the Spanish market. The Group also operates under the following brands:

    - SabadellHerrero, in Asturias and León.
    - SabadellGuipuzcoano, in the Basque Country, Navarra and La Rioja.
    - SabadellGallego, in Galicia.
    - SabadellSolbank, in the Canary Islands, the Balearic Islands and in the southern and eastern coastal areas of mainland Spain.
    - ActivoBank serves customers who prefer to do their banking exclusively by telephone or online.

  - Corporate banking: offers specialised financing services together with a broad range of solutions, from transactional banking services to very complex custom solutions, in finance, treasury, and import/export, among others.

  - Asset Transformation engages in horizontal management of non-performing and real estate exposures. It implements the asset transformation strategy and adopts a comprehensive vision of the Group's property portfolio with a view to maximising its value.

- Banking UK: The TSB franchise covers retail banking in the United Kingdom (current and savings accounts, personal loans, cards and mortgages).

- Banking Mexico: offers the full range of banking and financial services via Corporate Banking and Commercial Banking.

Banco Sabadell is the parent company of a group which, at 31 December 2019, comprised 174 companies, of which, apart from the parent company, 149 were classified as Group companies and 24 as associated companies (162 at 31 December 2018, of which 135 were Group companies and 26 were associated companies).

#### Corporate governance structure

Banco Sabadell has a sound corporate governance structure that guarantees effective, prudent management. The Board of Directors updated the internal governance framework at a meeting in January 2019, covering such aspects as the ownership structure, governing bodies, Group structure, composition and operation of the governing bodies, internal control functions, key governance matters, the risk management framework and the Group's policies.

#### General Meeting of Shareholders

The Bank's main governing body is the General Meeting of Shareholders, in which the shareholders decide on matters attributed to the Meeting by law, the Articles of Association (*Available on the corporate website under "Corporate governance and remuneration policy - Articles of Association"*) and its own Regulation, and those business decisions that the Board of Directors considers to be of transcendental importance for the bank's future and for the company's interests.

The General Meeting of Shareholders has adopted its own Regulation, which sets out the principles and basic rules of action (*Available on the corporate website under "Shareholder and Investor information – GM Regulations"*) and safeguards shareholders' rights and transparency.

In the Shareholders' Meeting, shareholders may vote in direct proportion to their share in the company's capital.

The Policy on communication and contacts with shareholders, institutional investors and proxy advisors approved by the Board of Directors 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.

#### Board of Directors

With the exception of matters reserved for the General Meeting of Shareholders, the Board of Directors is the highest decision-making body in the company and its consolidated group, as it is responsible, under the law and the Articles of Association, for the management and representation of the bank. The Board of Directors acts mainly as an instrument of supervision and oversight, and delegates the management of ordinary business matters to the CEO and the management team.

The Board of Directors is subject to well-defined, transparent rules of governance, particularly the Articles of Association and its own terms of reference (*available on the corporate website under "Corporate governance and remuneration policy - Regulations of the Board of Directors"*), and it conforms to best practices in the area of corporate governance.

The members of the Board of Directors at 31 December 2019 were as follows:

Board composition

| | Position |
|---|---|
| José Oliu Creus | Chairman |
| José Javier Echenique Landiribar | Vice Chairman |
| Jaime Guardiola Romojaro | CEO |
| Anthony Frank Elliott Ball | Director |
| Aurora Catá Sala | Director |
| Pedro Fontana García | Director |
| María José García Beato | Director Secretary General |
| Maria Teresa Garcia-Milà Lloveras | Director |
| George Donald Johnston | Director |
| David Martínez Guzmán | Director |
| José Manuel Martínez Martínez | Director |
| José Ramón Martínez Sufrategui | Director |
| José Luis Negro Rodríguez | Director – General Manager |
| Manuel Valls Morató | Director |
| David Vegara Figueras | Director – General Manager |
| Miquel Roca i Junyent | Non – Director Secretary |

The members of the Board of Directors at 31 December 2019 were as follows: five executive directors and ten non-executive directors (eight of them independent, one proprietary and one in the category of other external). The composition of the Board of Directors has an appropriate balance between the various categories of director.

The composition of the Board of Directors is diverse and efficient. It is of the appropriate size to perform its functions effectively by drawing on a depth and diversity of opinions, enabling it to operate with a level of quality and efficacy and in a participatory way. It combines a suitable diversity in terms of competency, professional background, origin and gender, as its members have extensive experience in banking, finance, insurance, risk and auditing, regulatory affairs and the law, as well as the academy, human resources and consulting, business and the international arena. The Board's Matrix of Competencies can be consulted on the website under *"Corporate governance and remuneration policy – Internal Governance Framework"*.

There are three female directors: one executive, one independent and one other external. In 2019, the General Meeting of Shareholders ratified the appointment of the female executive director and re-appointed the female independent director. The Director Candidate Selection Policy, which was approved by the Board of Directors in 2016, seeks to ensure that the process facilitates the selection of women candidates and, more generally, is free of inherent bias that might entail discrimination.

The Board has a Lead Independent Director, who is empowered, under the Articles of Association, to give notice of meetings of the Board of Directors, add items to the meeting agenda, coordinate and meet with the non-executive directors, reflect the opinion of the external directors, and direct the regular assessment of the Chairman of the Board of Directors. The Lead Independent Director also coordinates the Succession Plan for the Chairman and CEO and, in practice, chairs any meetings with investors or proxy advisors. In 2019, the incumbent Lead Independent Director stepped down from that role after three years and the Board appointed Mr. Anthony Frank Elliott Ball as replacement.

To ensure better and more diligent performance of its general supervisory duties, the Board undertakes to directly discharge the responsibilities provided by law, including:

a) approving the Company's general strategies;

b) appointing and, as necessary, removing directors of the Company's subsidiaries;

c) identifying the Company's main risks and implementing and monitoring suitable internal control and reporting systems;

d) setting policy on the reporting and disclosure of information to shareholders, the markets and the general public;

e) setting policy on treasury stock in accordance with any guidelines laid down by the Shareholders' Meeting;

f) approving the Annual Corporate Governance Report;

g) authorising transactions between the Company and directors or significant shareholders which may lead to conflicts of interest; and

h) generally deciding on business or financial transactions that are of particular importance for the company.

### Committees of the Board of Directors

In accordance with the Articles of Association, the Board of Directors has established the following committees:

- Delegated Committee.
- Audit and Control Committee.
- Appointments Committee.
- Remuneration Committee.
- Board Risk Committee.

The organisation and structure of the Board committees is set out in the Articles of Association and in their respective terms of reference, which give the rules governing their composition, operation and responsibilities. In 2019, the Board approved the Regulations of the Delegated Committee, the Remuneration Committee, the Appointments Committee and the Board Risk Committee, in addition to the pre-existing Regulation of the Audit Committee (*Available on the website under "Corporate Governance and Remuneration Policy - Regulations of the Board of Directors"*), to elaborate upon and complete the rules for operation and basic functions set out in the Articles of Association and the Board of Directors Regulation.

The Committees support the Board of Directors in specific areas and facilitate the development and application of a sound internal governance framework. Their function is to provide information and advice, apart from specific cases where they are assigned decision-making powers by a resolution of the Board or a policy approved by the latter. They have sufficient resources to perform their functions, and 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 the committees at 31 December 2019 is shown in the table below:

Committee composition

| Position | Delegated | Audit and Control | Appointments | Remuneration | Risk |
|---|---|---|---|---|---|
| Chairman | José Oliu Creus | Manuel Valls Morató | Aurora Catá Sala | Aurora Catá Sala | George Donald Johnston |
| Director | José Javier Echenique Landiribar | Pedro Fontana García | Anthony Frank Elliott Ball | Anthony Frank Elliott Ball | Maria Teresa Garcia-Milà Lloveras |
| Director | Jaime Guardiola Romojaro | Maria Teresa Garcia-Milà Lloveras | Maria Teresa Garcia-Milà Lloveras | George Donald Johnston | Manuel Valls Morató |
| Director | Pedro Fontana García | José Ramón Martínez Sufrategui | José Manuel Martínez Martínez | José Ramón Martínez Sufrategui | - |
| Director | José Manuel Martínez Martínez | - | - | - | - |
| Secretary (not a member) | María José García Beato | Miquel Roca i Junyent | Miquel Roca i Junyent | María José García Beato | María José García Beato |
| Number of meetings in 2019 | 36 | 11 | 11 | 11 | 10 |

## Delegated Committee

The Delegated Committee, which was renamed by the General Meeting in 2019 (it was formerly the Executive Committee), is composed of five directors and is chaired by the Chairman of the Board; in terms of director categories, its composition is similar to that of the Board, and it has all the functions and powers of the Board except those whose delegation is forbidden by law or the Articles of Association. It is responsible for overseeing the Bank's ordinary activities; it must report all decisions adopted at its meetings to the Board of Directors, without prejudice to any other functions assigned to it under the Articles of Association, the Board of Directors Regulation or its own terms of reference.

## Audit and Control Committee

The Audit and Control Committee comprises three independent directors and one other external director, and it is chaired by an independent director who 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 financial statements, liaise with the external auditor, and ensure that suitable measures are taken to address any conduct or methods that could be inappropriate. It also ensures that the measures, policies and strategies defined by the Board are duly implemented.

### Appointments Committee

The main functions of the Appointments Committee, which comprises three independent directors and one other external director, are to ensure that the qualitative composition of the Board of Directors fulfils the requirements, assess whether directors meet the suitability, competency and experience requirements for the position, make proposals as to the appointment of independent directors and advise on the appointment of other directors. It must also set a representation target for the gender less well represented on the Board of Directors and draw up guidelines on how the target should be achieved; it advises on proposals for the appointment and removal of senior executives and identified staff, as well as on the basic contractual conditions for executive directors and senior executives.

### Remuneration Committee

The main functions of the Remuneration Committee, which comprises four independent directors, are to make recommendations to the Board of Directors on policy for the remuneration of directors and general managers and on remuneration and other contractual conditions for individual executive directors, and to ensure compliance with existing policies. It also advises on the Annual Report on Director Remuneration and reviews the general principles governing remuneration and the arrangements for the remuneration of all employees, ensuring that transparency is maintained.

### Board Risk Committee

The Board Risk Committee is made up of two independent directors and one other external director. Its functions are to supervise and exercise oversight to ensure that all the risks of the Bank and its consolidated group are accepted, controlled and managed appropriately, and to report to the Board on the performance of its duties, in accordance with the law, the Articles of Association and the Board of Directors Regulation and the Committee's own terms of reference.

### Bank Chairman

In accordance with article 54 of the Articles of Association, the Chairman is the Bank's chief representative and, in performing his functions, he is the person with primary responsibility for the effectiveness of the Board of Directors, representing the Bank in any event, and signing on behalf of the company; he convenes and chairs meetings of the Board of Directors, setting the agenda, directing the debates and deliberations within the Board of Directors, and, in the event, the General Meeting, and is responsible for executing the decisions adopted by the Board of Directors and the General Meeting of Shareholders without the need for this to be expressly mentioned. He also holds any powers delegated to him by the Board of Directors.

### Chief Executive Officer

Under article 54 of the Articles of Association, the CEO is the person with primary responsibility for managing and directing the business, and for representing the Bank in the Chairman's absence. The Board may attribute to the CEO any powers that it sees fit from among those that it is allowed by law to delegate.

### Control units

The Internal Audit Division and the Risk Division have access and report to the Board of Directors and its committees — the Audit and Control Committee and Board Risk Committee, respectively.

The Bank publishes an Annual Report on Corporate Governance, which contains detailed information on corporate governance, and the Non-Financial Disclosures Report, both of which are part of the 2019 financial statements, together with an Annual Report on Director Remuneration, all of which are available on the on the CNMV and Banco Sabadell websites.

## 1.2 Business model, main objectives achieved and actions implemented

The Bank's development objectives are focused on profitable growth and the generation of shareholder value through a strategy of business diversification based on high returns, efficiency 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.

It has a business model that fosters long-term customer relationships 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.

However, the current situation of negative rates will drive a review of the business model to enable us to adapt to the new environment, while continuing to pursue profitable growth and long-term customer loyalty.

Spain's banking sector has been engaged in an unprecedented consolidation process since the financial crisis began. Higher levels of capital, stricter provisioning requirements, the economic recession and pressure from the capital markets are some of the factors that have driven Spanish banks to merge and gain in scale, maximise efficiency and strengthen their balance sheets.

During the last ten years, Banco Sabadell has expanded its geographic footprint and increased its market share in Spain through several acquisitions, the largest of which was Banco CAM in 2012, which enabled it to enlarge its balance sheet significantly. Banco Sabadell was able to engage in additional M&A in 2013 in appropriate economic conditions within the framework of the restructuring of the banking industry. Following the acquisition of the Penedès branch network, Banco Gallego and Lloyds España in 2015, Banco Sabadell is well-positioned to grow organically and benefit from growth in the Spanish economy, and to adapt to the new interest rate environment.

The acquisitions and organic growth in recent years have enabled Banco Sabadell to reinforce its position in some of Spain's most prosperous regions (e.g. Catalonia, Valencia and the Balearic Islands) and to increase market share in other key areas. According to the most recent information (September 2019), Banco Sabadell has a market share of 8.0% in lending and 7.6% in deposits at national level. Banco Sabadell also has a strong position in other products: 9.9% in commercial credit (October 2019); 11.3% in lending to companies (September 2019); 5.9% in mutual funds (December 2019); 9.9% in securities trading (December 2019); and 17.2% in POS turnover (September 2019).

Banco Sabadell also maintains its quality differential with respect to the rest of the industry and ranks first in terms of customer experience (Net Promoter Score) for SMEs.

Banco Sabadell has always been a trailblazer on the international front. This continued to be the case in 2019, as Sabadell retained its position in the leading financial hubs and supported businesses in their international activities, having achieved a 14.8% share of Swift transfers in November 2019. In recent years, Banco Sabadell has expanded its international footprint, including notably: the acquisition of UK bank TSB and the move into Mexico after obtaining a commercial banking charter. As a result, in December 2019, 33% of the Group's lending was in other countries (25% in the United Kingdom and 9% in the Americas and elsewhere).

Once TSB had resolved the incidents produced during the IT platform migration and after the appointment of a new executive team, efforts have focused on developing a new business plan based on volume growth, better positioning and cost-cutting.

Banco Sabadell Group sold 80% of Solvia Servicios Inmobiliarias in 2019, booking a gross capital gain of 133 million euros. Additionally, it disposed of 100% of SDIN Residencial, S.L.U. and a portfolio of real estate, mostly land for development. On 19 December, the Board was informed of the first closure, planned for 20 December, of the sale of a number of portfolios after obtaining authorisation from Spain's Deposit Guarantee Fund (DGF) and the Ministry of the Economy.

Banco Sabadell does business in an ethical and responsible way and shows its commitment to society by ensuring that its actions have a positive impact on people and the environment. Each and every person in the organisation has a part to play in observing and applying the principles and policies that underlie corporate social responsibility, as well as in assuring quality and transparency in customer service.

In the area of compliance, in addition to observing the law, Banco Sabadell has put in place a set of policies, procedures and codes of conduct to provide a guarantee of ethical and responsible conduct at all levels of the organisation and in all Group operations.

## 1.3 Plan 2020

Banco Sabadell adopts strategic plans in which it sets targets for the coming years in accordance with the macroeconomic, business and regulatory context.

In 2018, Banco Sabadell presented a new three-year Business Plan in which it laid the strategic groundwork for the next economic cycle. The plan's ambitions are coherent with the values and objectives that have characterised the Bank since its foundation. The plan pursues profitability, sustainability and value creation.

The year 2020 will be shaped by the current negative interest rate situation and the possibility of a global economic slowdown. Given this situation, Banco Sabadell will focus on profitability. Profitability means continuing to expand in the main markets where Banco Sabadell operates, while focusing particularly on efficiency and accelerating balance sheet normalisation. Banco Sabadell will also continue to develop the technological capabilities that are required to offer a value proposition, as well as attracting versatile talent to undertake the commercial and digital transformation of the institution and adapt it to the current changing environment. The Banco Sabadell Business Plan pursues value creation for all its stakeholders, while offering a wide range of products and excellent quality of service to its customers and developing its human capital, attending to its employees' concerns and professional expectations, motivating them and recognising their achievements. All this while maintaining Banco Sabadell's commitment to society and the environment in all the territories where it operates, through ethical and responsible development of its business.

In order to achieve these objectives, Banco Sabadell relies on its strong brand image and customer experience as differentiating elements, as well as its extensive technological capabilities, which enable it to evolve its value proposition. All this underpinned by an agile, versatile organisation comprising talented, committed people.

The goal of Banco Sabadell for 2020 is to maximise the value of its franchise in the three main markets in which it operates (Spain, the United Kingdom and Mexico), and to grow organically by means of a clear, differentiated strategy in each geography.

Accordingly, Banco Sabadell's ambitions in Spain focus on strengthening the value proposition in the core segments and boosting spreads, while continuing to safeguard our solid risk profile. This is to be accompanied by measures to enhance the business's sustainability by transforming the distribution and digitalisation model to offer a broad range of distinctive products and services to each customer while retaining the lead in quality of service.

In the United Kingdom, a new strategic plan for 2022 was launched in November 2019 after the appointment of a new management team at the UK subsidiary, TSB. This plan aims to improve business efficiency while increasing volumes and revenues organically, in mortgages and consumer loans to individuals, in order to enhance profitability. To this end, TSB has a new technology platform, which is key to an agile business model and that lends it a competitive advantage in the UK market, since it enables the Bank to adapt more quickly and efficiently to customers' emerging needs.

The strategy defined for the Mexican business is fundamentally focused on continuing to strengthen the Business and Corporate Banking segment, focusing on customers and on products that enable us to maximise profitability while developing a model of banking for individuals based on an innovative all-digital approach.

**1.4 Share performance and share ownership**

During 2019, market attention was focused on trade tensions between the United States and China, uncertainty about Brexit, concern in this context over the weakness of global growth, and the response offered by central banks, all of which drove banks' share performance.

However, in the final months of the year, the waning possibility of a hard Brexit, lower litigation risk in connection with IRPH-linked mortgages following the conclusions of the European Union's Advocate General, and the rebound by interbank rates favoured Spanish bank equities.

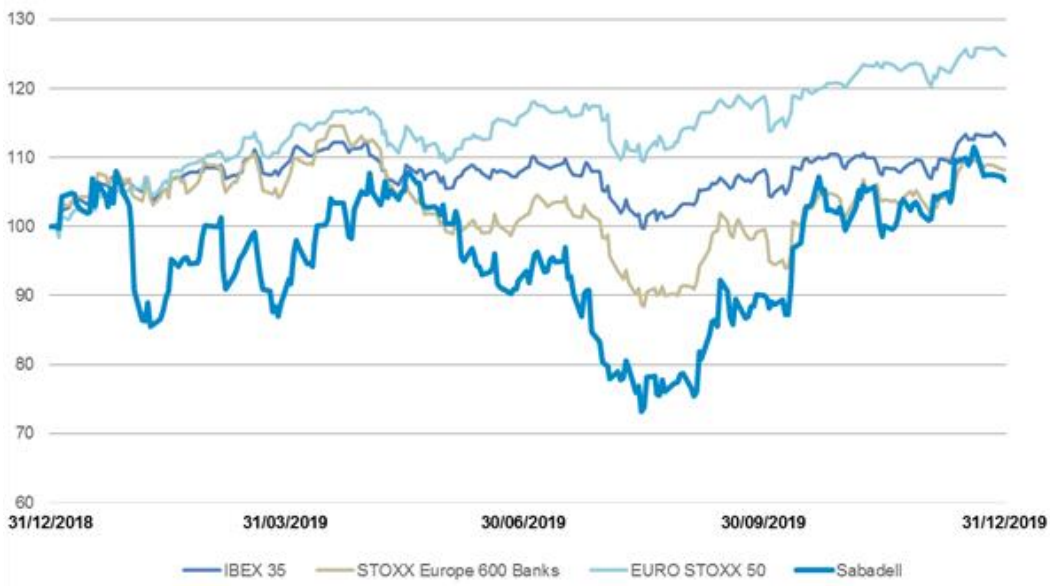
The main factors impacting Sabadell's share performance in 2019 were the improvement in its capital position during the year, the announcement of TSB's business plan, and the steady improvement in asset quality through institutional sales of non-performing portfolios.

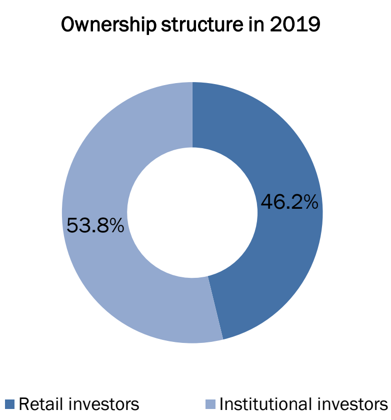
In parallel, at the end of 2019, more than 89% of analysts covering Banco Sabadell had a buy or hold recommendation on the stock.

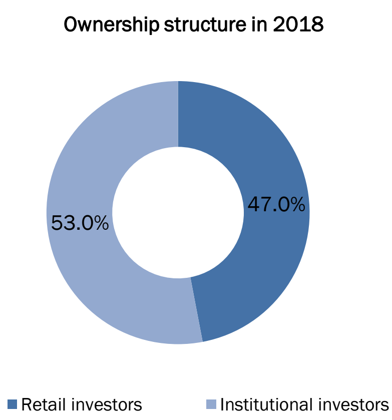
The percentage of Banco Sabadell's capital owned by institutional investors increased slightly, from 53.0% at 2018 year-end to 53.8% at the end of 2019.

Banco Sabadell's market capitalisation stood at 5,760 million euros at year-end, with a price-to-book ratio of 0.44.

The next diagram shows the share's performance.



| Analysis of shareholdings at 31 December 2019 | | | |
|---|---|---|---|
| No. of shares | Shareholders | Shares in tranche | % of capital |
| 1 to 12,000 | 189,863 | 563,139,756 | 10.01% |
| 12,001 to 120,000 | 42,426 | 1,284,276,683 | 22.82% |
| 120,001 to 240,000 | 1,620 | 264,631,530 | 4.70% |
| 240,001 to 1,200,000 | 921 | 393,813,970 | 7.00% |
| 1,200,001 to 15,000,000 | 167 | 465,296,435 | 8.27% |
| More than 15,000,000 | 37 | 2,655,806,327 | 47.20% |
| TOTAL | 235,034 | 5,626,964,701 | 100.00% |

| Analysis of shareholdings at 31 December 2018 | | | |
|---|---|---|---|
| No. of shares | Shareholders | Shares in tranche | % of capital |
| 1 to 12,000 | 190,297 | 578,124,117 | 10.27% |
| 12,001 to 120,000 | 42,519 | 1,288,813,941 | 22.90% |
| 120,001 to 240,000 | 1,605 | 260,418,978 | 4.63% |
| 240,001 to 1,200,000 | 914 | 390,814,906 | 6.95% |
| 1,200,001 to 15,000,000 | 151 | 414,351,420 | 7.36% |
| More than 15,000,000 | 37 | 2,694,441,339 | 47.88% |
| TOTAL | 235,523 | 5,626,964,701 | 100% |

| | million | million euros | euros | million | euros |
|---|---|---|---|---|---|
| | Average number of shares | Attributed income | Attributed income per share | Own funds | Book value per share |
| 2016 | 5,616 | 710 | 0.126 | 12,926 | 2.30 |
| 2017 | 5,570 | 802 | 0.142 | 13,426 | 2.41 |
| 2018 | 5,565 | 328 | 0.050 | 12,545 | 2.25 |
| 2019 | 5,538 | 768 | 0.125 | 13,172 | 2.38 |

## Share performance

Below are a number of indicators of the bank's share performance:

| | 2019 | 2018 | Change (%) year-on-year |
|---|---|---|---|
| **Shareholders and trading** | | | |
| Number of shareholders | 235,034 | 235,523 | (0.2) |
| Average number of shares (million) | 5,538 | 5,565 | (0.5) |
| Average daily trading volume (million shares) | 30 | 27 | 11.2 |
| **Share price (euros)** | | | |
| Beginning of the period | 1.001 | 1.656 | - |
| High | 1.130 | 1.945 | - |
| Low | 0.714 | 0.950 | - |
| End of the period | 1.040 | 1.001 | - |
| Market capitalisation (million euro) | 5,760 | 5,568 | - |
| **Stock market multiples** | | | |
| Earnings per share (EPS) (euro) | 0.13 | 0.05 | - |
| Book value per share (euro) | 2.38 | 2.25 | - |
| Price/Book value | 0.44 | 0.44 | - |
| Price/earnings ratio (P/E) | 8.29 | 20.11 | - |

## 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.

In 2018, the Bank paid shareholders 0.03 euro per share entirely in cash. This distribution consisted of an interim dividend of 0.02 euro per share and a supplementary dividend of 0.01 euro per share. That represented a 3.0% return on the year-end closing price of the share.

On 24 October 2019, the Board of Directors declared an interim dividend of 0.02 euro, gross per shares (net of 0.0162 euro per share of tax withholdings), which was paid in the form of own shares amounting to 89,635 thousand euros, 126 thousand euros in cash, and 21,055 thousand euros in withholding tax, on 24 December 2019.

Additionally, the Board of Directors will propose that the General Meeting of Shareholders approve the distribution of a gross dividend out of 2019 earnings in the amount of 0.04 euro per share.

Banco Sabadell plans to continue to pay cash dividends in the coming years.

## Credit rating

The rating agencies that assessed Banco Sabadell's credit quality in 2019 were S&P Global Ratings, Moody's, DBRS and Fitch Ratings. Below are details of the current ratings and the last date on which they were affirmed.

| | Long term | Short term | Outlook | Last review |
|---|---|---|---|---|
| DBRS | A (low) | R-1 (low) | Stable | 25.06.2019 |
| S&P Global Ratings | BBB | A-2 | Stable | 13.12.2019 |
| Moody's Investors Service (*) | Baa3 / Baa2 | P-3 / P-2 | Stable/Stable | 12.12.2019 |
| Fitch Ratings | BBB | F2 | Stable | 20.12.2019 |

(*) Senior debt and deposits, respectively.

On 6 April 2018, S&P Global Ratings upgraded Banco Sabadell's long-term credit rating to BBB (from BBB-) and its short-term rating to A-2 (from A-3). The outlook is stable. This upgrade was based on Banco Sabadell's improved credit quality in the context of lower industry risk in the Spanish banking system, fundamentally due to deleveraging, and on higher investor confidence.

On 13 December 2019, S&P Global Ratings affirmed Banco Sabadell's BBB long-term rating, its A-2 short-term rating, and the stable outlook.

On 19 September 2018, Moody's confirmed the Baa2 long-term deposit rating and the Baa3 senior debt rating, as well as the P-2 short-term deposit rating and the P-3 senior debt rating of Banco Sabadell, and changed the outlook to stable, from positive. The agency took account of the improvement in the Bank's asset risk profile after the sale of most of its portfolio of foreclosed real estate assets and the decrease in stage 3 assets, as well as the adequate liquidity position and the fact that the Group's capital and profitability indicators had been weakened by extraordinary items booked in 2018 in connection with losses at subsidiary TSB and provisions for the sale of non-performing assets.

On 12 December, Moody's confirmed Banco Sabadell's credit rating with a stable outlook.

On 4 June 2019, DBRS Ratings GmbH announced an upgrade of Banco Sabadell's long-term rating to A (Low), from BBB (High), with a stable outlook, to reflect the fact that sales of NPAs had significantly reduced exposure in this area, as well as progress in overcoming the incidents in TSB's IT migration and the steady improvement in core revenues. The short-term rating was maintained at R-1 (Low).

On 25 June 2019, DBRS Ratings GmbH confirmed Banco Sabadell's credit rating with a stable outlook.

On 29 March 2019, Fitch Ratings assigned Banco Sabadell a long-term BBB rating and short-term F3 rating, with a stable outlook. This reflects Banco Sabadell's strength as Spain's fourth-largest bank in terms of assets, with extensive experience in SME banking and geographic diversification due to its operations in the United Kingdom and Mexico. Fitch also noted that Sabadell's capital met the requirements of European regulatory bodies, and highlighted its liquidity profile and the reduction of non-performing assets. The rating also takes into account the challenges the Bank faces in expanding its UK business after the problems that arose in migrating the UK subsidiary's computer systems and the uncertain operating environment there due to Brexit. Fitch believes that Banco Sabadell has a solid franchise in Spain as a result of its acquisition strategy over the last decade, which provides solid earnings generation capacity and prospects for improving profitability.

On 20 December 2019, Fitch Ratings upgraded Banco Sabadell's short-term rating to F2 (from F3) to reflect the steady improvement in the funding profile and the ample liquidity position. The long-term rating was kept at BBB, with a stable outlook.

## 1.5 The customer

### Brand and customer experience

*"At Banco Sabadell we want to help people and companies bring their projects to life, anticipating their needs and taking care to ensure that they make the best economic decisions. We do this with conscientious, environmentally and socially responsible management practices.*

*Our values: Commitment, Non-conformism, Professionalism, Effectiveness, Empathy and Openness.*

That is the promise of the Banco Sabadell brand, the bank we want to be. The brand is committed to our customers, employees and society because "*we are distinguished not only by what we do, but also by how we do it".*

At Banco Sabadell, we are undergoing a transformation to continue building long-term relationships of trust with our customers through the Brand and the Customer Experience.

Banco Sabadell sees Customer Experience as the way in which we deliver our brand's promise to customers. The Bank aspires to be the leader in customer experience and to align the entire organisation in pursuit of this goal; incentives for all employees with variable remuneration are linked to customer experience KPIs.

The Customer Management Division is entrusted with ensuring that the customer vision is propagated to the entire organisation and it is supported not only by head office but also by the branch network and by employees tasked with driving this model through training, workshops and specific action plans.

Banco Sabadell employees have access to specific training on customer experience. This training is very varied and is implemented through challenges based on customer demands, enabling account managers to probe and interiorise the importance of a customer-centric strategy. They also gain insights into how customers should experience certain critical processes ("moments of truth") and receive capacities and skills to enable them to manage these situations optimally.

### Enhancing the customer experience

The world is evolving at a rapid pace and our customers' habits are changing. In this context, Banco Sabadell is undergoing a transformation to offer the best possible experience to an increasingly informed and demanding customer base, which requires greater customisation, immediacy and a multi-channel approach.

Competitive strategy: Superior relationship model

To continue delivering the Sabadell experience — our way of banking — we are evolving towards a superior relationship model. A model totally focused on the customer and driven tightly by business intelligence, digitalisation, the distribution model and people.

- We are improving relations with customers who have more sophisticated needs by offering them a personalised model and greater specialisation.

- We are simplifying processes, improving efficiency and facilitating the basic transactional relationship with all our customers by leveraging the power of new technologies and new interaction channels, particularly mobile devices.

New technologies such as Big Data, IoT and artificial intelligence are essential components of the new customer relationship model. Greater knowledge about customers enables the bank to offer a distinctive experience and service with a much more personalised offer to meet their specific needs.

New technologies enhance customer management, as customers are empowered to choose the most convenient channel for interacting with the bank, when, how and where they want.

The transformation is already achieving tangible results:

- Banco Sabadell is a bank for business, a leader in terms of recommendations and quality of service.
- The vision of the relationship model has made it possible to accelerate commercial activity and generate more sales in retail banking. In business banking, the Planning Visit has expanded the Bank's ability to make proposals, an outcome that customers value highly.
- As for digitalisation, over 55% of customers are digital (active use of digital channels in the last three months).
- More digital sales (39%), with a growth rate above our European peers.

Business Hub

One of the initiatives that reaffirm the Bank's commitment to companies is the Business Hub, an innovative space for customers and non-customers which offers expert advice to companies and organises training workshops, networking events and technology showrooms.

### Moments of Truth

At Banco Sabadell, we know that there are watershed moments in life. These are moments of interaction with the bank to which customers bring a high level of expectation and where the impressions they gain will shape their future perception of, and relationship with, the bank.

For this reason, the bank conducts in-depth customer surveys in connection with these moments in order to gain insights into how customers experience these events. The customer journey, focus groups and customer surveys are among the tools used by a multidisciplinary team to identify ten Moments of Truth for private customers and business customers.

This research has made it possible to transform and improve these processes by making them much more customer-centric so as to ensure that customers' experience is much more satisfactory.

### BSIdea: an engine for transforming Banco Sabadell

BSIdea is a co-creation platform enabling Banco Sabadell employees to make suggestions for improvement in any area of the organisation. A committee composed of bank executives grants awards to the ideas that are most in line with the Bank's strategy, enhancing the customer experience and the transformation process. It is also an excellent channel for co-creation and communication between teams, enabling them to share opinions and experiences.

30077
Ideas shared

18
Challenges

6269
Innovators

## 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 methodologies.

### Qualitative research

A range of qualitative research approaches are used in order to gain a better understanding of the environment and customers. The goals of this process include:

1. Understanding consumers' concerns, worries and attitudes and their current and future needs.
2. Identifying the most emotional and least explicit part of consumer decision-making.
3. Listening in depth, actively and constantly to the customer's voice, which enables us to ascertain how they experience their relationship with the bank at a range of touch points.

The methodologies we use range from conventional in-depth interviews and focus groups to more innovative approaches based on neuroscience and emotion detection.

Quantitative research

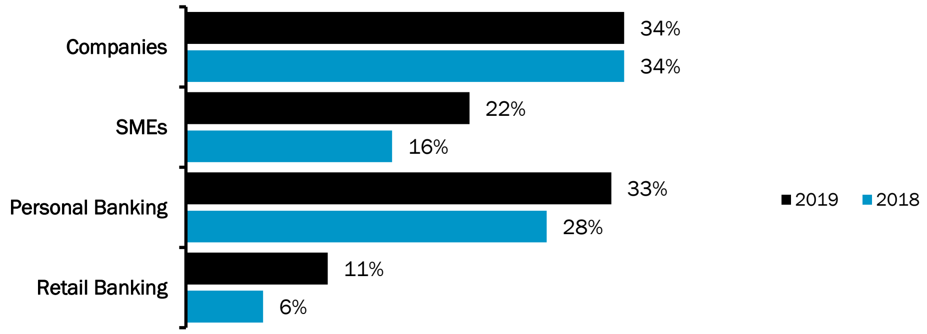
Banco Sabadell also analyses the customer experience by quantitative methods. Some address the traditional concept of satisfaction, while others deal with more emotional aspects:

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.

Banco Sabadell's current NPS scores rank it first in its peer group among SME customers, and second among personal banking customers.

**Customer NPS levels, by Banco Sabadell segment**




Note: The NPS is based on the question "On a scale of 0 to 10, where 0 is 'not at all likely' and 10 is 'I would definitely recommend it', how likely would you be to recommend Banco Sabadell to a relative or friend?"

The NPS is the percentage of customers who answered 9 or 10, after eliminating those who answered between 0 and 6." Includes institutions that are comparable to the Group. Data for the most recent available month.

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 channels.

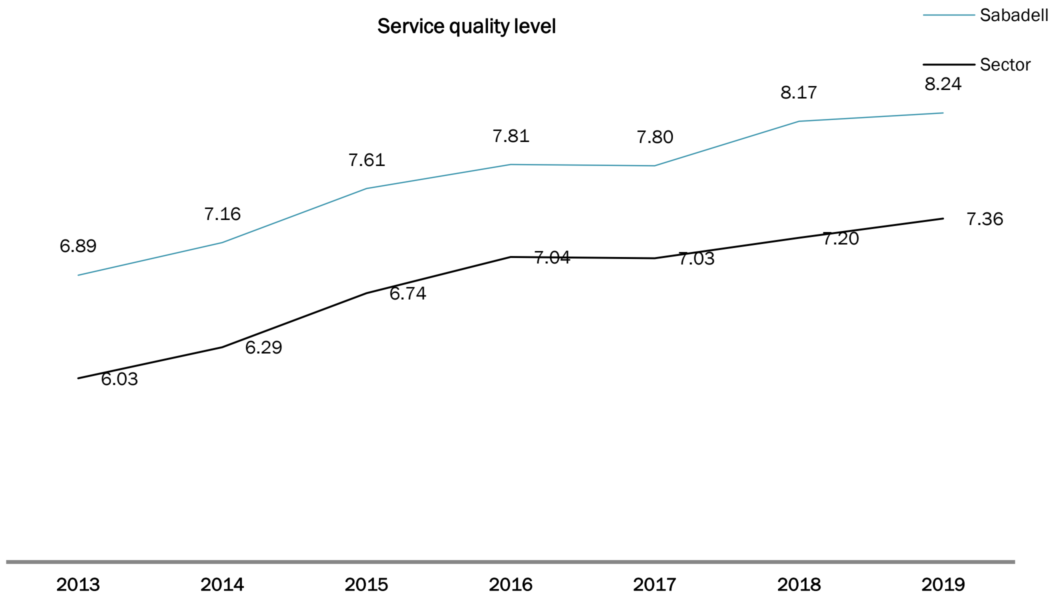
Customers give a very high score to the bank's relationship model, which represents a more personalised and specialised approach that enables the Bank to add value and to anticipate and address customers' needs.

Additionally, Banco Sabadell designed an action plan entitled "*Close the Loop*" to address unsatisfied customers identified on the basis of the quantitative customer experience surveys. The outcome has proved very satisfactory as actions taken under the plan have reverted the situation in 80% of cases.

3. Branch quality surveys

In addition to analysing customer perceptions, Banco Sabadell also carries out objective studies using techniques such as the mystery shopper, under which an independent consultant performs a pseudo-purchase to gauge the quality of service and the commercial approach applied by the sales team. Quality of service is one of the Bank's strategic objectives, so the way in which account managers serve customers is factored into the sales team's incentives.

EQUOS RCB (Stiga), the benchmark survey of bank service quality, is conducted using the mystery shopper technique. Banco Sabadell achieved one of the top scores in 2019, exceeding the industry average (+0.88), and it ranked first among Spain's big banks in terms of sales performance, which is the key feature of the survey.

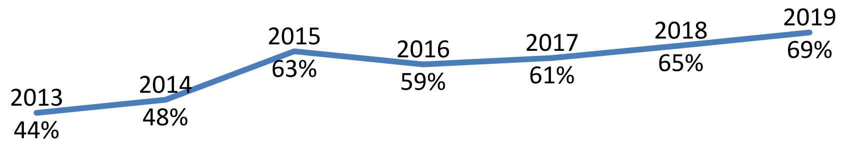


4. Internal customer survey

The internal customer survey enables us to listen to the concerns of our sales teams. Its objective is to obtain quantitative feedback from branch staff on the products, services, tools and support that are provided by the corporate centres.

The survey identifies aspects that need improvement and is used to design actions to remedy any unsatisfactory aspects. Employee participation is high, and overall scores have improved as a result of the commitment to the internal customer.

Participation by the branch network in the internal customer survey



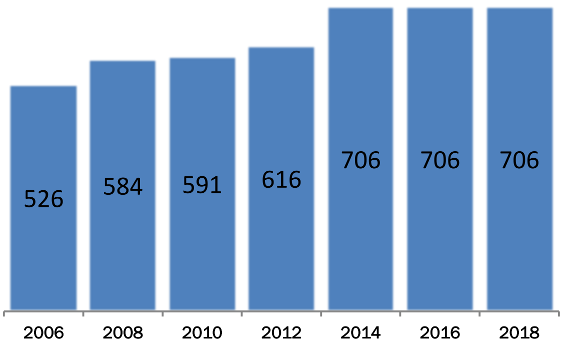

## Accolades

Banco Sabadell stands out in Spain for its strong track record in management quality and excellence.

It is the only Spanish credit institution with 100% of its financial operations certified to the ISO 9001 standard, evidencing its customer-centric philosophy and the rigour with which it addresses its risks and processes.

It was 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), which confirms the robustness and excellence of its management model.

Banco Sabadell performance in EFQM assessments




Banco Sabadell also holds the title of Ambassador of European Excellence, to which was attached a special mention in 2019 because it is one of just three Spanish organizations with more than 700 EFQM points.

On a regional basis, the Bank has held the "Madrid Excelente" distinction since 2009, in recognition of its performance. This award accredits fulfilment of the quality and excellence standards established by the "Madrid Excelente" quality assurance programme.

Banco Sabadell also believes it is vital to recognise excellence inside the organisation. More than 15 years ago, it created awards to recognise excellence at branches (customer satisfaction surveys), corporate centres and projects to serve as an inspiration for the rest of the institution.

**Customer Care Service (SAC)**

The Group's customers and users may contact the Customer Care Service with any complaints or issues that have not been resolved satisfactorily by their local branch. The Customer Care Service is independent from the business and operational side of the Group and is governed by the Banco Sabadell Group's own rules and procedures on the protection of customers and users of financial services. Customers and users may also appeal to the Customer Ombudsman, an independent unit that has the authority to resolve any issues referred to it, both in the first and second instances. Decisions by the Customer Care Service or the Ombudsman are binding on all the bank's units.

In 2019, a total of 34,789 complaints, claims and requests were received, 26.51% less than in 2018, in addition to the issues that remained unresolved at 31 December 2018. A total of 35,677 cases were processed in 2019.

The Customer Care Service also provides assistance and information to customers and users with regard to other issues. In 2019, the SAC accepted and resolved 891 requests for assistance.

For more details, see note 42 to the consolidated financial statements for 2019.

**Multi-channel strategy**

Banco Sabadell has developed new propensity models with which to anticipate customers' needs, either through their relationship with the branch network or through the other channels that the bank places at their disposal.

This drive was accompanied by new digital capabilities that simplify customers' interactions with the Bank. In 2019, 55% of customers were digital, a 3-point increase on the previous year, in addition to visits and transactions in online banking, particularly using the mobile app. BSMóvil and BSWallet maintained double-digit growth without impairing web usage figures.

Branch network

Banco Sabadell ended 2019 with a network of 2,402 branches (540 TSB branches), i.e. a net reduction of 55 branches with respect to 31 December 2018 (45 branches excluding TSB).

Of the total Banco Sabadell and Group branch network, 1,364 branches operate under the Sabadell brand (including 28 business banking branches and 2 corporate banking branches); 107 as Sabadell Gallego (including 3 business branches); 133 under the Banco Herrero brand in Asturias and León (3 business branches); 108 as Sabadell Guipuzcoano (5 business banking branches); 10 as SabadellUrquijo; 100 branches under the Solbank brand; and 580 offices that make up the international network, of which 7 are in BancSabadell d'Andorra, 540 in TSB and 15 in Mexico.

| Region | Branches | Region | Branches |
|---|---:|---:|---:|
| Andalusia | 129 | Valencia | 312 |
| Aragón | 31 | Extremadura | 6 |
| Asturias | 103 | Galicia | 107 |
| Balearic Islands | 56 | La Rioja | 8 |
| Canary Islands | 31 | Madrid | 178 |
| Cantabria | 5 | Murcia | 126 |
| Castilla-la Mancha | 22 | Navarra | 15 |
| Castilla y León | 58 | Basque Country | 88 |
| Catalonia | 545 | Ceuta and Melilla | 2 |

| Country | Branches | Representative offices | Subsidiaries and affiliates |
|---|---|---|---|
| **Europe** | | | |
| Andorra | | | • |
| France | • | | |
| Poland | | • | |
| Portugal | • | | |
| United Kingdom | • | | • |
| Turkey | | • | |
| **America** | | | |
| Brazil | | • | |
| Colombia | | • | |
| USA | • | • | |
| Mexico | | | • |
| Peru | | • | |
| Dominican Republic | | • | |
| **Asia** | | | |
| China | | • | |
| UAE | | • | |
| India | | • | |
| Singapore | | • | |
| **Africa** | | | |
| Algeria | | • | |
| Morocco | • | | |

ATM network

At the end of 2019, the Group's network of self-service machines in Spain totalled 2,982 ATMs and 339 passbook updating machines. Those figures are similar to the numbers at 2018 year-end (2,924 ATMs and 345 passbook updaters in December 2018).

The number of transactions fell slightly in 2019, by 2%, to 113,210,579 in total, as certain transactions types fell by around 20%: passbook updates, mobile phone top-ups and cheque deposits.

Online deposits increased by 33%, and there was a sharp increase in other transaction categories: bill payments rose 39%, Instant Money transactions by 69% (these are ATM withdrawals by Sabadell customers or third parties that do not require a card), and transfers by 9%.

The *Instant Money on Behalf* service became operational at all the Bank's branches and ATMs at the end of the first quarter of 2019. *Instant Money on Behalf* is a new solution that enables customers to withdraw cash from an ATM at a branch using an activator code generated by the branch itself; this solution met with a very good response and 36,000 transactions were performed in 2019.

In 2019, the Bank started to replace 596 ATMs in Spain, as well as adding 103 in-branch ATMs and installing online cash deposit machines at over 96% of branches; this project is due to conclude in the first quarter of 2020. The goal is to enhance service in order to increase customer satisfaction.

BSOnline and Sabadell Móvil

By 2019 year-end, over 55% of our customers were digital, a 3-point increase year-on-year, including online banking visits and transactions, particularly using the mobile app. BSM and BSWallet maintained double-digit growth figures, while the web channel continued to grow.

*BSOnline*

Despite all the figures on the growth and use of mobile data, BSOnline visit and usage figures did not decline with respect to 2018. Traffic and usage frequency numbers remain high, and transactional usage is particularly prevalent in the company segment.

The number of transactions performed via BSOnline continues to grow: servicing transactions for corporate customers increased by 7% with respect to the previous year.

During 2019, a number of projects were launched to reduce friction and increase the value for customers in transaction types used frequently by business customers, by improving processes in such areas as transfers, reverse factoring and tax payments.

*Sabadell Móvil*

The number of users of Sabadell Móvil (BSM) continued to rise, from 2.4 million to 2.7 million. The app is the sole digital relationship channel with the Bank for almost 40% of digital customers.

In addition to rising statistics for downloads and preferences, the frequency of use is stable at an average of 22 times per month.

The channel's usage and servicing statistics continue to rise, particularly in recurring operations and consumer finance transactions.

The process of applying for consumer finance and for accepting and drawing on pre-approved loans has been automated and optimised. As a result, the app is now involved in over 80% of digital loans, an increase of over 50% year-on-year.

Continuing with the goal of enabling customers to pay for purchases in instalments, the way in which the instalment option is displayed on till receipts was improved, and the option of paying in instalments is now displayed directly, which has increased awareness and use of this service.

In 2019, the Bank rolled out Blink, an online service for arranging insurance that is 100% digital, from simulating premium costs to signing policies.

The Bizum service for sending money between mobile devices tripled transaction numbers with respect to 2018; more features were added as well as the option of repeating the most frequent transaction, and it was incorporated into the transfer section of BSM.

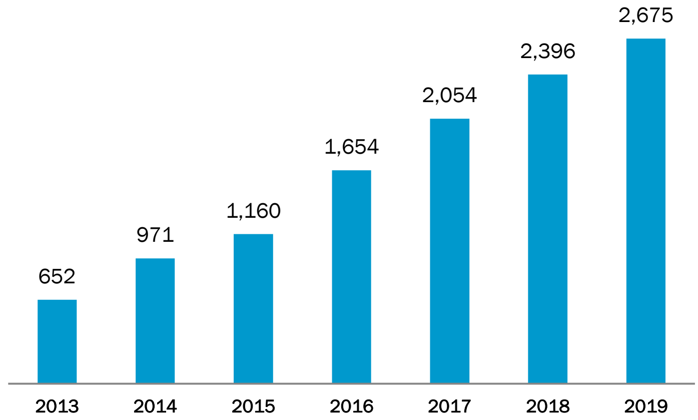
The Sabadell Wallet app continues to improve the enrolment process and usability, and is logging overall growth in the rates of adoption, use and repeat use by customers.

Our customers are increasingly turning to mobile payment options, including notably the rapid uptake and widespread use of ApplePay.

This year, we integrated a customer feedback option into the app.

Additionally, work continued to enhance the app's home screen by making the finance, saving and card balances more visible and highlighting transactions pending signature.

Customers who are active users of Sabadell Móvil




Direct Branch

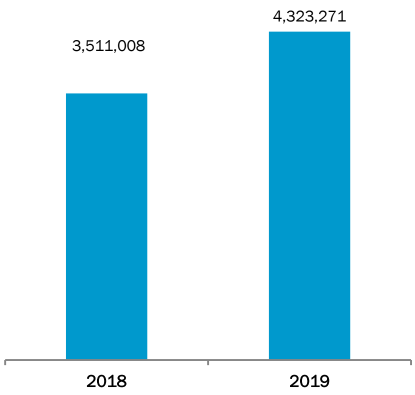
Contacts with Direct Branch increased by over 14% in 2019 with respect to 2018, to 5.2 million.

The contact channels that experienced fastest growth in 2019 were telephone and social media.

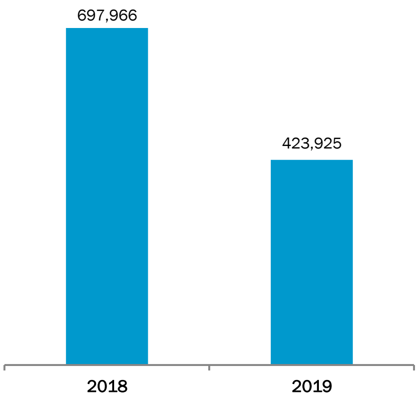
The SLA (Service Level Agreement) ratio for telephone enquiries exceeded 90.60%, followed by chat (92.52%) and e-mail (82.54%). There were more than 330,000 mentions on social media, and the number of interactions exceeded 278,000, with an SLA of 93.81%.

The growth was driven by the Payment Services Directive (PSD2) and the roll-out of Strong Customer Authentication (SCA) in distance banking.

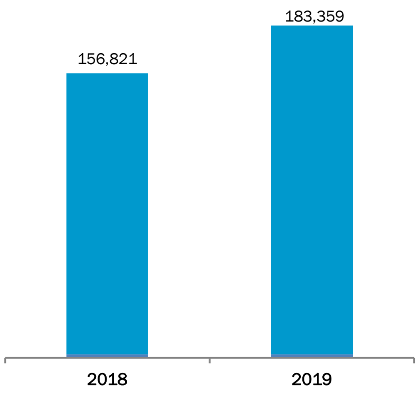
Contacts by telephone



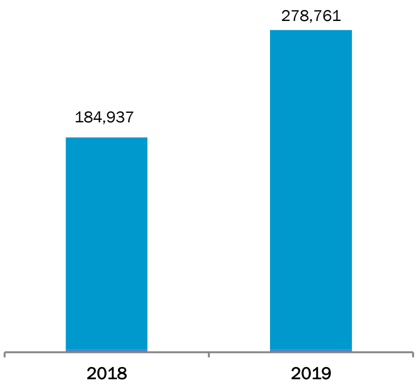

Contacts by e-mail




Contacts via chat




Contacts via social media



Social media

Banco Sabadell first began participating in social media 13 years ago. The objective was to get to know digital clients 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 17 different profiles, and it has one of the best digital profiles in the industry.

Social media are among the main channels for engaging with our customers, both for handling queries and for broadcasting institutional 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 in 2011.

Banco Sabadell currently has over 500,000 followers. Nearly 278,000 mentions of the brand were monitored or dealt with in 2019.

A key success factor is continuous tracking of interactions with followers and customers. One of principal KPIs in social media positioning is the response rate, in which Banco Sabadell has a high score. Additionally, social media serve as an important channel for conveying corporate and institutional content and as a channel for opinion-makers, both internal and external. Social media are used to announce and webcast many sponsored events and other initiatives in which we play an active role. They include results presentations, the General Meeting of Shareholders, the Barcelona Open Banc Sabadell - Conde de Godó tennis tournament, the Alejandro Sanz Tour, the 4YFN startups summit at the Mobile World Congress, the South Summit, the Banco Sabadell Foundation Research Awards, and the World Summit on Climate Change, where the bank's commitment to sustainability was patent.

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 ratings of our branch offices in GoogleMaps.

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 (InnoCells)**

InnoCells is Banco Sabadell's hub for innovation and strategic investments. It operates on the basis of a flexible innovation model that has evolved in line with the Bank's needs.

The purpose of InnoCells is to expand the value chain by identifying new lines of business, innovating in digital products and developing new value propositions in order to anticipate customers' needs and address them through a complete offer with an end-to-end vision.

Banco Sabadell and InnoCells also have a joint strategy to attract digital talent and develop its positioning in innovation by executing projects, partnerships and investments.

InnoCells combines four capabilities to address challenges and projects, with reflection and execution, which ensure maximum impact for the Banco Sabadell Group and enhance the customer experience.

*Business design - Strategic design*

Strategic design is based on evolving the financial services value proposition towards the delivery of user-centric digital experiences.

InnoCells helps identify leading market practices and integrate the customer-centric vision. Business Design addresses the challenges holistically and incorporates customers' voices throughout the process: it understands users and their problems, proposes new products and services or modifies current processes, and validates solutions with users.

Strategic design addresses projects from a different point of view: it empathises with people, and understands not only their financial and non-financial needs (and their emotions, aspirations and limitations) but also the circumstances and context.

InnoCells works iteratively, based on market inputs, to reduce uncertainties and minimise the risk of failure. Its objective is to design and deploy services and solutions designed from the customer's perspective to improve people's financial well-being.

*Digital strategy*

InnoCells leads the Group's strategic reflection on digital matters and acts as a know-how hub. This innovation vehicle provides a strategic vision from the ecosystem on key business issues. It also helps identify leading practices in the market and integrate the customer's viewpoint. This brings it closer to project execution.

*Strategic Investments*

The hub scouts priority areas and verticals in connection with Banco Sabadell's core activities. In this way, it provides access and know-how about innovations and trends in the ecosystem and builds a comprehensive fintech portfolio.

To date, InnoCells has made twelve investments in startups and funds and has acquired two companies — Instant Credit and PAYCOMET — whose services have been added to Banco Sabadell's means of payment offer in six countries.

*Partnerships*

InnoCells also acts as a service layer to facilitate commercial agreements between Banco Sabadell and the startup ecosystem, as well as to drive product innovation and the adoption of new technologies with a positive impact for customers. Below are some examples:

- Signing contracts by voice using the novel digital voice signature developed by Biometric Vox, a startup in which InnoCells invested in February 2018, making Banco Sabadell the first bank in Spain to offer this service to its customers.

- The alliance with fintech Nemuru to provide customers with access to financing for home refurbishment work.

*Business design projects*

InnoCells has contributed to Banco Sabadell's digital offer and to improving the customer experience both by developing projects from scratch and by adapting existing processes or exploring new environments.

Below are two examples of differentiated evolution (the first was added to Banco Sabadell's offer to self-employed workers, and the second was launched on the market as an independent company) and good positioning:

- Nomo: a digital platform providing an app with a range of tools for freelance and self-employed workers to assist with managing their business, accounts and tax, as well as offering financial services.

- Mitto: a prepaid card for young people aged 14 and upwards that can be used to make payments both online and offline up to the balance on the card. The app enables parents to link to a bank card and send money instantly to their children.

## 2 – ECONOMIC AND FINANCIAL BACKGROUND

### Economic and financial background

The global economy weakened on the back of trade tensions, Brexit uncertainty and China's economic slowdown. Against this backdrop, the leading economies' central banks resumed monetary stimulus policies.

The US-China trade war was one of the main focuses of attention and uncertainty. Over the course of the year, several attempts to bring the two countries' positions closer proved unsuccessful, and were followed by tariff increases. Moreover, the conflict continues to affect not only trade but other spheres, such as technology (sanctions on Huawei and other Chinese tech companies) and the currency markets (the United States officially designated China a currency manipulator). Nevertheless, 2019 ended with news of a trade deal between the two superpowers, which included concessions from China in return for a reduction in tariffs.

The trade tensions generated by the Trump Administration also affected the EU, albeit to a lesser extent. The main event was the decision to impose 7.5 billion dollars in tariffs on EU goods in response to illegal subsidies to Airbus, after the World Trade Organization (WTO) ruled in the US's favour. However, the US eventually opted not to impose tariffs on the European automotive industry, a threat that loomed large for most of the year.

With regard to Mexico, over the summer the Trump Administration unleashed further shock waves of uncertainty after threatening to hit all Mexican imports with tariffs unless the country took steps to curb migrant flows. Days later, the authorities of the two countries reached a deal on migration that ruled out those tariffs. Meanwhile, despite some progress in the US regarding Congressional approval of the new trade deal that will replace NAFTA, its final approval remains pending.

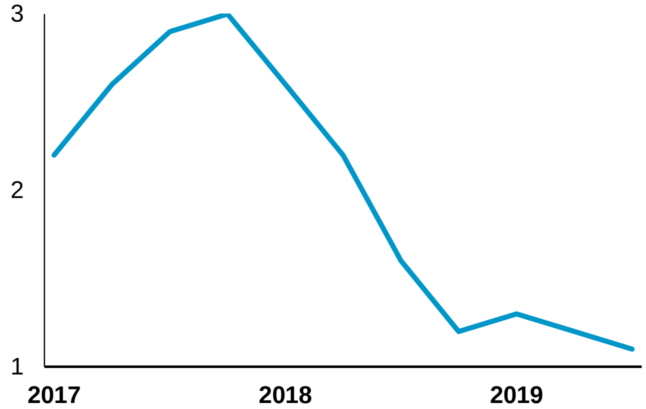
Brexit and the successive postponements of Britain's exit from the EU shaped the UK economy and politics in the year. Theresa May's failure to persuade the House of Commons to approve her withdrawal agreement with the EU culminated in her resignation, and Boris Johnson's rise to power. Johnson managed to renegotiate the agreement with the EU and, with Parliament deadlocked, he called an election in December with a view to getting his deal through. Johnson's landslide election victory paved the way for the UK to leave the EU on 31 January 2020. That marked the beginning of a transition period and talks to shape the UK's future relationship with the European Union.

Also on the political front, the US House of Representatives voted to impeach Donald Trump. The Democrats' case stems from a phone call in which Trump asked the president of Ukraine to dig up information concerning the business dealings of Joe Biden's son (Biden is one of the front-runners in the Democratic primaries) in exchange for authorising military aid to the country. For the process to end in the president's removal, a two-thirds majority is required in the Senate, which is controlled by the Republicans. In Europe, in the wake of the parliamentary elections, the new President of the European Council established as the priorities of his mandate ensuring EU sovereignty (including in the industrial and digital spheres), leading the fight against climate change and upholding European values. In Italy, the Five-Star Movement and the Democratic Party formed a coalition government that is more pro-European than its predecessor.

With regard to economic activity, in 2019 global GDP logged its slowest growth since the financial crisis. The manufacturing sector, business investment and international trade were the worst hit by the trade war, while services proved more resilient. Meanwhile, positive labour market dynamics were maintained, supporting consumer spending.

In the developed economies, the Eurozone showed vulnerability to the global context (trade tensions and Brexit) and continued to decelerate, hampered by export performance. The European economy was also weighed down by the conjunction of certain idiosyncratic elements, such as the new environmental regulations in the automotive sector. In the UK, economic growth was constrained by Brexit uncertainty and global trade tensions. UK companies replaced investment with labour, keeping the unemployment rate close to record lows. In the United States, economic growth gradually eased, but remained at reasonable levels in the year as a whole. Consumer spending was the mainstay of the economy, buoyed by a strong labour market. In Japan, growth in activity was constrained by the decline in the foreign sector.

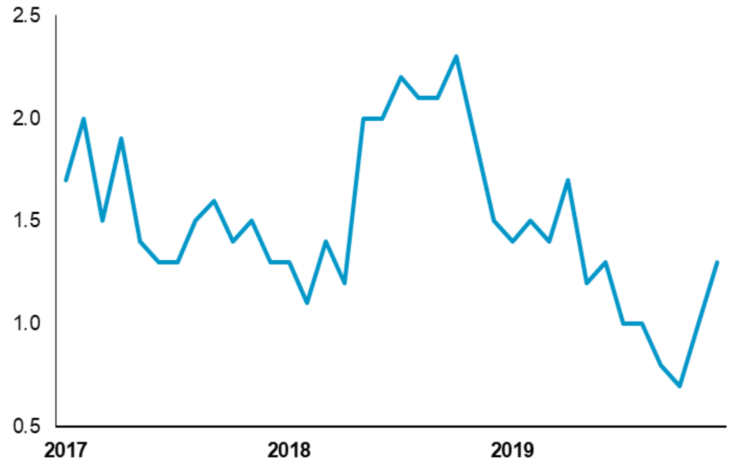
Eurozone GDP (year-on-year change, %)




As for emerging economies, Chinese growth was hampered by the trade war with the US, which forced the authorities to adopt measures to mitigate the impact. In any event, these measures were restrained and aimed at shoring up consumer spending, SMEs, the private sector and, to a lesser extent, infrastructure investment. It is notable that, excluding China and India, economic growth in emerging economies still barely exceeds that of developed countries. In Mexico, the economy stagnated, impacted by uncertainty on domestic policies and sluggish expenditure by Andrés Manuel López Obrador's government. Moreover, the government's shift towards a more interventionist energy policy triggered downgrades in the sovereign rating and the rating of state-owned oil company Pemex. With regard to Brazil, Jair Bolsonaro's new government managed to approve a pension reform needed to ensure fiscal sustainability. In Argentina, Peronist leader Alberto Fernández won the presidential election at the end of October, and appointed former president Cristina Kirchner his vice-president. The result was not welcomed by financial markets, given their interventionist, anti-IMF stance. The government's precarious financial situation led it to postpone Treasury bill repayments. The government also commenced the process to perform a general restructuring of government debt. In Turkey, some imbalances were redressed and the economy improved somewhat. However, the recovery remains closely linked to stimulus policies, while external leverage and dollarisation levels of the Turkish economy remain high. Erdogan's foreign policy has also remained in the spotlight after he acquired Russian missiles and ordered a military incursion into Syria, sparking tensions with the US government.

Inflation remained contained in the main developed economies and is below central banks' targets, especially in the Eurozone.

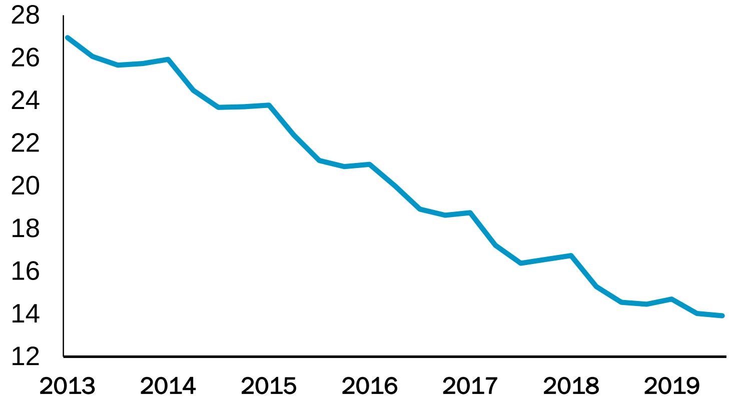
Eurozone HICP (year-on-year change, %)




Oil prices fluctuated to the tune of developments in the trade war and geopolitical tensions. The accommodative shift by central banks, the decision by OPEC and other oil producers to extend the production cuts, and disruptions in the supply of oil from countries like Venezuela and Iran were significant factors shoring up Brent crude prices, which ended the year about 20% higher. The increase in crude oil supply in the United States and the reduction in demand projections curbed the rise of crude oil prices.

The Spanish economy logged growth in line with that of the previous year, of around 2% year-on-year. As in the rest of Europe, the manufacturing sector was hampered by global trade tensions, Brexit and the introduction of new environmental regulations in the automotive sector. On the labour market front, the trend was less positive than in the previous year, although unemployment continued to fall. As for real estate, house prices remained very dynamic despite flagging sale transactions, which were impacted, among other things, by new legislation. On the external front, the current account balance registered a surplus for the eighth consecutive year, despite global trade tensions, trade partners' more sluggish economic growth and the absence of growth in foreign tourist arrivals. Several rating agencies took positive steps regarding Spain's sovereign rating, and the country held two general elections (in April and November) resulting in an especially fragmented parliament and an agreement between the Socialist Party (PSOE) and Unidas Podemos on a programme for government.

Unemployment rate in Spain (% of labour force)

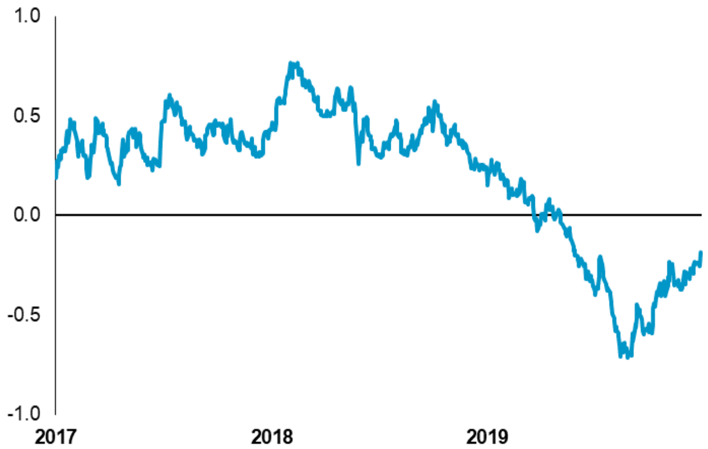



The leading economies' central banks resumed a clearly accommodative stance, in a context of economic deceleration without inflationary pressures. In September, the ECB approved a 10bp cut in the deposit facility rate to -0.50%, the first cut since 2016, to a level never previously seen. The ECB also resumed its asset purchase programme without establishing a date for its conclusion, and improved the previously established conditions for short-term liquidity operations (TLTRO III). It also introduced a new tiering system for remunerating banks' surplus liquidity reserves. In the US, the Fed cut interest rates for the first time in a decade, with three consecutive cuts since the summer, to the 1.50%-1.75% range, as insurance against global risks. Towards the end of the year, the Fed opted to wait and see how developed economies would perform. The Fed also completed its balance sheet normalisation process ahead of schedule, and, in light of the tightening of the money market in dollars, it then began to expand its balance sheet by means of liquidity auctions in the repo market and the purchase of Treasury bills. During the year, Trump repeatedly criticised the Fed in a bid to pressure the bank to adopt a laxer monetary policy. The Bank of Japan extended the period in which it will keep interest rates low.

Global financial markets were buoyed by the shift at developed countries' central banks towards a more accommodative monetary policy. Risk assets such as equities and corporate debt performed very strongly and showed less volatility than in the previous year. This was the case despite ongoing trade tensions and deepening liquidity problems in some markets, such as the US repo market. Overall, funding conditions remained lax for most of the year, which led to a sharp increase in funding via capital markets. International institutions have warned that the growing importance of funding via capital markets is one of the main risks to financial stability.

Yields on German and US long-term government debt declined over the course of the year, ending at -0.19% and 1.92%, respectively. The yield on the German 10-year bond moved back into negative territory for the first time since 2016, and reached record lows. The yield on the US 10-year bond hit its lowest since 2016. The decline in the yields of both bonds were influenced by uncertainty regarding trade talks between the US and China and in connection with Brexit, the global economic slowdown, the absence of inflationary pressures, the reversal of market inflation expectations in the Eurozone and the new, more accommodative measures by central banks. At the end of the year, the easing of trade tensions between the US and China exerted upward pressure on both economies' sovereign debt yields.

German government bond yield (%)




Sovereign risk premiums in non-core Europe tightened due to the ECB's latest accommodative measures, the election of a more pro-European government in Italy and positive rating actions by the rating agencies with respect to Spain and Portugal. The improved market mood was also evidenced in Greece, where the Treasury issued the country's first long-term bond since exiting the international bailout.

With regard to currencies, the euro depreciated against the dollar. Sluggish macroeconomic performance in the Eurozone was among the key factors in this trend. Trade talks between the US and China generated volatility in the exchange rate, and this may have been a factor underpinning the dollar. Sterling remained exposed to Brexit developments and, in particular, the fluctuating risk of a no-deal exit from the EU. The repeated rejection by MPs of a no-deal Brexit and the change of tone by Boris Johnson, who eventually worked to ensure a deal, helped shore up sterling against the euro. The yen remained at similar levels to the previous year, although it did experience volatility against the dollar, impacted by the uncertainty linked to trade tensions.

Equities logged a very strong performance, bolstered by the accommodative tone of central banks. Developments in connection with the trade war had only a temporary effect on share prices.

The shift by developed economies' central banks towards a laxer stance supported emerging countries' financial markets and enabled some emerging countries to cut benchmark interest rates. In any event, trade tensions triggered volatility spikes over the course of the year. Once again, the countries with the greatest idiosyncratic vulnerabilities, such as Argentina and Turkey, suffered the most.

## Banking sector

Europe's banking system maintained its strong capital position in 2019, and continued to reduce non-performing exposures. Accordingly, the average fully loaded CET1 ratio stood at 14.4% in September 2019, compared with 14.5% in September 2018. Meanwhile, the average loan loss ratio at EU banks continued to decrease, reaching 2.9% in June 2019 (vs 3.4% a year previously), the lowest level since the definition of non-performing loan was harmonised in Europe. This decrease was underpinned by enhanced management of this kind of assets, as well as by the favourable economic context and low interest rates. However, the prolonged period of low interest rates continued to burden profitability, which averaged 6.6% in September 2019, 0.6 points less than a year previously and still below the average cost of capital.

The liquidity stress test in the Eurozone banking system revealed a robust liquidity position, although global and systemic banks, more dependent on wholesale funding, would be worst hit in an adverse scenario.

According to various European authorities, the main risks to financial stability in the EU are: (i) tight asset valuations that could lead to sharp market corrections; (ii) challenges posed to financial entities' profitability; (iii) growing acceptance of risk by non-bank financial institutions; and (iv) in the longer term, the sustainability of business models in the transition towards a sustainable economy.

In Spain, the banking industry's profitability decreased year-on-year, to 7.3% in September 2019, although it remained clearly higher than the European average. Wholesale sales of stage 3 asset portfolios by some banks pushed the loan loss ratio down to 3.4% in September 2019, 0.7 points lower than a year earlier. As for capital, the CET1 ratio (11.6% in September 2019) is clearly above regulatory minimum requirements, but still below the European average.

## Regulatory environment

### Banking Union

Over the course of 2019 there was little progress on completion of the Banking Union due to the electoral calendar in the EU. The main milestone was approval of the single rulebook through which the penultimate changes to Basel III are enshrined in European legislation. All of this was instrumented by amending the Capital Requirement Regulation (CRR) and the Capital Requirements and Bank Recovery and Resolution Directives (CRD IV and BRRD). Most of these new rules come into force in mid-2021. On an institutional level, no agreement was reached to establish a European Deposit Insurance Scheme, although a high-level working group was created to make headway in political negotiations and a German proposal made at the end of the year will serve as the basis for subsequent discussions.

With regard to the resolution framework, it was agreed that the European Stability Mechanism (ESM) would act as a backstop for the Single Resolution Fund (SRF). Accordingly, in situations in which the SRF is stretched for resources to tackle a resolution event, the ESM will grant it a credit facility to cover any deficit. The ESM will commence its new functions in 2024, although there is scope to bring that date forward.

### Capital Markets Union

Concrete progress in connection with the Capital Markets Union (CMU) was limited, due to the European elections in May.

On the one hand, negotiations are ongoing to devise regulations governing crowdfunding platforms in the EU. Some headway was also made in the creation of a pan-European voluntary individual pension product and measures were established to remove obstacles to the cross-border distribution of mutual funds. There were discussions concerning the possibility of resuming work on the project to create a risk-free asset for the Eurozone, which met with reluctance from various countries. The new Commission, for which the CMU is one of its priorities, created a high-level experts forum to strengthen the project with new strategic measures.

There was more progress with regard to sustainable finances, since the work focused on rolling out the Action Plan on Financing Sustainable Growth unveiled in 2018. Entry into force of the common classification of environmentally sustainable activities will be complete at the end of 2021 for two of the six categories defined, while the other four must be implemented one year later.

Macroprudential framework

Countries have intensified their use of macroprudential policies in 2019, due to the accumulation of financial vulnerabilities in a context of accommodative monetary policy in the last few years. All this is aimed at preventing and mitigating cyclical systemic risks that can be caused by excessive growth in aggregate lending.

Discussions concerning macroprudential policies focused on quantitative models underestimating financial risks, the need to complete macroprudential policy for the non-banking sector and to incorporate the macroprudential angle in stress tests in the banking sector.

Several economies, like Germany, activated or announced activation of the countercyclical capital buffer (CCyB). Others, like France and the United Kingdom, decided to increase it due to persistent vulnerabilities. For its part, the Bank of Spain expressed a willingness to activate this instrument if its macroeconomic forecasts are confirmed. All of this in a context in which the ECB has been calling for greater use of the CCyB.

Moreover, the European authorities warned of significant growth in non-bank financial intermediation. Regulation of this part of the financial sector is less developed than that of the banking sector, enabling the non-banking sector to assume greater risks. All of this makes it necessary to develop a specific macroprudential framework for the non-bank sector, strengthen the identification and monitoring of its risks and properly quantify the relationship between the banking and non-banking sectors.

Regulatory and supervisory framework

In 2019, the authorities continued to work on reforms already underway. Europe agreed to reform the European System of Financial Supervision (ESFS), comprising the EBA (banks), EIOPA (insurers and pension funds), ESMA (markets) and ESRB (macroprudential). The reform will aim to increase supervisory efficiency, coherency and transparency. The EBA is now the supervisor of activities relating to money-laundering throughout the financial sector.

Work continued in several regions to reform benchmark indices. In Europe, the ECB began publishing the replacement for Eonia, the Euro Short Term Rate (€STR). Although the two indices will coexist until the end of 2021, Eonia is now calculated as a fixed premium over €STR, set by the ECB. Moreover, the competent authorities confirmed that the reform of Euribor towards a hybrid methodology is compliant with the European Benchmarks Regulation (BMR), so it may be used in new and existing contracts and instruments. In the United Kingdom the first financial products linked to the index replacing Sonia were launched.

As for climate change, its impact on the banking sector captured growing attention from central banks and supervisors, who are working on supervisory expectations and the incorporation of climate risks into stress tests. With regard to Brexit, European and British authorities took contingency measures to avoid disruption in financial markets in the event of a no-deal exit. These measures, which focus on derivative transactions, will remain in place for part of the transition period. The future relationship between the UK and EU in connection with financial services will be based on existing regulatory equivalence rules.

### Outlook for 2020

In the absence of additional escalations in trade tensions, the global economy should gain some traction as 2020 progresses.

Nevertheless, growth is likely to stay modest in light of the persistent sources of uncertainty: geopolitical environment, Brexit ramifications, US presidential election, etc.

To combat this uncertainty, monetary policy will likely seek to maintain lax funding conditions, while fiscal policy may be somewhat less focused on austerity.

Countries with more dynamic domestic demand and less reliance on the foreign sector look set to have some advantage over the rest.

### Headlines

- The trade war and Brexit continued to shape the global economic and financial context.
- The global economy posted the slowest growth since the financial crisis and inflation was contained.
- The leading economies' central banks resumed monetary stimulus measures.
- Spain logged growth in line with that of the previous year, of around 2% year-on-year.
- Eurozone banks strengthened their capital position and asset quality. Profitability is still under pressure in a context of low interest rates.
- The impact of climate change on the banking sector increasingly captured the attention of central banks and supervisors.

### Executive summary

- Political and geopolitical matters shaped the international economic and financial context once again.
- The trade war between the United States and China led to an increase in tariffs. Tensions also surfaced in technology.
- Brexit did not happen in 2019. Boris Johnson's landslide election victory paved the way for the UK to leave the EU on 31 January 2020.
- The global economy weakened in this context of uncertainty, posting the slowest growth since the financial crisis.
- The manufacturing sector and business investment were the worst hit by the trade war, while services have proven more resilient.
- Spain logged growth in line with that of the previous year, of around 2% year-on-year.
- Economic growth in the UK was constrained by Brexit uncertainty.
- In Mexico, the economy stagnated, impacted by uncertainty on domestic policies and slow execution of government expenditure.

- Risk assets performed well, buoyed by the shift at developed economies' central banks towards a more accommodative monetary policy.
- In September, the ECB approved a packet of stimulus measures (it cut the deposit facility rate, resumed the asset purchase programme, etc.).
- The Fed cut interest rates as insurance against global risks, auctioned liquidity, and commenced a programme to purchase Treasury bills as a means of combating money market tensions.
- The yield on German long-term debt moved back into negative territory for the first time since 2016, impacted by the context of uncertainty and by the ECB's policy.
- Sovereign risk premiums in non-core Europe have tightened, influenced by the ECB's latest accommodative measures and the change of government in Italy.
- The euro depreciated against the US dollar due to economic weakness in the Eurozone and trade tensions.
- Sterling remained sensitive to Brexit and appreciated against the euro when the UK parliament blocked a no-deal exit and Boris Johnson sought a new deal.
- The shift by developed economies' central banks towards a laxer stance lent support to emerging countries' financial markets.
- Europe's banking system maintained its strong capital position and continued to reduce non-performing exposures.
- There was little progress on the Banking Union and Capital Markets Union due to the electoral calendar in the EU. The main milestones were the approval of the reformed single rulebook, the agreement on the resolution framework and the rollout of the Action Plan on Sustainable Finance.
- Countries intensified their use of macroprudential policies in light of the accumulation of financial vulnerabilities in a context of accommodative monetary policy.
- In the regulatory and supervisory frameworks, work was done to reform benchmark indices and central banks and supervisors focused increasingly on the impact of climate change on the banking sector.

# 3 – FINANCIAL INFORMATION

## 3.1 Key figures in 2019

The key figures for the Group, including financial and non-financial data of critical importance for the management of the Group, are set out below:

| | | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|---|
| **Income statement (million euros)** | (a) | | | |
| Net interest income | | 3,622 | 3,675 | (1.4) |
| Gross income | | 4,932 | 5,010 | (1.6) |
| Pre-provisions income | | 1,719 | 1,737 | (1.0) |
| Profit attributable to the Group | | 768 | 328 | 134.0 |
| **Balance sheet (million euros)** | (B) | | | |
| Total assets | | 223,754 | 222,322 | 0.6 |
| Outstanding gross loans and advances | | 144,572 | 139,366 | 3.7 |
| Loans and advances to customers, gross | | 150,749 | 146,420 | 3.0 |
| On-balance sheet customer funds | | 146,309 | 137,343 | 6.5 |
| Off-balance sheet funds | | 43,163 | 44,034 | (2.0) |
| Total customer funds | | 189,472 | 181,377 | 4.5 |
| Equity | | 12,974 | 12,117 | 7.1 |
| Shareholders' equity | | 13,172 | 12,545 | 5.0 |
| **Ratios (%)** | (c) | | | |
| ROA | | 0.35 | 0.15 | |
| RoRWA | | 0.95 | 0.41 | |
| ROE | | 5.94 | 2.60 | |
| ROTE | | 7.36 | 3.18 | |
| Cost-to-income | | 55.63 | 58.29 | |
| **Risk management** | (D) | | | |
| Stage 3 exposures (million euros) | | 6,141 | 6,554 | |
| Total NPAs (million euros) | | 7,326 | 8,279 | |
| NPL ratio (%) | | 3.83 | 4.22 | |
| NPL coverage ratio (excl. floor clauses) | | 49.6 | 54.1 | |
| NPA coverage ratio (%) (excl. floor clauses) | | 46.9 | 52.1 | |
| **Capital management** | (E) | | | |
| Risk-weighted assets (RWA) (million euro) | | 81,231 | 80,335 | |
| Common Equity Tier 1 (phase-in) (%) | (1) | 12.4 | 12.0 | |
| Tier 1 (phase-in) (%) | (2) | 13.9 | 13.4 | |
| Total capital ratio (phase-in) (%) | (3) | 15.7 | 14.7 | |
| Leverage ratio (phase-in) (%) | | 5.01 | 4.86 | |
| **Liquidity management** | (F) | | | |
| Loan-to-deposit ratio (%) | | 98.6 | 101.6 | |
| **Shareholders and shares (as at reporting date)** | (G) | | | |
| Number of shareholders | | 235,034 | 235,523 | |
| Average number of shares (million) | | 5,538 | 5,565 | |
| Share price (euros) | | 1.040 | 1.001 | |
| Market capitalisation (million euros) | | 5,760 | 5,568 | |
| Earnings per share (EPS) (euros) | | 0.13 | 0.05 | |
| Book value per share (euros) | | 2.38 | 2.25 | |
| Price/Book value | | 0.44 | 0.44 | |
| Price/earnings ratio (P/E) | | 8.29 | 20.11 | |
| **Other information** | | | | |
| Branches | | 2,402 | 2,457 | |
| Employees | | 24,454 | 26,181 | |

(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 data related to loans and advances and customer funds.

(C) The ratios in this section of the table have been included to give a meaningful picture of profitability and the cost-to-income ratio in the last two years.

(D) This section gives some key balances and ratios related to the Group's risk management.

(E) The ratios in this section of the table have been included to give a meaningful picture of the capital position in the last two years.

(F) This section gives a meaningful picture of liquidity performance in the last two years.

(G) This section provides data on the share price and other stock market ratios and indicators.

(1) Core capital / risk-weighted assets (RWA)

(2) Tier 1 capital / risk-weighted assets (RWA)

(3) Total capital / risk-weighted assets (RWA)

## 3.2 Earnings performance

| Million euro | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| Interest and similar income | 4,985 | 4,862 | 2.5 |
| Interest and similar charges | (1,362) | (1,187) | 14.8 |
| **Net interest income** | **3,622** | **3,675** | **(1.4)** |
| Fees and commissions (net) | 1,439 | 1,335 | 7.7 |
| **Net banking revenues** | **5,061** | **5,010** | **1.0** |
| Net trading income and exchange differences | 126 | 225 | (44.0) |
| Equity-accounted affiliates and dividends | 61 | 65 | (5.9) |
| Other operating income/expense | (317) | (290) | 9.0 |
| **Gross income** | **4,932** | **5,010** | **(1.6)** |
| Operating expenses | (2,743) | (2,920) | (6.1) |
| Staff expenses | (1,649) | (1,591) | 3.7 |
| Other general administrative expenses | (1,095) | (1,330) | (17.7) |
| Depreciation and amortisation | (470) | (353) | 33.0 |
| Total costs | (3,213) | (3,273) | (1.8) |
| *Memorandum item:* | | | |
| Recurring expenses | (3,109) | (3,027) | 2.7 |
| Non-recurring expenses | (105) | (246) | (57.5) |
| **Pre-provisions income** | **1,719** | **1,737** | **(1.0)** |
| Provisions for loan losses | (672) | (751) | (10.5) |
| Provisions for other financial assets | (22) | (166) | (86.9) |
| Other provisions and impairments | (244) | (404) | (39.5) |
| Capital gains on asset sales and other revenue | 170 | 2 | -- |
| **Profit/(loss) before tax** | **951** | **419** | **127.1** |
| Corporation tax | (174) | (84) | 108.3 |
| Profit or loss attributed to minority interests | 9 | 7 | 27.0 |
| **Profit attributable to the Group** | **768** | **328** | **134.0** |
| Memorandum item: | | | |
| Average total assets | 223,470 | 217,168 | 2.9 |
| Earnings per share (euros) | 0.13 | 0.05 | |

The average exchange rate used for TSB's income statement is 0.8844. The accumulated exchange rate in December 2018 was 0.8851.

## Net interest income

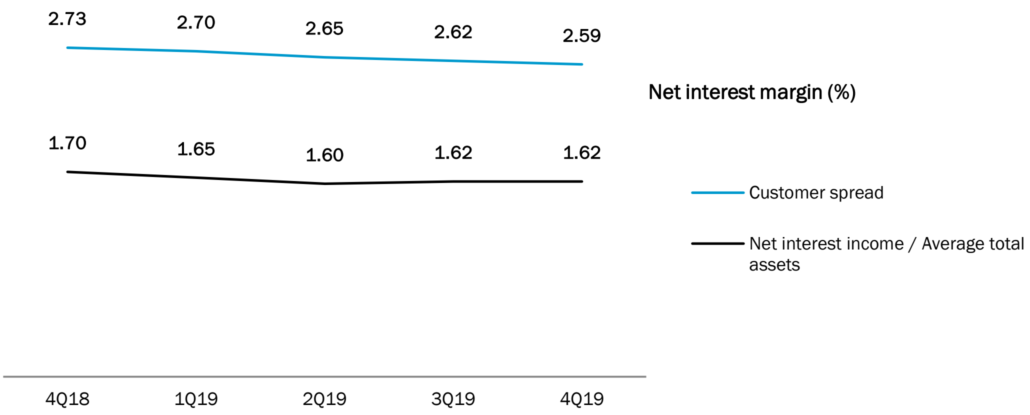
Net interest income amounted to 3,622 million euros in 2019, 1.4% less than in 2018, mainly as a result of the impact of IFRS 16, lower interest rates and the effect of securitising consumer loans in 2019.

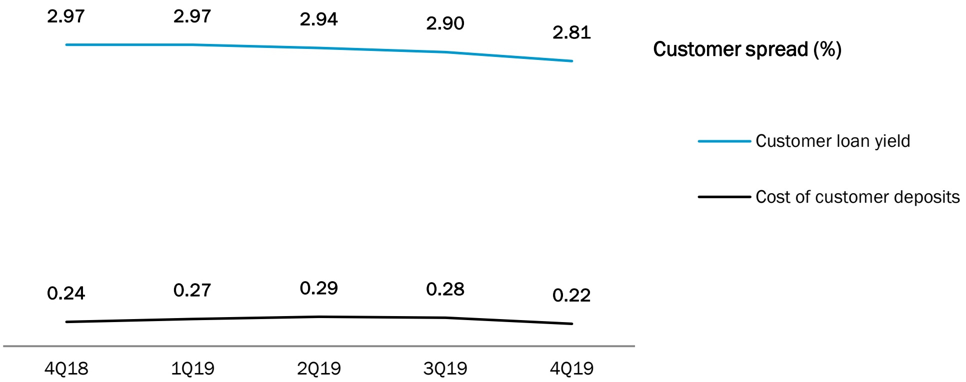
As a result, the return on average total assets was 1.62% in 2019 (1.69% in 2018).

Thousand euro

| | 2019 | | | 2018 | | | Change | | Effect | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Average balance | Profit/(loss) | Rate % | verage balance | Profit/(loss) | Rate % | Average balance | Profit/(loss) | Rate % | Volume | Days |
| Cash, central banks and credit i | 29,674,435 | 63,482 | 0.21 | 28,583,832 | 23,299 | 0.08 | 1,090,603 | 40,183 | 46,455 | (6,272) | - |
| Loans and advances to custome | 139,674,387 | 4,058,039 | 2.91 | 135,903,483 | 4,016,686 | 2.96 | 3,770,904 | 41,353 | (61,856) | 103,209 | - |
| Fixed-income portfolio | 26,937,403 | 342,243 | 1.27 | 25,950,163 | 352,466 | 1.36 | 987,240 | (10,223) | (16,899) | 6,676 | - |
| **Subtotal** | **196,286,225** | **4,463,764** | **2.27** | **190,437,478** | **4,392,451** | **2.31** | **5,848,747** | **71,313** | **(32,300)** | **103,613** | **-** |
| Equity portfolio | 879,843 | - | - | 933,848 | - | - | (54,005) | - | - | - | - |
| Property, plant and equipment a | 5,398,789 | - | - | 4,084,833 | - | - | 1,313,956 | - | - | - | - |
| Other assets | 20,905,143 | 340,451 | 1.63 | 21,712,189 | 274,307 | 1.26 | (807,046) | 66,144 | - | 66,144 | - |
| **Total capital employed** | **223,470,000** | **4,804,215** | **2.15** | **217,168,348** | **4,666,758** | **2.15** | **6,301,652** | **137,457** | **(32,300)** | **169,757** | **-** |
| Credit institutions | 28,634,214 | (43,933) | (0.15) | 32,033,556 | (35,690) | (0.11) | (3,399,342) | (8,243) | 10,207 | (18,450) | - |
| Customer deposits | 147,550,925 | (391,969) | (0.27) | 141,060,307 | (309,436) | (0.22) | 6,490,618 | (82,533) | (59,247) | (23,286) | - |
| Capital markets | 24,738,681 | (357,263) | (1.44) | 24,614,108 | (323,015) | (1.31) | 124,573 | (34,248) | (36,147) | 1,899 | - |
| **Subtotal** | **200,923,820** | **(793,165)** | **(0.39)** | **197,707,971** | **(668,141)** | **(0.34)** | **3,215,849** | **(125,024)** | **(85,187)** | **(39,837)** | **-** |
| Other liabilities | 9,816,263 | (388,655) | (3.96) | 7,134,507 | (323,433) | (4.53) | 2,681,756 | (65,222) | - | (65,222) | - |
| Own funds | 12,729,917 | - | - | 12,325,870 | - | - | 404,047 | - | - | - | - |
| **Total funds** | **223,470,000** | **(1,181,820)** | **(0.53)** | **217,168,348** | **(991,574)** | **(0.46)** | **6,301,652** | **(190,246)** | **(85,187)** | **(105,059)** | **-** |
| **Average total assets** | **223,470,000** | **3,622,395** | **1.62** | **217,168,348** | **3,675,184** | **1.69** | **6,301,652** | **(52,789)** | **(117,487)** | **64,698** | **-** |

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 revenues.




### Gross income

Dividends received and equity-accounted profits amounted to 61 million euros, compared with 65 million euros in 2018. Those revenues are due mainly to the insurance and pension fund business.

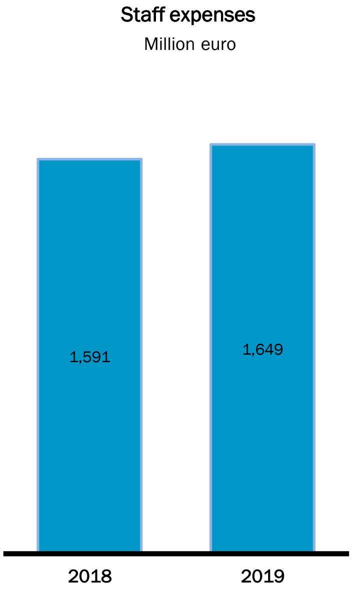
Net fees and commissions amounted to 1,439 million euros, a 7.7% increase year-on-year. This growth was attributable to good performance in all segments, notably service fees.

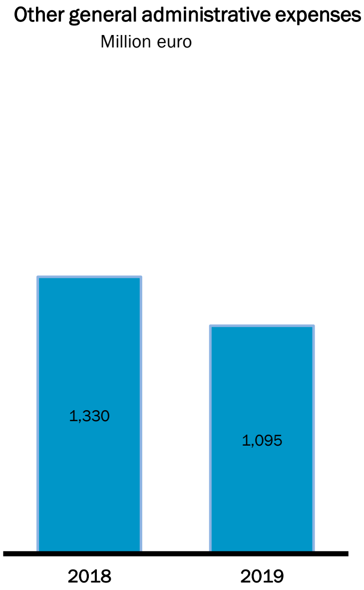
Trading income and exchange differences totalled 126 million euros, including the negative impact of remeasuring the subordinated debt of the holding in SAREB in the second quarter, and the positive impact of the capital gain on securitising consumer loans in the third quarter. The 2018 figure, 225 million euros, was due to the sale of fixed-income instruments.

Other operating revenues and expenses amounted to -317 million euros, compared with -290 million euros in 2018. Notable components of this item include the -121 million euros contribution to the Spanish Deposit Guarantee Fund (-106 million euros in 2018), the -59 million euros contribution to the Single Resolution Fund (-50 million euros the previous year), -48 million euros of the levy on conversion of deferred tax assets into debt claims against the Spanish tax authorities (-45 million euros in 2018), and the -31 million euros tax on deposits at credit institutions (IDEC) (-31 million euros in 2018).

### Pre-provisions income

Expenses amounted to -3,213 million euros in 2019, of which -105 million euros were non-recurring. Expenses in 2018 amounted to -3,273 million euros, including -246 million of non-recurring items. The year-on-year reduction is due mainly to the extraordinary migration and post-migration costs at TSB in 2018.




The cost-to-income ratio improved in 2019 to 55.63%, from 58.29% in 2018.

As a result, pre-provisions income amounted to 1,719 million euros in 2019, a -1.0% decline with respect to the 1,737 million euros registered in 2018, mainly as a result of lower trading income and exchange differences and the increase in other operating income/expense, partly offset by higher banking revenues and lower expenses.

Provisions and impairments totalled 938 million euros, compared with 1,320 million euros in 2018. The reduction was due mainly to the lower amount of recurring provisions and the impact in 2018 of provisions for indemnities to TSB customers and higher provisions for the institutional sale of NPA portfolios.

Capital gains on assets sales amounted to 170 million euros, mainly from the disposal of Solvia Servicios Inmobiliarios and from booking the earnout on the insurance business; the 2018 figure was 2 million euros.

### Group net profit

After deducting corporation tax and the share of profit attributed to minority interests, net profit attributable to the Group for 2019 was 768 million euros, a 134.0% increase compared with the previous year, mainly as a result of improvements in core banking revenue, lower provisions, the capital gain on the sale of Solvia Servicios Inmobiliarios, and the extraordinary expenses at TSB the previous year.

## 3.3 Balance sheet

| Million euro | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| Cash, cash balances at central banks and other demand deposits | 15,169 | 23,494 | (35.4) |
| Financial assets held for trading | 2,441 | 2,045 | 19.4 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 171 | 141 | 21.0 |
| Financial assets designated at fair value through profit or loss | - | - | -- |
| Financial assets at fair value through other comprehensive income | 7,802 | 13,247 | (41.1) |
| Financial assets at amortised cost | 181,423 | 164,416 | 10.3 |
| Debt securities | 19,219 | 13,132 | 46.4 |
| Loans and advances | 162,204 | 151,284 | 7.2 |
| Investments in joint ventures and associates | 734 | 575 | 27.7 |
| Tangible assets | 3,462 | 2,498 | 38.6 |
| Intangible assets | 2,565 | 2,461 | 4.2 |
| Other assets | 9,987 | 13,445 | (25.7) |
| **Total assets** | **223,754** | **222,322** | **0.6** |
| Financial liabilities held for trading | 2,714 | 1,738 | 56.1 |
| Financial liabilities designated at fair value through profit or loss | - | - | -- |
| Financial liabilities measured at amortised cost | 205,636 | 206,077 | (0.2) |
| Deposits | 178,898 | 179,878 | (0.5) |
| Central banks | 20,065 | 28,799 | (30.3) |
| Credit institutions | 11,471 | 12,000 | (4.4) |
| Customers | 147,362 | 139,079 | 6.0 |
| Debt securities issued | 22,570 | 22,599 | (0.1) |
| Other financial liabilities | 4,168 | 3,601 | 15.8 |
| Provisions | 430 | 466 | (7.7) |
| Other liabilities | 1,998 | 1,924 | 3.9 |
| **Total liabilities** | **210,779** | **210,205** | **0.3** |
| Shareholders' equity | 13,172 | 12,545 | 5.0 |
| Accumulated other comprehensive income | (267) | (491) | (45.7) |
| Non-controlling interests | 69 | 64 | 9.1 |
| **Equity** | **12,974** | **12,117** | **7.1** |
| **Total equity and total liabilities** | **223,754** | **222,322** | **0.6** |
| Loan commitments provided | 27,564 | 22,646 | 21.7 |
| Financial guarantees provided | 2,107 | 2,041 | 3.3 |
| Other commitments provided | 10,399 | 8,233 | 26.3 |
| **Total memorandum accounts** | **40,070** | **32,920** | **21.7** |

The EUR/GBP exchange rate used for the balance sheet is 0.8508 at 31 December 2019.

At the end of 2019, assets at Banco Sabadell and its Group totalled 223,754 million euros, compared with 222,322 million euros at the end of 2018.

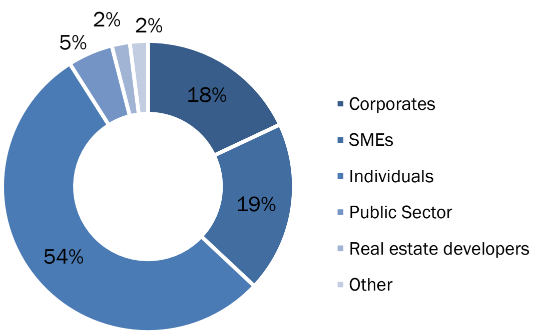
Outstanding gross loans and advances amounted to 144,572 million euros at 2019 year-end, a 3.7% year-on-year increase. The largest component of gross loans and receivables was mortgage loans, which amounted to 83,720 million euros at 31 December 2019 and accounted for 58% of total outstanding gross loans and advances.

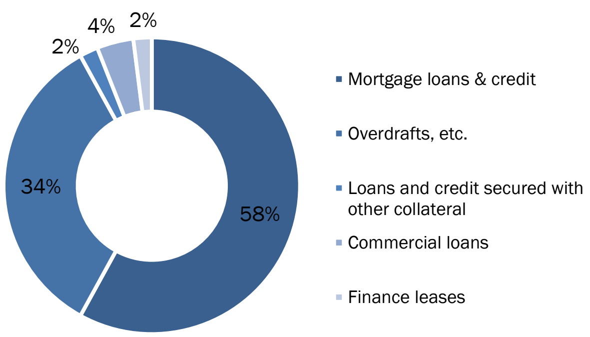
Million euro

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| Mortgage loans & credit | 83,720 | 80,872 | 3.5 |
| Loans and credit secured with other collateral | 3,330 | 2,767 | 20.3 |
| Commercial loans | 6,443 | 6,186 | 4.2 |
| Finance leases | 2,558 | 2,565 | (0.2) |
| Overdrafts, etc. | 48,521 | 46,976 | 3.3 |
| **Outstanding gross loans and advances** | **144,572** | **139,366** | **3.7** |
| Assets classified as stage 3 (customers) | 5,923 | 6,472 | (8.5) |
| Accruals | 18 | (13) | -- |
| **Loans and advances to customers, gross** | **150,513** | **145,824** | **3.2** |
| Repos | 236 | 596 | (60.4) |
| **Loans and advances to customers, gross, excluding repos** | **150,749** | **146,420** | **3.0** |
| NPL and country-risk provisions | (2,933) | (3,433) | (14.6) |
| **Loans and advances to customers** | **147,816** | **142,987** | **3.4** |

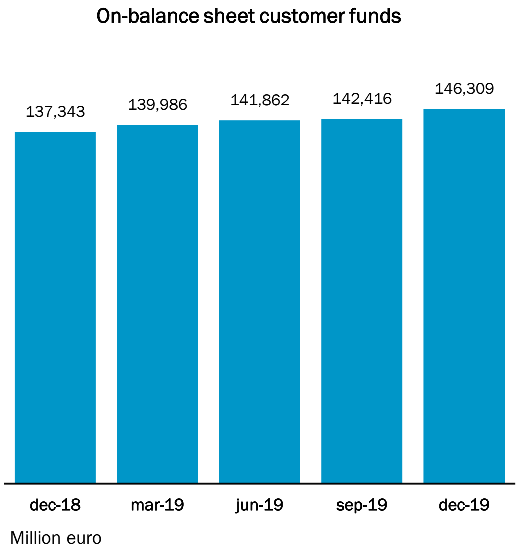
The EUR/GBP exchange rate used for the balance sheet is 0.8508 at 31 December 2019

The breakdown of customer loans and advances by customer profile and product type, excluding stage 3 assets and accrual adjustments, is shown in the following graphics:



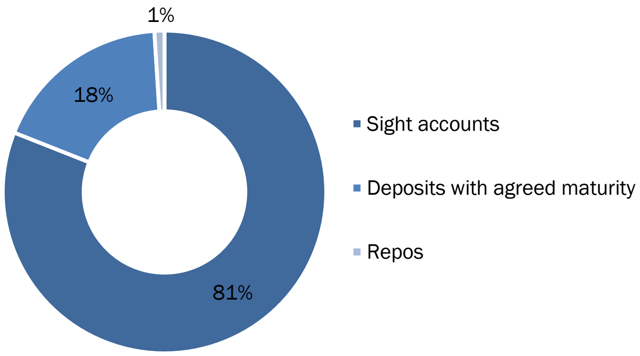
At 2019 year-end, customer funds on the balance sheet amounted to 146,309 million euros, a 6.5% increase on the figure of 137,343 million euros registered at the end of 2018.




Off-balance sheet customer funds amounted to 43,163 million euros, a decline of -2.0% year-on-year. Within this item, the balance of assets in collective investment institutions declined to 26,003 million euros at 31 December 2019, a reduction of -1.4% in year-on-year terms.

The balance of demand accounts amounted to 118,868 million euros, 10.4% higher than the previous year.

The breakdown of customer deposits at 2019 year-end is as follows:




(*) Excluding accrual adjustments and hedging derivatives.

Total funds under management amounted to 213,095 million euros at 31 December 2019, an increase of 3.6% with respect to the balance of 205,711 million euros at 2018 year-end.

Million euro

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **On-balance sheet customer funds (*)** | **146,309** | **137,343** | **6.5** |
| Customer deposits | 147,362 | 139,079 | 6.0 |
| Current and savings accounts | 118,868 | 107,665 | 10.4 |
| Deposits with agreed maturity | 27,339 | 28,709 | (4.8) |
| Repos | 951 | 2,533 | (62.4) |
| Accrual adjustments and hedging derivatives | 204 | 172 | 18.6 |
| Bonds and other marketable securities | 19,514 | 19,568 | (0.3) |
| Subordinated liabilities (**) | 3,056 | 3,031 | 0.8 |
| **On-balance sheet funds** | **169,932** | **161,678** | **5.1** |
| Mutual funds | 26,003 | 26,379 | (1.4) |
| Equity funds | 1,606 | 1,681 | (4.4) |
| Balanced funds | 6,823 | 6,469 | 5.5 |
| Fixed-income funds | 5,037 | 4,027 | 25.1 |
| Guaranteed return funds | 3,008 | 4,074 | (26.2) |
| Real estate funds | 76 | 115 | (33.7) |
| Venture capital funds | 101 | 46 | 119.4 |
| Investment companies | 1,667 | 1,886 | (11.6) |
| UCITS sold but not managed | 7,685 | 8,081 | (4.9) |
| Asset management | 3,363 | 3,595 | (6.5) |
| Pension funds | 3,367 | 3,594 | (6.3) |
| Personal schemes | 2,216 | 2,168 | 2.2 |
| Workplace schemes | 1,140 | 1,416 | (19.5) |
| Collective schemes | 11 | 11 | 0.3 |
| Insurance products sold | 10,430 | 10,465 | (0.3) |
| **Off-balance sheet funds** | **43,163** | **44,034** | **(2.0)** |
| **Funds under management** | **213,095** | **205,711** | **3.6** |

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: non-convertible bonds issued by Banco Sabadell, commercial paper and others.

(**) Subordinated liabilities in connection with outstanding debt securities.

The EUR/GBP exchange rate used for the balance sheet is 0.8508 at 31 December 2019

The trend in non-performing assets improved in 2019. The quarter-on-quarter performance of these assets, excluding TSB, is shown below:

Million euro

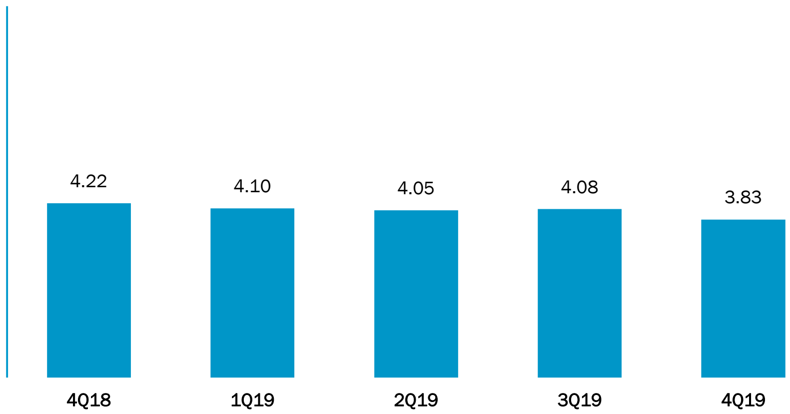
| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q |
| Net ordinary increase in balance of stage 3 assets | (12) | 86 | 80 | (81) | (58) | (243) | (14) | (699) |
| Change in real estate assets | 77 | 70 | (841) | 152 | 23 | (244) | (136) | (5,497) |
| **Ordinary net increase in NPAs + real estate** | **65** | **156** | **(761)** | **71** | **(35)** | **(487)** | **(150)** | **(6,196)** |
| Write-offs | 182 | 76 | 70 | 161 | 216 | 268 | 187 | 106 |
| **Ordinary quarter-on-quarter change in balance of stage 3 assets and real estate** | **(117)** | **80** | **(831)** | **(90)** | **(251)** | **(755)** | **(337)** | **(6,302)** |

Net variation, including as a non-performing exposure the 20% of exposure retained under the asset protection scheme (APS) and not transferred to the FGD.

Because of the reduction in stage 3 assets, the NPL ratio reached 3.83% at 2019 year-end, down from 4.22% a year earlier (a 39 basis point decline). The stage 3 asset coverage ratio was 49.6% at 31 December 2019, compared with 54.1% a year earlier, and the coverage ratio of foreclosed assets stood at 33.3% at 2019 year-end.

At 31 December 2019, the balance of Banco Sabadell Group's exposures classified as stage 3 amounted to 6,141 million euros, having decreased by 413 million euros during the year.

**NPL ratio (*) (%)**




* Includes contingent exposures. In 4Q18, institutional portfolios were reclassified as non-current assets available for sale; accordingly, those assets are excluded from the data.

The trend in the Group's coverage ratios is shown in the next table:

**Group coverage ratios**

Million euro

| | 2018 | | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q 20% APS | 4Q 100% APS | 1Q | 2Q | 3Q | 4Q |
| Exposures classified as stage 3 | 7,898 | 7,386 | 7,036 | 6,236 | 6,554 | 6,383 | 6,380 | 6,391 | 6,141 |
| Provisions | 4,467 | 4,209 | 4,036 | 3,419 | 3,544 | 3,360 | 3,301 | 3,263 | 3,045 |
| **Stage 3 coverage ratio** | **56.6** | **57.0** | **57.4** | **54.8** | **54.1** | **52.6** | **51.7** | **51.1** | **49.6** |
| Real estate assets | 7,416 | 7,171 | 7,036 | 1,539 | 1,726 | 1,803 | 1,873 | 1,032 | 1,185 |
| Provisions | 3,979 | 3,991 | 3,932 | 691 | 767 | 790 | 831 | 380 | 394 |
| **Real estate coverage ratio (%)** | **53.7** | **55.7** | **55.9** | **44.9** | **44.5** | **43.8** | **44.4** | **36.8** | **33.3** |
| Total non-performing assets | 15,314 | 14,557 | 14,072 | 7,775 | 8,279 | 8,186 | 8,253 | 7,424 | 7,326 |
| Provisions | 8,446 | 8,200 | 7,968 | 4,111 | 4,311 | 4,150 | 4,132 | 3,643 | 3,439 |
| **Non-performing assets coverage ratio (%)** | **55.2** | **56.3** | **56.6** | **52.9** | **52.1** | **50.7** | **50.1** | **49.1** | **46.9** |

Note: Includes contingent exposures. In 4Q18, institutional portfolios were reclassified as non-current assets available for sale; accordingly, those assets are excluded from the data.

## 3.4 Liquidity management

Key features of the Group's liquidity performance during the year were:

- Despite the positive trend in the funding gap in 2019, which enabled the Bank to partly refinance maturities in the capital markets, the degree of funding in capital markets increased because of the need to fulfil the MREL (Minimum Requirement for Own Funds and Eligible Liabilities), which, because of the Bank's credit rating, focused on products with lower cost for a given term. The Group's loan-to-deposit (LTD) ratio ended 2019 at 98.6%.

- The institution continued to access the capital markets in normal conditions and took advantage of a number of issuance windows. 1,176 million euros in capital market funding matured in 2019. Banco Sabadell issued 1,027 million euros under the existing fixed-income shelf registration. Specifically, three issues of senior preferred debt maturing in 2 and 4.5 years for a total of 1,021 million euros, and two issues of structured bonds totalling 6 million euros. Banco Sabadell also made four issues, totalling 3,000 million euros, under its EMTN programme. Two of those issues were senior preferred: the first in July 2019 for 1,000 million euros at a term of 6 years, and the second for 500 million euros at a term of 6 years, callable in the fifth year. The other two issues were senior non-preferred, the first time that Banco Sabadell had issued this category of product. One was for 1,000 euros at a term of 5 years, and the other for 500 million euros at 5.5 years.

- In the third quarter, Banco Sabadell sold all tranches of the Sabadell Consumo 1 asset-backed trust to the market, including the excess spread. This was the first time that Banco Sabadell had securitised consumer loans in an amount exceeding 1,000 million euros. The transaction was arranged as a means of managing capital and liquidity.

- The positive rating trend was maintained in 2019. On 29 March 2019, Fitch Ratings initiated coverage of Banco Sabadell with a long-term BBB rating (stable outlook), and short-term F3 rating. On 20 December 2019, the agency upgraded the company's short-term rating from F3 to F2. On 4 June 2019, DBRS Ratings upgraded Banco Sabadell's long-term rating to A (low) from BBB (high). Meanwhile, S&P Global Ratings and Moody's affirmed the Bank's long-term ratings at BBB and Baa2, respectively. Additionally, both Moody's and DBRS Ratings affirmed the rating of the mortgage covered bonds (*cédulas*) at Aa1 and AAA, respectively.

- The institution maintained a liquidity buffer in the form of liquid assets to meet any liquidity needs.

- Since 1 January 2018, the minimum Liquidity Coverage Ratio (LCR) required by the regulator is 100%. All the Group's liquidity management units (UGLs for their acronym in Spanish) amply exceed that requirement. At Group level, the LCR remained well above 100% on a stable basis at all times during the year. At 31 December 2019, the LCR was 184% excluding TSB and 231% at TSB. As for the Net Stable Funding Ratio (NSFR), which is due to come into force in June 2021, the institution has maintained a stable ratio in excess of 100%.

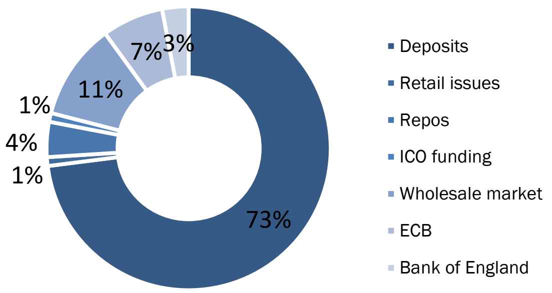
Key figures and basic liquidity ratios at 2019 year-end

Million euro

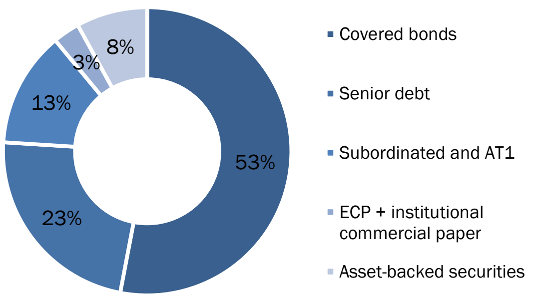
| | 2019 | 2018 |
|---|---|---|
| Loans and advances to customers, gross, excluding repos | 150,513 | 145,824 |
| NPL provisions | (2,933) | (3,433) |
| Brokered loans (ICO) | (3,334) | (2,808) |
| **Adjusted net loans and advances** | **144,246** | **139,583** |
| On-balance sheet customer funds | 146,309 | 137,343 |
| **Loan-to-deposit ratio (%)** | **98.6** | **101.6** |

The EUR/GBP exchange rate used for the balance sheet is 0.8858 at 31.12.19 and 0.8945 at 31.12.18.

The breakdown of the main sources of funding by instrument and counterparty at 2019 year-end is as follows (%):




(*) Excluding accrual adjustments and hedging derivatives.




(*) Excluding accrual adjustments and hedging derivatives.

For further details of the Group's liquidity management, liquidity strategy and liquidity performance during the year, see note 4 to the consolidated annual financial statements for 2019.

## 3.5 Capital management

### Key capital figures and ratios

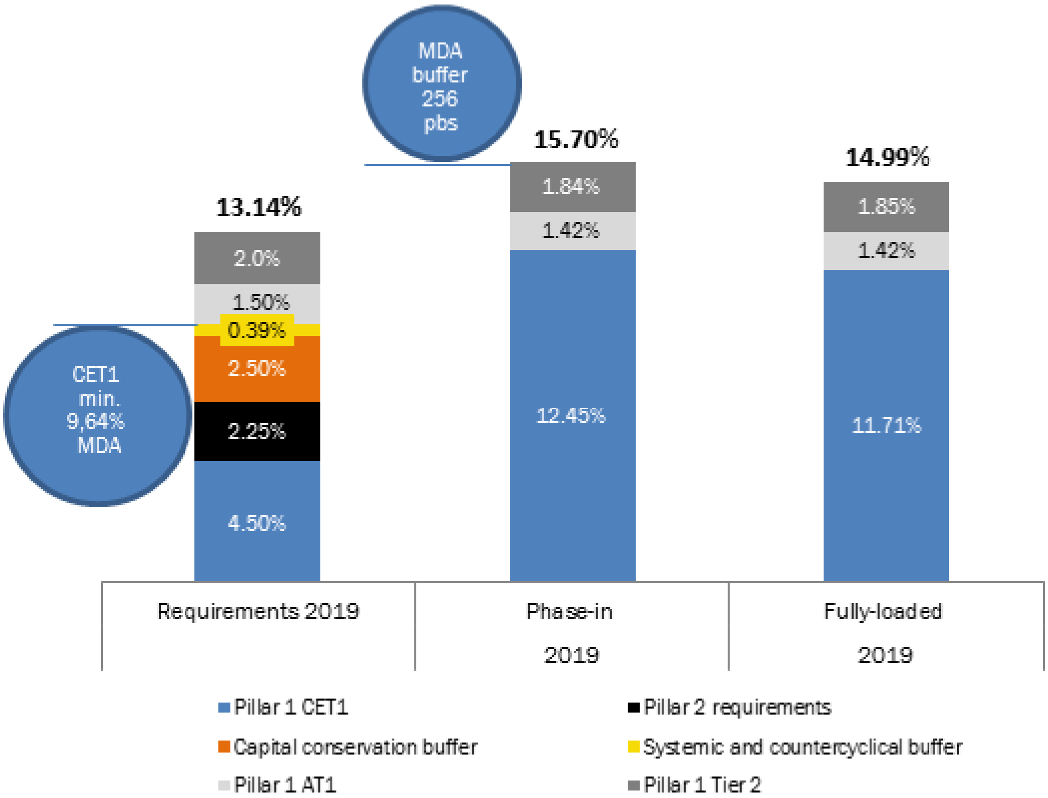
Thousand euro

| | Fully-loaded | | Phase-in | |
|---|---|---|---|---|
| | 31/12/2019 | 12/31/2018 | 31/12/2019 | 12/31/2018 |
| Common Equity Tier 1 (CET1) capital | 9,524,757 | 8,959,127 | 10,109,953 | 9,628,818 |
| Tier 1 (T1) capital | 10,677,852 | 10,112,275 | 11,263,048 | 10,781,965 |
| Tier 2 (T2) capital | 1,506,808 | 1,265,884 | 1,492,440 | 1,052,303 |
| Total Tier (Tier 1 + Tier 2) capital | 12,184,660 | 11,378,159 | 12,755,488 | 11,834,268 |
| Risk-weighted assets | 81,310,988 | 80,193,793 | 81,230,838 | 80,335,078 |
| CET1 (%) | 11.71% | 11.17% | 12.45% | 11.99% |
| Tier 1 (%) | 13.13% | 12.61% | 13.87% | 13.42% |
| Tier 2 (%) | 1.85% | 1.58% | 1.84% | 1.31% |
| Total capital ratio (%) | 14.99% | 14.19% | 15.70% | 14.73% |
| Leverage ratio | 4.75% | 4.55% | 5.01% | 4.86% |

As of 31 December 2019, 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.

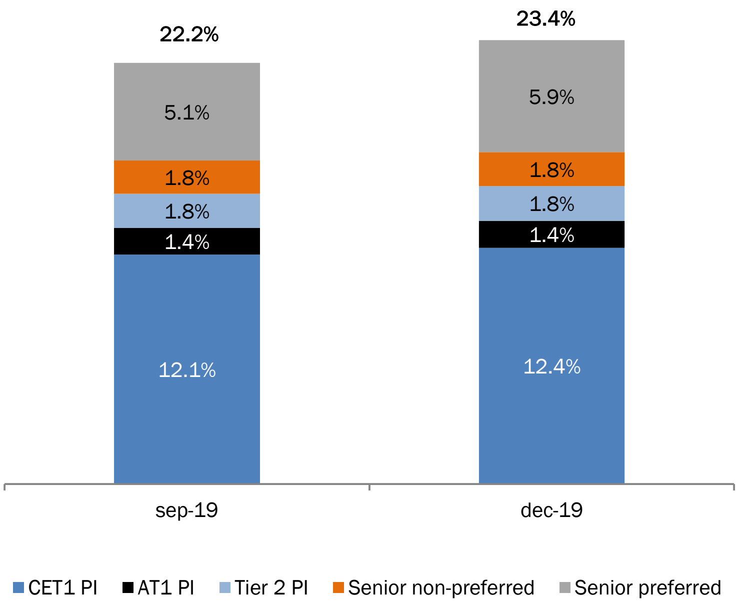
During 2019, the Group increased its fully-loaded capital by over 566 million euros organically. Additionally, it issued 500 million euros of subordinated debt in 2018 which the European Central Bank authorised it to classify as Tier 2 capital in February 2019. Risk-weighted assets also reflect the impact of disposing of portfolios of non-performing assets during the year and the asset-backed securities issued in the third quarter. All the foregoing offset the 1,117 million euros increase in risk-weighted assets as a result of changes in accounting standards, regulatory effects such as the entry into force of IFRS 16, and the results of the TRIM (Targeted Review of Internal Models). As a result, the fully-loaded Common Equity Tier 1 (CET1) ratio was 11.71% at year-end.

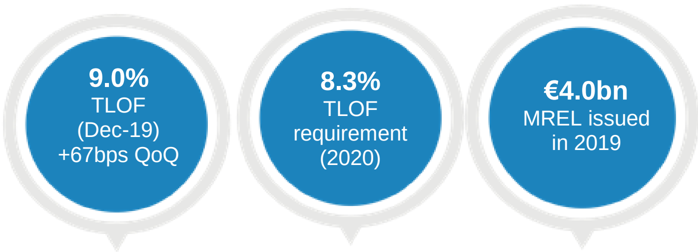
At 31 December 2019, the Group had a CET1 ratio of 12.45%, i.e. a comfortable 256 bp above the requirements established in the Supervisory Review and Evaluation Process (SREP), which are expressed in phase-in terms.

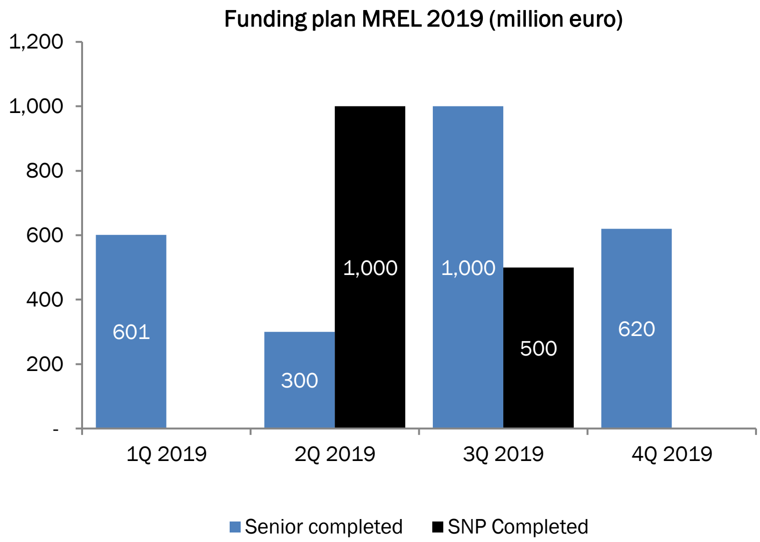



The Group continued with its programme to fulfil the MREL and, during 2019, it successfully issued approximately 4,000 million euros of MREL-eligible securities, of which 1,500 million euros are senior non-preferred debt.

**Group MREL**




9.0%
TLOF
(Dec-19)
+67bps QoQ
8.3%
TLOF
requirement
(2020)
€4.0bn
MREL issued
in 2019


Funding plan MREL 2019 (million euro)
1,200
1,000
800
600
400
200
-
601
300
1,000
1,000
500
620
1Q 2019
2Q 2019
3Q 2019
4Q 2019
Senior completed
SNP Completed

## 4 – BUSINESSES

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

### 4.1 Banking business Spain

#### Key figures

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

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

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

Income from financial transactions and exchange differences amounted to 110 million euros, affected by the 88 million euros capital gain on securitising consumer loans and by booking -47 million euros in impairment on subordinated debt in the SAREB holding, and was lower than last year due to lower sales of fixed-income securities.

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

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

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

Million euros

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

Outstanding loans and advances amounted to 104,436 million euros, a 1.8% increase year-on-year, with growth particularly in the large corporates and SME segments. Isolating the impact of the APS and non-recurring effects(1), growth would have been 2.7%.

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

Million euros

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

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

### 4.1.1 Commercial Banking

Business overview

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

Management Priorities in 2019

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

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

Key figures

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

Gross income amounted to 3,147 million euros, less than in the previous year, and net banking revenues amounted to 3,325 million euros, a 0.3% increase.

Net interest income amounted to 2,201 million euros, down -0.7% on 2018 due to securitisation of consumer loans and to lower interest rates.

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

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

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

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

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

Million euros

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

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

Million euros

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

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

**Customer segments**

Large corporates

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

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

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

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

SMEs

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

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

Banco Sabadell's positioning as a lender to companies has always been grounded in the "know your customer" principle and rigorously applying the Group's risk policy at all times; as a result, the Bank has been able to lend more while reducing its loan loss ratios at the same time.

Businesses

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

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

Retail Banking

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

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

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

Personal Banking

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

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

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

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

Banking for Expatriates

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

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

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

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

Private Banking

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

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

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

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

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

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

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

Sabadell Colaboradores

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

**Corporate segment specialists**

<u>Institutional Businesses</u>

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

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

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

*Public Institutions*

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

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

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

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

*Financial Institutions and Insurers*

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

*Religious Institutions*

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

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

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

*Professional Associations, Partnership Agreements and Associate Banking*

Banco Sabadell 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.

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

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

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

<u>Tourism</u>

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

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

The value proposition is aimed at financing for the hotel acquisition, international expansion by chains, refurbishment projects, rebranding and energy efficiency.

In 2019, Banco Sabadell's Tourism Business Division increased its presence in Spain through a team of 12 territorial managers focused on this area.

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

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

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

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

Agriculture

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

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

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

Employer Providential Schemes

From its Providential Schemes Division, Banco Sabadell Group offers solutions and responses to our customers to better implement, manage and develop their providential schemes through pension plans, group insurance policies and Voluntary Social Welfare Entities (EPSV, in Spanish). These systems expanded in 2019 and the Bank enhanced management in this area using a life-cycle approach. This investment management model makes it possible to adjust the investment profile — and, with it, the expected risk and return — to each stage of a person's life, seeking higher returns in the early stages and greater protection as retirement approaches.

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

Real Estate

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

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

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

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

BStartup

In the six years since its launch, BStartup has consolidated its position as the leading banking service in Spain for newly created innovative and technological enterprises. Hence, BStartup is fulfilling its dual purpose: on the one hand, positioning the Bank as the institution that most supports this kind of company and, on the other hand, strengthening the banking business by means of an enhanced relationship model, based on concentration and specialisation, that increases productivity and margins. The margin in this customer category is 3 times higher than the overall average of business customers (self-employed workers, businesses, SMEs and large companies). It also scores much higher according to other yardsticks, including internationalisation (48.6%, vs 14.6%) and customer loyalty (an average of 10.73 products, vs 6.98).

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

- Specialised bank products and services for startups. A new distribution model was implemented in 2019, involving the creation of the role of BStartup SME Manager in cities with a high concentration of this kind of customer (Barcelona, Madrid and Valencia, at present). There are a total of 8 SME managers who focus solely on startups; in Catalonia, all startup transactions are concentrated in a single risk analyst.

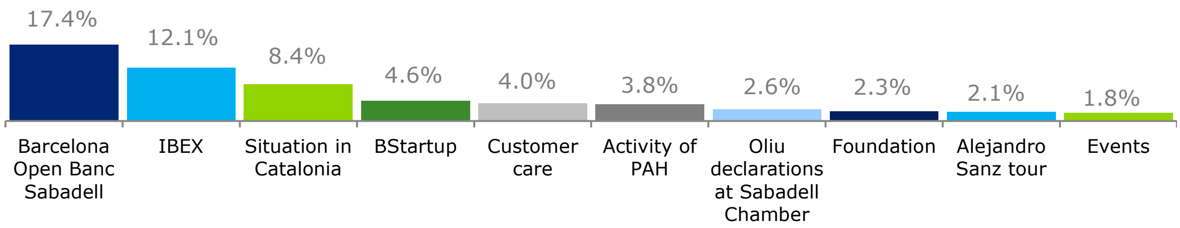
- Investment in equity. BStartup10, the programme's investment vehicle, investing seed capital in 10 startups every year, currently has 46 investees in its portfolio. Moreover, this year BStartup held a second round of the BStartup Health programme and picked three healthcare startups in which to invest, out of a total of 100 candidates.

- Open Innovation. BStartup is an innovation radar due to its privileged position, with a presence in business innovation forums in Spain, and agreements with numerous players in the Spanish entrepreneurial ecosystem. BStartup filters and refers potential opportunities to other divisions. Three Banco Sabadell investees were particularly notable in 2019: Cobee, which is already offering its services to the Bank's customers at branches in Barcelona and Madrid; Broomx, which implemented a pilot project with the Recovery Division; and Playfilm, which created an interactive video with the Training Division. In this connection, for the second year running, the Bank was acknowledged by Startup Europe Partnership as one of Europe’s Corporate Startup Stars of 2019 at an official ceremony in the Madrid Stock Exchange that was attended by the EU's representative in Spain.

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

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

Most popular Banco Sabadell topics on Twitter:




*Source Deloitte: Annual report on BStartup in social media 2019.*

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

Companies Hub

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

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

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

- Programme of training sessions and activities aimed at professionals, executives, self-employed workers, businesspeople and entrepreneurs wishing to keep pace with the latest business trends or acquire know-how in specific areas to grow their enterprises.

- Workspaces available to business customers; technologically equipped space in downtown Valencia: meeting rooms, individual workspaces, flexible workspaces for organising sessions with employees or customers, lounge and coffee corner.

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

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

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

**Commercial Products**

Financial services

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

*Digital Services*

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

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

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

*Payment*

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

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

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

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

*Cash Management Service*

In a context in which mobile payments are growing swiftly, the optimisation and digitalisation of cash management pose a significant challenge for retailers, companies and public administrations that must deal with cash transactions as well as providing their own services.

Banco Sabadell offers a set of solutions adapted to each kind of establishment by means of specialist partners, with whom it builds a joint solution to meet customers' needs in terms of cash flows, transaction volume and the availability of change. These solutions help our customers to be more productive due to increased transaction speed, thereby enhancing the user experience.

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

<u>Savings and Investment</u>

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

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

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

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

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

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

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

<u>Asset Management</u>

Asset Management is a separate area within Banco Sabadell Group that focuses on managing collective investment and providing investment advice and solutions for individual customers, companies and institutional investors. It is part of Sabadell Asset Management, the parent of a group of companies operating as collective investment management firms. Its mission is to approach the investment management business through collective investment firms and products managed by third parties.

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

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

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

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

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

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

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

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

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

On 21 January 2020, Banco Sabadell and Amundi Asset Management signed a long-term strategic agreement for the distribution in Spain of Amundi Asset Management products through all Banco Sabadell distribution channels. The agreement does not entail any change in the current offer of Sabadell Asset Management investment funds, which will remain open to Banco Sabadell clients and other investors (see section 6.3 “Material post-closing events” in this Directors' Report).

Funding Solutions

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

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

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

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

Factoring is increasingly popular for managing receipts, both in Spain and internationally, and there has been particularly strong growth in the use of this service by SMEs, where the factored volume increased by 16%.

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

Leases (finance or operating)

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

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

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

Bancassurance

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

- BanSabadell Vida, BanSabadell Pensiones and BanSabadell Seguros Generales, operating in a strategic alliance with Zurich since 2008.

- BanSabadell Mediación is the Bank's insurance broker. It operates as a tied agent for bancassurance products, distributing insurance through the branches.

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

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

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

In terms of assets under management, BanSabadell Pensiones ranks tenth in the entire system, according to data published at the end of the year. BanSabadell Pensiones reported a profit of 0.6 million euros in the year.

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

International solutions

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

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

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

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

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

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

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

In September, an international business newsletter was launched with helpful articles for Spanish companies interested in internationalisation and in expanding foreign trade, and offering a technical view of various appealing sectors of activity and geographical areas.

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

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

### Sabadell Consumer Finance

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

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

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

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

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

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

Funding of mobility in buildings and condominium refurbishments also expanded.

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

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

## 4.1.2 Corporate & Investment Banking

### Business overview

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

Management priorities in 2019

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

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

- Know-how through specialisation. The Corporate Banking teams located in the various geographies where we operate not only have specialised knowledge of the large corporates segment but also have industry specialisation so as to better meet our customers' needs based on the specifics of their business.

- Coordination. Large corporates require special solutions that are the result of involving several of the Bank's areas (specialist teams or even teams from different countries). Coordination of all these teams is pivotal for providing value to our customers.

- Specialist product. Corporate & Investment Banking has units that develop tailored products for large corporates and financial institutions (corporate finance, project finance/project bonds, commercial paper programmes, debt issues, M&A, venture capital, asset finance, risk hedges, etc.). The units responsible for developing this range of products are horizontal to the entire Banco Sabadell Group and their capabilities also extend to the Business Banking and Institutional Banking segment.

- Innovation. This is the last, but by no means the least important, of the key areas. Transitioning from idea to action is vital to evolve in such a dynamic and demanding market as that of large corporates. In this regard, we have created the necessary spaces and mechanisms to enable our teams to spend part of their time on innovation, in the broadest sense of the term: innovation in products, transactions and even in how we coordinate between ourselves.

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

Key figures

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

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

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

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

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

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

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

Million euros

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

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

Million euros

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

Corporate Banking

*Business overview*

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

*Management priorities in 2019*

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

Against this backdrop, net lending increased by +0.2% in 2019, to 16,294 million euros, of which 61.2% were loans outside Spain (lending outside Spain increased by +16.0%). This international growth is a reflection of the decision to diversify risks and revenue sources made some years ago by Banco Sabadell, which has developed the necessary capabilities to operate in other markets. The volume of deposits fell slightly, by -1.6% in 2019, although the decline was distributed unevenly between regions as a function of the local currency (down 11.1% in regions under the influence of the Euro, but +12.4% growth in regions under the influence of other currencies).

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

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

Treasury and Capital Markets

*Business overview*

Treasury and Markets is responsible for marketing Treasury products to customers through the units to which that task has been assigned, ranging from the branches through specialist distributors.
In addition, it manages the Bank's short-term liquidity position and manages and oversees compliance with regulatory coefficients and ratios. It also manages the risk in the proprietary trading book and interest rate and exchange rate risk, basically due to operational flows with both internal and external customers originating from the activity of the Distribution units.

*Management priorities in 2019*

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

Trading, Custody and Research

*Business overview*

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

*Management priorities in 2019*

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

Structured Finance

*Business overview*

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

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

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

Sabadell Corporate Finance operates in M&A through advisory services to companies, shareholders, private equity firms, family offices and other investors, in mergers and acquisitions and in bringing in new shareholders. It is a member of Terra Corporate Finance Alliance, an international alliance of independent M&A and Corporate Finance advisory firms providing coverage in more than 40 countries.
The Global Financial Institutions Unit focuses on relations with the international banks with which Banco Sabadell has collaboration agreements, i.e. some 3,000 correspondent banks worldwide, to ensure that Banco Sabadell Group customers have the maximum reach in their international transactions. It also ensures optimal support of customers in their internationalisation processes, in coordination with the Group's international network of branches, subsidiaries and investees.

*Management priorities in 2019*

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

Syndicated loan MLA — Spanish market 2019

Million euros

| Ranking | Mandated Lead Arranger | Amount | Number |
|---|---|---|---|
| 1 | Santander | 9,541 | 138 |
| 2 | BBVA | 7,007 | 100 |
| 3 | Bankia | 4,634 | 96 |
| 4 | CaixaBank | 5,432 | 87 |
| 5 | BANCO DE SABADELL | 3,116 | 65 |
| 6 | BNP Paribas | 5,361 | 37 |
| 7 | Credit Agricole CIB | 3,063 | 35 |
| 8 | SG Corporate & Investment Banking | 2,973 | 29 |
| 9 | Bankinter | 638 | 23 |
| 10 | ING | 1,516 | 22 |

Project finance MLA — Spanish market 2019:

Million eurosç

| Ranking | Mandated Lead Arranger | Amount | Number |
|---|---|---|---|
| 1 | BANCO DE SABADELL | 564 | 18 |
| 2 | Santander | 1,095 | 17 |
| 3 | Bankia | 396 | 9 |
| 4 | BNP Paribas | 355 | 6 |
| 5 | Abanca | 265 | 6 |
| 6 | Natixis | 564 | 5 |
| 7 | CaixaBank | 646 | 4 |
| 8 | Banco Bilbao Vizcaya Argentaria (BBVA) | 205 | 4 |
| 9 | Kommunalkredit Austria AG | 155 | 4 |
| 10 | Bankinter | 91 | 4 |

Capital markets

*Business overview*

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

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

*Management priorities in 2019*

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

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

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

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

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

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

Banco Sabadell Capital

*Business overview*

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

*Management priorities in 2019*

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

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

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

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

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

In the context of the alliance between Banco Sabadell and Pensium to provide tailored solutions to customers (elderly persons with care needs – ResiRent), it acquired a stake in Pensium, S.L. and also granted a loan to its subsidiary Pensium Direct S.L. to fund the project.

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

Sabadell Miami Branch

*Business overview*

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

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

Sabadell Securities USA, Inc.

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

*Management priorities in 2019*

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

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

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

- In 2019, the groundwork was laid for issuing Yankee CDs to institutional customers. The Branch is ready to launch issues so as to increase funding sources and reduce funding costs.
- Updates commenced of the technology platform (the Aspire Project) in 2019 to improve the capabilities available to customers and business and support units. The improved systems will support growth in a more efficient and scalable manner. The project will be executed in 3 phases over the next 3 years.

*Key figures*

In 2019 the volume under management exceeded USD 13,000 million, an increase of 8.1% year-on-year. Customer loans and advances increased by 7.0% to more than USD 5,200 million, while customer deposits were up 6.0% to 3,600 million. Off-balance sheet customer assets also increased, by 11.4%.

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

### 4.1.3 Asset Transformation

In 2019, Non-Performing Asset Management (formerly the Asset Transformation Division) was integrated into the Risk Management Division, continuing with its activity and leadership in reducing non-performing exposures. In 2019 an agreement was signed to sell SDIN Residencial, S.L.U., the land earmarked for real estate development and the Rex portfolio, and the sale of Solvia Servicios Inmobiliarios, S.L. and the Challenger, Coliseum and Rex portfolios were finalised, thereby completing the disposal and normalising the size of the Group's non-performing real estate portfolio.

Business overview

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

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

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

- Drive proactive management of the loan book,
- Ensure profitability,
- Develop risk models that enable finance products to be marketed efficiently and dynamically through the new digital channels, and
- Safeguard effective management of non-productive assets.

Management milestones in 2019

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

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

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

<u>Management priorities</u>

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

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

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

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

- Early action to manage delinquency and preventive action to avoid delinquency, both of which are vital to de-risking. Early action to manage delinquency maximises the recovery and monetisation of non-performing assets, as it minimises the risk of deterioration in credit quality and preserves collateral quality;

- Segmented management of all non-performing and potentially non-performing exposures (potential delinquency);

- Large-scale reduction of the non-performing loans and foreclosed assets that have been on the balance sheet the longest, which is especially important from a management perspective, since the various capacities, solutions and tools require a specialised approach to the oldest balances that differs from the approach to new defaults, delinquencies and foreclosures;

- Business intelligence and continuous process improvement. In recent years, the Bank has developed capabilities of segmentation and prediction in the recovery process. Business intelligence is also applied to systematise, continuously improve and corporatise processes throughout the recovery cycle, where there is mutual agreement and also in litigation and bankruptcy proceedings, to enhance recovery efficiency;

- Financial capacity, i.e. not just having sufficient book coverage of the expected loss but also having the capacity to generate future revenues to guarantee robust capital levels with which to absorb any unexpected losses on NPAs;

- A solid governance system based on three lines of defence, in which the first line of defence, featuring the specialised Non-Performing Asset Management Division, and the business units that approved the exposures, is backed by a second independent line of oversight, comprising the Risk Control and Compliance Divisions, and a third line of defence, namely Internal Audit, which reviews the adequacy and quality of the entire process.

<u>Key figures</u>

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

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

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

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

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

Million euros

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **Net interest income** | **(49)** | **(18)** | **169.9** |
| Fees and commissions (net) | 2 | 1 | 57.0 |
| **Net banking revenues** | **(47)** | **(17)** | **179.0** |
| Net trading income and exchange differences | 31 | 5 | - |
| Equity-accounted affiliates and dividends | - | 0 | (100.0) |
| Other operating income/expense | 34 | 119 | (71.4) |
| **Gross income** | **18** | **107** | **(82.9)** |
| Operating expenses and depreciation and amortisation | (80) | (129) | (38.2) |
| **Pre-provisions income** | **(62)** | **(22)** | **181.4** |
| Provisions and impairments | (341) | (520) | (34.3) |
| *Of which: profit or loss on sales* | *54* | 96 | *(43.7)* |
| Capital gains on asset sales and other revenue | - | - | - |
| **Profit/(loss) before tax** | **(403)** | **(542)** | **(25.6)** |
| Corporation tax | 94 | 79 | 19.4 |
| Profit or loss attributed to minority interests | - | - | |
| **Profit attributable to the Group** | **(309)** | **(463)** | **(33.3)** |
| ROE (profit / average shareholders' equity) | - | - | |
| Cost-to-income (general administrative expenses / gross income) | - | - | |
| NPL ratio | 33.8% | 33.5% | |
| NPL coverage ratio | 42.7% | 83.4% | |

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

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

Million euros

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

## 4.2 Banking business UK

### Business overview

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

### Management priorities in 2019

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

- The banking platform is stable and offers customers more functionality than before. Recent data from the Financial Conduct Authority shows IT incidents at TSB are now in line with, or better than, the levels of other banks.

- All customer complaints since migration were addressed by April 2019 and the number of new complaints has dropped to within industry standard levels.

- TSB has established itself as a competitive and distinct new player in Business Banking and has seen steady growth in customer numbers throughout the year, including those joining through the Incentivised Switching Scheme where one in four businesses are choosing to move to TSB in those categories that have been targeted.

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

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

Customer focus

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

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

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

Simplification and efficiency

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

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

Operational Excellence

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

IT resilience and cyber security will be prioritised to make sure they are allocated the appropriate level of resources. As part of this, the programme for TSB to take direct control of suppliers of IT services, currently managed by Sabis under the Operating Services Agreement, has commenced with the signing of an agreement with IBM. Increasingly, TSB will partner with a small number of larger industry leaders to bring significant cost savings and reduce risk. This is a joint programme of work between Sabis and TSB and is already significantly advanced.

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

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

### Key figures

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

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

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

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

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

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

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

Million euros

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

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

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

Million euros

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

## 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 (Mexican multi-purpose financial company), which commenced operations in 2014, followed by a bank. The banking licence was obtained in 2015 and the Bank commenced operations in early 2016.

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

- Corporate Banking, with the focus on companies and major corporations: 3 branches (Mexico City, Monterrey and Guadalajara) and sector-specific specialisation.

- Business Banking, which reproduces the Group's original business relationship model: launched in 2016 with 13 branches, it has continued to expand since then.

- Personal Banking, based on a disruptive digital model initially focused on capturing customer funds.

## Management priorities in 2019

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

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

- Corporate Banking focused particularly on the renewable energy industry. It signed a 100 million dollar finance agreement with IFC to develop sustainable infrastructure in Mexico. These funds will be lent to customers wishing to develop sustainable projects, mainly hotels and green buildings that promote best practices in efficient energy use, rational water management, waste abatement and the reduction of harmful emissions to the environment.
  The range of services in this segment continue to expand with the launch of the derivatives desk and the trust unit. These initiatives will enable us to offer a more comprehensive service in structured financing, strengthening relations with customers.

- In Business Banking, we continued to enhance our transactional capabilities, an initiative that will continue in 2020. Additionally, some of our Business Banking branches were merged, reducing the number from 19 to 12, so as to enhance the returns on the capabilities rolled out in previous years. Initiatives in the commercial model and a new incentive scheme seek to boost banker productivity and efficiency and to continue offering an excellent service, which has been a distinctive feature since this segment was created.

- The Personal Banking segment made significant efforts to deploy new products and services such as a 100% digital account, debit card, CoDi mobile payments, and instant transfers, some of which were already available in 2019 and the remainder will be rolled out in early 2020. Additionally, a project has been developed that will allow us to position ourselves in the consumer lending market in Mexico with an all-digital online value proposition.

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

A financial planning exercise was conducted in 2019 in line with that of Banco Sabadell Group to determine the main lines of strategic action for Banco Sabadell in Mexico with the goal of driving value creation by the Group's Mexican franchise, as summarised below:

- Enhancement of ROE by increasing revenues without capital consumption (through greater fees and commissions and the development of new business lines, such as trade finance, derivatives, currency trading, trusts, etc.).

- Promotion of financial self-sufficiency actions, through: i) the incorporation of transactional services and products that increase customer loyalty; and ii) improvement of our Personal Banking customer onboarding platform.

On 20 December, Standard & Poor's (S&P) upgraded the short- and long-term ratings of Banco Sabadell IBM and SabCapital, to mxAA, from mxA+ (long term), and mxA-1+, from mxA-1 (short term). In its report, S&P highlighted the improvement and increasing diversification of the Group's revenue base in Mexico, healthy growth of its loan book (with superior credit quality metrics to the overall Mexican banking system), gradual diversification of its funding sources, and a growing share of the Mexican market.

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

**Key figures**

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

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

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

Other operating income/expense increased in the year, mainly because of the higher payment to the Instituto para la Protección al Ahorro Bancario (IPAB) as a result of the strong growth in customer deposits.

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

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

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

Million euro

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

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

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

Million euro

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

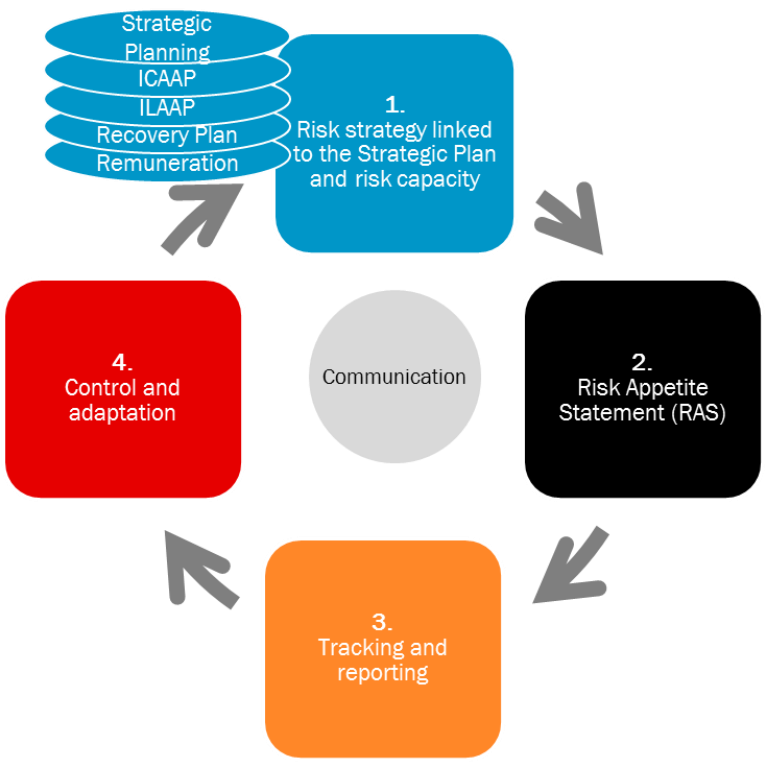
## 5. RISKS

In 2019, Banco Sabadell Group continued to strengthen its risk management framework by making improvements in line with best practices in the financial sector.

The Group maintains a medium-low risk profile, in accordance with the risk appetite defined by the Board of Directors.

The Group's risk strategy is fully implemented and linked to the Strategic Plan and the Group's risk capacity, articulated through the Risk Appetite Statement (RAS), under which all material risks are monitored, tracked and reported, and the necessary control and adaptation systems are established to ensure compliance:

**Strategic management and risk control processes**



### Main 2019 milestones in risk management and control

#### Risk taxonomy

In March 2019, Banco Sabadell Group approved a new taxonomy of risks that establishes and defines first- and second-tier risks (and sub-risks or risk factors) on the basis of their nature.

This taxonomy lends visibility to the management and control of certain types of risks that would otherwise be diluted due to their lower materiality or the difficulty in quantifying them.

In parallel with the approval of this taxonomy, the first- and second-tier metrics in the RAS were enhanced for the material risks in the taxonomy at Group, company and/or geography level.

With regard to the first-tier risks identified in the Banco Sabadell Group risk taxonomy, the most salient aspects of their management and the steps taken in this connection in 2019 are set out below:

#### Strategic risk

Definition: Risk of losses (or negative impacts in general) as a result of strategic decisions or their implementation. It also includes the inability to adapt the Group's business model to changes in the environment in which it operates.

Main milestones in 2019:

(i) **Strategy and reputation**

- The Group's guidance indicators for 2019, showing the general level of attainment at year-end.
- Maintenance of the NPS in Spain in 2019, which is one of the Group's competitive advantages, while improving the outcome of the Service Quality Index. At TSB, continuous improvement of the NPS for the Bank overall and for mobile banking; in fact, the latter has practically regained its pre-migration values.
- Deployment of the Group's digital transformation strategy, with significant increases in the main indicators in connection with customers and digital sales.

(ii) **TSB:**

- Presentation of the new strategy for 2019-2022 in November 2019, the goal being to increase returns and lending, advance in the digital transformation, increase profits and improve the customer experience.

(iii) **Improved capital position:**

- The CET1 ratio improved to 11.7% in fully-loaded terms at 2019 year-end, driven significantly by organic capital creation. Generalised fulfilment of regulatory capital requirements.
- The Total Capital ratio was 15.0% at 2019 year-end, while the Leverage ratio was 4.75%, vs. 4.54% a year earlier.
- The first asset-backed security was issued in the third quarter of 2019, which released 14bp of capital due to shedding risk.

(iv) **Profitability:**

- Group net profit amounted to 768 million euros in 2019. ROE was 5.9%. The Group's banking revenues remain strong despite the prevailing interest rate situation. Fees and commissions performed well, rising 7.6% year-on-year on the back of service fees.
- At the same time, the Bank laid the foundations for greater future profitability based on expanding core banking revenues, mainly through digitalisation and divesting non-strategic businesses.

## Credit risk

Definition: the possibility that losses may be incurred as a result of borrowers failing to meet their obligations or through losses in value due simply to deterioration in borrower quality.

Main milestones in 2019:

### (i) Reduction in non-performing assets

- The non-performing assets ratio declined from 5.6% to 4.85% in 2019, and the ratio of net non-performing assets to total assets was 1.7%, while the Group disposed of practically all of its non-performing real estate from the balance sheet.
- The Group's NPL ratio was reduced to 3.83%, from 4.22% at 2018 year-end.

### (ii) Concentration

- The portfolio is well diversified in terms of industries, with rising exposure to sectors that have superior credit quality. Reduction in the exposure to real estate (to one-third of the 2014 level).
- Risk metrics relating to concentration of large exposures have also declined, while the credit rating of the main borrowers improved.
- Geographically, the portfolio is positioned in the most dynamic regions, in Spain and worldwide.
- International exposure continues to represent almost one-third of the loan book, with year-on-year increases in all relevant geographies (Mexico +7.9%, TSB +3.2% and foreign branches and offices +16.2%).

### (iii) TSB lending performance

- TSB expanded lending in the second half of the year, regaining the upward year-on-year trend. Net lending increased, as the high volume of mortgage applications resulted in an increase in mortgage production.
- Lending recovered while maintaining a low risk profile (more than 94% in retail mortgages with average LTV of 44%) and improving the composition of the loan book, as exposure to interest-only and buy-to-let loans was reduced.

## Finance risk

Definition: The possibility of obtaining insufficient returns or having insufficient liquidity such as to prevent compliance with requirements and future expectations.

Main milestones in 2019:

### (i) Sound liquidity position:

- The liquidity position was sound, with a Liquidity Coverage Ratio (LCR) of 172% at Group level at the end of 2019 (184% excluding TSB and 231% at TSB), after the early repayment of 7,000 million euros of TLTRO II to the ECB in 2019 and the repayment of GBP 1,995 million of the TFS to the Bank of England.
- The loan-to-deposit ratio was 99% at 2019 year-end, with a balanced retail funding structure. In 2019, Banco Sabadell fulfilled its issuance plan, and strong investor appetite enabled it to optimise the associated costs.
- By year-end, the Bank had exceeded the MREL (Minimum Required Eligible Liabilities).

### (ii) Structural interest rate risk:

- The Bank continued to adapt the balance sheet structure to the current and expected environment of negative rates in the Eurozone, showing great resilience to possible future declines. The mortgage book in Spain is exhibiting an increasing preference for fixed rates. On the liabilities side, the customer deposit base makes it possible to pass negative rates on to the wholesale segments, which represent 36% of funds.
- The Bank maintained its programme of adaptation to the new benchmark indices following the entry into force of the European Benchmark Regulation (BMR): the Euro short-term rate was implemented successfully (in October), as was the Euribor hybrid methodology.

**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 2019:

**(i) Technology function:**

- The year 2019 was a transformative one in the Group's technology function, as a new organisation structure was implemented and the control structure and risk management were strengthened in the technology function (new methodologies, procedures and policies). The mainframe configuration was enhanced on the basis of high availability (service quality and resilience).
- TSB's IT platform was stabilised and it regained pre-migration levels of customer service quality.

**(iii) PSD2:**

- The entry into force of the revised European Payment Services Directive (PSD2) led to a slight change in the risk profile in terms of exposure to fraud and operational risk.

**New organisation in the Risk Management Division**

The Risk Management Division and the Asset Transformation Division were merged to bring the structure more into line with emerging needs, take advantage of their accumulated experience and know-how, and achieve four fundamental goals:

- Step up the proactive approach to portfolio management and the investment strategy in the loan book by activating the necessary levers to ensure an appropriate return on the loan books.
- Adoption of risk models and the necessary methodologies to market financial products via digital channels that require decision models and fully digitalised processes.
- Accelerate the rotation of real estate assets and holdings in investees within the portfolio of unproductive assets.
- Drive effective, efficient management of unproductive assets.

For more details of the corporate risk culture, the global risk framework and the overall organisation of the risk function as well as the main financial and non-financial risks, see note 4 "Risk management" in the consolidated annual financial statements for 2019.

# 6 – OTHER MATERIAL INFORMATION

## 6.1 R&D and innovation

In the domestic market:

Commercial Banking implemented the Retail Model that had been designed in 2018, which transformed the management approach for individual customers by optimising processes, freeing up commercial capacity and encouraging customers to avail themselves of the self-service features in the digital channels. The organisation was optimised in order to cater for the mass market segment, a move that bore fruit in 2019 in the form of higher commercial activity and customer satisfaction.

Leveraging this momentum, a transformation programme for business customers was initiated to optimise service by taking advantage of digital capacities to simplify processes, expand the range of products and restructure the commercial offer for self-employed workers, small businesses and companies, while providing a personalised service. These initiatives included the first Company Hub, a physical space where customers can receive advice on growing their companies, coupled with mobile workspaces and a website to provide information about events; a new app, called Nomo, was released to provide solutions for self-employed workers; and account managers received upgraded support for their visits to customers.

Additionally, a plan was launched comprising over 90 measures to enhance margins and a programme to Improve the Account Manager Experience by focusing on usability of the account manager's office tools to make the sale process more efficient.

In the field of digital capabilities and solutions, OpenBanking was boosted by rolling out the new API Channel, a result of the PSD2 Directive, based on new microservices and cloud technologies. In this area, account aggregation capabilities and payment initiation features were pilot-tested. The digital capabilities of current market applications were also enhanced to offer a multichannel front-end.

Other digital initiatives include the new website *estardondeestes*, to support digital customers in home purchase, business initiatives and decisions about savings and pensions. Additionally, the Lisbon branch now has its own website.

In the area of digital solutions, *Sabadell Inversor*, the MiFID-compliant advisory and reporting tool, was strengthened. A new online broker (*Sabadell Equity*) was launched and the forex trading platform, *Sabadell Forex*, was updated by providing it with the functionalities most in demand by business customers. "*Sabadell Blink*", the new offer of Auto and Home insurance, was launched.

Digital services to customers were expanded in such areas as signing, generating and updating digital documentation, demos were created to familiarise users with the new processes, improvements were made in the reverse factoring (confirming) process, and new instalment plans and new alerts were introduced. Customers are now more digital and more engaged as a result. The use of mobile devices expanded, with good customer satisfaction scores (BSMóvil is rated 4.6 out of 5 on the Apple App Store).

The international context:

During the year, TSB worked to improve its offer, enhance digital channels and improve its understanding of its customers and their needs through better data capture, management and analysis.

Analytics continued to improve our knowledge of customers and their needs (360º vision) in order to customise the offer and enhance data aggregation.

As for Channels, particularly digital channels, self-service capabilities were strengthened, communications with customers were made more flexible, and mobile marketing capabilities were enhanced. All these initiatives were part of TSB's *Omnichannel* strategy applied in 2019. In particular, work was done to improve the customer onboarding process, including a new feature enabling customers to open a personal current account (PCA) online from a smartphone. This development enables new customers to open an account in an easy, secure environment.

Additionally, in conformity with the EBA's PSD2 regulation, TSB developed a new API channel. This channel not only provides customer data but also enables them to perform local and international payments (PISP) and see their account balance (CBPII). The API Channel was developed as a hybrid between the cloud and on-premises in a bid to combine the best of both worlds. All these functionalities are integrated with the Bank's mobile app, enabling the service to be used on computers, smartphones and tablets.

## 6.2 Trading in own shares

See note 23 to the consolidated annual financial statements.

## 6.3 Material post-closing events

No material events meriting disclosure have occurred since 31 December 2019, apart from those detailed below:

On 21 January 2020, Banco Sabadell and Amundi Asset Management (Amundi) signed a long-term strategic agreement for the distribution of Amundi products through the Banco Sabadell branch network in Spain. The agreement includes the sale of 100% of Sabadell Asset Management, S.A., S.G.I.I.C., Sociedad Unipersonal (SabAM) for 430 million euros. It also provides for an additional 30 million euros in 2024 depending on the assets under the management belonging to Banco Sabadell customers on that date.

At 2019 year-end, SabAM had approximately 21,800 million euros in assets under management, not counting third-party investment vehicles, and it reported 34 million euros in net profit (including 65 million euros of net fees and commissions and 17 million euros of operating and staff expenses). The sale of SabAM also 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.

Completion of the sale, which is contingent upon the pertinent official approvals, is expected in the third quarter of 2020. The deal will generate a capital gain of approximately 351 million euros, net of taxes, which will strengthen Banco Sabadell's capital position by contributing 43 basis points to the fully-loaded Common Equity Tier 1 (CET1) ratio.

Of that capital gain, 58 million euros (7 basis points of fully-loaded CET1) are contingent upon certain conditions being met throughout the period of the distribution agreement and, consequently, they will be recognised proportionally over the next 10 years. The remaining 293 million euros will be recognised when the transaction is completed.

The strategic agreement between Banco Sabadell and Amundi will give Banco Sabadell customers access to new investment opportunities and a wider range of internationally recognised products, rounding out the current range of savings and investment products but without entailing any change in existing mutual funds and pension plans. The deal reinforces Banco Sabadell's commitment to remaining in the lead in terms of customer satisfaction and experience, both of which are commercial priorities for Banco Sabadell in 2020.

## Non-Financial Disclosures Report

In accordance with the provisions of Law 11/2018, of 28 December, on non-financial and diversity disclosures, Banco Sabadell Group has drawn up a Non-Financial Disclosures Report for 2019, which, in accordance with article 44 of the Commercial Code, forms part of this report and is attached as a separate document.

## Corporate Governance

In accordance with the provisions of article 540 of the Capital Companies Act, Banco Sabadell Group has drawn up the Annual Corporate Governance Report for 2019, which, in accordance with article 49 of the Commercial Code, is a part of this Directors' Report and is attached as a separate document; it contains a section setting out the degree to which the Bank adheres to the recommendations on corporate governance in Spain.

The information about corporate governance is available on the Group's corporate website (www.grupobancosabadell.com) directly in the section entitled "Corporate governance and remuneration policy", which is linked to from the Home page.

## Glossary of terms on performance measures

In the presentation of its results to the market, and for the purpose of monitoring the business and decision-making processes, the Group uses performance indicators pursuant to the generally accepted accounting regulations (EU-IFRS), and also uses other non-audited measures commonly used in the banking 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 entities.

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 the definition, calculation and reconciliation of each APM in this section.

Equivalence of headings from the income statement of businesses and management units that appear in the Note on segmented information and in the Consolidated Directors' Report with those of the consolidated income statement (*)

**Net fees and commissions:**
- Fee and commission income.
- (Fee and commission expenses).

**Net banking revenues:**
- Net interest income.
- Fee and commission income.
- (Fee and commission expenses).

**Other operating income/expenses**:
- Other operating income.
- Other operating expenses.

**Operating expenses and depreciation and amortisation:**:
- (Administrative expenses).
- (Depreciation and amortisation).

**Pre-provisions income**:
- Gross income.
- (Administrative expenses).
- (Depreciation and amortisation).

**Provisions and impairments:**
- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains.
- (Provisions or (-) reversal of provisions).
- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding profit or loss on the sale of equity holdings).
- Gains or (-) losses on derecognition of non-financial assets, net (including only gains or losses on 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 losses or (-) gains.
- (Provisions or (-) reversal of provisions) (including only commitments and guarantees provided).

**Provisions for other financial assets**:

- (Provisions or (-) reversal of provisions) (excluding commitments and guarantees provided).

**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).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding profit or loss on the sale of equity holdings).
- Gains or (-) losses on derecognition of non-financial assets, net (including only gains or losses on the sale of investment property).

**Capital gains on asset sales and other revenue:**

- Gains or (-) losses on derecognition of non-financial assets, net (excluding gains or losses on the sale of investment property).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (including only profit or loss on the sale of equity holdings).

(*) 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***

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| Outstanding gross loans and advances | Includes gross customer loans and advances, excluding repos, accrual adjustments and Stage 3 assets. | Mortgage loans & credit | 83,720 | 80,872 |
| | | Loans and credit secured with other collateral | 3,330 | 2,767 |
| | | Commercial loans | 6,443 | 6,186 |
| | | Finance leases | 2,558 | 2,565 |
| | | Overdrafts and other debtors | 48,521 | 46,976 |
| | | **Outstanding gross loans and advances** | **144,572** | **139,366** |
| Loans and advances to customers, gross | Includes loans and advances to customers excluding impairment allowances. | Stage 3 assets (customers) | 5,923 | 6,472 |
| | | Accruals | 18 | (13) |
| | | **Loans and advances to customers, gross, excluding repos** | **150,513** | **145,824** |
| | | Repos | 236 | 596 |
| | | **Loans and advances to customers, gross** | **150,749** | **146,420** |
| | | Impairment allowances | (2,933) | (3,433) |
| | | **Loans and advances to customers** | **147,816** | **142,987** |
| 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). | Financial liabilities measured at amortised cost | 205,636 | 206,077 |
| | | Non-retail financial liabilities | 59,327 | 68,734 |
| | | Deposits with central banks | 20,065 | 28,799 |
| | | Deposits from credit institutions | 11,471 | 12,000 |
| | | Institutional issues | 23,623 | 24,334 |
| | | Other financial liabilities | 4,168 | 3,601 |
| | | **On-balance sheet customer funds** | **146,309** | **137,343** |

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| On-balance sheet funds | Includes the following accounting sub-headings: customer deposits, outstanding marketable debt securities (Bonds and other marketable securities and subordinated liabilities) | Customer deposits | 147,362 | 139,079 |
| | | Sight accounts | 118,868 | 107,665 |
| | | Deposits with agreed maturity, including deposits redeemable at notice, and hybrid financial liabilities | 27,339 | 28,709 |
| | | Repos | 951 | 2,533 |
| | | Accrual adjustments and hedging derivatives | 204 | 172 |
| | | Bonds and other marketable securities | 19,514 | 19,568 |
| | | Subordinated liabilities (*) | 3,056 | 3,031 |
| | | **On-balance sheet funds** | **169,932** | **161,678** |
| Off-balance sheet customer funds | Incluye los fondos de inversión, gestión de patrimonios, fondos de pensiones y seguros comercializados. | Mutual funds | 26,003 | 26,379 |
| | | Asset management | 3,363 | 3,595 |
| | | Pension funds | 3,367 | 3,594 |
| | | Insurance products sold | 10,430 | 10,465 |
| | | **Total off-balance sheet funds** | **43,163** | **44,034** |
| Funds under management | The sum of on-balance sheet funds and off-balance sheet customer funds. | **Funds under management** | **213,095** | **205,711** |
| Other assets | Comprises the following accounting items: derivatives - hedge accounting, fair value changes in hedged items in a portfolio with interest rate hedge, tax assets, other assets, assets under insurance or reinsurance contracts and non-current assets and disposal groups classified as held for sale. | Derivatives – Hedge accounting | 469 | 302 |
| | | Fair value changes of the hedged items in portfolio with interest rate hedge | 250 | 57 |
| | | Tax assets | 7,008 | 6,859 |
| | | Other assets | 1,496 | 1,640 |
| | | Non-current assets and disposal groups classified as held for sale | 764 | 4,587 |
| | | **Other assets** | **9,987** | **13,445** |
| Other liabilities | Comprises the following accounting items: derivatives - hedge accounting, fair value changes in hedged items in a portfolio with interest rate hedge, tax liabilities, other liabilities y liabilities included in disposal groups classified as held for sale. | Derivatives – Hedge accounting | 729 | 634 |
| | | Fair value changes of the hedged items in portfolio with interest rate hedge | 235 | 37 |
| | | Tax liabilities | 241 | 176 |
| | | Other liabilities | 784 | 995 |
| | | Liabilities included in disposal groups classified as held for sale | 10 | 83 |
| | | **Other liabilities** | **1,998** | **1,924** |

(*) Subordinated liabilities in connection with debt securities.

***INCOME STATEMENT***

| Performance indicator | | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|---|
| Customer spread | (*) | Difference between yield and costs of customer-related assets and liabilities, i.e. the contribution to net interest income solely from customer-related transactions. 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. | Loans and advances to customers (net) | | |
| | | | Average balance | 139,674 | 135,903 |
| | | | Profit/(loss) | 4,058 | 4,017 |
| | | | Rate (%) | 2.91 | 2.96 |
| | | | Customer deposits | | |
| | | | Average balance | 147,551 | 141,060 |
| | | | Profit/(loss) | (392) | (309) |
| | | | Rate (%) | (0.27) | (0.22) |
| | | | **Customer spread** | **2.64** | **2.74** |
| Other operating income/expense | | Comprises the following accounting items: other income and other operating expenses as well as income from assets and expenses from liabilities under insurance or reinsurance contracts. | Other operating income | 234 | 257 |
| | | | Other operating expenses | (551) | (547) |
| | | | Income from assets under insurance or reinsurance contracts | - | - |
| | | | Expenses on liabilities under insurance or reinsurance contracts | - | - |
| | | | **Other operating income and expenses** | **(317)** | **(290)** |

(*) Average calculated on the basis of average daily balances.

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| Pre-provisions income | Comprises the following accounting items: Gross income plus administrative expenses and depreciation and amortisation. | Gross income | 4,932 | 5,010 |
| | | Administrative expenses | (2,743) | (2,920) |
| | | Staff | (1,649) | (1,591) |
| | | Other general administrative expenses | (1,095) | (1,330) |
| | | Depreciation and amortisation | (470) | (353) |
| | | **Pre-provisions income** | **1,719** | **1,737** |
| Total provisions and impairments | Comprises the following accounting items: i) impairment or reversal of impairment and gains or losses on changes in cash flows from financial assets not measured at fair value through profit or loss and net modification losses or gains, 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) profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding profit or loss on sale of 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 property). | Impairment or reversal of impairment of investments in joint ventures and associates | 7 | 0 |
| | | Impairment or reversal of impairment on non-financial assets | (86) | (401) |
| | | Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations | (36) | (35) |
| | | Gains on sale of equity holdings | (133) | (0) |
| | | Profit/(loss) on sale of investment properties | 4 | 32 |
| | | **Other provisions and impairments** | **(244)** | **(404)** |
| | | Provisions or reversal of provisions | (27) | (161) |
| | | Impairment or reversal of impairment and gains or losses on changes in cash flows from financial assets not measured at fair value through profit or loss and net modification losses or gains | (667) | (756) |
| | | **Provisions for loan losses and financial asse** | **(694)** | **(917)** |
| | | **Total provisions and impairments** | **(938)** | **(1,320)** |
| Capital gains on asset sales and other revenue | Comprises the following accounting items: gains or losses on derecognition of non-financial assets, net (excluding gains/losses on sale of investment properties) and gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (includes only gains or losses on the sale of equity holdings). | Gains or losses on derecognition of non-financial assets, net | 41 | 35 |
| | | Gains on sale of equity holdings | 133 | - |
| | | Profit/(loss) on sale of investment properties | (4) | (32) |
| | | **Capital gains on asset sales and other revenue** | **170** | **2** |

***PROFITABILITY AND EFFICIENCY***

| Performance indicator | | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|---|
| ROA | (*) (**) | Consolidated profit or loss for the year / Average total assets. Considering the annualisation on a straight-line basis of profit to date, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. Average total assets: measure of assets calculated using daily balances. | Consolidated profit or loss for the year | 777 | 335 |
| | | | Average total assets | 223,470 | 217,168 |
| | | | **ROA (%)** | **0.35** | **0.15** |
| RORWA | (*) | Profit attributable to the Group / Risk weighted assets (RWA).The numerator is the annualisation on a straight-line basis of profit to date, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. | Net profit attributable to the Group | 768 | 328 |
| | | | Risk weighted assets (RWAs) | 81,231 | 80,335 |
| | | | **RORWA (%)** | **0.95** | **0.41** |
| ROE | (*) (***) | Profit attributable to the Group / Average shareholders' equity The numerator is the annualisation on a straight-line basis of profit to date, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year. | Net profit attributable to the Group | 768 | 328 |
| | | | Average shareholders' equity | 12,926 | 12,643 |
| | | | **ROE (%)** | **5.94** | **2.60** |
| ROTE | (*) (***) | Profit attributable to the Group / Average shareholders' equity The numerator is the annualisation on a straight-line basis of profit to date, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. Intangible assets are excluded from the denominator. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year. | Net profit attributable to the Group | 768 | 328 |
| | | | Average shareholders' equity (excluding intangible ass | 10,437 | 10,309 |
| | | | **ROTE (%)** | **7.36** | **3.18** |

(*) Accrual on a straight-line basis of the contributions to the DGF and SRF and the tax on deposits at credit institutions was based on the Group's best estimates.

(**) Average calculated on the basis of daily balances.

(***) Average calculated using the month-end positions since December of the previous year.

| Performance indicator | | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|---|
| Cost-to-income ratio | (*) | Administrative expenses / Adjusted gross income. The denominator contains accrual on a straight-line basis of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. | Administrative expenses | (2,743) | (2,920) |
| | | | Adjusted gross income | 4,932 | 5,010 |
| | | | **Cost-to-income ratio (%)** | **55.63** | **58.29** |

***RISK MANAGEMENT***

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| Stage 3 exposures (doubtful) | The sum of the following accounting items: customer loans and advances classified as stage 3 and not classified as non-current assets held for sale, together with guarantees given classified as stage 3. | Loans and advances to customers | 5,942 | 6,472 |
| | | Stage 3 guarantees given | 198 | 81 |
| | | **Stage 3 exposures** | **6,141** | **6,554** |
| Coverage ratio of stage 3 exposures | Percentage of exposures classified as stage 3 that are covered by provisions.Calculated as impairments of customer loans and advances not classified as current assets held for sale (including provisions for guarantees given) / Total risks classified as stage 3 (including guarantees given classified as stage 3). | Provisions for loan losses | 3,045 | 3,544 |
| | | Stage 3 exposures | 6,141 | 6,554 |
| | | **Stage 3 coverage ratio** | **49.6%** | **54.1%** |
| Coverage ratio on non-performing real estate | Provisions for non-performing real estate assets / Total non-performing real estate assets Non-performing real estate assets are foreclosed properties or properties accepted in payment of debt and properties in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment. | Provisions for non-performing real estate assets | 394 | 767 |
| | | Non-performing real estate assets | 1,185 | 1,726 |
| | | **Coverage ratio on non-performing real estate** | **33.3%** | **44.5%** |

(*) Accrual on a straight-line basis of the contributions to the DGF and SRF and the tax on deposits at credit institutions was based on the Group's best estimates.

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| Non-performing assets and non-performing assets coverage ratio | 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 mainly in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment. The non-performing assets coverage ratio is obtained by dividing provisions for non-performing assets by total non-performing assets. | Stage 3 exposures | 6,141 | 6,554 |
| | | Non-performing real estate assets | 1,185 | 1,726 |
| | | **Non-performing assets** | **7,326** | **8,279** |
| | | Provisions for non-performing assets | 3,439 | 4,311 |
| | | **Coverage ratio on non-performing assets** | **46.9%** | **52.1%** |
| 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 impairments of exposures classified as stage 3, including guarantees given classified as stage 3 / Customer loans and advances not classified as current assets held for sale and guarantees given. See definition of assets classified as stage 3 elsewhere in this table. | Stage 3 exposures | 6,141 | 6,554 |
| | | Loans and advances to customers and guarantees giv | 160,127 | 155,206 |
| | | **NPL ratio** | **3.8%** | **4.2%** |
| *Cost of risk* (pbs) | Provisions for loan losses and other provisions and impairments / Gross customer loans and advances, excluding repos, plus non-performing real estate assets The numerator considers annualisation on a straight-line basis of provisions for loan losses and other provisions and impairments to date, adjusted for impairment or reversal of impairment on investments in joint ventures or associates. Additionally, provisions for institutional portfolio sales are adjusted. This metric is expressed in basis points. | **Provisions for loan losses and real estate, adjusted** | **(792)** | **(977)** |
| | | Provisions for loan losses | (672) | (751) |
| | | Other provisions and impairments | (244) | (404) |
| | | Impairment or reversal of impairment of investments in joint ventures and associates | (7) | - |
| | | Provisions for institutional portfolio sales | 131 | 177 |
| | | **Loans and advances to customers, gross, excluding repos** | **150,513** | **145,824** |
| | | **Non-performing real estate assets** | **1,185** | **1,726** |
| | | **Cost of risk (bp)** | **52** | **66** |

***LIQUIDITY MANAGEMENT***

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| Loan to deposits ratio | Net loans and receivables in retail financing. Calculated by subtracting brokered loans from the numerator. The denominator consists of retail funding or customer funds, as defined in this table. | Net loans and advances excluding repos, adjusted for brokered loans | 144,246 | 139,583 |
| | | On-balance sheet customer funds | 146,309 | 137,343 |
| | | **Loan-to-deposit ratio** | **98.6%** | **101.6%** |

*SHAREHOLDERS AND SHARES*

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| Market capitalisation | Calculated by multiplying the share price by the average number of shares outstanding as at the reporting date. | Average number of shares (million) | 5,538 | 5,565 |
| | | Listed price | 1.040 | 1.001 |
| | | **Market capitalisation (million euros)** | **5,760** | **5,568** |
| Earnings per share (EPS) | Profit attributed to the Group / Average number of shares outstanding at end of period. The numerator is the annualisation on a straight-line basis of profit to date, adjusted for the amount of the AT1 coupon recognised in equity and the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. | Adjusted profit attributable to the Group | 695 | 277 |
| | | Profit attributable to the Group | 768 | 328 |
| | | Adjustment for accrued AT1 | (73) | (51) |
| | | Average number of shares (million) | 5,538 | 5,565 |
| | | **Earnings per share (euros)** | **0.13** | **0.05** |
| Book value per share | Book value / Average number of shares outstanding at end of period. Book value is the sum of shareholders' equity, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. | Adjusted shareholders' equity | 13,172 | 12,545 |
| | | Average number of shares (million) | 5,538 | 5,565 |
| | | **Book value per share (euro)** | **2.38** | **2.25** |
| TBV per share (€) | Tangible book value / Average number of shares outstanding at end of period. Tangible book value is the sum of shareholders' equity, adjusted for intangible assets and the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. | Shareholders' equity | 13,172 | 12,545 |
| | | Intangible assets | 2,565 | 2,461 |
| | | Tangible book value (adjusted shareholders' equity) | 10,607 | 10,084 |
| | | Average number of shares (million) | 5,538 | 5,565 |
| | | **TBV per share** | **1.92** | **1.81** |
| Price/Book value | Share price or value / Book value per share. | Listed price | 1.040 | 1.001 |
| | | Book value per share (euro) | 2.38 | 2.25 |
| | | **Price/Book value** | **0.44** | **0.44** |
| Price / Earnings ratio (P/E) | Share price / Net attributed earnings per share | Listed price | 1.040 | 1.001 |
| | | Earnings per share (euros) | 0.13 | 0.05 |
| | | **Price / Earnings ratio (P/E)** | **8.29** | **20.11** |

# BANCO SABADELL

# NON-FINANCIAL DISCLOSURES REPORT

# 2019

# CONTENTS

# 0. INTRODUCTION

## 0.1. Vision

Banco Sabadell, S.A. (hereinafter, Banco Sabadell or the Bank) is the parent company of a group of entities which it controls directly and indirectly and which, together with the Bank, form Banco Sabadell Group (hereinafter, the Group). Banco Sabadell is comprised 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 corporate information, subsidiaries forming part of the Group and the Group's business model are listed in the Directors' Report. TSB (TSB Banking Group PLC) is a bank that operates nationwide throughout the United Kingdom and represents a substantial portion of the Group's business. The Banco Sabadell Foundation (Fundación Banco Sabadell) steers part of Banco Sabadell Group's commitment to society.

The Group's business is geared towards profitable growth that generates value for shareholders through a business diversification strategy based on profitability, efficiency and service quality, with a conservative risk profile and within the framework of ethical and professional codes, taking into account the interests of the various stakeholders.

The management model is focused on long-term customer retention, through ongoing efforts designed to build customer loyalty based on a resourceful and proactive approach to customer relationships. The Bank has a comprehensive offering of products and services, a qualified workforce, an IT platform that supports growth and a constant focus on the pursuit of quality.

Banco Sabadell has an 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.

Information on the organisation, markets, objectives and strategies, as well as the principal factors and trends which can impact the evolution of the business, are described in detail in the annual Directors' Report.

With regard to transparency concerning its activities and their impacts, since 2003, Banco Sabadell has voluntarily published an annual report indicating all the actions, policies and initiatives which, aside from its core mission to be a provider of financial products and services, constitute the responsible performance of its business activities, its commitment to its various stakeholders, to the environment and to society in all of the regions in which it operates.

## 0.2. Sustainability

Banco Sabadell is firmly committed to sustainability, developing its business ethically and responsibly, and guiding its commitment to society in such a way as to ensure that its activity has a positive impact on people and the environment. Every person within the organisation applies the principles and policies relating to sustainability, whilst also guaranteeing high quality and transparency in customer service.

The digitalisation process and the fight against climate change represent a paradigm shift that is generating new economic and business models. In this respect, Banco Sabadell is proactively playing its part in this new global landscape that is characterised by a growing concern about climate change among society, markets and authorities.

In 2019, Banco Sabadell created a Sustainability Division which has taken on the role of the former Corporate Social Responsibility (CSR) Division and which coordinates matters related to Environmental, Social and Governance (EGS) criteria within the organisation. Furthermore, the Bank has developed a Sustainable Finance Plan which aims to incorporate sustainability in a cross-functional way into its business model, risk assessment and management, and its relationships with all stakeholders, so that Banco Sabadell's contribution to sustainable development may be a tangible one. This Plan has been developed by a Working Group that comprises representatives from twenty divisions of the Bank.

Banco Sabadell's commitment to sustainability was reinforced in 2019 when it signed up to the United Nations Principles for Responsible Banking, becoming one of the founding signatories of this initiative. By becoming a signatory, the institution has committed itself to achieving the alignment of its business strategy with the UN Sustainable Development Goals (SDGs) and the Paris Climate Agreement, and it joins a coalition of 130 banks from all over the world that have taken responsibility for working towards a sustainable future. In addition and in the context of the United Nations Climate Change Conference (COP25), held in Madrid, Banco Sabadell also became a signatory of the AEB/CECA/ICO "Collective Commitment to Climate Action", in line with the initiative promoted by UNEP FI, which aims to reduce the carbon footprint on their balance sheets in a way that can be measured according to internationally approved criteria.

In addition to complying with the applicable rules, Banco Sabadell has a set of policies, internal rules and codes of conduct that guarantee this ethical and responsible behaviour throughout the organisation, and which address all of the Group's activity. To that end, the Bank has the instruments needed to measure the results of these policies, the main risks and the implementation of corrective measures, while the Corporate Ethics Committee has responsibility for oversight of compliance in that regard. It also has a Sustainability Committee, which has a cross-cutting role throughout the organisation, with members from different units with responsibilities in these areas, which coordinates all of the actions within the Organisation.

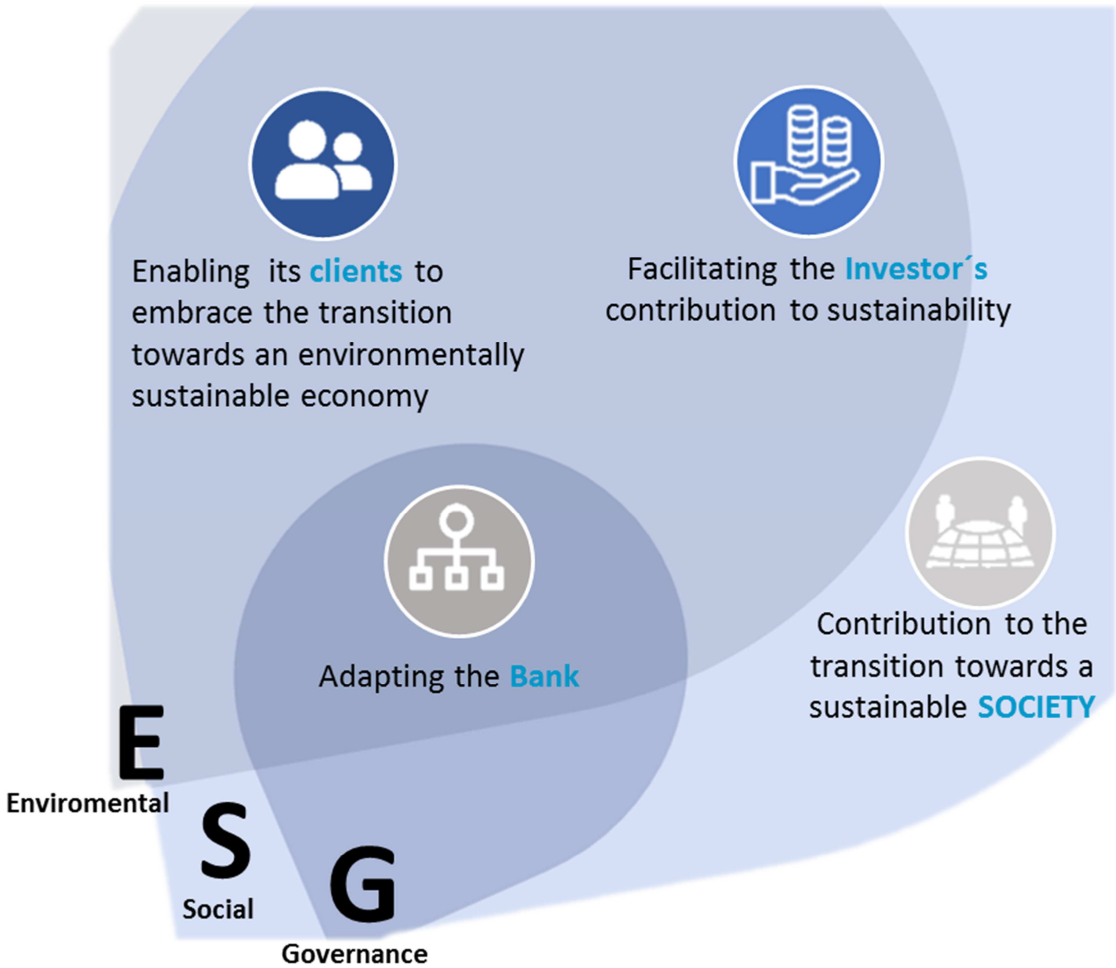
This Non-Financial Disclosures Report for 2019, which forms part of the Banco Sabadell Group consolidated Directors' Report for 2019, and which is annexed to that report as a separate document, complies with the general provisions published in Law 11/2018 of 28 December, amending Articles 44 and 49 of the Code of Commerce in relation to non-financial disclosures and diversity, using the Global Reporting Initiative standards set out in Annex 2 of this Non-Financial Disclosures Report as a framework of reference.

## 0.3. Sustainable Development Goals

Banco Sabadell has made the Sustainable Development Goals (SDGs) the focal point of its strategy in the coming years. In June 2019, the Board of Directors approved the SDGs, which are significant and a priority for the Bank in the performance of its activity.

In this respect, the Sustainable Finance Plan, which will enter into force in 2020, establishes the targets and activities associated with the SDGs in relation to the following lines of approach:

1. Support CUSTOMERS in the transition towards a sustainable economy
2. Enable INVESTORS to contribute to sustainability
3. Adapt the ORGANISATION to the new paradigm
4. Contribute to the transition towards a sustainable SOCIETY



# 1. RESPONSIBLE BUSINESS

Banco Sabadell has incorporated sustainability, in a cross-functional way, into its business model, risk assessment and management, and its relationships with stakeholders, in order to step up its contribution to sustainable development. This approach requires a dual focus. On one hand, it involves adapting the organisation and its activities to sustainable practices. On the other hand, it involves focusing squarely on the customer, which also entails adapting the institution's business and its teams to this new vision, seeking financing solutions, savings products and sustainable investment mechanisms, whilst paying special attention to people in vulnerable circumstances. In risk assessment and management, which is key to all of the institution's activities, the transformation process has already begun in terms of incorporating Environmental, Social and Governance (ESG) criteria and the fight against climate change.

## 1.1 Sustainable finance

[SDG 1, SDG 9, SDG 10, SDG 11, SDG 13]

Banco Sabadell has a long-standing history of investing and financing renewable energy projects, prioritising financing for hybrid and electric vehicles and helping our customers to buy sustainable housing.
Through the Sustainable Finance Plan, which will be up and running in 2020, the Bank will also extend its sustainable product offering to customers, with the aim of helping them to transition towards an economy that is respectful of the environment and the planet.

### 1.1.1 Financing and investment in sustainable projects

Financing and investment in renewable energies

In terms of business, Banco Sabadell fosters the development of a sustainable energy model through financing and direct investment in renewable energy projects.

Through its subsidiary Sinia Renovables, Banco de Sabadell is implementing a new investment cycle, initiated in 2016, with capital of 150 million euros earmarked for investments in this area, encompassing both wind farms and photovoltaic plants. This cycle builds on the Bank's sustainability and internationalisation strategy, which includes investments in Spain, Europe, Mexico and other Latin American countries. Sinia has undertaken capital investments in Mexico, where it is has interests in wind farms with 247 MW installed capacity in operation in the Tamaulipas and Baja California regions. In Peru it has an equity interest in two wind farms in the north-east region with a combined 37 MW installed capacity, and in Chile it has invested in a 103 MWp photovoltaic plant in the northern region. Construction work for these projects began in 2019 and they are scheduled to be commissioned during 2020. In the Iberian Peninsula, its most notable investment is an equity interest in two wind farms in Navarre with a combined 94 MW capacity, which are also currently under construction. With regard to investments in 2019 to develop projects with a view to commencing construction, Sinia, in partnership with a developer, is investing in a 100 MWp facility in Catalonia and a wind farm in Galicia of approximately 50 MW capacity.

Sinia has an additional portfolio of assets in operation in Spain, comprised of its interest in 71 MW in wind, 3 MW in photovoltaic and a 50% interest in a 22.5 MW hybrid thermosolar biomass plant. Based on these operational projects, renewable energy generation in Spain attributable to Sinia in 2019 totals 150 GWh, exceeding the total power consumption of Banco Sabadell's branches and corporate buildings. This renewable energy avoids the emission of around 62,000 metric tons of $CO2$ equivalent per year, equivalent to the consumption of an average Spanish town with a population of around 40,000 inhabitants.

At a global level, Sinia Renovables has an equity interest in renewable energy projects with a combined installed capacity of 577 MW, of which 297 MW (more than 50%) is attributable to its investments, both in facilities in operation and under construction, corresponding to the sustainable generation of around 950 GWh of electricity annually. These figures position the Group as one of the leaders within the financial sector in equity investment in renewable energy projects.

At Group level, financing of renewable energies during the year, including funding of new projects, refinancing and restructuring, was more than 1,142 million euros. Of this amount, 631 million euros corresponding to the funding of 22 new projects to be developed in Spain is particularly worthy of mention. These projects include both those developed through auctions and 14 "merchant" projects (this type of project does not receive any State funding) for which 378 million euros of funding was provided by the Group, which is the leader among its peers in this type of project in the Iberian Peninsula.

Credit facilities with Multilateral Banks

In 2019, the International Finance Corporation (IFC), member of the World Bank Group, granted Banco Sabadell a 10-year credit facility for 100 million dollars to fund green hotel development and building projects that promote best practice in energy efficiency, rational water management and the removal of environmentally-damaging waste and emissions.

### 1.1.2 Financing solutions

Solutions for facilities and machinery

The Bank offers an ECO loan for SMEs, a solution for companies that aims to replace power systems in buildings, heating or recycling systems, and commercial or industrial vehicle fleets, with new, more energy-efficient and sustainable versions.

In the field of solutions for agricultural activities, Banco Sabadell offers customers the ECO Agro Loan, intended for agricultural and livestock farmers who wish to transform their production methods to adapt to EC regulations on organic farming. This includes initiatives aimed at improving the energy-efficient management of facilities, the generation and use of renewable energies, improvements to waste recycling and the replacement of farming equipment with other less polluting machinery.

Another business line related to the environment is the hire of energy-efficient equipment and facilities through the rental of products specifically for these types of need, that allow payment on a pay-by-use basis for facilities such as public lighting, biomass boilers, cogeneration facilities and energy-generation equipment (photovoltaic plates). In addition, an ECO leasing product has been launched for assets, such as machinery and facilities, graded A for energy efficiency.

Mobility solutions

The Bank currently includes 20% ECO vehicles (hybrids and fully-electric) in its commercial vehicle hire offering. On the strength of this offering and the awareness-raising campaigns which took place at the beginning of 2019, new hire contracts for ECO vehicles grew 56%, in absolute terms, relative to the previous year. Thus, the fleet-wide average emissions of Sabadell Renting vehicles, currently comprised of more than 20,000 vehicles, is 115.77gr. CO2/Km, which is below the 120gr. CO2/Km limit considered to be sustainable.

The awareness-raising actions carried out in Madrid and Barcelona also influenced a change in the trend as to the type of fuel chosen by our customers, reducing the selection of diesel vehicles (the most polluting in terms of CO2 emissions) by 20% relative to 2018 and, consequently, producing a substantial increase in demand for vehicles running with other types of fuel/energy: petrol (+34%); hybrid and electric (+56%).

In 2020, a series of actions will be carried out with the aim of reducing the environmental impact of the fleet of vehicles:

- Extension of the commercial offering of hybrid and electric vehicles as the main alternative to fossil-fuel combustion.
- Awareness-raising with regard to sustainable mobility solutions through recurrent information campaigns aimed at customers and non-customers.
- Promoting the uptake of new ECO hire contracts through a sustainable charitable action that will accompany each new hire contract for hybrid and electric vehicles.

In addition, since December, the Bank offers customers the opportunity to hire sustainable vehicles with an "ECO" or "Zero" label awarded by the Department of Transport, and applies a 50% discount on the account opening fee.

The Bank also offers an ECO Car Loan. This solution, aimed at retail customers, enables the purchase of a "Zero emissions" or "ECO" labelled vehicle, under attractive conditions, thereby encouraging consumer uptake of vehicles that are less polluting and suited to the new low-emissions zones in larger cities.

Solutions for sustainable renewal

The Bank offers solutions for sustainable renewal, aimed at the sustainable renovation of homes, buildings, offices, premises and replacement of white goods:

- Expansión ECO Loan: Focused on retail customers, this product covers finance to purchase white goods and pay for home improvements aimed at reducing energy consumption.
- Fixed-rate PAC Loan: Aimed at the self-employed and businesses seeking to carry out the refurbishment of premises or offices with the aim of cutting their energy consumption.
- Community Loan: Aimed at refurbishment works in neighbourhood communities to enable reduced demand for energy.

### 1.1.3 Sustainable bonds

Green, social and sustainable bonds are debt securities which support environmental and/or social improvement projects by meeting certain eligibility criteria.

The funds obtained from issuing these bonds are used to fund green/social projects (renewable energy, energy efficiency, water pollution and management, waste management, healthcare, social inclusion, etc.). They are rated by an external agency that verifies that the bonds identified as sustainable bonds qualify as such and checks that the funds obtained from issuing these bonds are used to fund environmental and/or social projects.

In 2019, Banco Sabadell underwrote issues of green and sustainable bonds in the capital markets, acting as Joint Lead Manager, for the Comunidad de Madrid (for 1,250 million euros maturing after 10 years) and for the Basque Government (for 600 million euros maturing after 10 years). It was also Joint Lead Manager in the Green bond for a renewable energies project (photovoltaic) for Q Energy, for 130 million euros maturing after 19 years.

### 1.1.4 Ethical and charitable investment

Banco Sabadell encourages responsible investing by offering customers a number of savings and investment products which also contribute to charitable projects. Products in this area include Fondo de Inversión Sabadell Inversión Ética y Solidaria F.I., (a mutual fund), Sociedad de Inversión Sabadell Urquijo Cooperación, S.I.C.A.V, S.A., (an investment company), Plan de Pensiones BS Ético y Solidario, P.P. and Plan de Pensiones BanSabadell 21 F.P (pension plans), as well as Fondo de Pensiones G.M. PENSIONES, F.P., a pension fund intended for the Bank's employees.

In the area of investment, both pension fund manager BanSabadell Pensiones EGFP SA in 2012 and, since 2016, Aurica Capital, a venture capital enterprise that invests in Spanish companies with plans to expand in foreign markets, have adopted the Principles for Responsible Investment (PRI) in the "investment manager" category. These principles cover social, environmental and good governance criteria in management policies and practices.

In 2019, the Corporate Ethics Committees of Sabadell Urquijo Cooperación, Sicav, S.A. (dissolved in May 2019) and Sabadell Inversión Ética y Solidaria, FI selected a total of 33 humanitarian projects mostly aimed at addressing social exclusion risks, improving the living conditions of people with disabilities and meeting basic food and healthcare needs. This year, a sum of 447 thousand euros was granted to charitable organisations and projects.

Through its fund manager, Banco Sabadell launched a new investment fund called Sabadell Economía Verde which invests mainly in shares of companies that pursue activities related to environmental improvement and the reduction of environmental risks, irrespective of their sector of economic activity.

The economic activities currently promoted most vigorously by this “green” initiative are, among others, renewable energies and “clean”energies, activities related to energy efficiency, Industry 4.0, waste management and recycling, efficient water management, pollution control, sustainable agriculture, the development of sustainable cities and communities, mobility solutions, responsible production and consumption in general, and activities that offer products and services to mitigate the effects of climate change.

With regard to Bansabadell Pensiones, in recent years it has carried out various actions aimed at encouraging the development of socially responsible investment among its pension plans, being one of the first institutions to offer an ethical and charitable pension plan which, in addition to investing according to socially responsible criteria, also donates a portion of the management fee to OXFAM Intermón to fund selected projects. In 2018, Bansabadell Pensiones jointly with Banco Sabadell and the Spanish Workers’ Commission (CCOO) signed an agreement on a socially responsible investment (SRI) clause for inclusion in the Statement of investment policy principles of workplace pension funds.

Bansabadell Pensiones currently manages 7 pension funds, one individual fund (Ethical and Charitable Fund) and 6 workplace pension funds, under a Socially Responsible Investment mandate, with assets of 952 million euros.

### 1.1.5 Social housing management

Through Sogeviso, an institution which is wholly owned by the Bank, Banco Sabadell manages some of the complexities of social housing with the aim of responsibly addressing situations of social exclusion affecting its more vulnerable mortgage borrowers. This is carried out under the framework of the Bank’s ESG policies, specifically its commitment to contribute, through its activity, to the transition towards a fairer society. Sogeviso’s activities aim to fight against poverty and inequality.

As at 31 December 2019, Sogeviso managed 10,450 properties under social and affordable rental arrangements specifically aimed at these vulnerable customers. In 31% of these cases the “Social Contract” has been incorporated. The Social Contract is an innovative model for managing vulnerable customers. Specifically, it is a service for customers who rent a property under a social rental arrangement, in which specific support is provided by a social manager based on three independent lines of approach: connect these customers with the public services; collaborate with public or private companies and, in particular, with the voluntary sector; and the JoBS programme. The JoBS programme consists of an employability service which aims to empower these customers, through training, coaching or interview preparation, so that they may succeed in finding work. Since the launch of the Social Contract in 2016, 4,286 families who are customers of Banco Sabadell have improved their situation and 2,134 people have found work thanks to the JoBS programme. It should also be noted that, of those who have found work, more than 44% were hired for more than 100 days during this financial year and more than 12% were hired for over a year, a fact which increases the chances of improvement in the long term.

The Social Contract currently provides services to 3,197 families, including 1,479 individuals actively seeking employment through the JoBS programme.

Also during 2019, in order to limit the effects of over-indebtedness and facilitate the recovery of debts owed by debtors at risk of social exclusion, the Bank has reiterated its commitment to the Code of Good Banking Practice, approving 88 mortgage loan restructuring operations.

Since 2013, Banco Sabadell has been a participant of the Social Housing Fund (Fondo Social de la Vivienda, or FSV) and has contributed 400 properties to this initiative, primarily aimed at customers who have had to surrender their properties to settle their debt or who have lost their properties through foreclosure proceedings since January 2008. 85% of the Bank’s housing stock is covered by social rental agreements currently in effect.

Furthermore, the Bank has assigned 111 properties to 45 non-profit institutions and foundations, intended to lend support to disadvantaged social groups. In 2019, an FSV Agreement was signed with the Government of Valencia for the assignment of residential properties intended for people who have lost their homes or whose homes sustained serious damage in the wake of storm Dana which occurred in the Valencian Community in September, and the Agreement with the Galician Institute of Housing and Land (*Instituto Galego da Vivenda e Solo*) to guarantee a home for families facing eviction or foreclosure proceedings was renewed.

## 1.2. Risk assessment with ESG criteria

[SDG 1, SDG 9, SDG 10, SDG 11, SDG 13]

Since 2011, Banco Sabadell has adopted the Equator Principles, an international voluntary credit risk management framework, coordinated by the International Finance Corporation (IFC), a sister organisation of the World Bank, which aims to identify, assess and manage environmental and social risks relating to the structured finance projects of USD 10 million or more and corporate loans from USD 100 million upwards. With these principles, a social and environmental assessment is made of the possible impacts, covering in certain cases the appropriate minimisation, mitigation and offsetting, which is then reviewed by an independent expert. Every year, Banco Sabadell publishes a report on its corporate website which gives full details of each of each and every project associated with the Equator Principles.

In 2019, Banco Sabadell signed a total of 25 energy projects which incorporate the Equator Principles, 96% of which relate to renewable energy projects.

| Sector | Number of projects | Category | Country | Region | Designated country | Independent review |
|---|---|---|---|---|---|---|
| **Renewable energies** | 1 | B | Mexico | Americas | No | Yes |
| | 19 | B | Spain | Europe | Yes | Yes |
| | 2 | B | Portugal | Europe | Yes | Yes |
| | 1 | B | U.S.A. | Americas | Yes | Yes |
| | 1 | B | Chile | Americas | Yes | Yes |
| **Oil and gas** | 1 | B | U.S.A. | Americas | Yes | Yes |

Under the framework of the Sustainable Finance Plan, the Bank is working to prepare a rating system for its customers that will grant sustainable labels as from 2020 to companies that comply with ESG criteria, or to companies that are in the process of transitioning towards a sustainable business model.

In addition, the Bank is developing sectoral standards to restrict the financing of activities or sectors considered to be harmful to the environment.

## 1.3. Tax information

[SDG 8]

Banco Sabadell Group has a firm commitment to promoting responsible taxation, maintaining a cooperative relationship with the Tax Authority and promoting transparency in communications relating to tax information sent to the various stakeholders.

These commitments are embedded in the Group's Tax Strategy and Good Taxation Practices, published on its corporate website, which lists and describes the Group's principles of action in matters relating to taxation. These principles include the principle of efficiency, prudence, transparency and the mitigation of tax risk, based on which the Group makes its tax contributions in accordance with the law and the relevant international guidelines and principles established by the OECD.

Consolidated pre-tax profit in each country, as well as the tax and public subsidies received, all of which correspond to Training activities, are shown below.

Data in thousand euros

| Country | Consolidated pre-tax profit | | Corporate income tax paid | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| SPAIN | 597,082 | 577,796 | 236,768 | (26,693) |
| UNITED KINGDOM | 228,024 | (290,766) | (14,194) | 11,211 |
| UNITED STATES | 95,906 | 99,632 | 28,040 | 40,104 |
| MEXICO | 26,010 | 3,919 | 5,921 | 5,928 |
| ANDORRA | 11,388 | 8,765 | 357 | 357 |
| MOROCCO | 1,862 | 1,993 | 517 | 896 |
| CUBA | 1,493 | 1,644 | 0 | 0 |
| BRAZIL | 0 | 7 | 0 | 0 |
| BAHAMAS | (54) | (40) | 0 | 0 |
| LUXEMBOURG | (319) | 122 | 58 | 108 |
| PORTUGAL | (850) | (2,241) | 3 | 0 |
| FRANCE | (9,465) | 18,034 | 7,030 | 7,019 |
| **Total** | **951,077** | **418,865** | **264,500** | **38,930** |

Subsidies received in Spain in 2019 (Training) of 2,595,256 euros.

## 1.4 Transparency and digitalisation

[SDG 16]

### 1.4.1 Transparency

With the entry into force of MiFID II in 2018, Banco Sabadell prioritised an ‘advisory service’ as the service model for the distribution of financial instruments. Since then, the Bank has been using the “Sabadell Inversor” tool, which serves as a guide for managers to recommend the product most suited each customer’s investment characteristics and needs. The information provided to the customer, following the guidelines of the aforesaid directive, is always impartial, clear and unambiguous. This platform incorporates another range of products and services which complement the savings and investment offering.

In accordance with its Customer Policy, the Bank has established mechanisms and arrangements to guarantee that all information provided to customers is transparent and that all of the products and services which it offers are suited to their needs at all times. Before a product or service is brought to market, the product approval committee verifies that it complies with the standards on transparency.

The branch network is also given information about products and services through pre-contractual information sheets, which make it easier for relationship managers to give the appropriate explanations to help customers and consumers understand the characteristics of the products which they acquire. At the same time, when advising customers on investments, relationship managers also carry out the necessary tests to ensure that the financial products are in line with their needs and requirements, and assess customers’ knowledge and experience in relation to such products.

The Bank has been a member of the *Asociación para la Autorregulación de la Comunicación Comercial* (the independent advertising self-regulatory organisation in Spain, more commonly known as “Autocontrol”), and through this membership it is committed to delivering responsible advertising that guarantees the adequacy of the information, acquisition process and operational characteristics of the advertised products.

### 1.4.2 Digitalisation

In 2019 Banco Sabadell expanded its remote banking services to include new functions. One of the newly added functions is the ability for customers to update their ID details (DNI/NIE) themselves through the Bank's website and the remote banking app. Other new functions include payment of bills without direct debit orders, local tax and social security payments using a photograph of the corresponding document, which makes payment for these items easier for the customer, as well as the "my profile" function, which enables customers to consult the contact details that the Bank holds for them.

Banco Sabadell has also taken part, together with the other main Spanish banks, in the first sector-wide proof of concept exercise to roll out an interbank platform, managed by Iberpay, which could facilitate payment execution in blockchain networks. This initiative aims to facilitate instant transfers based on smart contracts on a blockchain.

## 2. PEOPLE

### 2.1. Workforce information

[SDG 8]

Banco Sabadell has a committed and professional workforce focused on helping people and companies to make the best financial decisions. Banco Sabadell has a Human Resources Policy approved by the Board of Directors, as well as policies and procedures aimed at developing talent, promoting the commitment of its workforce and encouraging diversity and inclusion.

The Bank currently has 24,454 professionals distributed in the different regions in which the Bank operates, of whom almost all have permanent (indefinite duration) contracts. This workforce is diverse in terms of their location (36% are in international locations) and gender (55.9% are women).

Total number and distribution of employees of Banco Sabadell Group

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Professional Category** | **Men** | **Women** | **Total** | **Men** | **Women** | **Total** |
| Management staff | 511 | 168 | 679 | 500 | 174 | 674 |
| Middle management | 2,446 | 1,302 | 3,748 | 2,587 | 1,302 | 3,889 |
| Specialist staff | 6,972 | 9,192 | 16,164 | 7,439 | 9,552 | 16991 |
| Administrative staff | 863 | 3,000 | 3,863 | 1,079 | 3,548 | 4,627 |
| **Total** | **10,792** | **13,662** | **24,454** | **11,605** | **14,576** | **26,181** |

'Management Staff' includes executive directors, senior management, general management, corporate directors and top management. 'Middle Management' includes directors not included in the 'Management Staff' category. In Spain, roles classified as technical roles are included in the 'Specialist Staff' category, in accordance with the Collective Bargaining Agreement for Private Banking.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Age Range** | **Men** | **Women** | **Total** | **Men** | **Women** | **Total** |
| Under 31 | 1,170 | 1,474 | 2,644 | 1,404 | 1,851 | 3,255 |
| Between 31 and 49 | 5,729 | 8,143 | 13,872 | 6,332 | 8,800 | 15,132 |
| Over 49 | 3,893 | 4,045 | 7,938 | 3,869 | 3,925 | 7,794 |
| **Total** | **10,792** | **13,662** | **24,454** | **11,605** | **14,576** | **26,181** |

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Country** | **Men** | **Women** | **Total** | **Men** | **Women** | **Total** |
| Spain | 7,774 | 8,288 | 16,062 | 8,255 | 8,596 | 16,851 |
| United Kingdom | 2,499 | 4,936 | 7,435 | 2,828 | 5,560 | 8,388 |
| Mexico | 273 | 184 | 457 | 293 | 169 | 462 |
| Other Geographies | 246 | 254 | 500 | 229 | 251 | 480 |
| **Total** | **10,792** | **13,662** | **24,454** | **11,605** | **14,576** | **26,181** |

The Group workforce was reduced in 2018, dropping from 26,181 professionals to 24,454, reflecting the sale of the real estate subsidiary, Solvia, the sale of asset portfolios in Spain, and the workforce rationalisation at TSB in line with its business needs.

Types of contract of the Group

Practically all Group employment contracts (99.4%) are permanent contracts, and only 137 are temporary (of which 99 are in Spain).

Note: The breakdown of part-time contracts is not provided, given that the total number of part-time contracts in Spain, in December 2019, amounted to 35 (0.22% of national contracts).

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Type of contract<br>Gender** | **Men** | **Women** | **Total** | **Men** | **Women** | **Total** |
| Permanent | 10,738 | 13,579 | 24,317 | 11,518 | 14,455 | 25,973 |
| Temporary | 54 | 83 | 137 | 87 | 121 | 208 |
| **Total** | **10,792** | **13,662** | **24,454** | **11,605** | **14,576** | **26,181** |

Group data as at 31/12/2019

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Type of contract<br>Professional Category** | **Permanent** | **Temporary** | **Total** | **Permanent** | **Temporary** | **Total** |
| Management staff | 677 | 2 | 679 | 672 | 2 | 674 |
| Middle management | 3,746 | 2 | 3,748 | 3,885 | 4 | 3,889 |
| Specialist staff | 16,043 | 121 | 16,164 | 16,820 | 171 | 16991 |
| Administrative staff | 3,851 | 12 | 3,863 | 4,596 | 31 | 4,627 |
| **Total** | **24,317** | **137** | **24,454** | **25,973** | **208** | **26,181** |

'Management Staff' includes executive directors, senior management, general management, corporate directors and top management. 'Middle Management' includes directors not included in the 'Management Staff' category. In Spain, roles classified as technical roles are included in the 'Specialist Staff' category, in accordance with the Collective Bargaining Agreement for Private Banking.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Type of contract<br>Age Range** | **Permanent** | **Temporary** | **Total** | **Permanent** | **Temporary** | **Total** |
| Under 31 | 2,569 | 75 | 2,644 | 3,175 | 80 | 3,255 |
| Between 31 and 49 | 13,819 | 53 | 13,872 | 15,023 | 109 | 15,132 |
| Over 49 | 7,929 | 9 | 7,938 | 7,775 | 19 | 7,794 |
| **Total** | **24,317** | **137** | **24,454** | **25,973** | **208** | **26,181** |

Number of departures from the Group due to dismissal

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Professional Category** | **Men** | **Women** | **Total** | **Men** | **Women** | **Total** |
| Management staff | 13 | 9 | 22 | 7 | 1 | 8 |
| Middle management | 35 | 15 | 50 | 27 | 7 | 34 |
| Specialist staff | 129 | 131 | 260 | 87 | 73 | 160 |
| Administrative staff | 30 | 43 | 73 | 15 | 50 | 65 |
| **Total** | **207** | **198** | **405** | **136** | **131** | **267** |

Group data as at 31/12/2019.
'Management Staff' includes executive directors, senior management, general management, corporate directors and top management.
'Middle Management' includes directors not included in the 'Management Staff' category. In Spain, roles classified as technical roles are included in the 'Specialist Staff' category, in accordance with the Collective Bargaining Agreement for Private Banking.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Age Range** | **Men** | **Women** | **Total** | **Men** | **Women** | **Total** |
| Under 31 | 21 | 18 | 39 | 8 | 18 | 26 |
| Between 31 and 49 | 98 | 103 | 201 | 73 | 67 | 140 |
| Over 49 | 88 | 77 | 165 | 55 | 46 | 101 |
| **Total** | **207** | **198** | **405** | **136** | **131** | **267** |

## 2.2. Commitment to talent

[SDG 4]

The Group's value proposition, for all of its employees, can be summarised as the desire to become the best place to develop a professional career. To make this possible, the following elements are brought to the fore: internal opportunities, promotions, talent incubators and the employer brand.

### 2.2.1 Activity in 2019

In 2019, efforts were made to increase internal opportunities, both in terms of volume and transparency. As such, in 2019, 652 employees moved to another job internally, representing 3.78% of the workforce. Of these, 40% occurred through internal recruitment processes, in which vacancies are published internally so that any Group employee may apply. In the same vein, a number of internal employability campaigns have been successfully carried out, which have enabled us to fully leverage the skills of our professionals.

Promotions

Meritocracy is key to developing talent in a sustainable way in the long term. Our talent model prioritises the promotion of employees who achieve the expected results, whilst putting our values into practice on a daily basis. In 2019, our performance appraisal models were realigned to better recognise conduct associated with the day-to-day delivery of those values for our customers.

In addition, new promotion protocols were put into action so that applications for roles demanding greater responsibility must be approved by the corresponding internal body, based on an objective, informed and independent point of view. In 2019, 864 professionals were promoted to positions with increased responsibility.

Talent Incubators

The talent acquisition initiative, commenced in 2015, continued in 2019 through young talent incubation programmes. To date, these programmes have attracted the participation of 670 students and 160 young recent graduates. Among them, in 2019, the inclusion of 35 young people, mainly from a STEM background, in a new programme focused on different financial areas as well as control and compliance, is particularly noteworthy.

In parallel, the impact of the ongoing incubation programmes, both internally and externally, continues to grow. An example is the Datathon carried out in 2019 by members of the Data Programme group (together with other professionals of the Bank) to provide analytical capabilities to Médecins Sans Frontières (MSF) with the aim of enhancing a number of their projects.

Lastly, the internal impact of the two editions of the Talent Graduate Programme continues to grow, with several of its participants attracting attention as a result of their contribution to internal projects.

Employer brand

Banco Sabadell has a personnel selection process which ensures that objective criteria based on professionalism and suitability are applied in finding the right person for each job and career path. The Group facilitates the professional development of its employees by encouraging them to excel and by rewarding hard work. This mutual commitment is set out in the Banco Sabadell Code of Conduct and the internal mobility and recruitment processes.

Keeping a close relationship with universities continues to be a key factor in acquiring talent and building a strong employer brand. This year, it involved the Bank's participation in 21 events, of different kinds, at leading universities.

Throughout 2019, we have continued to build on the capabilities developed in previous years, both in digital channels and in editorial content. Directly stemming from these capabilities, in December 2019 the corporate web page on LinkedIn had attracted more than 100,000 followers, a 28% increase year-on-year.

These actions have led to a consolidation of our position as an employer in external reputation indicators, including the achievement, once again, of a place in the Merco Talento Top 25, the Spanish corporate reputation monitor, which measures the appeal of institutions as employers.

### 2.2.2 Talent model

In 2019, the talent management model commenced in 2017 was consolidated, with significant improvements in terms of meritocracy, recognition and training. The focus is on fostering the development of internal talent, encouraging collaboration between managers and rewarding the ability to take on new challenges and to contribute vision, perspective and strategic knowledge to decision-making.

Additionally, Banco Sabadell has continued to develop systems to ensure it has the most up-to-date information on current talent, and their potential, to ensure appropriate decision making in terms of people, well as well as effective and efficient management of mobility and the effective development of directors and upcoming directors.

Besides that, implementation of the Personnel Evaluation Committee model has been continued within each General Management Committee, where the following matters are discussed at least once a year:

- Current (and forecast) evolution of the workforce (profile and costs), management results (compensation, performance management, work environment and diversity) and proposals for workforce actions.
- Update of the talent map (directors and upcoming directors) and pool of potential talent.
- Appointment of candidates to new management positions, cases under review, demotions and monitoring of high-potential employees.
- Proposals for workforce actions.

In 2019, the Personnel Evaluation Committee model was rolled out to Mexico and Miami.

Training

The different Schools that comprise the Campus continue to deliver training in step with the constant evolution of the business and its needs. In this respect, most noteworthy are the Commercial School, with its focus on specific training to better serve our customers, and the Regulatory School, which in 2019 focused on compliance with regulatory training requirements.

The institution now has 7,738 employees who are MiFID certified, as a result of the work carried out by our employees. Going forward, the challenge is to complete the ongoing certification of around 1,500 professionals and, above all, to consolidate the continuous training of employees who are already certified, having developed the training materials and platforms required for that purpose. In the area of regulatory training, in 2019, the training needed for the new LCCI mortgage advisor certification was provided, with 1,298 employees already certified to date.

However, investment in training was not only focused on the regulatory side; also of particular importance was the work undertaken in digitalisation, as a result of which 331 employees obtained the Advanced Diploma in Digital Capabilities for Banking awarded by the prestigious EADA business school.

Lastly, worthy of note is the number of training hours carried out at Group level which totalled 973,381 (equivalent to an average of 40 hours per employee), which have added to the professional skills of members of our workforce and enhanced their future employability within the organisation. In Spain, 50% of training is received voluntarily and 60% is performed on-line, which is more convenient for employees and reduces the need for training-related travel. It should be noted that practically all employees (97.2%) received training during the year. This training was focused in particular on specialist staff and middle management staff (with 44.67 and 56.57 hours per person, respectively, in the year).

| Training | 2019 | 2018 |
|---|---|---|
| Employees who have received training (%) | 97% | 93% |

Serving employees as at 31/12. The training data refers to Group scope. In 2018, the data refers to Group scope excluding Mexico.

| Total training hours and average by professional category | 2019 | | 2018 | |
|---|---|---|---|---|
| | Hours of Training | Average Hours | Hours of Training | Average Hours |
| Management staff | 21,980 | 32.37 | 25,213 | 37.58 |
| Middle management | 188,551 | 50.31 | 155,745 | 42.24 |
| Specialist staff | 634,063 | 39.23 | 591,831 | 35.37 |
| Administrative staff | 128,786 | 33.34 | 236,299 | 51.07 |
| **Total** | **973,381** | **39.80** | **1,009,087** | **39.24** |

The 2019 training data refers to Group scope. In 2018, the data refers to Group scope excluding Mexico. In Spain, roles classified as technical roles are included in the 'Specialist Staff' category, in accordance with the Collective Bargaining Agreement for Private Banking.

In-house trainers

This year, the enormous contribution of our group of in-house trainers is, once again, commendable. They play a key role in the transfer of knowledge and dissemination of the Banco Sabadell culture. A total of 527 professionals have shared their expertise with colleagues, dedicating, on average, 17 hours per trainer.

With regard to TSB, in 2019, the UK subsidiary focused on the identification of talent internally and on producing more detailed and thorough professional development plans for senior employees who demonstrate talent. In this respect, executive coaching is offered to talented senior employees and employees with specific professional development needs. TSB combines the use of internal training centres with external development opportunities to support talented employees with their professional development.

### 2.2.3. Leadership programme

Our managers are the backbone of the Group's development. The long-term future of our institution depends on their ability to take care of their people, create an efficient work environment, empower their teams and collaborate with others to ensure that things get done. Noteworthy in 2019 was the launch of the You are the Manager (*Eres Manager*) programme, which will bring together all initiatives aimed at supporting people responsible for managing a team.

Management Development Programme

In 2019, programmes for Management continued, including a Management Development Programme for Managers reaching the role of Top Management or Corporate Director, aimed at accompanying them during periods of transition within their careers and preparing them for the changing environment of the business, with a special focus on the challenges inherent to their new role. The programme hinges on a learning-by-doing model. It also seeks to create networks linking management staff, offering them opportunities to network and build visibility. During 2019, 95 management staff took part and the programme was given an excellent rating.

Corporate Management Programme

The Corporate Management Programme undertaken by people who reach a position as manager, continues to offer a training pathway for our management staff focusing on skills, collaboration and values. 40 recently appointed managers undertook this demanding training journey in 2019.

High-Potential Employees Programme

As part of the Bank's goal to prepare the professionals who will be required to tackle the challenges of the future, the 1st edition of the Career Acceleration Programme was launched.

The programme was designed with the aim of accelerating the career development of upcoming directors considered to have great potential, who represent the values and attitudes that the Bank seeks to promote. It will also facilitate the requisite level of diversity that we want to achieve among our management staff.

You are the Manager (*Eres Manager*)

'You are the Manager' was created to ensure that our managers are aligned with our goals and embody our values and corporate style. It is a programme to promote change and professional development based on communication, training and other actions to enable those responsible for managing teams to improve their management and leadership capabilities.

More than 4,000 managers have already received information and perceived impacts associated with the programme, in particular, a new digital portal with important information for management staff and a regular newsletter to keep abreast of news about the Bank and support them in their role.

With regard to TSB, in 2019, all TSB managers had access to an online leadership studies scheme: "Leadership Insights", which included a wide variety of content focused on leading people brilliantly. For new managers, the content is delivered as a training schedule. For more experienced managers, specific learning elements could be selected to suit specific development needs.

In addition, in 2019 the Bank began to design a new programme for all employees responsible for managing others: "The TSB Manager". This programme focuses on providing insights into people management at TSB, which all managers responsible for others should know and be able to implement. The programme will be launched in full in 2020.

## 2.3. Diversity

[SDG 5; SDG 10]

Banco Sabadell remains committed to fostering workplace environments in which people are treated with respect and dignity, seeking to further the professional development of its workforce and ensuring equal opportunities in its candidate selection, staff training and promotion processes, offering a workplace environment that is free from any form of discrimination.

The Group views diversity as a source of corporate wealth and promotes actions to encourage diversity in terms of gender, roles and age.

### 2.3.1. Gender

Banco Sabadell's workforce is diverse in terms of gender, with women making up 55.9% of its total staff. It continues to pursue the challenge of increasing diversity at management levels, promoting policies and actions that enable it to, on one hand, develop in-house female talent to enable women to attain management positions and, on the other hand, attract female talent in its external recruitment processes.

As a result of its efforts, the Group's workforce is becoming more diverse across all organisational levels. Although management positions are becoming somewhat less diverse in aggregate terms, it is worth noting that the trend differs between Spain and TSB. In Spain, the proportion of women in management positions has increased from 22.86% to 23.12% (+1.1%), in line with the trend observed in previous years. In terms of middle management roles, which provide an in-house talent pool for future senior management roles, the proportion of women has increased from 33.09% to 34.25% (+3.5%).

It is also worth highlighting the increase in the ratio of promotions given to women (53.01% in 2019 compared to 50.35% in 2018), which demonstrates the commitment to improving gender diversity and the results obtained with the measures that have been put in place.

Another aspect worth noting is that TSB has appointed a woman as its new CEO.

**Breakdown of Group employees by gender**

| Professional Category | 2019 | 2018 |
|---|---|---|
| Men | 10,792 | 11,605 |
| Women | 13,662 | 14,576 |
| **Total** | **24,454** | **26,181** |

| In percentages | 2019 | 2018 |
|---|---|---|
| Management staff | 24.7% | 25.8% |
| Middle management | 34.7% | 33.5% |
| Specialist staff | 56.9% | 56.2% |
| Administrative staff | 77.7% | 76.7% |
| Promotions given to women | 53.01% | 50.35% |

Figures have been calculated for the Group's workforce, with the exception of promotions relating to Spain.
'Management Staff' includes executive directors, senior management, general management, corporate directors and top management.
'Middle Management' includes directors not included in the definition of 'Management Staff'. In Spain, roles classified as technical roles are included in the 'Specialist Staff' category, in accordance with the Collective Bargaining Agreement for Private Banking.

A variety of measures are currently in place, designed to promote diversity from a number of different areas:

- Talent Management:
    - Involvement in professional development and leadership programmes. One highlight is the increased number of women taking part in High Potential programmes, designed to foster the development of the talent pool for upcoming directors (>50% of participants in the edition launched in 2019 were women)
    - Promotions given to women and gender diversity in the workforce are monitored by the Performance Evaluation Committees (with particular emphasis on directors and upcoming directors)
- Labour Relations:
    - Equality Plan and Code of Conduct
    - Anti-abuse and anti-discrimination policy
- Recruitment:
    - Women are present in all three-person panels responsible for selecting staff to occupy management positions
    - Monitoring and analysis of new hires, by gender and Division
- Training:
    - Gender equality course
    - Course for promoting and achieving a work-life balance
- Remuneration: Monitoring of discretionary bonuses to prevent gender bias
- Work-life balance: a series of measures that help both men and women to achieve a balance between their personal and professional lives, such as the option to purchase annual leave, reduce working hours or work from home.

In 2018, Banco Sabadell received the 'Equality in the Workplace' Seal of Distinction ("Distintivo de Igualdad en la Empresa") awarded by the Government of Spain. In 2019, Banco Sabadell has signed the general protocol on 'More Women, Better Companies' ("Más Mujeres, Mejores Empresas"), a four-year initiative launched by the Women's Institute in Spain that establishes the commitment to fostering in-house gender diversity in companies. Furthermore, Banco Sabadell's Chief Executive Officer has signed an initiative launched by the Adecco Foundation and the Spanish

Confederation of Employers' Organisations (Confederación Española de Organizaciones Empresariales, or CEOE) called 'CEOs supporting diversity' ("CEO por la diversidad").

In terms of internal and external communication, Banco Sabadell has taken part in a number of external events and forums on gender diversity and has shared these internally for the knowledge of its workforce. The efforts that TSB has made in this regard are worth highlighting. The subsidiary was one of the first companies in the United Kingdom to publish its gender pay gap data, in July 2017, by issuing its Gender Pay Gap Report, thus publicly demonstrating its commitment to creating a diverse and inclusive culture.

In addition to participating in these events, in December 2019, a cooperation programme has been launched to work with the Quiero Trabajo Foundation, through which female staff in the Bank volunteer to mentor women in situations of social exclusion, to advise them on how to reintegrate into the workforce.

Furthermore, various internal initiatives are also being implemented, including the consolidation in 2019 of the Sabadell Women Inspiration Group (SWING), which seeks to empower women in Banco Sabadell and emphasise the value of diversity and its benefits. A number of internal activities have taken place, and more are planned for 2020, which will be open to the entire organisation and which will expand on the work done by this group, offering mentoring to women who do not hold management positions but who have huge potential.

Diversity in the Board of Directors

In terms of the Board of Directors, the Banco Sabadell Director Candidate Selection Policy, approved by the Board of Directors on 25 February 2016 and amended on 28 March 2019, establishes the criteria that must be taken into account when selecting new Board members and when re-appointing existing Board members. The candidate selection process seeks to achieve an adequate gender balance in the Board of Directors, with an overall composition that enriches decision-making and contributes a variety of points of view when discussing matters within its remit.

In 2019, the Appointments Committee notified the Board of Directors of the approval of a Board skills and diversity matrix for Banco Sabadell, defining the skills and knowledge of Board members, particularly those of executive and independent directors. The skills matrix describes the professional profiles of Board members, as well as the cross-cutting and sector-specific competencies required to ensure the continued overall suitability of the Board of Directors. The diversity matrix takes into account diversity in terms of gender and nationality, as well as the length of time during which they have been in their role.

The Appointments Committee also gave notice of the proposed ratification and appointment of a female director appointed by the Board of Directors in 2018, who also holds the role of Executive Director, and proposed the re-appointment of a female Independent Director. After approving these draft motions with a vote in favour at the Annual General Meeting held on 28 March 2019, the gender diversity ratio attained in 2018, which significantly improved the proportion of women on the Board compared to previous years, was maintained.

At the end of 2019, the Board of Directors of the company was formed of three women out of a total of 15 members, one of whom is an Independent Director, one of whom is an Other Non-Executive Director and one of whom is an Executive Director. The Independent Director is the Chair of the Appointments Committee and of the Remuneration Committee, while the Other Non-Executive Director is a member of the Audit and Control Committee, the Appointments Committee and the Board Risk Committee. Women thus occupy the role of Chairperson in two of the five Board Committees and they are also members of four out of the five Board Committees. In terms of female membership of Board Committees, women account for 25% of the Audit and Control Committee, 33.33% of the Board Risk Committee, 25% of the Remuneration Committee and 50% of the Appointments Committee.

**Diversity and average remuneration of Board Members at Banco Sabadell**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Board Members** | **Remuneration** | **Directors** | **Remuneration** |
| Men | 12 | 153,492 | 12 | 146,693 |
| Women | 3 | 140,167 | 3 | 176,000 |
| **Total** | **15** | **150,827** | **15** | **150,880** |

Board Members as at 31/12. Remuneration is calculated for Board Members who have occupied that position during the full year. Only remuneration received for work carried out in the role of Board Member is reported, excluding any amounts received for the management duties included in the categories shown in the previous table. The number of Board Members reflects the total number of people occupying this position as at year-end.

### 2.3.2. Disabled persons

The Group establishes measures for the adjustment of workstations as required by those with different abilities, in line with the occupational health and safety service's procedures relating to sensitive risk groups. The institution also assists employees with paperwork and formalities at municipality, autonomous community and state level that help to improve these employees' wellbeing beyond a strictly professional sense. Pursuant to the General Disability Law (Ley General de Discapacidad), the Bank implements alternative supported employment measures by hiring services and supplies from special employment centres.

As at December 2019, the Group had 531 employees with some form of disability (188 as at the end of 2018). This notable increase with respect to 2018 is due to the increase in the number of employees who have put their name down in TSB's register of employees with disabilities, as a result of the in-house campaign carried out in 2019 to encourage employees with disabilities to come forward and have their names included in the register.

| **Employees with disabilities in the Group** | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| **Professional Category** | **Men** | **Women** | **Total** | **Men** | **Women** | **Total** |
| Management staff | 9 | 4 | 13 | 3 | 0 | 3 |
| Middle management | 25 | 9 | 34 | 13 | 3 | 16 |
| Specialist staff | 149 | 158 | 307 | 83 | 69 | 152 |
| Administrative staff | 32 | 145 | 177 | 4 | 13 | 17 |
| **Total** | **215** | **316** | **531** | **103** | **85** | **188** |

In 2019, actions have been taken to support functional diversity both inside and outside the Bank:

- Project Task Force: the Catalonia Territorial Division and the Eastern Territorial Division hired 30 people with a disability of 33% or more on an internship contract to provide holiday cover over the summer. After the expiry of these internship contracts, four people have been added to the Group workforce with a permanent contract.
- My Family (Mi Familia) Programme: 30 disabled family members of the Bank's employees received advice and professional assistance from the Adecco Foundation to help them find work.

### 2.3.3. Multi-generational diversity

The Bank monitors the generational diversity of its workforce, identifying the complexity of experience, skills, abilities and training of each of the generations in the workforce and formulating proposals for improvement that take into account their main interests, needs, expectations and concerns.

In addition to this routine practice, in 2019 the Bank has taken part in external events and forums on multi-generational talent in order to share its knowledge and practices, which are already benchmarks in this field, one that is particularly important given the current demographic situation.

## 2.4. Remuneration policy

[SDG 8]

Banco Sabadell Group's remuneration policies are consistent with the objectives of its risk and business strategy, its corporate culture, the protection of its shareholders, investors and customers, the Group's values and long-term interests, as well as with customer satisfaction targets and the measures implemented to prevent conflicts of interest without encouraging excessive risk-taking.

The Banco Sabadell Group Remuneration Policy is based on the following principles:

1. Foster medium-to-long term business and social sustainability, as well as the alignment with Group values. This entails:

- Aligning remuneration with shareholder interests 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 interests.

2. Rewarding performance in order to align remuneration with individual results and the level of risk assumed:

- Finding an adequate balance between the various remuneration components.
- Taking into consideration risks and current and future results, without encouraging employees to take risks that go beyond the Group's risk appetite.
- Ensuring that the remuneration scheme is simple, transparent and clear, as well as intelligible and easily shared with all staff.

3. Ensuring the existence of a competitive and fair remuneration system (external competitiveness and internal fairness) that:

- Is able to attract and retain the best talent.
- Rewards professional experience and responsibility, irrespective of the employee's gender. Remuneration Policies are based on providing equal remuneration to employees for the same work or for work of equal value.
- Is aligned with market standards and flexible, so that it can be adapted to changes in the environment and in the sector's requirements.

Remuneration Policies are based on providing equal remuneration to employees for the same work or for work of equal value, they are aligned with market standards, and they are also flexible, so that they can be adapted to changes in the environment and in the sector's requirements.

All of these principles on which the Group Remuneration Policy is based are compliant with European Directives and Regulations and other regulations currently in force, particularly 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, EBA Guidelines EBA/GL/2015/22 of 27 June 2016, on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and the disclosures under Article 450 of Regulation (EU) No 575/2013 (hereinafter, " EBA/GL/2015/22 Guidelines"), EBA Guidelines on internal governance (GL 2017/11) of 26 September 2017, Bank of Spain Circular 2/2016 of 2 February, to credit institutions, on regulation and solvency, which completes the transposition into Spanish law of Directive 2013/36/EU and Regulation (EU) No 575/2013, Commission Delegated Regulation (EU) No 604/2014, of 4 March 2014, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile and the Senior Managers and Certification Regime (SMCR) in the United Kingdom.

With regard to the gender pay gap, Banco Sabadell, when dealing with the same roles, responsibilities and length of service, does not make any type of wage discrimination between genders when recruiting staff or during its employees' salary reviews.

In Spain, taking into account the different groups of management, specialist and administrative staff, and without establishing any additional criteria, the pay gap has been calculated at 11.87% (see calculation note), which represents a reduction with respect to the 2018 figure of 11.95% and also a reduction since it first began measuring its pay gap, in 2017. This pay gap is primarily due to the shorter length of service of women at the organisation and the smaller proportion of women holding management positions.

Actions taken in previous years to reduce the pay gap have continued to be further implemented, again with positive results:

- The proportion of women in management positions has increased from 22.86% to 23.12%. In terms of women in middle management roles, which provide an in-house talent pool for future senior management roles, the proportion of women has increased from 33.09% to 34.25%.
- 53% of promotions have been given to women (28% in senior positions), through careful monitoring by the Performance Evaluation Committees, ensuring that women formed part of the three-person candidate selection panels.
- Monitoring of discretionary bonuses.

In the case of TSB, the average gender pay gap published in October 2019 (following the calculation methods defined by the local supervisor, which gives the difference between the average remuneration paid to men and the average remuneration paid to women), shows a reduction of 0.1pp, falling to 31.1% in 2019 from 31.2% in 2018 (details of the calculation are available on TSB's website). The pay gap in TSB is explained by the smaller number of women in senior positions and by the higher percentage of women in positions of less responsibility. It is worth highlighting the appointment of TSB's new CEO, Debbie Crosbie, in 2019. If one applies the calculation carried out in the UK to estimate the pay gap in Spain, based on the annual average salaries of men and women, in 2019 the pay gap in Spain would be 24.48%, down from its 2018 pay gap of 24.56%.

It is also worth noting that in August 2016, TSB became an accredited Living Wage employer, thus becoming part of a pioneer group of companies in the UK that go beyond the legal requirement to pay a minimum wage, undertaking to pay both its direct staff and third party contractors who work regularly in its facilities the established Living Wage or higher.

**Average total remuneration in Banco Sabadell Spain**

| | 2019 | | | | | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Employees | | | Remuneration | | | Employees | | | Remuneration | | |
| **Professional Category** | **M** | **W** | **Total** | **M** | **W** | **Total** | **M** | **W** | **Total** | **M** | **W** | **Total** |
| Management staff | 379 | 114 | 493 | 186,491 | 135,930 | 174,799 | 361 | 107 | 468 | 192,770 | 140,984 | 180,930 |
| Middle management | 2,081 | 1,084 | 3,165 | 71,861 | 62,414 | 68,625 | 2,188 | 1,082 | 3,270 | 71,788 | 61,484 | 68,379 |
| Specialist staff | 5,257 | 6,953 | 12,210 | 47,269 | 42,007 | 44,273 | 5,609 | 7,193 | 12,802 | 46,852 | 41,684 | 43,948 |
| Administrative staff | 57 | 137 | 194 | 23,152 | 23,363 | 23,301 | 97 | 214 | 311 | 22,874 | 22,394 | 22,544 |
| **Total** | **7,774** | **8,288** | **16,062** | **60,462** | **45,660** | **52,824** | **8,255** | **8,596** | **16,851** | **59,561** | **44,932** | **52,098** |

'Management Staff' includes executive directors, senior management, general management, corporate directors and top management staff. 'Middle Management' includes directors not included in the 'Management Staff' category. Roles classified as technical roles are included in the category of Specialist Staff, in accordance with the Collective Bargaining Agreement for Private Banking.

| | 2019 | | | | | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Employees | | | Remuneration | | | Employees | | | Remuneration | | |
| Age Range | M | W | Total | M | W | Total | M | W | Total | M | W | Total |
| Under 31 | 311 | 267 | 578 | 35,708 | 32,448 | 34,202 | 336 | 301 | 637 | 34,240 | 32,467 | 33,402 |
| Between 31 and 49 | 4,107 | 5,731 | 9,838 | 54,317 | 43,995 | 48,304 | 4,587 | 6,187 | 10,774 | 54,494 | 43,377 | 48,110 |
| Over 49 | 3,356 | 2,290 | 5,646 | 70,276 | 51,367 | 62,607 | 3,332 | 2,108 | 5,440 | 69,090 | 51,276 | 62,187 |
| **Total** | **7,774** | **8,288** | **16,062** | **60,462** | **45,660** | **52,824** | **8,255** | **8,596** | **16,851** | **59,561** | **44,932** | **52,098** |

The calculation of average total remuneration takes into account: Fixed remuneration, variable remuneration, personal bonus payments and benefits, as well as annualised remuneration paid.

**Average total remuneration in TSB**

| | 2019 | | | | | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Employees | | | Remuneration | | | Employees | | | Remuneration | | |
| Professional Category | M | W | Total | M | W | Total | M | W | Total | M | W | Total |
| Management staff | 109 | 51 | 160 | 237,420 | 215,482 | 230,428 | 120 | 65 | 185 | 254,707 | 212,468 | 240,005 |
| Middle management | 172 | 120 | 293 | 109,037 | 105,277 | 107,492 | 183 | 122 | 305 | 113,179 | 113,069 | 113,135 |
| Specialist staff | 1,405 | 1,897 | 3,301 | 48,726 | 44,111 | 46,074 | 1,537 | 2,038 | 3,575 | 54,577 | 49,515 | 51,693 |
| Administrative staff | 790 | 2,850 | 3,640 | 26,104 | 26,504 | 26,417 | 970 | 3,318 | 4,288 | 28,014 | 28,600 | 28,469 |
| **Total** | **2,476** | **4,918** | **7,394** | **54,005** | **37,177** | **42,812** | **2,810** | **5,543** | **8,353** | **57,824** | **40,318** | **46,204** |

Exchange rate as at 31/12/2019: GBP 0.8508 = EUR 1

| | 2019 | | | | | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Employees | | | Remuneration | | | Employees | | | Remuneration | | |
| Age Range | M | W | Total | M | W | Total | M | W | Total | M | W | Total |
| Under 31 | 760 | 1,118 | 1,878 | 31,915 | 29,177 | 30,285 | 976 | 1,475 | 2,451 | 31,851 | 30,078 | 30,783 |
| Between 31 and 49 | 1,281 | 2,137 | 3,418 | 61,271 | 41,897 | 49,158 | 1,397 | 2,343 | 3,740 | 63,524 | 42,799 | 50,550 |
| Over 49 | 435 | 1,663 | 2,098 | 71,200 | 36,490 | 43,686 | 437 | 1,725 | 2,162 | 69,102 | 37,447 | 43,808 |
| **Total** | **2,476** | **4,918** | **7,394** | **54,005** | **37,177** | **42,812** | **2,810** | **5,543** | **8,353** | **53,390** | **37,746** | **43,006** |

Exchange rate as at 31/12/2019: GBP 0.8508 = EUR 1

The calculation of average total remuneration takes into account: Fixed remuneration, variable remuneration, personal bonus payments and benefits, as well as annualised remuneration paid.

Note on calculating remuneration: Remuneration in Spain has been calculated based on target remuneration. In TSB, remuneration figures represent remuneration received in the year (in the case of deferred remuneration, they consider the full remuneration earned in the year).

Note on calculating pay gap: The pay gap in Spain has been calculated based on the sum of the average total pay gap, weighted by category.

- Formula for calculating average total pay gap
  (1- Average total remuneration received by women / average total remuneration received by men)
- Formula for calculating average total pay gap, weighted by category
  (Average total pay gap of category * (employees in category/total employees))
- Weighted average total pay gap
  Sum of average total pay gap, weighted by category

## 2.5. Workplace environment and organisation

[SDG 3]

Changes in the business, labour relations and society as a whole require the creation of more flexible and efficient workplace environments that incorporate technology into the services provided by the company and its employees.

### 2.5.1 Work-life balance

The Bank's workforce has access to a series of social benefits established by the Group and union representatives in the agreement on measures to improve the work-life balance of employees. All of these benefits have been communicated to the entire workforce, and they are published on the employee intranet, therefore they are well-known by all employees, who have been requesting and enjoying these benefits for some time.

These benefits include: a reduction of working hours (paid, unpaid, for nursing mothers), extended leaves of absence (maternity leave, to care for family members), special leave (for studies, personal reasons or international adoption), extension of leave for the birth of a child and flexible working hours.

The Group also offers a wide range of measures aimed at improving the work-life balance of its workforce, enabling them to arrange services and purchase products via the employee portal, which not only offers them a chance to save money, but it also allows them to save time, as they receive these products at their place of work, thus saving the time that would otherwise be spent on travel or on having to run the errand outside of their working hours. In addition to these benefits, it is also worth mentioning the range of services available to staff working in central services, which are designed to make it easier for them to run personal errands.

The option to work from home is one of the options that generates the most employee satisfaction and it has also increased productivity according to managers; by the end of 2019, 455 employees worked at least some of their hours remotely.

Employees continue to make use of the measures launched in previous years, such as the option to purchase annual leave and the advice offered by the work-life balance consultant ('*gestor de conciliación*'), unique aspects of our employee value proposition.

TSB has a flexitime policy that gives all employees the opportunity to request a temporary or permanent change in their way of working, at any stage of their careers and regardless of their personal reasons for requesting this change. Although the flexitime option is not a right, nor are requests automatically approved, our flexitime policy provides a fair and consistent basis on which to make requests, to ensure that requests to work flexitime hours are only rejected if such an arrangement will have a clear, detrimental impact on the business. TSB's policy is to help employees find a good balance between their work and their lives outside of work. This enables the company to retain a qualified workforce and to attract and recruit the best talent available. A positive approach to flexible working arrangements helps make TSB Bank a great place to work. There are six main flexible working arrangements to choose from, although people can combine different options and suggest their own alternatives.

In addition, our aim is to be an inclusive organisation in which employees with disabilities are treated fairly and can compete in equal conditions to further their professional careers.

### 2.5.2 Health and safety

The Group applies a policy of hazard prevention and continuous improvement of the health and safety conditions of employees. In accordance with current legislation, the Bank has an occupational hazard prevention plan that includes all of the preventative activities carried out by the company, which are published annually in a report that is available on the employee intranet and on the corporate website.

All of the Group's existing staff and all new hires receive information on occupational hazard prevention and complete mandatory training relating to health and safety in the workplace through an online course. The training course is completed through publications, ergonomic handbooks and manuals on how to use work equipment, all relating to the risks inherent in the Bank's activity.

In Spain, Banco Sabadell also carries out an initial occupational hazard assessment for each new work centre, and whenever work centres are reformed or updated. Equally, when a certain period of time has elapsed since the assessment, individual workstations and common areas are assessed in all of the facilities, along with the installations and technical aspects of the workspace (temperature, lighting etc.).

Banco Sabadell guarantees the basic rights of employees in relation to freedom of association and collective bargaining, in accordance with Spanish law. These principles are set out in the human resources policy, specifically, Human Resources 7305 – Basic Applicable Labour Law, which makes specific reference to the Collective Banking Agreement for Banks. These rights are set out in chapter twelve of this agreement, on Union Rights, in Articles 58, 59 and 60.

The Bank currently has 11 trade union sections in Spain, including state and regional sections. Workers' representatives are voted in every four years, in accordance with the guidelines set forth by the Spanish Banking Association (Asociación Española de Banca, or AEB), together with the most representative state union sections of the Spanish banking industry. The results of the union elections determine the composition of the different Works Councils, as well as staff delegates, who are the main points of contact representing the company and who take part in collective bargaining negotiations. If no specific negotiations are taking place, they meet as and when required. The elected trade union representatives are allocated hours from their normal working hours to engage in their trade union activities. 100% of employees are covered by collective bargaining agreements in Spain. In other countries, the legislation in force in each country is applied.

Workers' representation in formal health and safety committees of employees and employers in Spain:

- State Health and Safety committees created in companies:
    - Banco de Sabadell S.A.
    - Sabadell Asset Management., S.A.
    - Business Services for Operational Support, S.A.
    - Sabadell Information Systems, S.A.
- Prevention delegates (role envisaged in legislation that can be held by a maximum of eight people per company or work area)

Lastly, in the meeting of the 'Negotiating Table' (Mesa de Negociación) of the XXIV Collective Bargaining Agreement for Banks held on 18 December, a partial motion of the collective bargaining agreement for banks on keeping a daily record of hours worked, which is applicable to all associate entities, was signed between the AEB and the union confederations CCOO, UGT and FINE which, together, represent 82.92% of all employees represented on the 'Agreement Table' (Mesa de Convenio). In accordance with this agreement, the Bank is already implementing measures to meet the new regulatory requirements in relation to this daily record of hours worked, which will be complemented in 2020 with new flexitime and digital downtime arrangements aimed at enhancing productivity and improving employee satisfaction.

In terms of TSB, the subsidiary has undertaken to maintain the highest health, safety and fire protection standards in all of its business activities. The Bank constantly strives to do the right thing by implementing appropriate measures that are aligned with TSB's values in order to support employees and help them understand that they too have a legal and moral obligation to themselves and to those around them. TSB uses training, skill sets and adequate methods of communication throughout the Bank to enable all employees to embrace these measures and avoid taking unnecessary risks, with clear standards and guidelines that allow controls to be implemented.
TSB also offers specific training on health and safety. Completion of this training is mandatory for all employees and training sessions are scheduled as part of TSB's annual mandatory training calendar.

All of TSB's workspaces are subject to general and specific risk assessments designed to control, reduce or eliminate any risks to the health and safety of all employees and third party contractors working in TSB's facilities.

TSB has the obligation, under the Health and Safety at Work Act of 1974, to provide a written policy on health and safety and make this available to staff via the in-house intranet.

In terms of participation in TSB, there is a fluid and direct relationship with workers' representatives (24 meetings a year, equivalent to two meetings a month). There are currently two recognised unions (Unite the Union and Accord) and one unrecognised union (TBU). Workers' representatives in Unite the Union and Accord are elected by TSB employees. In 2019, new representatives were elected to Accord, however, the representatives on Unite the Union remained the same. No further elections will be necessary in 2020. Unions follow the legislation laid down by the UK government, as well as the guidelines established by the Advisory, Conciliation and Arbitration Service (ACAS), a non-departmental public body in the United Kingdom.

### Indicators of absence from work

| Indicators of absence from work in Spain | 2019 | 2018 |
|---|---|---|
| Total hours (accidents and illness) | 936,560 | 890,120 |

| Indicators of absence from work in TSB | 2019 | 2018 |
|---|---|---|
| Total hours (accidents and illness) | 460,373 | 409,506 |

### Workplace accidents

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Types of accident in Spain** | **M** | **W** | **Total** | **M** | **W** | **Total** |
| Work centre | 42 | 65 | 107 | 44 | 75 | 119 |
| In itinere | 43 | 102 | 145 | 48 | 86 | 134 |
| Travel during the work day | 15 | 23 | 38 | 14 | 26 | 40 |
| Other work centres | 0 | 2 | 2 | 1 | 1 | 2 |
| **TOTAL** | **100** | **192** | **292** | **107** | **188** | **295** |

Calculation note: in relation to the data published in 2018, the disclosed number of hours of absence from work has been adjusted to include illness for which no leave was requested and extended temporary incapacity leave. 2018 data relating to the severity rate have also been recalculated and now only include accidents excluding in itinere (this figure remains the same) and hours of leave excluding in itinere.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Accident rate in Spain** | **M** | **W** | **Total** | **M** | **W** | **Total** |
| Total hours | 6,749 | 6,297 | 13,046 | 6,027 | 6,283 | 12,310 |
| Frequency rate | 4.22 | 6.30 | 5.29 | 4.18 | 7.00 | 5.61 |
| Severity rate | 0.05 | 0.04 | 0.05 | 0.04 | 0.04 | 0.04 |

Data relating to workplace accidents exclude figures for the companies Aurica Capital, LSP Finance and Pay TVP, with a total of 42 employees as at 31/12/2019, as this information was not available. Rates calculations exclude accidents occurring in itinere.

The severity rate relates to the length of the absence from work (working hours lost/ theoretical working hours * 100).

TSB, in compliance with UK legislation, does not keep a record of accidents. Social Security does not define any occupational illnesses in the banking industry.

### 2.5.3. Communication and participation

Listening to employees is essential to anticipate their needs and build the best place for them to develop their professional careers. This practice has already firmly taken root in the corporate culture and it is widely used by departments associated with organisation, human resources and business matters.

Banco Sabadell has a long history of using tools to 'capture the voice' of its employees. In 2019, these tools have been enhanced and a Listen to Employees Division has been created that calls for and establishes criteria in this field, and also incorporates the Employee Assistance Office.

Both of these capacities come together in a sophisticated system for listening to employees, whose central pillar is the semi-annual survey called 'The Bank we aim to be' (*El Banco que queremos ser*). A large number of employees complete this survey and provide valuable feedback, and the survey is also a key indicator of the company's organisational health and trends.

'The Bank we aim to be' survey

A consistent majority of employees who complete this survey (65%) think that the Bank's general progress is either 'good' or 'very good'. Employees also highlight the strongly rooted corporate values in day-to-day interactions with customers and other stakeholders. There is some room for improvement in particular areas, such as the perceived speed of internal processes.

The aim is to continue implementing and improving policies and measures that contribute to maintaining and improving employees' views of the company and their level of satisfaction with Banco Sabadell.

Employee Assistance Office

This year, the EAO responded to 42,874 queries from 12,338 employees and provided those responsible for human resources processes with valuable information regarding the impact of these processes for our workforce, in both qualitative and quantitative terms. Thanks to this activity, the EAO joins other tools, such as Banco Sabadell Idea and the employee survey, which help to continuously improve the experience of customers and employees.

In TSB, "Link" is an employee forum that has been in place since TSB was created in 2013. Its members act as spokespersons for employees and come from all departments and levels within the Bank. "Link" has 115 members who are split into five regional groups. All of the groups discuss the same topics and the agenda is jointly set by the groups themselves and the Executive Committee (ExCo). Every quarter, following the regional Link Group meetings, four Link members sit down with the ExCo and go through their thoughts, feedback and recommendations. In 2019, for the very first time, representatives from the Link Group attended TSB's Board Meeting to share their progress and present their recommendations for 2019, including initiatives on how to reduce work travel and save money by digitising marketing and customer materials. Link feedback also directly contributed to the development of the new TSB strategy during 2019.

## 3. ENVIRONMENT

As part of its Corporate Social Responsibility Policy, approved by the Board of Directors in 2003, and specifically, in its Environmental Policy approved by the Board of Directors in 2009, Banco Sabadell defines the framework of its commitment to environmental sustainability and to combatting climate change.

In addition to incorporating sustainability in every aspect of its business model and business strategy, in relation to environmental matters, the Bank seeks to minimise the impact of its processes and facilities.

As a signatory of the Principles for Responsible Banking, the Collective Commitment to Climate Action and the Carbon Disclosure Project (CDP), the Bank also takes on the commitment to establish specific goals to reduce its $CO_2$ emissions.

In terms of environmental training and awareness, the entire workforce has access to an online training course, completion of which is mandatory for all employees in the various certified corporate buildings. Employees can use the internal platform “Banco Sabadell Idea” to submit their ideas and suggestions on how to improve the organisation’s environmental aspects and help it combat climate change.

### 3.1. $CO_2$ emissions

[SDG 11, SDG 12, SDG 13]

Banco Sabadell is a signatory of the Carbon Disclosure Project, thus undertaking a commitment to actively combat climate change. In 2015, a new $CO_2$ emissions reduction target of 3% was set for the 2015-2020 period in Spain. To achieve this, every year the Bank implements energy efficiency measures in both its facilities and its services.

| In tonnes (tn) of $CO_2$ | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Scope 1 / Direct activities: emissions generated by company facilities and vehicles | 3,088 (1) | 4,472(1) | 763 | 648 | 600 | 552 |
| Scope 2 / Indirect activities: emissions due to electricity usage in Spain | 18 | 20 | 22 | 54 | 3,321 | 12,890 |
| Scope 3 / Other indirect activities: emissions derived from business trips and travel (plane, train and car) use of materials [2] and waste management [2] | 4,298 (2) | 5,660 (2) | 3,337 | 3,477 | 3,862 | 3,143 |
| **Total $CO_2$ emissions generated by the Group in Spain** | **7,403 (3)** | **10,152 (3)** | **4,122** | **4,179** | **7,783** | **16,585** |
| **Total $CO_2$ emissions generated per employee** | **0.5 (3)** | **0.6 (3)** | **0.2** | **0.2** | **0.5** | **1.0** |

(1) In 2019, these include leaks of fluorinated greenhouse gases and figures for 2018 have been recalculated using the same criteria.
(2) In 2019, these include use of materials (water, paper and plastic) and waste management (paper, cardboard and plastic). Figures for 2018 have been recalculated using the same criteria.
(3) Figures include new items for 2019 and 2018.

Scope 1: Includes emissions generated by facilities through the use of fuel such diesel (including that used in mobile branches), propane gas, natural gas, fluorinated greenhouse gases(1) and the fleet of company vehicles (excluding travel between home and the work centre).

(1) In 2019, in order to get a fuller picture of the emissions within this scope, an initial estimate was made of emissions of fluorinated greenhouse gases in 2019 and 2018, estimated at a total of 2,091 and 3,320 tonnes (tn) of $CO_2$, respectively.

The figures relating to fluorinated greenhouse gases correspond to the leaks of F-gases due to breakdowns of HVAC systems in corporate buildings and branches. To reduce these leaks, every year the Bank renovates its air conditioning systems, introducing more effective equipment that uses gas with a lower environmental impact. Each year, approximately 8% of the equipment is replaced.

Scope 2: Considers emissions resulting from electricity usage in Spain. These measures are particularly important when it comes to procuring energy with a renewable energy guarantee of origin (REGO), which has allowed Scope 2 emissions in Spain to be reduced by 99.85% since 2014.

Scope 3: This scope includes other indirect activities in Spain and takes into account emissions during travel by train, aeroplane and car (except company cars), and for 2019 and 2018(2) the Bank has included new aspects in relation to the use of water, paper and plastic, as well as waste management, in Spain.

In 2019, emissions in tonnes (tn) of $CO_2$ as a result of the use of water, paper and plastic amounted to 845 tn $CO_2$, compared to 1,475 tn $CO_2$ in 2018. In 2019, other waste in Banco Sabadell has been identified, but as its total volume is less than 0.10 tonnes, it has not been included in full in the disclosures of each scope. Emissions in relation to the management of material waste (paper, cardboard and plastic) amounted to a total of 2.54 tn $CO_2$ in 2019 and 102 tn $CO_2$ in 2018. In 2019, materials made of single-use plastics have been analysed to promote a change to more sustainable materials (bags, pens, etc.). The usage of these materials is expected to start falling from 2020 onwards, as the existing stocks of these materials are still being used up.

With regard to the impact related to business trips and travel, environmental and expenditure rationalisation criteria are applied, encouraging the use of transport with lower $CO_2$ emissions. In terms of travel when commuting (in itinere), car-pooling is encouraged, and employees can advertise spare seats for car-pooling in the main buildings. Furthermore, the use of videoconferencing for meetings and one-on-one videoconference calls, teleworking pilots as well as the use of virtual communities for areas such as learning and ongoing training is also encouraged.

Pilot teleworking schemes lay the foundations for the option to work from home to be offered to a larger portion of the workforce in future. There are multiple objectives and benefits associated with teleworking, ranging from an improved work-life balance to an evident saving in time, energy and emissions.

## 3.2. Circular economy and waste management & prevention

[SDG 11, SDG 12, SDG 13]

Banco Sabadell Group has internal procedures in place to ensure that 100% of confidential paper and plastic is removed and recycled by authorised waste management firms. Corporate buildings and branches are equipped with facilities for the collection of packaging, organic waste and batteries.

Specific control mechanisms exist for waste management in branches due to be closed or merged. Surplus computer equipment and furniture in good condition at branches or work centres due to be closed or merged are donated by the Bank to NGOs and local non-profit organisations.

## 3.3. Sustainable use of resources

[SDG 11, SDG 12, SDG 13]

As regards its in-house infrastructure, Banco Sabadell has an environmental management system (EMS) that follows the international ISO 14001 standard as well as six certified corporate buildings in Spain. In 2019, 16.93% of the workforce in Spain worked in one of these certified buildings (16.22% in 2018). In parallel, the environmental management system is being progressively rolled out to other work centres.

Energy consumption

In 2019, Banco Sabadell's total energy consumption in Spain was 82,779 MWh.

In 2019, electricity consumption in Spain was 78,533 MWh (compared to 81,962 MWh in the previous year) with 99.96% of energy deriving from renewable sources, mainly through Nexus Renovables, an energy supplier with 100% renewable energy guarantee of origin (REGO). Compared to 2014, $CO_2$ emissions corresponding to electricity consumption (scope 2) have been reduced by 99.85%.

To reduce its energy consumption, Banco Sabadell continuously develops measures to improve the eco-efficiency of its facilities and processes:

- Every year, it replaces 8% of its HVAC equipment with more efficient models, and it has gradually been updating the lighting systems of its branches, opting for LED (Light Emitting Diode) technology.

- The majority of the branch network is equipped with a centralised low energy consumption HVAC and lighting system, as well as light activation systems for billboard advertising adapted to daylight hours. Additionally, most branches are equipped with Thin Client computers (central network infrastructure, where applications and software are virtually linked to servers) which consume 90% less energy. Since 2015 these computers have also started to be installed in corporate buildings.

- Corporate buildings are equipped with motion-sensitive lighting systems and LED lights. In these corporate buildings and larger offices, HVAC installations are equipped with energy recovery systems.

| Total electricity consumption | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Total energy consumption (MWh) | 78,533 | 81,962 | 82,824 | 89,809 |
| Electricity provided by Nexus Renovables, 100% REGO (% supplied out of total electricity) | 99.96% | 99.94% | 99.93% | 99.84% |

Water consumption

The Group's water consumption in Spain was 396,260 m$^3$. This consumption is limited to sanitary use and for the watering of certain landscaped areas. 100% of the water consumed comes from the supply network. The Group's headquarters are located in urban areas where the water collected and discharged is done so through the urban network.

With regard to eco-efficiency, bathroom facilities and taps are fitted with water-saving mechanisms. The headquarters in Sant Cugat have a device that collects rainwater and greywater to reuse it as irrigation water. At the same time, the landscaped areas are comprised of native plants with low irrigation requirements.

Paper consumption

Paper consumption in Spain in 2019 amounted to 1,030 tonnes, compared to 1,047 tonnes in 2018.

The reduced use of paper is the result of the implementation of a series of measures, such as the set-up of a 24-hour service for customers through remote channels and digital platforms, the use of tablets and digital systems in branches, which allow customers to sign documents digitally and thus eliminate the use of pre-printed documents, in addition to the change of printing settings in the bank's printers so that the default option is for double-sided printing. In 2019, the initiative to use only recycled paper has been extended to the entire Group.

The conventional paper used by the Bank is certified by the quality and environmental management system ISO 9001/ISO 14001, and its production is chlorine-free under the criteria of the FSC (Forest Stewardship Council), with a Blue Angel certification and an EU Ecolabel.

| Paper consumption | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Volume of paper (DIN A4 format) used during the year (tonnes) | 1,030 | 1,047 | 988 | 1,062 |
| Recycled paper used in branches and corporate buildings in relation to total paper consumption (white and recycled) in Spain (%) | 100% | 52% | 9% | 9% |
| Recycled paper used in 13 corporate buildings with a postal service (courier) in relation to total paper consumption (white and recycled) (%) | 100% | 87% | 80% | 84% |

Simplification

In 2019, Banco Sabadell has developed a scheme to reduce correspondence, which helps to reduce its use of paper. The consolidation of the digital channel as new customers' preferred way of banking, together with the decision to send all paper documentation in a single, monthly delivery with the current account statement, have helped to reduce paper consumption by 12.31% compared to the previous year. In other areas, the Bank has improved the process for accepting customer direct debits, advising customers ahead of time when they will have outstanding bills due to a lack of funds in their account and offering them alternative funding options. The direct debit is kept as pending for two days to allow the customer to pay the outstanding balance.

Energy consumption and use of resources in TSB

The main indicators and actions taken by TSB in 2019 are shown below.

| Consumption | Base unit | Annual consumption |
|---|---|---|
| Electricity | MWh | 28,312 |
| Natural gas | MWh | 13,917 |
| Water | m3 | 93,370 |

Figures estimated for November and December 2019 based on actual data from the previous year.

In addition to the consumption shown above, around 10,000 litres of fuel were used for heating.

In terms of efficiency measures:

- Close to £350,000 (€411,377)[1] have been spent on replacing old equipment in branches with newer, more energy-efficient systems (e.g. HVAC and boilers).
- £1.1 million are currently being invested in LED lighting in the headquarters at Henry Duncan House (HDH).
- The reduced frequency of use of the internal mailing system in branches, from daily to weekly, directly contributes to reducing emissions.
- Plastic food containers have been replaced with biodegradable VegWare in restaurants and all plastic cups have been removed from the London branch.

Note (1) Exchange rate as at 31/12/2019 (GBP 0.8508 = EUR 1)

| Paper consumption: | Base unit | Annual |
|---|---|---|
| Volume of paper (DIN A4 format) used during the year | (tonnes) | 147 |
| Use of recycled paper in branches and corporate buildings in relation to total paper consumption | (white and recycled [%]) | 3% |

## 4. INFORMATION REGARDING HUMAN RIGHTS

[SDG 5, SDG 8, SDG 10]

Banco Sabadell has a Code of Conduct and an Ethics and Human Rights Policy in place, both of which were approved by the Board of Directors in 2003. The Bank has also implemented a Code of Conduct for Suppliers, through which it ensures that its own commitment to safeguarding human rights is also applied throughout its supply chain.

Furthermore, the Group is a signatory of a number of major national and international agreements relating to Human Rights:

- The United Nations Global Compact, which it signed in 2005, officially undertaking to commit to the ten principles, including the first and second principles on human rights and labour.
- The Equator Principles, a risk management framework for determining, assessing and managing environmental and social risk, which considers a number of aspects including the responsibility to respect human rights by undertaking due diligence in order to prevent, mitigate and manage adverse impacts.

These commitments aim to eliminate discrimination in respect of employment and occupation, uphold the freedom of association and recognise the right to collective bargaining pursuant to the legislation of the country in which the institution's employees work. (ILO Convention No. 87 on freedom of association and the right to organise and ILO Convention No. 98 on the right to organise and collective bargaining). They also aim to foster measures for improving the wellbeing of staff and helping them to achieve a work-life balance.

The Bank also encourages and maintains an environment in which all employees are treated with dignity and respect and where they are treated fairly, without any form of discrimination by reason of gender, race, skin colour, age, social background, religion, nationality, sexual orientation, political opinion, physical or psychological disability or membership of labour unions.

It also prohibits all forms of forced and compulsory labour, servitude and labour under indentured labour contracts. It also does not hire any minors under the legal working age and in no case under the age of 15.

Regarding customers and society in general, the Bank offers products and services that contribute to generating a positive impact on people's lives through responsible business practices: risk prevention through assessments of the risk of human rights violations in Project Finance, social housing management and financial inclusion.

In 2017, the Bank reiterated its commitment to the Code of Good Banking Practice, in order to limit the effects of over-indebtedness of people and families and thus enable the financial inclusion of debtors at risk of social exclusion.

Regarding procurement management, the Bank has procedures in place which ensure that human rights are respected throughout the end-to-end supplier accreditation, selection and evaluation process, as described in the relevant section of this report.

In TSB, the Modern Slavery Act is designed to prevent people from being forced to work, from being exploited, trafficked or purchased or sold as 'property', or controlled with mental or physical threats. TSB adheres to the Modern Slavery Act and every year it publishes a specific statement in which it sets out the actions taken over the year to prevent any and all risks of modern slavery related to its business or its suppliers.

In its latest statement, which is available on its website and relates to 2018, TSB undertakes to create a positive and inclusive culture, supporting the wellbeing of its partners. In terms of the ways in which it works with customers, TSB gives its partners guidance on the risks that need to be considered at all stages of its customer relationships.

TSB has also developed internal policies to ensure that its suppliers are aware of the values of TSB and apply them in their own business activities. Some examples of the policies implemented in 2018 are the TSB Partner Employment Policy, the Anti Money Laundering & Counter Terrorist Financing Policy and the Whistleblowing Policy.

# 5. THE FIGHT AGAINST CORRUPTION AND BRIBERY

[SDG 16]

Banco de Sabadell, S.A. is committed to safeguarding integrity and promoting a culture against corruption, expressly prohibiting any action of this nature. In this regard, as a signatory of the United Nations Global Compact, it is committed to complying with the ten principles it establishes, among which is that of working against corruption in all its forms, including blackmail and bribery.

One of the basic elements for consolidating a corporate culture is to have a body of regulations applicable to 100% of the Bank's members, showing a solid commitment to compliance with legislation from the Management Body. Banco Sabadell, which already had a Code of Conduct and Policies on Compliance, Conflicts of Interest, Anti Money Laundering and Counter Terrorist Financing and Corporate Crime Prevention, has this year incorporated an Anti-Corruption Policy, applicable to the entire Group.

This Anti-Corruption Policy defines all those actions that would be included in the concept of corruption, as well as those related actions that would not be allowed.

With regard to the identification and control of corruption-related risks, it should be noted that the institution has a Programme for the Prevention of Corporate Crime, which has a specific section on the fight against corruption.

The Bank also pays particular attention to the oversight of loans and accounts held by political parties by following a very rigorous customer onboarding protocol. Similarly, the Bank does not make contributions of any kind to political parties, politically exposed persons or related institutions. In terms of transparency, all donations to NGOs and foundations are analysed and assessed by the Bank's Sponsorship Committee or the Board of Trustees of the Foundation, in accordance with the principles laid down in the Bank's Social Action Policy. The accounts of the Banco Sabadell Foundation are also duly audited.

It should also be noted that the Banco Sabadell Group Code of Conduct explicitly provides for the non-acceptance of gifts from customers, as well as the obligation to comply with the provisions of internal regulations with regard to gifts from a supplier, in order to avoid this limiting or otherwise affecting the ability to make decisions.

Finally, it should also be noted that the institution has a communication channel that is easily accessible all employees, where they can make various queries, suggestions or complaints, even anonymously. The institution's Corporate Ethics Committee is informed of the management and/or resolution of all of them.

As regards TSB, conduct risk is also a key part of TSB's strategic planning, decision-making, proposition development and performance management processes. Throughout the end-to-end customer journey, it is key to ensure fair treatment of customers, the delivery of fair outcomes and to seek to avoid customer harm.

TSB has an Anti-Money Laundering, Anti-Bribery and Corruption Policy. The identification, assessment, management and reporting of conduct risks is the responsibility of each Executive Committee member, with respect to their relevant business areas, as set out in its Statement of Responsibility (SOR) under the United Kingdom's Senior Managers and Certification Regime (SMCR).

TSB promotes an environment of zero tolerance for illicit activities to protect its Partners, customers and communities from financial crime through policies and annual training courses comprising:

- Anti-money laundering and counter-terrorist financing requirements with respect to customer due diligence measures, applicable to different types of customers and in consideration of the geographical, industry and product risk associated with each relationship; enhanced due diligence measures applicable in higher risk situations; and ongoing monitoring controls to ensure that TSB knows and understands its customers throughout the life cycle of the relationship.
  TSB designates a Nominated Officer in charge of receiving and submitting suspicious activity reports to the National Crime Agency (NCA) and of ensuring that appropriate controls have been implemented to monitor and manage the investigation into reports of suspicious activities.
- Financial sanctions requirements are in place to ensure compliance with obligations under the UN, EU, UK and US sanctions regimes. TSB takes a prohibitive stance towards transactions and relationships with customers in countries subject to comprehensive international financial sanctions, or of ownership or control by individuals located in such countries.
  Partners, customers, suppliers and transactions are screened regularly against relevant sanctions lists and investigated accordingly.

- Anti-bribery and corruption requirements to ensure risk assessment and due diligence practices are in place to assess bribery or corruption exposure via third-party relationships, event sponsorship and charitable donations. The offer and acceptance of gifts, entertainment and hospitality is permitted, provided these are not seen to be improper or excessive and provided they cannot be viewed as a bribe or potential bribe and as long as they are approved and recorded in accordance with TSB's Compliance, Conflicts of Interest and Market Abuse Policy. TSB prohibits all activities considered as facilitation payments, political donations or actions which could facilitate tax evasion.

TSB's compliance with requirements of the financial crime framework is monitored via ongoing control testing, assurance, audits, the provision of management information and senior governance committees.

The Bank's subsidiary in Mexico has a Conceptual Manual for Anti Money Laundering and Counter Terrorist Financing, which mainly aims to establish the measures and procedures that the Bank will carry out in order to prevent, detect and report acts, omissions or operations that could favour or provide any form of help, assistance or cooperation in the perpetration of crimes detailed in Article 139 quater of the Federal Criminal Code or that could be included in the cases listed in Article 400 bis of this legal code.

It also defines policies and establishes the criteria, procedures and standards that must be complied with by all directors, representatives, officers and employees of the Bank, as well as all third parties authorised and involved in the customer identification process. The Policies and Procedures are aimed at protecting the Bank and its staff against any attempt to be used for money laundering or terrorist financing.

# 6. SOCIETY

Banco Sabadell also makes good on its commitment through a dialogue with the general public, participating and promoting multiple initiatives in the fields of education, solidarity and other activities and partnerships with a social impact. The Bank's commitment to society is channelled through its volunteer scheme, the initiatives pursued by the Bank's various divisions and through the Banco Sabadell Foundation.

The Banco Sabadell Foundation carries out the majority of its activities in collaboration with the leading institutions in the sector in order to achieve its objectives in both the cultural and talent spheres, thus succeeding in highlighting the work of other institutions with extensive experience and impact. In 2019, the Banco Sabadell Foundation received 5 million euros from the Bank to carry out its activities.

In relation to the SDGs and in order to promote culture and talent as factors of progress and social welfare, the Banco Sabadell Foundation has prioritised the goals relating to Quality Education (SDG 4) and Partnerships (SDG 17).

## 6.1. Commitment to sustainable development

[SDG 1, SDG 4]

### 6.1.1 Commitment to education

Banco Sabadell continues to promote and take part in a number of financial education initiatives. From the institution's perspective, this type of activity involves not only meeting the different training requirements of consumers and society in general, but also being by their side to help them develop skills and decision-making abilities.

These initiatives are aimed at different target audiences:

For children up to age 13: The children's drawing competition 'What is money for?' (*¿Para qué sirve el dinero?*), at http://paraquesirveeldinero.com/, has been running since 2010 and is aimed at customers and non-customers of the institution. It includes a series of educational activities and materials, prepared in cooperation with teachers and educators, to encourage the development of creativity and the understanding of the importance of saving, the value of money and solidarity. Furthermore, since last year, it includes a children's financial dictionary that is linked to an educational guide, which helps children become more familiar, word by word, with the uses of money and provides answers to their questions and concerns.

At the same time, a couple of years ago, an educational resource for schools was developed, which helps to initiate a dialogue between teachers and pupils about the solidarity aspect of money, thus encouraging schools to work on concepts related to money and its role in solidarity.

For each drawing submitted, Banco Sabadell makes a donation to a charitable cause. The drawings that receive the most votes on social media are also awarded a prize. Since its inception, more than 43,500 drawings have been submitted. As at 31 December, more than 2,380 entries have been received (the closing date of the competition is 31 January). In this edition, donations will go to the Unicef project, 'For me and for all my fellow classmates' (*Por mí y por todos mis compañeros*).

For adolescents: For the seventh consecutive year and since its inception, Banco Sabadell is participating in the Financial Education for Schools in Catalonia (EFEC, for its acronym in Spanish) programme, in which, thanks to the corporate volunteers of the participating institutions, more than 106,265 students have been trained in basic finance.

In this edition, the programme has been taught in more than 400 educational centres, and Banco Sabadell has participated with 87 volunteers, contributing with their knowledge and together with the other partnering institutions to the training of 18,602 young people. Likewise, and in relation to the initiative 'Your finances, Your future' (*Tus Finanzas, Tu Futuro*) of the Spanish Banking Association (AEB) and the Junior Achievement (JA) Foundation, the Bank has renewed its commitment to take part for 2020.

Banco Sabadell is also a signatory of the agreement signed between the Spanish Banking Association (AEB), the National Securities Market Commission (CNMV) and the Bank of Spain within the framework of the National Plan for Financial Education. This Plan, which was renewed in 2018 and which follows the recommendations of the European Commission and the OECD, is designed to improve public understanding of financial matters by providing citizens with basic knowledge and tools to enable them to manage their finances in a well-informed and responsible way.

For entrepreneurs and young talent: Another commitment to society is to support flagship universities with the awarding of aid and scholarships to contribute to increased opportunities in education.

Young artistic talent in any of its disciplines and young talent working in the social sector are promoted through awards, training and support programmes.

The Bank also contributes to research excellence by awarding grants to pre-PhD students, supplementing other grants they currently receive. Similarly, through the Foundation, young people who are brilliant in their respective disciplines participate in each of the Celera calls, the only people accelerator that currently exists in Spain, and which each year selects 10 exceptional young people to give them resources, training and opportunities.

The Banco Sabadell Foundation Awards for Biomedical, Economic and Scientific Research aim to encourage and recognise the careers of young Spanish researchers who stand out for their excellence and innovation in their lines of research in these three fields. They are recognised as the most important figures in their fields.

The Foundation is also committed to collaborations that aim to help university students in finding employment, such as the University of Murcia's TOOLBOX project.

For SMEs: With regard to the commitment to training to meet the challenges of internationalisation of small- and medium-sized enterprises, Banco Sabadell, in collaboration with AENOR, AMEC, Arola, CESCE, Cofides, Esade and Garrigues, has been promoting the "Export to Grow" (*Exportar para crecer*) programme since 2012. This programme supports SMEs in their internationalisation process, through online tools, specialised information services and the organisation of roundtables throughout the country, which have already been attended by nearly 10,000 companies.

In addition, Banco Sabadell has collaborated in the AMEC Forum, the main Association of Internationalised Industrial Companies in Spain, which this year has focused on New Competitiveness Scenarios. Banco Sabadell, in addition to having collaborated in the previous seven editions, was the only banking institution to take part in 2019, participating via roundtables with companies and contributing knowledge on international business.

As part of its ongoing commitment to supporting and advising corporate customers, Banco Sabadell has also launched the third edition of the Sabadell International Business Program, a training programme certified by the University of Barcelona (UB), which is held simultaneously in cities such as Barcelona, Madrid, Zaragoza, La Coruña, Las Palmas and Alicante. Since its first edition, 230 companies with international activity have already taken part.

Another initiative designed to support and assist companies is Sabadell Link, an audio-visual channel which, among other features, facilitates contact with key management staff at the representative offices in Europe, Asia, Africa and America. The Exporter Kit, which is available on the International Business website, is a set of tools for engaging in foreign trade operations with the maximum guarantees, and it is therefore another frequently used resource when it comes to firms' internationalisation process.

In addition, in September the Bank began issuing a monthly international business newsletter with professional information on the international markets and activity sectors most prone to internationalisation or exports, aimed at corporate customers with international business. Likewise, in the last quarter of this year, more than 25 conferences were held for companies to explain the changes introduced at the level of the International Chamber of Commerce Incoterms, which will enter into force at the beginning of 2020. The participation rate in these sessions (conferences with an approximate duration of 4 hours) has been very high, with an average of 60-100 participating companies per session.

For families/society: In relation to the general public, bringing culture closer has been another lever of social commitment, acted on through the joint promotion, together with flagship cultural centres, of exhibitions and performing arts productions with differential value that contribute to a more informed and fairer society.

'Atempo, arts i formació', another of the projects supported by the Foundation, aims to establish ties between the educational world and the artistic world with the objective of training professionals from both sectors (education and culture), facilitating access and active involvement of young people in cultural life and encouraging teaching innovation processes through the interaction between professionals. This programme offers tools for understanding and taking action to improve awareness in a cultural and artistic environment, to reflect on the different trends of educational reform and to learn creative ways to overcome obstacles in social relations through the Arts. It is worth highlighting the ConectArte Conferences for their ability to connect the cultural institutions with which they collaborate, as well as projects such as Imagine Circular Economy, Aertec Challenge, Imagine Express, the Entrepreneurship and Leadership Programme of the Reina Sofia School of Music for young classical musicians, the Impulsa Cultura Programme and the B-Value Social Innovation Programme.

The Bank also contributes to promoting gender equality by supporting projects and initiatives, such as the 'Women who transform the world' (*Mujeres que transforman el mundo*) event in Segovia or the active involvement of women in conferences, workshops and roundtables, with the aim of achieving parity and making women's actions in different areas more visible. The Foundation has changed the rules of its awards, starting this year, to give the opportunity to those women scientists who have been forced to suspend their research for maternity reasons. Therefore, the age of female candidates for the Awards can be extended by a maximum of one year per child when there have been career breaks due to maternity.

### 6.1.2 Solidarity

Cooperation and solidarity

Through cooperation and solidarity initiatives and programmes, the Bank and its Foundation are also committed to the achievement of poverty eradication (SDG 1), with the following actions standing out:

- Support has been given to projects of third sector organisations that participate in the B-Value social innovation programme. All of them have the goal of assisting any type of disadvantaged group or group at risk of social exclusion. Since the first edition of B-Value in 2017, the Foundation has awarded different monetary prizes to the finalist organisations that have taken part. An award that helps them to continue with each of their projects and that also gives visibility to the causes they work for.

- Another institution with which the Foundation collaborates and which stands out for its cooperation and solidarity projects is the HEMAV Foundation, which promotes projects such as 'Locust', which has drones fly over remote areas to identify and control locust plagues and thus fight against hunger in areas such as Mauritania, and 'Freeda' (in collaboration with Proactiva Open Arms), which has involved developing a search drone to detect people adrift in the Mediterranean Sea. These projects have been carried out by young engineers from HEMAV.

- In the last three years, the Banco Sabadell Foundation has also offered the opportunity to involve Bank employees as volunteer mentors and to help third sector organisations in the B-Value social innovation programme. This year, thirty employees have assisted cultural and third sector organisations in the development of their impact and innovation projects.

- Furthermore, Banco Sabadell facilitates and encourages employees to engage in community and volunteer work by providing them with the necessary means and resources. Through Sabadell Life, a consolidated internal portal in place since 2016 and which has over 11,500 users, the Bank and its employees have the possibility of proposing charitable and/or volunteering initiatives. The more community-minded employees either donated directly or exchanged their prizes for donations, using gamification, to one of the charitable causes sponsored by Sabadell Life through the Actitud Solidaria platform with Worldcoo.

In relation to employee engagement in solidarity campaigns, the following actions are noteworthy:

- Trailwalker, a charitable sports event aimed this year at bringing water to the populations of Sub-Saharan Africa and Latin America. Banco Sabadell has participated in the last six editions, and in 2019 48 teams took part. 75,000 euros were raised by employees on behalf of Intermon Oxfam.

- Banco Sabadell has participated in Milla Náutica Solidaria, a non-competitive aquatic crossing managed by the Barcelona Fire Brigade in which the Bank has been collaborating for the last 3 years to help organise the event. In 2019, 10 corporate volunteers participated in the crossing, and the Bank has raised 9,000 euros through the sale of race bibs, donated entirely to the Catalan Association of Hereditary Ataxias.

- The contribution of 30,000 euros to two charitable projects, Soñar Despierto, which aims to provide educational support to young people in juvenile facilities, and the project of the Diversión Solidaria Foundation, aimed at improving the quality of life of cancer patients through different fun and rewarding experiences, through the Retos Campaign, a programme that fosters the integration of in-house teams and in which more than 900 employees have participated by carrying out more than 300 after-work activities in collaboration with Indra and Everis.

- Blood and plasma donations by Banco Sabadell employees, aimed at increasing Red Cross and Blood Banks reserves. In 2019, six donation days were held at the corporate buildings in Barcelona, Madrid, Alicante and Valencia. The collaboration with the Blood and Tissue Bank of Catalonia is especially noteworthy, as the Bank is the first company to offer its employees the possibility of donating plasma in-house.

- The collaboration in the 'Reyes Magos' charity campaign organised by the Magone Foundation, responding to the wishes of over 500 real letters to the Three Wise Men from boys and girls at risk of social exclusion in different regions such as Alicante, Barcelona, Bilbao, Madrid, Malaga, Oviedo, Galicia, Zaragoza, Valencia and Murcia.

- With regard to food collections, Family Day, a charity open day at the corporate building in Sant Cugat del Vallès (Barcelona), stands out. More than two tonnes of non-perishable food were collected in one day and donated to the Barcelona Food Bank. During this year, other campaigns have also been carried out in the Murcia region, collecting 800 kg of food on behalf of Cáritas Molina de Segura.

In addition, in 2019, the Bank was also able to respond effectively to several calls for emergency aid through the IT platform of Worldcoo, a start-up partly owned by the Bank through the BStartup10 programme, following incidents such as Cyclone Idai in Mozambique and the Dana storm in the Spanish Levante region. In addition, two campaigns have been launched, selected from among those working in the Bank, to help care for children with neurofibromatosis and their families and to finance canteen scholarships for children of families living below the poverty line. A total of 32,700 euros has been raised.

Meanwhile, in 2019 the Corporate Ethics Committees of Sabadell Urquijo Cooperación, Sicav, SA and Sabadell Inversión Ética y Solidaria, FI, selected a total of 33 humanitarian projects mostly aimed at addressing social exclusion risks, improving the living conditions of people with disabilities and meeting basic food and healthcare needs. 447,172.19 euros have been granted to charitable organisations and projects during the year.

In relation to housing management, the Bank has signed an agreement with the Government of Valencia for the assignment of residential properties intended for people who have lost their homes or whose homes sustained serious damage in the wake of storm Dana which occurred in the Valencian Community in September, and it has renewed the Agreement with the Galician Institute of Housing and Land (*Instituto Galego da Vivenda e Solo*) to guarantee a home for more than 140 families facing eviction or foreclosure proceedings. Moreover, the Bank has assigned 111 properties to 45 non-profit institutions and foundations, aimed at supporting the most disadvantaged social groups, and since 2013 it has been contributing to the Social Housing Fund (Fondo Social de la Vivienda, or FSV) with 400 homes mostly for customers, obtained from payments in kind or foreclosures made since January 2008.

In 2019, TSB promoted two social responsibility programmes: the 'Local Charity Partnership Programme' and a second corporate volunteer programme. Through its social action initiatives, TSB managed to support more than 450 social causes in the local communities where the company operates, thanks to its employees and customers.

At the corporate volunteer level, about 6,000 hours were spent on different social causes, and around 900 employees attended over 350 financial education sessions on a variety of topics, such as 'Fraud Awareness', 'Careers in Banking', 'It all adds up (budgeting)' and 'Own your Future'.

<u>Social integration</u>

The Foundation collaborates in projects aimed at social integration, such as Balia Foundation's 'Conecta Mayores-Conecta Jóvenes', which unites two different generations in order to break down stereotypes and eliminate the digital divide between young people and adults.

Another example of an integrating project with which the Foundation collaborates is the 'Accessible and Inclusive Culture Programme' by the Emalcsa Foundation, which aims to encourage people with disabilities to develop and use their creative, artistic and intellectual potential. Along the same lines, the Entrepreneurship and Leadership Programme of the Reina Sofía School of Music should be highlighted. Through it, young classical musicians create innovative projects, many of which are aimed at the social sector in order to take classical music to groups at risk of social exclusion.

In relation to programmes that leverage the knowledge and experience of employees to benefit vulnerable sectors and those at risk of social exclusion, the following initiatives stand out:

- The Exit Foundation's Coach Project, designed to improve, through mentoring, the future employability of young people in vulnerable situations. In 2019, 15 corporate volunteers have volunteered 375 hours, mentoring young people between 16 and 18 years of age in Barcelona, Alicante, Palma and Elche.

- The collaboration with the Quiero Trabajo Foundation, which aims to empower women, enhancing their skills and attitudes, and providing them with tools to successfully approach a job interview. 10 women volunteers with management profiles from the Bank have participated as mentors in the programme, making their expertise available to the candidates.

Among the projects aimed at labour integration and improving employability, the following are noteworthy:

- The partnership with Cáritas in the Feina amb Cor programme, an employment integration programme aimed at people with family burdens, who are over the age of 45 and have been unemployed for a long time. Six people have joined the team at the Barcelona and Madrid branches during the summer, carrying out administrative tasks relating to customer service.

- The JoBS programme of Sogeviso, an institution wholly owned by Banco Sabadell, which manages the complex issue of social housing. Since the beginning of the specific programme for assistance and labour market insertion (JoBS), 2,134 people have found work. It is important to note that over 44% of these were hired for more than 100 days and more than 12% were hired for long-term positions, a fact which increases the chances of improvement in the long term.

<u>Medical research and health</u>

In addition to the three Awards for Biomedical, Economic and Scientific Research, the Foundation also supports scientific research through programmes promoted by flagship institutions in the sector. For example, as members of the Board of Trustees of BIST (Barcelona Institute of Science and Technology), with which the Science and Engineering Award has been awarded since 2017. It is also worth mentioning programmes such as "Intensifica't al Taulí" promoted with the Parc Taulí hospital to give scientists the opportunity to dedicate 12 months of their time to their lines of research, and the programme of Research Grants that are awarded to students at the San Jorge University in Zaragoza.

Another of the flagship research institutions with which the Foundation collaborates is the National Cancer Research Centre (CNIO, for its acronym in Spanish), which offers various conferences to showcase the most significant cancer research advances. Since 2018, the Foundation has been part of SciTech DiploHub, the Barcelona Science and Technology Diplomacy Hub, a non-profit, independent and non-partisan civil initiative led by an interdisciplinary and international team of scientists, engineers and professionals in foreign affairs and public policies. The Foundation is committed to making Barcelona the first city in the world to implement a science and technology diplomacy strategy.

<u>Economic development</u>

It is worth highlighting the collaboration with projects that contribute to the reflection and dissemination of new paradigms in the development of sustainable cities, such as the Biennal Ciutat project or the Imagine Circular Economy Programme, promoted by the Foundation with the aim of contributing to the development of projects to raise awareness and create new forms of consumption and responsible use among citizens.

Together with AERTEC, the Foundation is promoting the 'AERTEC Solutions Challenge' in which young university students put forward business ideas that contribute to improvements in the aeronautics sector.

<u>Ethics and artificial intelligence</u>

Banco Sabadell has sought to promote the ethical use of artificial intelligence in projects with social impact through the Think Tank 'We The Humans'. The Bank has supported a competition of ideas for projects with social aims whose objective was to connect companies with start-ups that wanted to develop social impact projects using artificial intelligence in an ethical and responsible way.

## 6.2 Consumers, outsourcing and suppliers

[SDG 5, SDG 8, SDG 13]

### 6.2.1. Consumers

In Spain, Banco Sabadell has a Customer Care Service in place which deals with complaints and claims. Customers and users may also appeal to the Customer Ombudsman, an independent body of the institution that has the authority to resolve any issues referred to it, both in the first and second instances. Decisions by the Customer Care Service or the Ombudsman are binding on all the bank's units.

The Customer Care Service and its head, who is appointed by the Board of Directors, report directly to the Secretary General. Its main function is to handle and resolve complaints and claims brought forward by customers and users of the Group's financial services, when these relate to their interests and legally recognised rights arising from agreements, transparency and customer protection regulations or from good financial practices and uses, in accordance with the Banco Sabadell Regulations for the Protection of Customers and Users of Financial Services.

The SAC (for its acronym in Spanish), 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.

In addition to its main activity, which is to resolve complaints and claims, the Customer Care Service also provides assistance and information to customers and users on matters that do not take the form of complaints or claims, in accordance with Ministry of Economy Order 734/2004 of 11 March, and the Regulations for the Protection of Customers and Users of Financial Services of Banco Sabadell.

By type, in 2019 a total of 34,789 complaints, claims and requests were received, 26.51% less than in 2018, of which 2,035 were complaints (5.85%), 31,662 were claims (91.01%) and 1,092 were requests (3.14%), in addition to a further 1,665 cases that were pending as at 31/12/2018. Of this overall total, 35,677 were processed in 2019, of which a total of 27,315 were accepted for processing and resolved, 8,362 were declined and 777 remained pending as at 31/12/2019.

See Note 42 to the 2019 consolidated annual financial statements for further details.

In the case of TSB, if we use the figure for the year up to December 2019, the number of recorded complaints, claims and other communications is 98,125 (98,000). The volume recorded during the same period in 2018 was 215,038 (215,000) and, therefore, 2019 represents a 54% reduction (116,913 or 117,000) on these figures. The decrease is due to migration-related complaints that were recorded and resolved during 2018. Of the total number of complaints, claims and other communications recorded in 2019, a total of 96,121 (98%) were resolved before the end of the year, 31/12/2019.

### 6.2.2. Outsourcing and suppliers

The new challenges of competitiveness require cooperative behaviour between the Group and its suppliers, considering the latter as strategic partners and collaborators through which we also interact within and outside the region in which we operate.

In order to establish this long-term cooperation, it is necessary to understand the needs and goals of suppliers, maintaining a willingness to honour commitments and making them compatible with the Group's requirements and vision. Based on this principle, the Bank has a Supplier Policy, as well as several protocols and standards with which it extends to the supply chain both its own commitment to socially responsible practices and the explicit advocacy of the areas of human rights, labour, environment and freedom of association. These mechanisms cover the entire relationship with suppliers and include the monitoring of environmental, social and governance (ESG) criteria from their approval through to the procurement process.

In 2019, the top 20 suppliers represented 48.06% of supplier invoices. Other noteworthy aspects are included in the following table:

| | **2019** | **2018** |
|---|---|---|
| Total number of suppliers who have invoiced more than 100,000 euros at year-end | 520 | 595 |
| % of major[1] suppliers and providers of essential services[2] (out of total suppliers) | 2.11% | 2.35% |
| Total number of approved suppliers | 831 | 740 |
| Amount invoiced by special employment centres | €2.8m | €2.3m |
| Average time taken to pay suppliers (days payable outstanding) | 30.86 | 32.89 |

[1] Suppliers invoicing more than 250,000 euros

[2] According to the criteria of the EBA/GL/2019/02 Guidelines

Registration and approval of suppliers

The Bank has an online portal where suppliers who wish to register must accept the General Contract Conditions, as well as the Code of Conduct for Suppliers, which includes:

- The United Nations Universal Declaration of Human Rights.
- International Labour Organisation conventions.
- United Nations Convention on the Rights of the Child.
- The principles of the United Nations Global Compact, signed by the Bank in February 2005, in the areas of human rights, labour, environment and freedom of association.

In order to proceed with the approval process, suppliers must provide their legal documentation, financial information, quality certificates, proof that they are up to date with their social security payments and tax obligations, as well as their CSR/sustainability policy. Accordingly, ISO certifications (ISO 9001, ISO 14001 and other certificates related to quality, environmental management, labour relations and occupational hazard prevention or similar) are requested, as well as disclosures of information related to the company's corporate social responsibility and/or sustainability. In addition, details of the characteristics of the products made available to the Bank by the supplier (recycled, ecological and reusable products) may also be requested. Banco Sabadell does not carry out on-site audits of its suppliers. However, the Bank periodically checks that the documentation provided by suppliers is fully up-to-date to ensure compliance with supplier approval criteria, establishing mechanisms for sending periodic alerts.

Contracts and supervision

The basic contract with suppliers includes clauses on safeguarding human rights and abiding by the ten principles of the United Nations Global Compact with regard to Human Rights, Labour, the Environment and Anti-Corruption. Where required due to the activity involved, contracts also include environmental clauses.

In addition, the Bank maintains final control over the activities carried out by suppliers, ensuring that outsourcing does not entail any obstacle or restriction upon the implementation of internal control models or the intervention by the Supervisor or any other competent supervisory authority or body.

Furthermore, the Bank ensures compliance with the laws and regulations applicable at all times. Contracts should stipulate the ability to require suppliers to adapt their activities and service level agreements to these regulations.

Supplier recruitment in the international network is decentralised, hiring only local suppliers and affecting only products for the sole use by the relevant branch or office in its daily activities. The hiring of local suppliers (those whose tax identification number coincides with the country of the company receiving the goods or services) contributes to the economic and social development of the regions in which the Group operates.

Moreover, in relation to the supplier approval process of the UK subsidiary TSB, the Bank carries out its overall supplier due diligence as part of its selection process and before contractual terms are agreed. Supplier due diligence checks include Financial Due Diligence, Policy Due Diligence, Subcontractors' Management and Concentration Risk. A supplier's Corporate Social Responsibility is assessed as part of the policy due diligence process. TSB assesses suppliers' CSR as part of the supplier approval process. There are three key areas in the assessment, which includes more than 20 questions that the supplier must answer:

- Responsible company: it assesses whether the supplier has a documented CSR policy, a Community Engagement Policy and what kind of charitable and volunteer activities are carried out.
- Labour standards: it assesses whether the supplier has a Labour Standards Policy which includes slavery, whistleblowing and internal audits.
- Environment: it assesses whether the supplier has an Environmental Policy, including ISO14001 Certification, its environmental records and its environmental improvement plans.
- Details of the supplier questionnaire are included in TSB's Policy Due Diligence Tool.

Blockchain technology and suppliers

In 2019, Banco Sabadell has taken part in the first phase of the Digitalis project, together with Repsol, Ferrovial, Cepsa, Grupo Red Eléctrica and MAPFRE. This pilot project applies blockchain technology to the verification of supplier documentation, something that usually leads to complicated certification and validation processes. The objective is to make relationships between corporations and their suppliers more agile, efficient and secure. The initiative has received a series of awards from ARCE (the Spanish Association of Purchasing, Contract and Procurement Professionals) in different categories, winning the first prize in Supplier Integration, the second prize in Innovation and an honourable mention in Corporate Social Responsibility and Transformation of the Procurement department.

# ANNEX 1. CORPORATE STANDARDS AND INSTITUTIONAL COMMITMENTS

Beyond the actions and initiatives summarised in this Non-Financial Disclosures Report, Banco Sabadell has a series of codes, policies and standards in place which determine its commitment to the Group's corporate purpose, and it is also a signatory of various national and international agreements which also enshrine this commitment. The policies and commitments listed below are those corresponding to the institution's non-financial areas and they are available on the website.

## Non-financial principles and policies

[SDG 17]

- Code of Conduct: this applies to all persons who directly form part of the Group, whether through a professional association or through their membership of its governing bodies.
- Internal Code of Conduct relating to the securities market.
- Code of Conduct for Suppliers.
- Corporate Social Responsibility Policy.
- Banco Sabadell Group Policy on restrictions on financing and investment in activities associated with the arms industry.
- Ethics and Human Rights Policy.
- Shareholders and Investors Policy.
- Customers Policy.
- Human Resources Policy.
- Environmental Policy.
- Suppliers Policy.
- Social Action Policy.
- Banco Sabadell Group Remuneration Policy.
- Banco Sabadell Equality Plan.
- Guidance for the use of social media.
- Tax Strategy and Good Taxation Practices:
    - Tax Strategy.
    - Tax Liability and Good Taxation Practices.

## Pacts, agreements and commitments

[SDG 5, SDG 13, SDG 17]

- Signatory of the United Nations Global Compact on human rights, labour, the environment and anti-corruption.
- Founding signatory of the UNEP Finance Initiative's Principles for Responsible Banking (UNEP FI), committing to strategically align its business with the Sustainable Development Goals and the Paris Agreement on Climate Change.
- Adherence to the collective commitment of Spanish banks to climate action.
- Signatory of the Equator Principles, which incorporate social and environmental criteria in the funding of large-scale projects and corporate loans.
- Integration of CSR into corporate practices following ISO 26000 guidelines.
- Adherence to the United Nations Principles for Responsible Investment in the "asset management" category.
- Renewal of its membership of the agreement signed between the Spanish Banking Association (AEB), the Spanish Securities Market Commission (CNMV) and the Bank of Spain for the pursuit of courses of action within the framework of the National Plan for Financial Education.
- Adherence to the Code of Good Banking Practice.
- Membership of AUTOCONTROL (the independent advertising self-regulatory organisation in Spain).
- Inclusion in sustainable indices FTSE4Good and FTSE4Good IBEX.
- Gold Seal of Excellence from the European Foundation for Quality Management (EFQM).
- ISO 9001 Certification in effect for 100% of the Group's processes and activities in Spain.
- ISO 14001 Certification for the six corporate buildings.
- Signatory of the Carbon Disclosure Project (CDP) for action against climate change and its CDP Water Disclosure programme.
- Awarded the "Equality in the Workplace" ("Igualdad en la Empresa") Seal of Distinction by the Ministry of the Presidency, Relations with the Courts and Equality.

## ANNEX 2. TABLE OF CONTENTS LAW 11/2018

Reference: Directors' Report (DR)

| AREA | Contents | Response/Section | GRI Standards | GRI Description |
|---|---|---|---|---|
| BUSINESS MODEL | Brief description of the Group's business model, which includes: 1.) its business environment, 2.) its organisation, 3.) its geographical presence, 4.) its targets, objectives and strategies, 5.) key factors and trends that could affect its future performance. | DR 1.1 Organisational structure | 102-1 | Company name |
| | | DR 1.1. Organisational structure | 102-2 | Activities, brands, products and services |
| | | DR 1.1 Organisational structure | 102-3 | Location of headquarters |
| | | DR 1.1. Organisational structure; DR 1.2 Business model, main objectives achieved and actions implemented | 102-4 | Location of operations |
| | | DR 1.1. Organisational structure; DR 1.2 Business model, main objectives achieved and actions implemented; | 102-6 | Markets served |
| | | DR 1.1 Organisational structure; DR 1.2 Business model, main objectives achieved and actions implemented; | 102-7 | Size of the organisation |
| | | DR 1.1 Organisational structure | 102-6 | Markets served |
| POLICIES | A description of the policies applied by the Group in relation to such matters, which includes: 1.) due diligence procedures applied for the identification, assessment, prevention and mitigation of risks and significant impacts 2.) verification and control procedures, including the measures that have been adopted. | 1.1.4 Ethical and charitable investing; 1.1.5 Social housing management; 1.2. Risk assessment with ESG criteria; 2.4. Remuneration policy; 2.5. Workplace environment and organisation; 4. Information regarding human rights; 3. Environment; 5. The fight against corruption and bribery; 6. Society; Annex 1 - Corporate standards and institutional commitments | 103 | Management approach disclosures for each area, it will be necessary to highlight what internal policies are in place |
| RESULTS OF KPI POLICIES | The results of these policies, which must include the relevant non-financial key performance indicators to enable: 1.) monitoring and assessment of progress made, and 2.) the comparability between companies and sectors, in accordance with national, European and international frameworks of reference used for each subject matter. | 1.1 Sustainable finance (1.1.5. Social housing management); 1.2. Risk assessment with ESG criteria; 2.1. Workforce information; 2.5.2. Health and safety; 2.2.2. Talent model; 1.2. Risk assessment with ESG criteria; 3.1. CO2 emissions; 3.3. Sustainable use of resources; 6. Society | 103 | Management approach disclosures for each area |

| AREA | Contents | Response/Section | GRI Standards | GRI Description |
|---|---|---|---|---|
| **SHORT-, MEDIUM- AND LONG-TERM RISKS** | The main risks related to these matters linked to the Group's activities, including, where relevant and proportionate, their business relationships, products and services which could have negative effects on these areas, as well as<br>* the way in which the Group manages these risks,<br>* explaining the procedures used to detect and assess such risks in accordance with national, European or international frameworks of reference applicable to each subject matter.<br>* Information must be included on any impacts detected, providing a breakdown of such impacts, particularly in relation to the main short-, medium- and long-term risks. | 1.2. Risk assessment with ESG criteria;<br>DR.4 Risks | 102-15 | Key impacts, risks and opportunities |
| **NON-FINANCIAL KEY PERFOR-MANCE INDICATORS** | Relevant indicators in relation to the existing corporate diversity and which meet comparability, materiality, significance and reliability criteria. | 1.1 Sustainable finance:<br>(1.1.1. Financing and investment in sustainable projects);<br>1.1.2. Financing solutions;<br>1.1.3. Sustainable bonds, 1.1.4. Ethical and charitable investing)<br>1.2. Risk assessment with ESG criteria;<br>3.1. Co2 emissions;<br>3.3. Sustainable use of resources;<br>6.1.1. Commitment to education | FS1, FS2 | Financial services sector supplement indicators: (FS1) Policies with specific environmental and social components applied to business lines; (FS2) Procedures for assessing and controlling social and environmental risks in business lines (FS2) |

| AREA | Contents | Response/ Section | GRI Standards | GRI Description |
|---|---|---|---|---|
| **ENVIRON-MENTAL MATTERS** | **GLOBAL ENVIRONMENT** | | | |
| | 1.) Detailed information about the current and foreseeable effects of the company's activities on the environment and, where applicable, on health and safety, environmental assessment or certification procedures;<br>2.) Resources dedicated to environmental risk prevention;<br>3.) Application of the precautionary principle, the amount of provisions and guarantees for environmental risks. | 3. Environment (Introduction) | 103 | Management approach disclosures for each area |
| | | 3. Environment (Introduction)<br>1.2. Risk assessment with ESG criteria;<br>3.1. Co2 emissions;<br>3.3. Sustainable use of resources | 102-11 | Precautionary principle or approach |
| | **POLLUTION** | | | |
| | 1.) Measures to prevent, reduce or remedy carbon emissions that severely affect the environment;<br>2.) Taking into account any form of atmospheric pollution caused by a specific activity, including noise and light pollution. | 3.1. Co2 emissions;<br>3.3. Sustainable use of resources | 103 | Management approach disclosures – Emissions |
| | **CIRCULAR ECONOMY AND WASTE MANAGEMENT & PREVENTION** | | | |
| | Waste: Measures on the prevention, recycling, reuse and other forms of recovery and disposal of waste; | 3.1. Co2 emissions;<br>3.2. Circular economy and waste management and prevention;<br>3.3. Sustainable use of resources | 103 | Management approach disclosures – Effluents and waste |
| | Actions to combat food waste. | At the headquarters, which has a restaurant, the Bank has a protocol in place designed to reduce food waste | 103 | Management approach disclosures – Effluents and waste |

| AREA | Contents | Response/Section | GRI Standards | GRI Description |
|---|---|---|---|---|
| ENVIRON-MENTAL MATTERS | **SUSTAINABLE USE OF RESOURCES** | | | |
| | Water consumption and water supply in accordance with local restrictions; | 3.3. Sustainable use of resources | 303-1 | Water withdrawal by source |
| | | 3.3. Sustainable use of resources | 303-2 | Water sources significantly affected by water withdrawal |
| | | 3.3. Sustainable use of resources | 303-3 | Recycled and reused water |
| | Consumption of raw materials and measures adopted to make their use more efficient; | 3.3. Sustainable use of resources | 103 | Management approach disclosures – Materials |
| | | 3.3. Sustainable use of resources | 301-1 | Materials used by weight or volume |
| | | 3.3. Sustainable use of resources | 301-2 | Recycled consumables |
| | Direct and indirect energy consumption, measures taken to improve energy efficiency and the use of renewable energy. | 3.3.1. Energy consumption | 103 | Management approach disclosures – Energy |
| | | 3.3. Sustainable use of resources | 302-1 | Energy consumption within the organisation |
| | | 3.3. Sustainable use of resources | 302-4 | Reduction of energy consumption |
| | **CLIMATE CHANGE** | | | |
| | Key aspects of greenhouse gas emissions generated as a result of the company's activities, including the use of the goods it produces and the services it provides; | 3.1. Co2 emissions | 103 | Management approach disclosures – Emissions |
| | | 3.1. Co2 emissions | 305-1 | Direct GHG emissions (scope 1) |
| | | 3.1. Co2 emissions | 305-2 | Energy indirect GHG emissions (scope 2) |
| | | 3.1. Co2 emissions | 305-3 | Other indirect GHG emissions (scope 3) |
| | | 3.1. Co2 emissions | 305-4 | GHG emissions intensity |
| | | 3.1. Co2 emissions | 305-5 | Reduction of GHG emissions |
| | The measures adopted to adapt to the consequences of climate change; | 3.1. Co2 emissions | 103 | Management approach disclosures – Emissions |
| | The voluntary reduction targets established for the medium and long term to reduce greenhouse gas emissions and the measures implemented for such purposes. | 3. Environment (introduction);<br>3.1. Co2 emissions;<br>3. Sustainable use of resources | 103 | Management approach disclosures – Emissions |
| | **PROTECTION OF BIODIVERSITY** | | | |
| | Measures taken to preserve or restore biodiversity; | Banco Sabadell's activities do not have any significant impacts on biodiversity or on protected areas. | 103 | Management approach disclosures – Biodiversity |
| | Impacts caused by activities or operations in protected areas. | Not applicable. Banco Sabadell's activities do not have any significant impacts on biodiversity or on protected areas. | 304-2 | Significant impacts of activities, products and services on biodiversity |

| AREA | Contents | Response/Section | GRI Standards | GRI Description |
|---|---|---|---|---|
| CORPORATE AND STAFF RELATED MATTERS | **EMPLOYEES** | | | |
| | Total number and breakdown of employees by gender, age, country and professional category | 2.1. Workforce information;<br>2.2. Commitment to talent | 103 | Management approach disclosures – Employees |
| | | 2.1. Workforce information | 102-8 | Information on employees and other workers |
| | | 2.1. Workforce information;<br>2.3. Diversity | 405-1 | Diversity of governance bodies and employees |
| | Total number and breakdown of types of employment contracts | 2.1. Workforce information | 102-8 | Information on employees and other workers |
| | Annual average of permanent contracts, temporary contracts and contracts for part-time work by gender, age and professional category | 2.1. Workforce information | 102-8 | Information on employees and other workers |
| | | 2.1. Workforce information | 405-1 | Diversity of governance bodies and employees |
| | Number and breakdown of dismissals by gender, age and professional category | 2.1. Workforce information | 401-1 | New employee hires and staff turnover |
| | Average remuneration and its evolution, broken down by gender, age and professional category or its equivalent | 2.4. Remuneration policy | 405-2 | Ratio of basic salary and remuneration between men and women |
| | Gender pay gap, remuneration for equal positions or average remuneration within the company | 2.4. Remuneration policy | 103 | Employment + Diversity and equal opportunity |
| | | 2.4. Remuneration policy | 405-2 | Ratio of basic salary and remuneration between men and women |
| | Average remuneration of directors and management staff, including variable pay, subsistence allowances, severance pay, payments into long-term retirement plans or any other amounts received, broken down by gender | 2.3.1. Gender | 102-35 | Governance: Remuneration policies |

| AREA | Contents | Response/Section | GRI Standards | GRI Description |
|---|---|---|---|---|
| CORPORATE AND STAFF RELATED MATTERS | Implementation of policies safeguarding employees' right to disconnect, | With regard to digital disconnection, the sectoral framework agreement of 18/12/2019 with the AEB was signed. | 103 | Management approach disclosures – Employees |
| | Employees with disabilities. | 2.3.2. People with disabilities | 405-1 | Diversity of governance bodies and employees |
| | Organisation of working hours | 2.5. Workplace environment and organisation;<br>2.5.1. Work-life balance<br>2.5.2. Health and safety | 103 | Management approach disclosures – Employees |
| | Number of hours of employee absence | 2.5.2. Health and safety | 403-2 | Types of accident and incidence rates of accidents, occupational illnesses, days not worked, absence and number of deaths per workplace accident or occupational illness |
| | Measures aimed at facilitating the achievement of a work-life balance and encouraging the equal enjoyment of such measures by both parents. | 2.5.1. Work-life balance | 103 | Management approach disclosures – Employees |
| | **HEALTH AND SAFETY** | | | |
| | Health and safety conditions in the workplace; | 2.5.2. Health and safety | 103 | Management approach disclosures – Health & Safety in the Workplace |
| | Workplace accidents, in particular their frequency and severity, | 2.5.2. Health and safety | 403-2 | Types of accident and incidence rates of accidents, occupational illnesses, days not worked, absence and number of deaths per workplace accident or occupational illness |
| | Occupational illnesses; broken down by gender. | 2.5.2. Health and safety | 403-3 | Workers with a high incidence rate or at high risk of illnesses related to their activity |
| | **WORKPLACE RELATIONS** | | | |
| | Organisation of social dialogue, including procedures for informing and consulting with staff and for negotiating with them; | 2.5.2. Health and safety | 103 | Management approach disclosures – Relationships between workers and the company |
| | Percentage of employees covered by a collective bargaining agreement, by country; | 2.5.2. Health and safety | 102-41 | Collective bargaining agreements |
| | Status of collective bargaining agreements, particularly in relation to occupational health and safety. | 2.5.2. Health and safety | 403-1 | Representation of workers in formal committees between employees and employers on health and safety |

| AREA | Contents | Response/Section | GRI Standards | GRI Description |
|---|---|---|---|---|
| CORPORATE AND STAFF RELATED MATTERS | **TRAINING** | | | |
| | Policies implemented in relation to training; | 2.2.2. Talent model | 103 | Management approach disclosures – Training and education |
| | Total hours of training, broken down by professional category. | 2.2.2. Talent model | 404-1 | Average hours of training per year per employee |
| | Universal accessibility for people with disabilities | 2.3.2. People with disabilities | 103 | Management approach disclosures |
| | **EQUALITY** | | | |
| | Measures adopted to promote equal treatment and opportunities between men and women; | 2.3.1. Gender | 103 | Management approach disclosures – Diversity and equal opportunity + Non-discrimination |
| | Equality Plans (Chapter III of Organic Law 3/2007, of 22 March, on effective equality between men and women), measures adopted to promote employment, protocols against sexual abuse and sexual harassment, integration and universal accessibility for people with disabilities; | 2.3.1. Gender | | |
| | Policy against all forms of discrimination and, where applicable, gender diversity management. | 2.3.1. Gender | | |

| AREA | Contents | Response/Section | GRI Standards | GRI Description |
|---|---|---|---|---|
| HUMAN RIGHTS | Application of due diligence procedures in relation to human rights | 4. Information regarding human rights | 103 | Management approach disclosures<br>Human rights screening + Freedom of association and collective bargaining + Child labour + Forced or compulsory labour |
| | | 4. Information regarding human rights;<br>1.2. Risk assessment with ESG criteria; | 102-16 | Values, principles, standards and codes of conduct |
| | | 4. Information regarding human rights | 102-17 | Mechanisms for advice and concerns about ethics |
| | Prevention of risks of human rights violations and, where applicable, measures to mitigate, manage and redress any such violations | 4. Information regarding human rights | 103 | Management approach disclosures<br>Human rights screening + Freedom of association and collective bargaining + Child labour + Forced or compulsory labour |
| | Reported human rights violations | In 2019, an allegation of workplace harassment was received, which was resolved as unsubstantiated | 406-1 | Cases of discrimination and corrective actions taken |
| | Advocacy of and compliance with the provisions of fundamental conventions of the International Labour Organisation related to safeguarding the freedom of association and the right to collective bargaining | 4. Information regarding human rights | 407-1 | Transactions and suppliers whose freedom of association and right to collective bargaining could be at risk |
| | The elimination of workplace discrimination and job discrimination | 4. Information regarding human rights<br>2.3.1. Gender | 103 | Management approach disclosures – Non-discrimination |
| | The elimination of forced or compulsory labour | 4. Information regarding human rights | 409-1 | Activities and suppliers at significant risk of forced or compulsory labour |
| | Effective abolition of child labour. | 4. Information regarding human rights | 408-1 | Activities and suppliers at significant risk of child labour |

| AREA | Contents | Response/Section | GRI Standards | GRI Description |
|---|---|---|---|---|
| CORRUPTION AND BRIBERY | Measures adopted to prevent corruption and bribery | 5. The fight against corruption and bribery | 103 | Management approach disclosures – Anti-corruption |
| | | 5. The fight against corruption and bribery | 102-16 | Values, principles, standards and codes of conduct |
| | | 5. The fight against corruption and bribery | 102-17 | Mechanisms for advice and concerns about ethics |
| | | 5. The fight against corruption and bribery | 205-2 | Communication and training about anti-corruption policies and procedures |
| | Measures to combat money laundering | 5. The fight against corruption and bribery | 205-2 | Communication and training about anti-corruption policies and procedures |
| | Contributions to foundations and non-profit organisations | 6. Society; 6.1.2. Solidarity<br>1.1.4 Ethical and charitable investment<br>1.1.5 Social housing management | 413-1 | Activities involving the local community, impact assessments and development schemes |

| AREA | Contents | Response/Section | GRI Standards | GRI Description |
|---|---|---|---|---|
| SOCIETY | **The company's commitments to sustainable development** | | | |
| | The impact of the company's activities on local employment and development | 1.1.5. Social housing management;<br>6.1.1. Commitment to education<br>6.1.2. Solidarity; | 103 | Management approach disclosures – Local communities + Indirect economic impacts |
| | | 1.1.5. Social housing management;<br>6.1.1. Commitment to education<br>6.1.2. Solidarity; | 203-1 | Infrastructure investments and services supported. |
| | | 1.1.5. Social housing management;<br>6.1.1. Commitment to education<br>6.1.2. Solidarity; | 203-2 | Significant indirect economic impacts |
| | | 1.1.5. Social housing management;<br>6.1.1. Commitment to education<br>6.1.2. Solidarity; | 413-1 | Activities involving the local community, impact assessments and development schemes |
| | The impact of the company's activities on local communities and in the area | 1.1.5. Social housing management;<br>6.1.1. Commitment to education<br>6.1.2. Solidarity; | 203-1 | Infrastructure investments and services supported. |
| | | 1.1.5. Social housing management;<br>6.1.1. Commitment to education<br>6.1.2. Solidarity; | 413-1 | Activities involving the local community, impact assessments and development schemes |
| | The relationships with key members of local communities and the different forms of dialogue with the same | 1.1.5. Social housing management;<br>6.1.1. Commitment to education<br>6.1.2. Solidarity; | 102-43 | Approaches to encourage the involvement of stakeholders |
| | | 1.1.5. Social housing management;<br>6.1.1. Commitment to education<br>6.1.2. Solidarity; | 413-1 | Activities involving the local community, impact assessments and development schemes |
| | Association and sponsorship activities | 6.1.1. Commitment to education<br>6.1.2. Solidarity;<br>Annex 1: Corporate standards and institutional commitments | 102-12 | External initiatives |
| | | 6.1.1. Commitment to education<br>6.1.2. Solidarity;<br>Annex 1: Corporate standards and institutional commitments | 102-13 | Membership of associations |

| AREA | Contents | Response/Section | GRI Standards | GRI Description |
|---|---|---|---|---|
| SOCIETY | **OUTSOURCING AND SUPPLIERS** | | | |
| | * Inclusion in the procurement policy of social, gender equality and environmental matters; * Consideration in relationships with suppliers and subcontractors of their social and environmental responsibilities; | 6.2.2. Outsourcing and suppliers | 102-9 | Supply chain |
| | | 6.2.2. Outsourcing and suppliers | 103 | Environmental assessment of suppliers + Evaluation of suppliers' social matters |
| | | 6.2.2. Outsourcing and suppliers | 308-1 | Environmental assessment of suppliers |
| | | 6.2.2. Outsourcing and suppliers | 414-1 | Evaluation of suppliers' social matters |
| | Supervision and audit systems and their results. | 6.2.2. Outsourcing and suppliers | 103 | Management approach disclosures – Procurement practices |
| | **Consumers** | | | |
| | Consumer health and safety measures; | 1.4.1. Transparency; 1.4.2. Digitalisation; 6.1.1. Commitment to education | 103 | Management approach disclosures – Customer health and safety + Marketing and labelling + Customer privacy |
| | Whistle-blowing systems, complaints received and their resolution. | 6.2.1. Consumers; DR 1.5 The customer; Consolidated Annual Financial Statements, Note 42 | 103 | Management approach disclosures – Customer health and safety + Marketing and labelling + Customer privacy |
| | **Tax information** | | | |
| | Country-by-country earnings obtained | 1.3. Tax information | 103 | Management approach disclosures – Economic performance + Quantitative data on taxes and earnings |
| | Corporation tax paid | 1.3. Tax information | 103 | Management approach disclosures – Economic performance + Quantitative data on taxes and earnings |
| | Public subsidies received | 1.3. Tax information | 201-4 | Financial assistance received from government |

## ISSUER IDENTIFICATION DATA

Reporting Year Ended [ 31/12/2019 ]

Tax ID Number: [ A-08000143 ]

Company name:

[ **Banco de Sabadell, S.A.** ]

Registered office:

[ AV. OSCAR ESPLÁ N.37 (ALICANTE) ]

## A. OWNERSHIP STRUCTURE

A.1. Complete the next table about the company's ownership structure:

| Date of last change | Share capital (€) | No. of shares | No. of voting rights |
|---|---|---|---|
| 16/11/2017 | 703,370,587.63 | 5,626,964,701 | 5,626,964 |

Indicate whether there are different classes of shares, with different associated rights:

[ ] Yes
[ √ ] No

A.2. Detail direct and indirect owners of significant stakes at year-end, excluding directors:

| Name of shareholder | Voting rights attributed to the shares (%) | | Voting rights through financial instruments (%) | | Total voting rights (%) |
|---|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect | |
| BLACKROCK INC. | 0.00 | 5.08 | 0.00 | 0.13 | 5.21 |
| FINTECH EUROPE, S.À.R.L. | 3.49 | 0.00 | 0.00 | 0.00 | 3.49 |
| COLTRANE MASTER FUND,L.P. | 0.00 | 0.00 | 1.07 | 0.00 | 1.07 |

Detail the indirect holding:

| Full name/corporate name of indirect owner | Full name/corporate name of direct owner | Voting rights attributed to the shares (%) | Voting rights through financial instruments (%) | Total voting rights (%) |
|---|---|---|---|---|
| BLACKROCK INC. | Subsidiaries of BLACKROCK, INC. | 5.08 | 0.13 | 5.21 |

Indicate significant changes in the ownership structure in the year:

| Main changes |
|---|

NORGES BANK 07/01/2019. Fell below 3% of voting rights attributed to shares.
BLACKROCK INC. 01/02/2019. Fell below 5% of voting rights attributed to shares.
BLACKROCK INC. 04/02/2019. Exceeded 5% of voting rights attributed to shares.
BLACKROCK INC. 05/02/2019. Fell below 5% of voting rights attributed to shares.
BLACKROCK INC. 26/02/2019. Fell below 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 28/02/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 03/05/2019. Fell below 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 07/05/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 08/05/2019. Fell below 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 23/05/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 10/06/2019. Fell below 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 11/06/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 15/08/2019. Fell below 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 19/08/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 23/08/2019. Fell below 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 20/11/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 28/11/2019. Exceeded 5% of voting rights attributed to shares.
BLACKROCK INC. 16/12/2019. Fell below 5% of voting rights attributed to shares and financial instruments.

BLACKROCK INC. 20/12/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 30/12/2019. Fell below 5% of voting rights attributed to shares.
BLACKROCK INC. 31/12/2019. Exceeded 5% of voting rights attributed to shares.

Mr. David Martínez Guzmán is the indirect holder of the voting rights attributed to the shares of FINTECH EUROPE, S.À.R.L.

A.3. Complete the next tables regarding the members of the company's board of directors who hold voting rights in the company:

| Name of director | Voting rights attributed to the shares (%) | | Voting rights through financial instruments (%) | | Total voting rights (%) | Voting rights that may be transferred through financial instruments (%) | |
|---|---|---|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect | | Direct | Indirect |
| Mr. JOSÉ OLIU CREUS | 0.01 | 0.11 | 0.03 | 0.00 | 0.15 | 0.00 | 0.00 |
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mr. JAIME GUARDIOLA ROMOJARO | 0.03 | 0.00 | 0.02 | 0.00 | 0.05 | 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. PEDRO FONTANA GARCIA | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Ms. MARÍA JOSÉ GARCÍA BEATO | 0.00 | 0.00 | 0.01 | 0.00 | 0.01 | 0.00 | 0.00 |
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mr. GEORGE DONALD JOHNSTON | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mr. DAVID MARTÍNEZ GUZMÁN | 0.00 | 3.49 | 0.00 | 0.00 | 3.49 | 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 |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | 0.05 | 0.00 | 0.01 | 0.00 | 0.06 | 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 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| | |
|---|---|
| Total % of voting rights held by the board of directors | 3.78 |

Detail the indirect holding:

| Name of director | Full name/ corporate name of direct owner | Voting rights attributed to the shares (%) | Voting rights through financial instruments (%) | Total voting rights (%) | Voting rights that may be transferred through financial instruments (%) |
|---|---|---|---|---|---|
| Mr. DAVID MARTÍNEZ GUZMÁN | FINTECH EUROPE, S.À.R.L. | 3.49 | 0.00 | 3.49 | 0.00 |

The percentage of voting rights through financial instruments reflects the rights attributed to the long-term supplementary incentives for the years 2017 and 2018, which have not vested.

A.4. Indicate any family, commercial, contractual or business relationships among owners of significant stakes, insofar as they are known to the company, unless they are not material or are derived from ordinary commercial transactions, except those disclosed in section A.6:

| Name of related parties | Relationship type | Brief description |
|---|---|---|
| No data | | |

A.5. Indicate any commercial, contractual or corporate relationships between owners of significant stakes and the company and/or its group, unless they are not material or are derived from ordinary commercial transactions:

| Name of related parties | Relationship type | Brief description |
|---|---|---|
| No data | | |

A.6. Indicate any relationships between significant shareholders or shareholders with board representation and the directors, or their representatives, in the case of natural persons representing directors that are legal persons, except where such relations are non-material for the two parties.

Indicate how the significant shareholders are represented. Specifically, identify any directors who were appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders, or who are related to significant shareholders and/or entities in their group, indicating the nature of the relationship. In particular, disclose the existence, identity and position of directors, or representatives of directors, of the listed company who are, in turn, members of the board, or their representatives, in companies that hold significant stakes in the listed company or in entities of such significant shareholders' group:

| Full name/corporate name of related director or representative | Name of related significant shareholder | Corporate name of the significant shareholder's group company | Description of relationship/position |
|---|---|---|---|
| Mr. DAVID MARTÍNEZ GUZMÁN | FINTECH EUROPE, S.À.R.L. | NOT APPLICABLE | - |

Fintech Europe S.A.R.L. is owned 100% by Fintech Investment Ltd., the investment fund managed by Fintech Advisory Inc. (FAI). FAI is owned 100% by Mr. David Martínez Guzmán.

A.7. Indicate whether shareholders' agreements that affect the company have been notified to the company as provided in articles 530 and 531 of the Capital Companies Act. If so, briefly describe the agreements and list the shareholders involved:

[ ] Yes
[ √ ] No

Indicate if the company is aware of any concerted actions among its shareholders. If so, give a brief description:

[ ] Yes
[ √ ] No

If the shareholders' agreements or concerted actions have been amended or terminated in the year, indicate this expressly.

-

A.8. Indicate if any natural or legal person exercises or can exercise control over the company in accordance with article 5 of the Securities Market Act. If so, identify that person:

[ ] Yes
[ √ ] No

A.9. Complete the next tables about the company's own shares:

At year-end:

| No. of direct shares | No. of indirect shares (*) | Total % of share capital |
|---|---|---|
| 6,006,864 | 10,155,636 | 0.287 |

(*) Through:

| Name of direct owner of holding | No. of direct shares |
|---|---|
| BANCO SANTANDER S.A. | 10,155,636 |
| Total | 10,155,636 |

Describe the main changes in the year:

| Describe the main changes |
|---|
| See detail in table. |

A.10. Detail the conditions and term of the current authorisation that the Shareholders' Meeting has given to the Board of Directors to buy or sell own shares:

The current mandate was granted by a resolution of the General Meeting of Shareholders of Banco de Sabadell, S.A. on 28 March 2019, under item 8 on the agenda, for five years, in the following terms:

"Revoke the delegation granted under resolution six adopted at the General Meeting on 19 April 2018 in the part not executed, and authorise Banco de Sabadell, Sociedad Anónima so that, either directly or through any of its subsidiaries, and within a maximum period of five years as from the date of this General Meeting, it may, subject to obtaining prior authorisation from the European Central Bank, acquire, at any time and as often as it sees fit, shares of Banco de Sabadell, Sociedad Anónima by any of the means admitted by law, including against profit for the year and/or unrestricted reserves, and that it may subsequently sell or cancel any shares thus acquired or, as appropriate, deliver them to employees or directors of Banco de Sabadell, Sociedad Anónima as part of their remuneration or as a result of the exercise of stock options which they hold, all in accordance with the provisions of articles 146, 509 and matching articles of the Capital Companies Act.

Approve the limits or conditions of these acquisitions, as follows:

- The par value of the shares thus acquired, directly or indirectly, in addition to any shares already held by Banco de Sabadell, Sociedad Anónima and its subsidiaries, must not exceed, at any time, the legal limit established at any time by the legislation in force (currently ten per cent of share capital), complying in all cases with all the limits for acquisition of own shares established by the stock market regulators in the markets on which the shares of Banco de Sabadell, Sociedad Anónima are listed.
- The acquisition, including any shares previously acquired by Banco de Sabadell, Sociedad Anónima (or by a person acting in their own name but on the bank's behalf) and held by it, must not lead to equity being less than the amount of capital plus legal reserves and reserves that are designated as restricted under the Articles of Association.
- The shares acquired must have been fully paid.
- The acquisition price must be no less than par value and no higher than 20 per cent above the stock market price or any other price whereby the shares may be valued as of the date of their acquisition. All acquisitions of own shares must be made in accordance with general stock market rules and regulations."

A.11. Estimated free float:

| | % |
|---|---|
| Estimated free float | 90.84 |

A.12. Indicate whether there are any restrictions (under the Articles of Association, the law or any other type) on the transfer of securities and/or any restriction on voting rights. In particular, disclose the existence of any restrictions that might hamper the acquisition of control of the company by purchasing its shares in the market, and the requirements as to prior authorisation or disclosure of the acquisition or disposal of the company's financial instruments that are applicable in its industry.

[ √ ] Yes

[ ] No

| Description of the restrictions |
|---|
| The only existing restrictions are those established in Spanish law applying to all credit institutions. Act 10/2014, of 26, June, on ordering, supervision and solvency of credit institutions, establishes that in any acquisition of at least 10 percent of the capital or of the voting rights of the institution, 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 the acquisition of 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 the stake below those thresholds must be notified by the seller to the Bank of Spain. |

A.13. State whether the General Meeting adopted measures to neutralise a takeover bid under the provisions of Act 6/2007.

[ ] Yes
[ √ ] No

A.14. Detail any such methods that have been approved and the terms in which the restrictions will be rendered ineffective:

A.15. Indicate whether the company has issued securities that are not listed in a regulated market in the European Union.

[ ] Yes
[ √ ] No

If so, state the classes of shares and, for each class of shares, their corresponding rights and obligations:

## B. GENERAL MEETING

B.1. Indicate whether there are differences with respect to the minimum requirements set out in the Capital Companies Act in connection with the quorum for a General Meeting of Shareholders, and describe any such differences:

[ ] Yes
[ √ ] No

B.2. Indicate and, if applicable, explain whether there are differences with respect to the rules provided by the Corporations Law for the adoption of corporate resolutions:

[ ] Yes
[ √ ] No

B.3. Describe the rules that apply to amendments of the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and any rules for safeguarding shareholders' rights in the event of an amendment of the Articles.

Amendments of the Bank's Articles of Association are governed by the Capital Companies Act and the Bank's own Articles of Association; where required by law, it is also necessary to obtain authorisation from the Bank of Spain under the powers assigned to it by article 10 of Royal Decree 84/2015, of 13 February, implementing Act 10/2014, of 26, June, on ordering, 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.

In accordance with the provisions of the Capital Companies Act, where amendments are approved by the General Meeting, the following requirements must be met:

- The directors or shareholders proposing the amendment must provide a written report justifying the proposed amendment.
- The proposed amendments must be clearly set out in the notice of the General Meeting.
- The notice of the General Meeting must state that all shareholders are entitled to inspect the full text of the proposed amendment and accompanying explanations at the Company's registered office and to request that those documents be provided or sent to them free of charge.

The resolutions must be adopted by the Shareholders' Meeting in accordance with Article 43 of the Articles of Association:

Article 43.
In order for an Ordinary or Extraordinary Shareholders' Meeting to validly adopt a resolution to issue bonds that are convertible into shares or that grant entitlement to participate in the company's earnings, to reduce or increase the share capital, to change the legal form of the Company, to merge or de-merge the Company or, generally, to make any amendment to the Articles of Association, the Meeting, if at first call, must be attended, in person or by proxy, by shareholders holding not less than 50 per cent of the subscribed voting shares.

If at second call, 25 per cent of capital will suffice.

Where those present represent less than 50 per cent of the subscribed voting shares, any of the resolutions referred to in the preceding paragraph requires a majority of two-thirds of the capital in attendance, whether in person or by proxy.

B.4. Indicate the attendance at the shareholders' meetings held in the reporting year and the two preceding years:

| | Attendance data | | | | |
|---|---|---|---|---|---|
| Date of General Meeting | % in attendance | % by proxy | % remote voting | | Total |
| | | | Electronic 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 |
| 19/04/2018 | 0.78 | 60.57 | 0.00 | 0.00 | 61.35 |
| Of which free float: | 0.66 | 60.38 | 0.00 | 0.00 | 61.04 |
| 30/03/2017 | 0.68 | 63.30 | 0.00 | 0.00 | 63.98 |
| Of which free float: | 0.55 | 62.92 | 0.00 | 0.00 | 63.47 |

The estimated percentages of free float may include significant holdings held through international custodians.

B.5. Indicate whether any item on the agenda of the general meetings held during the year was not approved by the shareholders, for any reason:

[ ] Yes
[ √ ] No

B.6. Indicate whether there are any restrictions in the Articles requiring a minimum number of shares to attend the General Meeting or to vote by distance means:

[ √ ] Yes
[ ] No

| | |
|---|---|
| Number of shares required to attend the General Meeting. | 1,000 |
| Number of shares required to vote by distance means | - |

B.7. Indicate whether there are rules requiring that certain decisions, other than those established by law, involving the acquisition, transfer, contribution to another company of essential assets or other similar corporate operations must be submitted for the approval of the general meeting:

[ ] Yes
[ √ ] No

B.8. Give the address of the company's website and the way to access the information about corporate governance and other information about General Meetings that must be placed at shareholders' disposal via the company's website:

The information about corporate governance is available on the Group's corporate website (www.grupobancosabadell.com) directly in the section entitled "Corporate governance and remuneration policy". The information about General Meetings is available on the Group's corporate website (www.grupobancosabadell.com) directly in the section entitled "Shareholder and investor information".

## C. THE COMPANY'S GOVERNANCE STRUCTURE

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors envisaged in the Articles, and the number established by the general meeting:

| | |
|---|---|
| Maximum number of directors | 15 |
| Minimum number of directors | 11 |
| Number of directors established by the general meeting | 15 |

C.1.2 Complete the next table with the members of the board:

| Name of director | Representative | Director category | Board position | Date of first appointment | Date of latest appointment | Election procedure |
|---|---|---|---|---|---|---|
| Mr. JOSÉ OLIU CREUS | | EXECUTIVE | CHAIRMAN | 29/03/1990 | 28/03/2019 | GENERAL MEETING DECISION |
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | | INDEPENDENT | DEPUTY CHAIRMAN | 18/09/2010 | 28/03/2019 | GENERAL MEETING DECISION |
| Mr. JAIME GUARDIOLA ROMOJARO | | EXECUTIVE | MANAGING DIRECTOR | 27/09/2007 | 19/04/2018 | GENERAL MEETING DECISION |
| Mr. ANTHONY FRANK ELLIOTT BALL | | INDEPENDENT | LEAD INDEPENDENT DIRECTOR | 30/03/2017 | 30/03/2017 | GENERAL MEETING DECISION |
| Ms. AURORA CATÁ SALA | | INDEPENDENT | DIRECTOR | 29/01/2015 | 28/03/2019 | GENERAL MEETING DECISION |
| Mr. PEDRO FONTANA GARCIA | | INDEPENDENT | DIRECTOR | 27/07/2017 | 19/04/2018 | GENERAL MEETING DECISION |
| Ms. MARÍA JOSÉ GARCÍA BEATO | | EXECUTIVE | DIRECTOR | 24/05/2018 | 28/03/2019 | GENERAL MEETING DECISION |
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | | OTHER EXTERNAL | DIRECTOR | 29/03/2007 | 30/03/2017 | GENERAL MEETING DECISION |
| Mr. GEORGE DONALD JOHNSTON | | INDEPENDENT | DIRECTOR | 25/05/2017 | 19/04/2018 | GENERAL MEETING DECISION |
| Mr. DAVID MARTÍNEZ GUZMÁN | | PROPRIETARY | DIRECTOR | 27/03/2014 | 19/04/2018 | GENERAL MEETING DECISION |

| | | | | | | |
|---|---|---|---|---|---|---|
| Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ | | INDEPENDENT | DIRECTOR | 26/03/2013 | 19/04/2018 | GENERAL MEETING DECISION |
| Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI | | INDEPENDENT | DIRECTOR | 18/09/2010 | 28/03/2019 | GENERAL MEETING DECISION |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | | EXECUTIVE | DIRECTOR | 31/05/2012 | 30/03/2017 | GENERAL MEETING DECISION |
| Mr. MANUEL VALLS MORATÓ | | INDEPENDENT | DIRECTOR | 22/09/2016 | 30/03/2017 | GENERAL MEETING DECISION |
| Mr. DAVID VEGARA FIGUERAS | | EXECUTIVE | DIRECTOR | 28/05/2015 | 28/03/2019 | GENERAL MEETING DECISION |

| Total number of directors | 15 |
|---|---|

Indicate any directors who stepped down in the reporting period, due to resignation, removal or any other reason:

| Name of director | Director's category at time of removal | Date of last appointment | Date of removal | Specialised committees of which he/she was a member | Indicate whether the director stepped down before the end of his/her tenure |
|---|---|---|---|---|---|
| No data | | | | | |

| Reason for stepping down, and other comments |
|---|
| - |

C.1.3 Complete the next tables with the members of the board and their category:

| EXECUTIVE DIRECTORS | | |
|---|---|---|
| Name of director | Position in the company's organisation chart | Profile |
| Mr. JOSÉ OLIU CREUS | CHAIRMAN | BANKING / RETAIL & CORPORATE BANKING / FINANCE/ ACADEMIC/INTERNATIONAL. He holds a degree in economics from the University of Barcelona and a PhD in Economics from the University of Minnesota (USA). He was appointed Director-General Manager of Banco Sabadell in 1990 and has been Chairman of Banco Sabadell since 1999. Non- |

| | | |
|---|---|---|
| | | executive Chairman of Exea Empresarial and the latter's representative on the board of Puig, S.L. Member of FEDEA (Fundación de Estudios de Economía Aplicada), and a member of the Board of Trustees of the Princess of Asturias Foundation and the Princess of Girona Foundation. |
| Mr. JAIME GUARDIOLA ROMOJARO | MANAGING DIRECTOR | BANKING / RETAIL & CORPORATE BANKING / FINANCE. He graduated in Law from University of Barcelona and holds a degree in Business and an MBA from ESADE. He commenced working at BBVA in 1990, where he reached the position of General Manager for Spain and Portugal (2006-2007). He has been managing director of Sabadell since 2007. Member of the Board of Trustees of Fundación ESADE, representative of Banco Sabadell on the Board of Barcelona Chamber of Commerce, and a member of the Board of Círculo de Economía. |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | DIRECTOR - GENERAL MANAGER | BANKING /FINANCE/AUDITOR/RISKS. Diploma in General Management from IESE. In the course of his career at Banco Sabadell, he has held a number of positions, such as General Secretary - Control (2000-2001) and Controller General (2001-2012), and Vice-Secretary of the Board of Directors (2006-2012). Director of Banco Sabadell since 2012 and Director-General Manager since 2013. Director of BancSabadell d'Andorra, S.A. since 2019. Director of Sociedad Rectora de la Bolsa de Valores de Barcelona and Vice-Chairman of Barcelona Centro Financiero Europeo. |
| Ms. MARÍA JOSÉ GARCÍA BEATO | DIRECTOR SECRETARY GENERAL | BANKING / LAW / REGULATORY. Degree in Law and Diploma in Criminology. Spanish State Attorney since 1991. She was appointed Chief of Staff of the Minister of Justice in 2000, and Under-Secretary of Justice in 2002. General Counsel of Banco Sabadell (2005-2008). Secretary General of Banco Sabadell since 2008, and Director and Secretary General of Banco Sabadell since 2018. Independent director at listed company Red Eléctrica Corporación, S.A., member of the Boards of Trustees of Fundación Banco Sabadell and Fundación de la Asociación Española de Banca. |
| Mr. DAVID VEGARA FIGUERAS | DIRECTOR - GENERAL MANAGER | FINANCIAL / RISKS / ACADEMIC / REGULATORY. A graduate in Economics and Business Studies, major in General Economics (Applied Economics) from the Autonomous University of Barcelona, he holds a Master in Economics, major in Capital Markets and Political Science, from London School of Economics. Formerly Secretary of State for the Economy in the Spanish government (2004-2009), Deputy Managing Director, Banking, European Stability Mechanism (ESM) (2012-2015), and Associate Professor in the Department of Economics, Finance and Accounting at ESADE (until 2018). Independent director of Banco Sabadell (2015-2019). Director and Chief Risk Office of Banco Sabadell since 2019. Member of the Supervisory Board of Hellenic Corporation of Assets and Participations, S.A. |

| | |
|---|---|
| Total number of executive directors | 5 |
| % of total Board | 33.33 |

| PROPRIETARY EXTERNAL DIRECTORS | | |
|---|---|---|
| Name of director | Name of the significant shareholder whom the director represents or who proposed his/her appointment | Profile |
| Mr. DAVID MARTÍNEZ GUZMÁN | FINTECH EUROPE, S.À.R.L. | BUSINESS / FINANCE / INTERNATIONAL Degree in Electrical/Mechanical Engineering from the National Autonomous University of Mexico, and MBA from Harvard Business School. Founder in 1987 of Fintech Advisory, which manages the Fintech Investments Limited fund (New York and London). Proprietary director of Banco Sabadell since 2014. Director of listed companies Alfa, S.A.B., Vitro, S.A.B. and Cemex, S.A.B. |

| | |
|---|---|
| Total number of proprietary directors | 1 |
| % of total Board | 6.67 |

| INDEPENDENT EXTERNAL DIRECTORS | |
|---|---|
| Name of director | Profile |
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | BANKING / RETAIL & CORPORATE BANKING / BUSINESS. Holds a degree in Economics and Actuarial Science from the University of the Basque Country. Formerly Director and General Manager of Allianz-Ercos (1982-1990), General Manager of BBVA Group (1992-2001) and Chairman of Banco Guipuzcoano (2009-2012). Formerly a director of many companies in the energy and construction industries and the media. Independent director of Banco Sabadell since 2010 and Vice Chairman of the Board since 2013. Proprietary director of listed company ACS, Actividades de la Construcción y Servicios, S.A. and of ACS, Servicios, Comunicaciones y Energía, S.L., both belonging to the same group, of listed company Ence, Energía y Celulosa, S.A., and independent director of listed company Telefónica, S.A. (since 2019: Vice-Chair and Lead Independent Director), director of Telefónica Móviles México, S.A. de C.V. and Telefónica Audiovisual Digital, S.L.U., all belonging to the same group. He is also a trustee of Fundación Novia Salcedo. |
| Mr. ANTHONY FRANK ELLIOTT BALL | BUSINESS/INTERNATIONAL. Chartered Engineer; MBA from Kingston Business School, Kingston University (London). Honorary Doctorate from the Kingston University Faculty of Business and Law.<br>Formerly Chairman and CEO of Fox Sports International (1995-1996), CEO of Fox Liberty Networks LLC. (1996-1999), CEO of BSkyB Plc.(1999-2004) and Chairman of Kabel Deutschland GmbH (2005-2013), and independent director of BT Group (2009-2018). Independent director of Banco Sabadell since 2017, and Lead Independent Director of Banco Sabadell since March 2019. Chairman of Ambassadors Theatre Group Ltd and of Bité Group, both part-owned by Providence Equity Partners LLC. |

| | |
|---|---|
| Ms. AURORA CATÁ SALA | BUSINESS / CONSULTING / FINANCE / HUMAN RESOURCES. Holds a degree in Industrial Engineering (major in Industrial Organisation) from the Polytechnic University of Catalonia and an MBA and PADE from IESE Barcelona. Formerly CFO of Nissan Motor Ibérica, S.A. (1991-1996), Managing Director of Planeta 2010 (1999-2002), Founder of ContentArena (2002-2003), General Manager of Audiovisual Media at Recoletos Grupo de Comunicación (2003-2008) and member of the Governing Board of Institut Català de Finances (2014). Formerly held a number of directorships. Independent director of Banco Sabadell since 2015. Partner of Seeliger y Conde, S.L., director of listed company Atresmedia Corporación de Medios de Comunicación, S.A., member of the Executive Committee of IESE and member of the Board of Barcelona Global. |
| Mr. PEDRO FONTANA GARCIA | BANKING / RETAIL BANKING / BUSINESS. Degree in Business from Escuela Superior de Administración y Dirección de Empresas (ESADE), Barcelona, and MBA from Harvard Graduate School of Business Administration. General Manager of COOB'92 (1990-1993), General Manager of Turisme de Barcelona (1993-1994), Chairman of Banca Catalana (1994-1999), General Manager of BBVA Catalonia (2000-2009), Executive Chairman of AREAS (Elior Group) (2012-2017), and Deputy General Manager of Elior Group, S.A. (2017-2018), and representative of EMESA Corporación Empresarial, S.L. on the board of listed company Elior Group, S.A (2018-2019). Independent director of Banco Sabadell since 2017. Independent director of Grupo Indukern, S.L. and of Pax Equityco, S.à.R.L., President of Asociación para el Progreso de la Dirección, 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. |
| Mr. GEORGE DONALD JOHNSTON | BANKING / CORPORATE BANKING / INTERNATIONAL. BA in Political Science from Middlebury College, Vermont; MA in International Economics and Latin American Studies from Johns Hopkins University. 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 of Deutsche Bank (2005-2010), Director of SCi Entertainment Plc (Eidos) (2007-2009). Independent director of Banco Sabadell since 2017. Independent director of listed companies Acerinox, S.A. and Merlin Properties, SOCIMI, S.A. |
| Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ | BUSINESS / INSURANCE / FINANCE / INTERNATIONAL. A Public Works Engineer, he obtained a degree in Economics and Actuarial Science at the University of Madrid. Formerly Chairman of MAPFRE (2001-2012), President of Fundación MAPFRE (2007-2012) and member of the Board of Directors of Consorcio de Compensación de Seguros and the International Insurance Society. Independent director of Banco Sabadell since 2013. Honorary Chairman of MAPFRE. |
| Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI | BANKING / BUSINESS. An architect specialised in urban development, he holds an Executive MBA from IE Business School. Formerly director of Banco Guipuzcoano (1990-2010). Independent director of Banco Sabadell since 2010. Owner and Chairman of an extensive group of companies, he is currently Chairman of Centro Fuencarral, S.A., Comercial del Campo, S.A., Edificios Cameranos, S.A., Inversiete, S.A., Producción y Desarrollo, S.A., Títulos e Inversiones, S.A., and Villa Rosa, S.A. |
| 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). Independent director of Banco Sabadell since 2016. Independent director of listed company Renta Corporación Real Estate, S.A. |

| | |
|---|---|
| Total number of independent directors | 8 |
| % of total Board | 53.33 |

Indicate whether any director classified as independent receives, from the company or the same group, any amount or benefit under a heading other than director remuneration, or holds or has held, during the last year, a business relationship with the company or any other company in its group, either in his/her own name or as a significant shareholder, director or senior manager of an institution that holds or has held such a relationship.

If yes, give the reasons why it is considered that the director qualifies as an independent director.

| Name of director | Description of the relationship | Disclosure with rationale |
|---|---|---|
| No data | | |

| OTHER EXTERNAL DIRECTORS | | | |
|---|---|---|---|
| Identify the other external directors and detail the reasons why they cannot be classified as proprietary or independent, and any relations they have with the company, its executives or its shareholders. | | | |
| Name of director | Reason | Company, executive or shareholder with which he/she is related | Profile |
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | Twelve years elapsed since first appointment on 29 March 2007. | N.A. | ACADEMIC/AUDITOR/FINANCE. She has a Degree in Economics from the University of Barcelona and a PhD in Economics from the University of Minnesota, and has been a senior lecturer at the Department of Economics and Business at Pompeu Fabra University since 1995. Formerly held a number of directorships. Independent director of Banco Sabadell (2007-2019) and Lead Independent Director (2016-2019). Classified as an Other external director since April 2019. Independent director at listed company Repsol, S.A. Director of the Barcelona Graduate School of Economics, and a researcher and Board member of the International Economics Research Centre (CREI). |

| | |
|---|---|
| Total number of other external directors | 1 |
| % of total Board | 6.67 |

Indicate any changes in each director's status in the period:

| Name of director | Date of change | Previous category | Current category |
|---|---|---|---|
| Mr. DAVID VEGARA FIGUERAS | 31 January 2019 | Independent director | Executive director |
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | 25 April 2019 | Independent director | Other external director |

C.1.4 Complete the following table with information on the number of female directors at the end of the last four years, and their category:

| | Number of female directors | | | | % of total directors in each category | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 | 2019 | 2018 | 2017 | 2016 |
| Executive | 1 | 1 | | | 20.00 | 25.00 | 0.00 | 0.00 |
| Proprietary | | | | | 0.00 | 0.00 | 0.00 | 0.00 |
| Independent | 1 | 2 | 2 | 2 | 12.50 | 20.00 | 20.00 | 28.57 |
| Other external | 1 | | | | 100.00 | 0.00 | 0.00 | 0.00 |
| Total | 3 | 3 | 2 | 2 | 20.00 | 20.00 | 13.33 | 14.29 |

C.1.5 Indicate whether the company has diversity policies in relation to the board of directors with regard to issues such as age, gender, ability, or professional training and experience. Small and medium-sized undertakings, as defined the Audit Act, must disclose at least the policy they have established in relation to gender diversity.

[ √ ] Yes

[ ] No

[ ] Partial policies

If yes, describe the diversity policies, their objectives, the measures and the way in which they have been applied and their results in the year. Also disclose specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee to achieve balance and diversity on the Board of Directors.

If the company does not apply a diversity policy, give the reasons.

| Description of the policies, objectives, measures and manner in which they were applied, as well as the results obtained |
|---|

In general Banco Sabadell has policies governing diversity, age, gender, ability, and professional training and experience.

The Banco Sabadell Policy for the Selection of Candidates for Directorship, which was approved by the Board of Directors on 25 February 2016 and amended on 28 March 2019, establishes criteria to be considered in the process of selecting new members and re-appointing incumbent members of the Board of Directors.

The candidate selection process pursues an appropriate balance in the composition of the Board of Directors, which, as a whole, enriches decision-making and contributes plural viewpoints to the discussion of matters within its remit.

In particular, the Appointments Committee must ensure that candidates for directorships of Banco Sabadell meet the following parameters established in the Policy:
(i) Professional competence, by selecting persons who have achieved recognition in their profession; particular value is attached to experience in banking or finance that enables the candidate to contribute a strategic and business vision.
(ii) Diversity, selecting a variety of profiles within the Board of Directors (business, banking, academic, financial, legal, consultants, ...) and a diversity of experience, origin, nationality, and, in particular, gender, ensuring that there is a sufficient number of female directors. The committee also seeks to ensure that there is a sufficient representation of directors with banking experience in areas such as retail banking, business banking, corporate banking, or investment banking, in Spain or in other countries; and
(iii) Fitness and suitability, which are to be found in persons evidencing an appropriate track record and personal, commercial and professional conduct that does not cast doubt on their ability to exercise healthy prudent management of the bank.

The Appointments Committee fulfils its function of overseeing the qualitative composition of the Board of Directors, as set out in the Articles of Association and the Board of Directors Regulation; it oversees the application of, and compliance with, the Banco Sabadell Policy for the Selection of Candidates for Directorship, and by ensuring that the selection procedures, when filling vacancies on the Board or appointing new directors, favour a diversity of experience and knowledge, facilitate the selection of female directors and, in general, do not have any implicit biases that might entail discrimination of any kind.

In fulfilment of its function of making proposals to the Board of Directors for amendments to the selection and diversity policies, the Appointments Committee advised the Board on the amendment that was approved on 28 March 2019, to expressly state that, in connection with candidates' professional competence, particular value would be attached to experience in banking and finance and that, in selecting profiles, care would be taken to ensure that there is a sufficient representation of directors with knowledge of banking in such areas as retail banking, business banking, corporate banking and investment banking, both in Spain and in other countries.

On 27 June 2019, the Appointments Committee advised the Board of Directors on the approval of a Matrix of competencies and diversity of the members of the Board of Directors of Banco Sabadell, defining directors' abilities and knowledge. In connection with competencies, the matrix describes the professional profiles and industry-specific and horizontal competencies required to maintain the collective fitness of the Board of Directors. Regarding diversity, the diversity of directors' gender and geographical origin is taken into account, as well as their seniority in the position.

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 that 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.

C.1.6 Describe any measures adopted by the Appointments Committee to ensure that the selection procedure is free of any implicit bias that might prevent the selection of women, and that the company deliberately seeks female candidates with the necessary professional profile, enabling it to attain a balance of women and men:

| Detail such measures |
|---|

The Board of Directors has adopted active policies to promote gender equality within the institution. Specifically, at a meeting on 17 February 2016, the Appointments Committee issued a favourable report to the Board of Directors on the approval of the Banco Sabadell Policy for the Selection of Candidates for Directorship, in compliance with Recommendation 14 of the Code of Good Governance for Listed Companies.

As indicated in section C.1.5 above, the Policy sets out the criteria to be applied in the process of selecting new members of the Board of Directors and in the re-appointment of directors, under the provisions of the applicable laws and recommendations, and establishes that those selection procedures must facilitate the selection of female directors and, generally, must not have any implicit biases that might hamper the appointment of female directors. The Policy goal is that the under-represented gender accounts for at least 30% of the Board by 2020.

In particular, the Appointments Committee ensures that the director selection process fulfils the requirements as to professional competency, integrity, suitability and diversity and, specifically, seeks to ensure that there is a sufficient number of female directors. To this end, during the director selection process, the Committee focuses particularly on ensuring gender diversity on the Board of Directors, ensuring that the candidates for directorships include women with the necessary professional profile, for which purpose it can be assisted by an external consulting firm in order to obtain a diversity of profiles for analysis.

In compliance with that Policy, the Appointments Committee advised on the proposal to ratify and appoint a director who had been appointed by the Board of Directors in 2018, in the category of executive director, and it proposed the re-appointment of an independent director.

At 2019 year-end, the bank's Board of Directors comprised 3 female directors out of a total of 15, one of them an independent director, one of them in the category of Other external, and one of them an executive director. Accordingly, women made up 20% of the Board of Directors.

The female independent director is the Chair of the Appointments Committee and of the Remuneration Committee, and the female other external director is a member of the Audit and Control Committee, the Appointments Committee and the Risk Committee. Consequently, women chair two of the Board committees and are present in four of the five Board committees. Women account for 25% of the Audit and Control Committee, 33.33% of the Risk Committee, 25% of the Remuneration Committee and 50% of the Appointments Committee.

Where, despite such measures, there are few or no female directors, indicate the reasons for this situation:

| Detail the reasons |
|---|
| - |

C.1.7 Detail the conclusions reached by the Appointments Committee in assessing compliance with the director selection policy. In particular, indicate how this policy promotes the objective that, by 2020, women account for at least 30% of the Board.

In compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, the Appointments Committee checked that the policy was complied with in the motions passed in 2019 by the General Meeting of Shareholders in connection with ratifying, appointing or re-appointing directors, which conformed to the parameters and requirements of both the Policy and the existing regulations governing directorships at credit institutions, and whose selection was based on the pursuit of an appropriate balance in the Board of Directors such as to enrich decision-making and provide a plurality of viewpoints in debates. A Matrix of competencies and diversity of the members of the Board of Directors of Banco Sabadell was approved that defines directors' abilities and knowledge. The matrix describes the professional profiles and industry-specific and horizontal competencies required to maintain the collective fitness of the Board of Directors, and it takes account of diversity of gender and geographical origin, as well as directors' seniority in the position.

Specifically, with regard to gender diversity, the General Meeting of Shareholders on 28 March 2019 ratified and appointed executive director Ms. María José García Beato, who had been appointed by the Board on 24 May 2018, as her banking, regulatory and legal profile complements the diversity of knowledge and experience of the Board of Directors, and it approved the proposal by the Appointments Committee for the re-appointment of independent director Ms. Aurora Catá Sala, who contributes a suitable combination of financial, business, consulting and human resources knowledge that which contributes to the diversity of competencies in the Board of Directors and to its collective suitability.

Both motions for the appointment and re-appointment of directors that were approved by the General Meeting of Shareholders comply with the mandate to the Board of Directors and to the Appointments Committee itself to contribute to maintaining gender diversity within the Board, as the percentage of gender diversity attained in 2018, when the presence of women in the Board was increased significantly with respect to previous years, was maintained in 2019. The Bank maintains its goal of increasing the number of female directors and executives.

C.1.8 Indicate any reasons for which proprietary shareholders were appointed at the proposal of a shareholder owning less than 3% of capital:

| Name of shareholder | Justification |
|---|---|
| No data | |

Disclose any rejection of a formal request for a board seat from shareholders whose equity stake is equal to or greater than that of others which applied successfully for a proprietary directorship. Detail the reasons for any such rejection:

[ ] Yes
[ √ ] No

C.1.9 Disclose any powers or faculties delegated by the Board of Directors to directors or committees of the Board:

| Name of director or committee: | Brief description |
|---|---|
| Mr. JOSÉ OLIU CREUS | Has general powers to exercise all the functions of Chairman of the Board of Directors and Chairman of the Delegated Committee, and to oversee supervision and drive the Bank's strategy, communication and performance. |
| Mr. JAIME GUARDIOLA ROMOJARO | All the powers of the Board, except those that may not by law be delegated, and those powers that are necessary for him to manage the institution effectively as its chief executive. |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | The general powers that are necessary to perform his functions in the institution. |
| Ms. MARÍA JOSÉ GARCÍA BEATO | The general powers that are necessary to perform her functions in the institution. |
| DELEGATED COMMITTEE | It has been expressly delegated with all the powers corresponding to the Board of Directors, except the powers that the law or the Articles reserve exclusively for the Board. |

C.1.10 Identify any board members who are directors, representatives of directors, or executives in other companies that form part of the listed company's group:

| Name of director | Name of Group company | Position | Does he/she have executive functions? |
|---|---|---|---|
| Mr. JOSÉ OLIU CREUS | SABADELL CONSUMER FINANCE S.A.U. | CHAIRMAN | No |
| Mr. JAIME GUARDIOLA ROMOJARO | SABADELL CONSUMER FINANCE S.A.U. | DIRECTOR | No |
| Mr. JAIME GUARDIOLA ROMOJARO | BANCO SABADELL, S.A. I.B.M. (MEXICO) | CHAIRMAN | No |
| Mr. JAIME GUARDIOLA ROMOJARO | SABCAPITAL, S.A. de C.V., SOFOM, E.R. (MEXICO) | CHAIRMAN | No |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | SABADELL CONSUMER FINANCE S.A.U. | DIRECTOR | No |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | BANSABADELL FINANCIACIÓN, E.F.C., S.A. | CHAIRMAN | No |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | BANCSABADELL D'ANDORRA, S.A. | DIRECTOR | No |

C.1.11 Detail any directors of the company, or representatives of directors that are legal persons, who are members of the board of directors, or representatives of directors that are legal persons, of other companies listed on official stock markets, other than group companies, of which the company has been notified:

| Name of director | Name of listed company | Position |
|---|---|---|
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | ACS ACTIVIDADES DE CONSTRUCCION Y SERVICIOS, S.A. | DIRECTOR |
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | ENCE ENERGÍA Y CELULOSA, S.A. | DIRECTOR |
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | TELEFONICA, S.A. | DIRECTOR |
| Ms. AURORA CATÁ SALA | ATRESMEDIA CORPORACIÓN DE MEDIOS DE COMUNICACIÓN, S.A. | DIRECTOR |
| Ms. MARÍA JOSÉ GARCÍA BEATO | RED ELÉCTRICA CORPORACIÓN, S.A. | DIRECTOR |
| Ms. MARIA TERESA GARCÍA-MILÀ LLOVERAS | REPSOL, S.A. | DIRECTOR |
| Mr. GEORGE DONALD JOHNSTON | ACERINOX, S.A. | DIRECTOR |
| Mr. GEORGE DONALD JOHNSTON | MERLIN PROPERTIES, SOCIMI, S.A. | DIRECTOR |
| Mr. DAVID MARTÍNEZGUZMÁN | ALFA, S.A.B.DE C.V. | DIRECTOR |
| Mr. DAVID MARTÍNEZGUZMÁN | CEMEX, S.A.B.DE C.V. | DIRECTOR |
| Mr. DAVID MARTÍNEZGUZMÁN | VITRO, S.A.B.DE C.V. | DIRECTOR |
| Mr. MANUEL VALLS MORATÓ | RENTA CORPORACION REAL ESTATE, S.A. | DIRECTOR |

C.1.12 Indicate whether the company has established rules about the maximum number of directorships that board members can hold; describe any such rules and detail their location:

[ √ ] Yes
[ ] No

Banco Sabadell is bound by article 26 of Act 10/2014, of 26, June, on ordering, supervision and solvency of credit institutions, which establishes the maximum number of directorships that directors of credit institutions may hold, in transposition of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, and specifically by article 91, which establishes the following maximum combination of positions: i) one executive position with two non-executive positions, ii) four non-executive positions. Executive and non-executive positions in the same group or in companies in which the institution holds a significant stake count as one position. Also applicable are the European Central Bank's Guide to fit and proper assessments, updated in May 2018, and the Guidelines to assess the suitability of members of management bodies and key function holders (EBA/GL/2017/12) dated 12 March 2018, which came into force on 30 June 2018.

The Banco Sabadell Policy for the Selection of Candidates for Directorship, which was approved by the Board of Directors on 25 February 2016 and amended on 28 March 2019, refers to the applicable legislation with regard to the criteria and requirements that directors must fulfil.

C.1.13 Indicate the amounts of the following items of the overall remuneration for the Board of Directors:

| | |
|---|---|
| Remuneration earned by the Board of Directors in the year (thousand euro) | 9,674 |
| Amount of accumulated pension rights held by current directors (thousand euro) | 40,907 |
| Amount of accumulated pension rights held by former directors (thousand euro) | |

C.1.14 Indicate senior management members who are not executive directors and the total remuneration accrued to them in the year:

| Name | Position(s) |
|---|---|
| Mr. MIQUEL MONTES GÜELL | GENERAL MANAGER |
| Mr. TOMÁS VARELA MUIÑA | GENERAL MANAGER |
| Mr. CARLOS VENTURA SANTAMANS | GENERAL MANAGER |
| Mr. RAFAEL JOSÉ GARCÍA NAUFFAL | DEPUTY GENERAL MANAGER |
| Mr. JAIME MATAS VALLVERDÚ | DEPUTY GENERAL MANAGER |
| Mr. JOSÉ NIETO DE LA CIERVA | DEPUTY GENERAL MANAGER |
| Mr. RAMÓN DE LA RIVA REINA | DEPUTY GENERAL MANAGER |
| Mr. ENRIC ROVIRA MASACHS | DEPUTY GENERAL MANAGER |
| Mr. MANUEL TRESÁNCHEZ MONTANER | DEPUTY GENERAL MANAGER |
| Ms. NURIA LÁZARO RUBIO | DEPUTY GENERAL MANAGER - HEAD OF INTERNAL AUDIT |
| Total remuneration of senior management (in thousand euro) | **7,022** |

C.1.15 Indicate whether there were any amendments to the board regulation in the year.

[ √ ] Yes
[ ] No

At a meeting on 21 February 2019, in accordance with the procedure established in article 3 of the Board of Directors Regulation, the Board of Directors resolved to amend articles 5, 11, 12, 14 bis, 17, 23 and 24 of the aforementioned Board of Directors Regulation, subject to approval of the amendment of the Articles of Association that was proposed to the General Meeting of Shareholders on 28 March 2019 and approved by the latter, which also took cognizance of the aforementioned amendment of the Board Regulation. The amendment to the Board of Directors Regulation is a direct consequence of the amendment to the Articles of Association that was proposed to the General Meeting of Shareholders to adapt its wording to the new name of the Executive Committee, which is now called the Delegated Committee.

C.1.16 Indicate the procedure for appointing, re-appointing, assessing and removing directors. Indicate the competent bodies, the process and the criteria for each procedure.

In accordance with the provisions of Articles 50, 53, 55 and 61 of the Articles of Association, articles 14, 19 and 20 of the Board of Directors Regulation, the Banco Sabadell Policy for the Selection of Candidates for Directorship, approved by the Board of Directors on 25 February 2016, and the procedure for assessing the suitability of the members of the Board of Directors and key function holders of Banco Sabadell, the procedures for appointment, reappointment, evaluation and removal of directors are as follows:

Selection

The Appointments Committee is responsible for analysing the competencies and diversity of the Board of Directors in order to determine the profile of candidates for director of Banco Sabadell, for which purpose it relies on the Matrix of competencies and diversity of the members of the Board of Directors, which was approved by the Board of Directors based on a report by the Appointments Committee. In compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, it is responsible for performing a prior assessment to ensure that candidates for directorship possess the necessary competencies, knowledge and experience; to that end, it is necessary to consider the balance of knowledge, skills, diversity and experience of the members of the Board of Directors and, for this purpose, to define the roles and capabilities required of the candidates to fill each vacancy and to evaluate the time and dedication needed for them to effectively perform their duties.

To select candidates, the Appointments Committee may, if deemed necessary, engage a prestigious consultant in the field of personnel selection to initiate a process of finding candidates that fit the desired profile. Additionally, any director may suggest candidates for director provided they meet the requirements of the Banco Sabadell Policy for the Selection of Candidates for Directorship.

Suitability assessment

Once a candidate has been selected, the procedure for assessing the suitability of Board members and key personnel must be applied; on this basis, the Appointments Committee will analyse the information about the candidates and the reports presented by the Board Secretary, drawn up by the Bank's Senior Counsel, as to their commercial and professional integrity, knowledge and experience and their willingness to provide good governance, by application of the requirements set out in Act 10/2014, of 26 June, on ordering, supervision and solvency of credit institutions, and having regard to the criteria for assessing the suitability of the members of the Board of Directors as set out in Royal Decree 84/2015, of 13 February, implementing the aforementioned Act 10/2014, of 26 June, and the European Central Bank guidelines on fit and proper assessments dated 15 May 2017, as well as the Guidelines to assess the suitability of members of management bodies and key function holders (EBA/GL/2017/12) dated 21 March 2018, which came into force on 30 June 2018.The Appointments Committee will check that candidates meet the requirements as to integrity, knowledge, experience and governance envisaged in the applicable legislation and will draw up a candidate suitability assessment report. In addition, candidates for directorships must be vetted by the European Central Bank.

The Appointments Committee is also entrusted with assessing director suitability on an ongoing basis, and evaluating the profile of the persons most suited to being members of the various committees, and making proposals in this regard to the Board of Directors; in particular, it must seek to ensure that the rules on the qualitative composition of the Board of Directors are complied with.

Appointment

After assessing the suitability of candidates for director, the Appointments Committee is entrusted, among its basic responsibilities in accordance with Article 61 of the Articles of Association, with making proposals to the Board for the appointment of independent directors either by co-optation or for submission to a vote at the General Meeting of Shareholders, and must advise on the proposals to appoint other director categories by co-optation or by referral to the General Meeting of Shareholders.

Ordinary members of the Board of Directors are appointed by the General Meeting of Shareholders. Any vacancies arising on the Board of Directors are filled by the General Meeting unless the Board decides, in the interests of the bank, to act in accordance with the Capital Companies Act. Directors appointed by co-optation hold office until the next General Meeting of Shareholders.

Re-appointment

Directors are appointed for a term of at most four years and they can be re-appointed one or more times for periods of the same maximum duration.

Removal

Directors must step down when their term ends if they are not re-appointed, or when the General Meeting of Shareholders or the Board of Directors so decides using the powers conferred on them by law or the Articles of Association. The Appointments Committee is empowered to make proposals for the removal of independent directors by the General Meeting of Shareholders, and to advise on proposals to remove directors in other categories. The Board does not currently have any powers in this respect under the law or the Articles of Association. The General Meeting of Shareholders may remove directors at any time, as provided in article 50 of the Articles of Association.

Restrictions

The following may not hold office as members of the Board of Directors:

a) Minors.

b) Persons disqualified by law, undischarged bankrupts or insolvents, those under convictions involving disqualification from holding public office, and those convicted of serious breaches of the Spanish Corporations Act or Company regulations, or who are prevented from engaging in trade by reason of their office.

c) Government officials whose duties are related to, or have a bearing on, the business of the Bank.

d) Those in default with respect to any obligation to the Bank.

e) Persons in any of the situations of incompatibility or limitation on holding office as provided by law.

C.1.17 Describe the extent to which the annual evaluation of the Board led to significant changes in its internal organisation and the procedures applicable to its activities:

| Description of changes |
|---|

Each year since 2007, the Bank assesses the performance of the Board of Directors and of its sub-committees (Delegated Committee, Audit and Control Committee, Appointments Committee, Remuneration Committee and Risk Committee).

In compliance with Recommendation 36 of the Good Governance Code of Listed Companies, every three years the Board of Directors engages an external facilitator to aid in the evaluation process. This facilitator’s independence is verified by the appointments committee.

The report on the assessment of the Board of Directors and the Committees of Banco Sabadell for 2018 was approved by the Board of Directors at its meeting on 31 January 2019, after a favourable report from the Appointments Committee.

The aforementioned Report confirms that the Board functions properly and, on the basis of the self-assessment carried out by each sub-committee and submitted to the Board, the sub-committees' performance is also satisfactory. Nevertheless, the Report established an Action Plan for 2019 consisting of measures aimed at improving Banco Sabadell's corporate governance and the workings of both the Board of Directors and of its sub-committees. In line with those measures, the following actions were taken:

- With regard to sending documentation to directors sufficiently in advance, internal procedures and technology systems at directors' disposal were strengthened, as was the structure of supporting documentation, to include an executive summary, background, the purpose of the document, and suggested talking points.
- Establishment of procedures and controls through the Risk Control Department to ensure that its supervisory function is performed effectively; to this end, policies were developed including a specific procedure for approving material amendments and exceptional transactions that involves the second line of defence by requiring it to issue a reasoned written report. Participation by the second line of defence has also been increased as the Chief Risk Officer and other executives in the second line are present in the decision-making committees as members or attendees.
- Enhancement of the director training programme. The programme was expanded to address specific needs of the directors; one advantage is that the training is given by Banco Sabadell executives.
- To encourage and monitor compliance with the specific action plans approved by the Committees for 2019, and by the Board itself, Banco Sabadell undertook measures in addition to those covered by the 2019 Action Plan, by adapting the composition and structure of the Delegated Committee with respect to the Board of Directors, amending the Articles of Association and Board of Directors Regulation to change the name of the Executive

  Committee to that of Delegated Committee in order to lend more visibility to its function as a body with all the faculties delegated by the Board of Directors, and the approval of policies aimed at achieving more effective control of such issues as remuneration in the Group and risk control and management in Banco Sabadell.

Additionally, Banco Sabadell drew up a Plan to make the Board's supervisory function more effective and, in particular, to ensure that new Board members have solid experience in the banking business, that all strategic issues are included in the Agenda in a timely manner and discussed with priority, that decisions by the Board are solidly grounded and well informed, that the documents and information are received sufficiently in advance of the meetings and that, in exercising its supervisory function, the Board constructively questions and critically reviews not only proposals and decisions but also the information provided to the members of the Board. The Board of Directors approved that Plan at a meeting on 27 June 2019, and all the measures set out in the Plan had been completed by the end of 2019.

Among the measures provided for in that Plan, the Appointments Committee resolved that the evaluation of the performance of the Board of Directors and its Committees for the year 2019 be carried out by an independent external consultant, Deloitte Legal, S.L.P., in order to ensure and review the effectiveness of the measures and improvements provided for in the Plan. The external consultant's assessment was performed earlier than the minimum three-year frequency recommended in the Good Governance Code, as the previous evaluation in which the Board was assisted by an external consultant referred to 2017.

Describe the evaluation process and the areas assessed by the Board of Directors with the assistance of an external consultant, if any, with regard to the performance and composition of the Board and its committees, and any other area or aspect that was assessed.

| Description of the assessment process and the areas that were |
| --- |

In accordance with article 529 nonies of the Capital Companies Act, the Code of Good Governance for Listed Companies and the Board of Directors Regulation, the Board of Directors assessed its own performance and that of its sub-committees in 2018.

In line with the recommendations in the Code of Good Governance for Listed Companies, the evaluation of the performance of the Board of Directors and its committees was organised and coordinated by the Chairman of the Board of Directors, as the person with responsibility for the Board's effective performance, with the assistance of the Secretary and the participation of all directors and, as needed, of the Lead Independent Director. It incorporated the conclusions of the self-assessments carried out by the Board Committees. The Appointments

Committee also reported favourably on the performance assessment of the Board and of the Chairman and Managing Director.

The regular performance evaluation of the Chairman of the Board of Directors was directed by the Lead Independent Director in accordance with article 529 septies of the Capital Companies Act and with article 55 of the Articles of Association and article 8 of the Board of Directors Regulation; the assessment of the Managing Director's performance was organised and coordinated by the Chairman of the Board.

The assessment of Board committee performance covered the following areas: committee quality and efficiency, operation, composition and functions, matters discussed at the meetings, and performance of the committee chair and secretary. The corresponding reports contain a review of the implementation of the 2018 Action Plan and specific recommendations and proposals for the 2019 Action Plan.

The assessment of the Board of Directors analysed the areas covered by Recommendation 36 of the Code of Good Governance: quality and efficiency of the Board of Directors' performance; the performance and composition of its committees; diversity in the composition and competencies of the Board; the performance of the Chairman of the Board and the Managing Director; and the performance and contribution by each director. The report also describes the measures implemented to fulfil the 2018 Action Plan for the Board of Directors, and the 2019 Action Plan was developed including proposals to improve corporate governance at Banco Sabadell and Sabadell and the functioning of the Board of Directors.

The methodology applied in the assessment is based on three main elements:

- Input from the directors. The perception of the members of the Board of Directors and its committees is a key component of the analysis, since they know how it works and are a source of essential information for diagnostic purposes.
- Analysis of significant corporate documentation of Banco Sabadell relating to key aspects of the corporate governance system. The documentation and information that were reviewed were the agendas and minutes of the Board of Directors and sub-committee meetings, as well as records of member attendance at meetings, the self-assessment report for 2017 and the action plan for 2018, the institution's internal regulations (Articles of Association, Board of Directors Regulations, Regulations of the Audit and Control Committee, and the Code of Conduct in relation to the securities market), and the bank's policies, and other information such as the Annual Corporate Governance Report for 2017.
- Review of the 2018 Reports on the activities of the Appointments Committee, the Remuneration Committee and the Risk Committee. Analysis of these documents provided greater insight into the actions of the committees in 2018, giving a broader vision of their performance and the fulfilment of the duties assigned to them.

Analysis of the information and documentation from Banco Sabadell made it possible to assess the performance of the Board of Directors, the degree of participation by its members and key position holders, the efficiency of its committees, the matters that were reported and debated, and other additional information that is germane to the performance assessment and the identification of potential areas for improvement on which to design the action plan for 2019.

The assessment for 2019 is being conducted in 2020 with the assistance of an independent external consultant, Deloitte Legal, S.L.P., in accordance with a decision adopted by the Appointments Committee in November 2019 as one of the measures in the aforementioned plan to enhance the Board's effectiveness in the performance of its supervisory function.

C.1.18 In years where the assessment was performed with the support of an external consultant, detail the business relations between the consultant and any company in its group with the company and any company in its group.

Deloitte Legal, S.L.P. advised Banco Sabadell in the assessment for 2017 and is doing so for the assessment in connection with 2019.

The business relations with the external consultant and any company in its group are within the ordinary course of business. Deloitte Legal, S.L.P. has provided advice on matters of criminal liability. Other companies in the Deloitte group have provided advisory services to the Banco Sabadell group, particularly in the field of information technology and security.

C.1.19 Indicate the reasons for which directors may be forced to resign.

Under article 20 of the Banco Sabadell Board of Directors Regulation, directors may be removed:

a) If they meet any of the conditions of incompatibility or prohibition envisaged in the law or the Articles of Association.

b) If they are arraigned for a crime or are the subject of disciplinary proceedings by the supervisory authorities for a serious or very serious violation.

c) Where their continuance on the Board may jeopardise the company's interests.

C.1.20 Is a supermajority, other than the legal majority, required in some decisions?

[ ] Yes
[ √ ] No

Describe the differences, if any.

-

C.1.21 Detail whether there are specific requirements, other than those relating to directors, for appointing the Chairman of the Board of Directors.

[ √ ] Yes
[ ] No

| Description of requirements |
|---|
| Those established in the Succession Plan for the Chairman and Managing Director of Banco Sabadell, approved by the Board of Directors on 21 July 2016. In general, the Chairman of the Board of Directors must be of acknolwedged commercial and professional fitness, have suitable knowledge and experience to perform the duties of the office, and be willing to exercise good governance of the Bank. In particular, they must have proven experience in the financial sector and/or in senior management functions, have sufficient technical training in the fields of finance and/or business management and administration for the performance of the executive functions inherent to their position, and they must accredit a professional career that demonstrates leadership and/or entrepreneurship, in addition to meeting the conditions of suitability required of a director of a credit institution in accordance with the applicable regulations. |

C.1.22 Indicate if the articles or board regulation establish an age limit for directors:

[ ] Yes
[ √ ] No

C.1.23 Indicate if the articles or board regulation establish a term limit for independent directors or other requirements for them that are stricter than those provided by law, other than those provided in the regulations:

[ ] Yes
[ √ ] No

C.1.24 Indicate whether or not the Articles of Association or the Board Regulation set out specific rules for directors to grant proxy to other directors in Board of Directors meetings, the method of doing so and, more specifically, the maximum number of proxies that a director can hold, as well as whether or not a limitation has been set with regard to the categories to which proxy may be granted, above and beyond the limitations imposed by law. Give a brief description of any such rules.

Directors must attend Board of Directors meetings in person. However, when they can not attend in person, they may grant proxy to another director. Article 56 of the Articles of Association establishes that non-executive directors may grant proxy only to another non-executive director.

Additionally, the Director Remuneration Policy for 2019, 2020 and 2021, approved by the Shareholders' Meeting on 28 March 2019, which establishes the system of remuneration for directors for their functions as members of the Board of Directors, breaks down their fixed remuneration under this heading, establishing, 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.

C.1.25 Indicate the number of board of directors meetings held in the year.Also, state the number of times that the Chairman did not attend Board meetings.Proxies granted with specific instructions are not counted as absences:

| | |
|---|---|
| Number of Board meetings | 13 |

| | |
|---|---|
| Number of Board meetings held without the chairman | |

Indicate the number of meetings held by the lead director with the other directors, without any executive director being present.

| | |
|---|---|
| Number of meetings | 2 |

Indicate the number of meetings held by board sub-committees in the year:

| | |
|---|---|
| Number of Delegated Committee meetings | 36 |
| Number of Audit and Control Committee meetings | 11 |
| Number of Appointments Committee meetings | 11 |
| Number of Remuneration Committee meetings | 11 |
| Number of Risk Committee meetings | 10 |

C.1.26 Indicate the number of board of directors meetings held in the year, and give data on attendance by members:

| | |
|---|---|
| Number of Board meetings held with at least 80% of directors in attendance | 13 |
| Attendance in person as a % of the total number of votes during the year | 97.95 |

| | |
|---|---|
| Number meetings attended by all directors in person or by proxy with specific instructions | 13 |
| Votes cast with all directors actually present or having granted proxy with specific instructions, as a % of total votes in the year | 100.00 |

C.1.27 Indicate whether the separate and consolidated financial statements that are presented for board approval are certified beforehand:

[ √ ] Yes
[ ] No

Identify the person(s) that certified the company's separate and consolidated financial statements for board authorisation:

| Name | Position |
|---|---|
| Mr. JOSÉ OLIU CREUS | CHAIRMAN |
| Mr. JAIME GUARDIOLA ROMOJARO | MANAGING DIRECTOR |
| Mr. TOMÁS VARELA MUIÑA | GENERAL MANAGER—CHIEF FINANCIAL OFFICER |

C.1.28 Detail whether the board of directors has established any mechanisms to ensure that the separate and consolidated financial statements authorised by it are presented to the Shareholders' Meeting without audit qualifications.

The Bank's internal units draw up financial statements clearly such as to present a true and fair view of the company's net worth, financial situation and results, to which end they must apply generally accepted accounting principles to all the financial and accounting information.
The Audit and Control Committee reviews the company's financial statements, both separate and consolidated, before referring them to the Board, and exercises vigilance to ensure compliance with the law and the proper application of generally-accepted accounting principles. To this end, it holds regular meetings with the external auditors in order to be informed punctually about the audit process and to be aware sufficiently in advance of any discrepancies or differences of opinion that might arise. In the event of a discrepancy that might lead to a qualification in the auditors' report, the committee seeks to resolve it before the financial statements are authorised.

If the discrepancy cannot ultimately be resolved before the financial statements are authorised, the annual report of the Audit and Control Committee must expressly describe the discrepancies and its position in connection with them.

The auditors' reports on the separate and consolidation financial statements for 2019 were unqualified.

C.1.29 Is the board secretary a director?

[ ] Yes
[ √ ] No

If the secretary is not a director, complete the following table:

| Name of secretary | Representative |
|---|---|
| Mr. MIQUEL ROCA JUNYENT | |

C.1.30 Describe the specific mechanisms established by the company to safeguard the independence of the external auditors, and any mechanisms to safeguard the independence of financial analysts, investment banks and rating agencies, including details of how the legal requirements are implemented in practice.

In general, in connection with the external auditors, article 60 of the Articles of Association provides that the Audit and Control Committee has the following competencies:
(...)
4. Proposing to the Board of Directors, for submission to the General Meeting, the appointment of the external auditor, establishing the engagement conditions, the scope of the professional mandate, and revocation or non-renewal, if appropriate; reviewing compliance with the audit contract, striving to ensure that the opinion on the financial statements and the main content of the auditors' report are drafted clearly and accurately.
(...)
6. Establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions and in the audit rules."

The Board of Directors Regulation expresses itself in similar terms: article 30 provides that:"Relations between the Board and the company's external auditors will be conducted through the Audit and Control Committee."

Specifically, in 2019, to preserve the independence of the external auditor, Banco Sabadell adopted resolutions to rotate the auditor in compliance with current legislation; based on a reasoned recommendation from the Audit and Control Committee, the Board of Directors proposed that the General Meeting of Shareholders appoint KPMG Auditores, S.L. as auditors of Banco Sabadell and of the consolidated annual accounts of the Banco Sabadell Group for the years 2020, 2021 and 2022; that motion was approved by the General Meeting of Shareholders on 28 March 2019. In addition, the Audit and Control Committee monitored the handover between the outgoing auditor and the incoming auditor to ensure proper transfer of knowledge and compliance with restrictions during the 'cooling in' period.

During 2019, the Audit and Control Committee was composed of four directors, all of whom were independent until 25 April 2019, when a female member changed category, from independent director to other external director. That Committee's Regulation, which was current in 2019, includes the provisions of the Articles of Association and the Board of Directors Regulation; article 21.3 provides that, as directors and members of the Committee, those members must act with independence of opinion and action with respect to the rest of the organisation (...)

On 19 April 2016, in conformity with Act 22/2015, of 20 July, on Auditing, and Regulation (EU) No 537/2014, of 16 April, the Audit and Control Committee approved the Group policy for safeguarding auditor independence. The policy is implemented through procedures that contemplate measures to preserve the auditor's independence by monitoring possible incompatibilities arising from personal circumstances, prohibited services, rotation requirements and fee limits, as well as measures in the processes of auditor selection, appointment, reappointment or replacement, and processes for authorising all the auditor's services, particularly in connection with non-audit services that the auditor is not prohibited from providing.

Additionally, based on information received from the auditors, the Committee vetted the procedures and tools used by the firm to ensure compliance with the auditor independence requirements. Written confirmation of the firm’s independence with respect to the Banco Sabadell Group was received on 22 July 2019 and 28 January 2020. 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.

The institution complies with the principles of transparency and non-discrimination set out in the current legislation with respect to other market players. Specifically, the institution: 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 the bank receives advice from investment banks in certain transactions and, in the course of providing those services, such investment banks become privy to inside information, the institution includes the persons who become privy to such information in its internal control systems, and expressly notifies such persons of the obligation to fulfil their duty of confidentiality and comply with any trading restrictions, and ensure that others comply with them too.

Additionally, the bank conforms to the rules set out in its General Policy on Conflicts of Interest that was approved by the Board of Directors, whose ultimate and fundamental objective is that the persons who are bound by it should act in accordance with the ethical norms and principles that govern the bank's activities, based on the following guidelines:

- Existence of measures to prevent conflicts of interest from arising.
- Where conflicts of interest arise or are going to arise, existence of measures that enable them to be detected for the purpose of registering them and addressing them immediately.
- Where conflicts arise, they must be eliminated; otherwise, steps must be taken to reveal their nature and origin to the customer or the decision-making bodies, as appropriate, for the appropriate decisions to be made.

The bank also acts in accordance with the principles established in the Banco Sabadell Policy on Outsourcing of Functions, approved by the Board of Directors.

C.1.31 State whether the Company changed its external auditor during the year. If so, identify the incoming and outgoing auditor:

[ ] Yes
[ √ ] No

Although the external auditor was not changed in 2019, the Board of Directors, based on a reasoned recommendation from the Audit and Control Committee, resolved at a meeting on 20 December 2018, as disclosed via regulatory disclosure no. 273.045, to appoint KPMG Auditores, S.L. as auditors of the financial statements of Banco Sabadell and the consolidated financial statements of the Banco Sabadell Group for the years 2020, 2021 and 2022.This decision was adopted in compliance with current legislation on auditor rotation and as a result of a selection process performed in accordance with the provisions of Regulation (EU) 537/2014 of 16 April, on specific requirements regarding statutory audit of public-interest entities. Based on a proposal by the Board of Directors, the General Meeting of Shareholders approved that appointment on 28 March 2019.

If there was a disagreement with the outgoing auditor, describe it:

[ ] Yes
[ √ ] No

C.1.32 Indicate whether the audit firm performs work for the company and/or its group other than auditing and, if so, state the fees received for such work and those fees as a percentage of the total fees billed to the company and/or its group:

[ √ ] Yes
[ ] No

| | Company | Group companies | Total |
|---|---|---|---|
| Fees for work other than auditing (thousand euro) | 95 | 39 | 134 |
| Fees for work other than auditing/Total audit fees (%) | 6.28 | 0.72 | 1.94 |

The amount of fees for non-audit work does not include audit-related services for a total of 992 thousand euros (671 thousand euros corresponding to the Company and 321 thousand euros corresponding to Group subsidiaries), since they are independent assurance services, some of which are required by law.

C.1.33 State whether or not the auditors' report on the previous year's financial statements was qualified. If it was, state the reasons given by the Chairperson of the Audit Committee to the shareholders at the General Meeting of Shareholders to explain the content and scope of the qualification or exception.

[ ] Yes
[ √ ] No

C.1.34 Indicate the number of consecutive years that the current audit firm has been auditing the financial statements of the company and/or the consolidated financial statements of its group. Also, indicate the number of years audited by the current audit firm as a percentage of the total number of years in which the financial statements have been audited:

| | Separate | Consolidated |
|---|---|---|
| Number of consecutive years | 37 | 35 |

| | Separate | Consolidated |
|---|---|---|
| No. of years audited by the current audit firm/No. of years that the company or its group has been audited (%) | 94.87 | 100.00 |

C.1.35 State and detail any procedures in place to ensure that directors can obtain the information they need to prepare in good time for meetings of the Board and committees:

[ √ ] Yes
[ ] No

| Detail the procedure |
|---|

Article 17.1 of the Board of Directors Regulation establishes that the notice of meeting must always include the Agenda, which must contain, among other items, information about subsidiaries and Board sub-committees, and proposals and suggestions by the Chairman and other Board members and the bank's General Managers, to be received no less than five days in advance of the Board meeting; such proposals must be accompanied by the appropriate material for distribution to the directors.

Additionally, article 21 provides that:

1. Directors are vested with the broadest powers to be informed about any aspect of the company, to examine its books, records, documents and other background information on the company's transactions and to inspect all of its installations.The right to information extends to subsidiaries, both domestic and foreign.

2. So as not to disturb the ordinary running of the company, requests by directors for information must be channelled through the Chairman or the Secretary to the Board, 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 formal 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 sub-committees in a confidential and encrypted way, using the Diligent Boards software running on iPads. Information for Board meetings is circulated to the directors one week in advance, and it is elaborated upon or updated in the boardbook as needed; hence, they are duly informed.

In accordance with the Action Plan for 2019 established in the Board performance assessment for 2018 and the Plan to enhance the effectiveness of the Board's supervisory function, internal procedures and the technology systems at directors' disposal were strengthened in terms of the advance notice with which documentation is circulated to the directors, and improvements were made to the structure of supporting documentation, to include an executive summary, background, the purpose of the document, and suggested talking points

C.1.36 State and detail any rules in place that oblige the directors to report any circumstances that might jeopardise the company’s credit and reputation and, if appropriate, resign:

[ √ ] Yes
[ ] No

The rules in the Capital Companies Act, in the chapter on directors' duties, are applicable: Specifically, under article 50 of the Articles of Association and article 23 of the Board of Directors Regulation, and in compliance with the Banco Sabadell Group Code of Conduct and its Policy on Conflicts of Interest of Directors and Senior Executives, 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.

Additionally, article 20 of the Board of Directors Regulation provides that directors will be removed:

a) If they meet any of the conditions of incompatibility or prohibition envisaged in the law or the Articles of Association.
b) If they are arraigned for a crime or are the subject of disciplinary proceedings by the supervisory authorities for a serious or very serious violation.
c) Where their continuance on the Board may jeopardise the company's interests.

All the foregoing is without prejudice to the application of the rules on the fitness assessment to be performed by the bank in line with the procedure approved by the Board of Directors, which requires that any potential conflicts of interest or special situations be checked and assessed.

C.1.37 State whether any member of the Board of Directors has informed the company that he/she has faced criminal charges or has been arraigned for any of the offences listed in Article 213 of the Capital Companies Act:

[ ] Yes
[ √ ] No

C.1.38 Detail any significant agreements entered into by the company 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.

-

C.1.39 Identify and detail, individually, in the case of directors, and in overall terms, in other cases, any agreements between the company and its directors and senior executives or employees that contain indemnities, guarantees or severance clauses in the event of their resignation or unfair dismissal or if the contractual relationship is terminated due to a takeover bid or other transaction.

| Number of beneficiaries | 45 |
|---|---|
| Type of beneficiary | Description of agreement |
| CHAIRMAN, MANAGING DIRECTOR, DIRECTOR - GENERAL MANAGER, DIRECTOR - SECRETARY GENERAL, DIRECTOR - CHIEF RISK OFFICER, OTHER BENEFICIARIES | CHAIRMAN, MANAGING DIRECTOR, DIRECTOR-GENERAL MANAGER, AND DIRECTOR-SECRETARY GENERAL - Clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control.<br><br>DIRECTOR - CHIEF RISK OFFICER: Clause providing indemnity in the amount of 1 year's fixed remuneration for cases of unfair dismissal or some limited cases of change of control, in the first year of his contract, and a post-contractual non-compete clause for a duration of 2 years from the date of unfair dismissal or change of control in some limited cases, applicable from the first year of the contract and at most up to the first date of ordinary retirement, in the amount of two years' fixed remuneration.<br><br>OTHER BENEFICIARIES - 21 executives have a clause providing indemnity in the amount of 2 years' fixed remuneration for cases of unfair dismissal and some limited cases of change of control.<br><br>16 executives have a post-contractual non-compete clause for a duration of 2 years from the date of unfair dismissal and some limited cases of change of control, lasting at most until the first date of ordinary retirement, in the amount of two years' fixed remuneration. |

State whether, outside the cases provided for in the regulations, such contracts must be reported and/or approved by the decision-making bodies of the company or group. If so, specify the procedures, cases and nature of the parties responsible for approving or disclosing:

| | Board of Directors | General Meeting |
|---|---|---|
| Body that authorises the clauses | √ | |

| | Yes | No |
|---|---|---|
| Is the General Meeting informed of the clauses? | √ | |

C.2. Board of Directors Committees

C.2.1 Give details of all committees of the Board of Directors, their members, and the proportion of executive, proprietary, independent and other non-executive directors in their composition:

| Delegated Committee | | |
|---|---|---|
| Name | Position | Category |
| Mr. JOSÉ OLIU CREUS | CHAIRMAN | Executive |
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | MEMBER | Independent |
| Mr. JAIME GUARDIOLA ROMOJARO | MEMBER | Executive |
| Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ | MEMBER | Independent |
| Mr. PEDRO FONTANA GARCÍA | MEMBER | Independent |

| | |
|---|---|
| % executive directors | 40.00 |
| % proprietary directors | 0.00 |
| % independent directors | 60.00 |
| % other external directors | 0.00 |

Detail the functions assigned to this committee, and describe its procedures and rules of organisation and operation. For each of these functions, describe the most salient actions during the year and how it exercised, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Delegated Committee is regulated by article 59 of the Articles of Association and article 12 of the Board of Directors Regulation, and it has its own terms of reference approved by the Board of Directors on 24 October 2019 that regulate its organisation and functioning.

The Delegated Committee must consist of a maximum of six directors, to be appointed by the Board with the favourable vote of two-thirds of its members, with a composition similar to that of the Board in terms of categories; the Chairman of the Board must act as its Chair. The resolutions of the Committee must be entered in a minutes book, and the minutes must be signed by the Chairman and the Secretary or, where applicable, by those who played those roles at the meeting in question.

It must meet whenever convened by its Chairman or by the Vice-Chairman standing in for the former, and its meetings may be attended by any person, whether related to the Company or otherwise, who is invited to attend, by a decision of the Committee itself or the Chairman of same, for the purposes to be determined on the basis of the matter in question; such persons may speak but not vote.

The Committee Secretary, who need not be a director, must be designated by the Board of Directors, which must also designate a substitute secretary for cases of illness or absence.

On 31 January 2019. independent director Mr. Pedro Fontana García was appointed as a member of the Delegated Committee to replace Mr. José Luis Negro Rodríguez.

The Delegated Committee is responsible for the coordination of the Bank's executive management, adopting any resolutions and decisions to this end under the scope of the powers granted to it by the Board of Directors, and for overseeing the Bank's ordinary activities; it must report the decisions adopted at its meetings to the Board of Directors, without prejudice to the other functions attributed to it by the Articles of Association and the Board of Directors Regulation. Under Article 4 of its own terms of reference, the Delegated Committee also has information, consultative and advisory functions in relation to all the powers that vested in the Board of Directors, as well as the power to coordinate the executive functions of the Bank's executives, the power to decide on which lies with the executive bodies. The Delegated Committee is also empowered to make decisions within the limits established by the Bank's policies, particularly risk decisions, in accordance with the delegations scheme approved by the Board of Directors.

In 2019, the Delegated Committee monitored the ordinary activities of the Bank, oversaw Bank management, adopted resolutions and decisions falling within the scope of the powers that the Board of Directors delegated to it, and analysed and reviewed other issues, providing favourable reports to the sub-committees with competency in those areas and to the Board of Directors for the adoption of the appropriate resolutions.

The most salient actions undertaken in 2019 by the Delegated Committee in carrying out its functions and discharging its functions and responsibilities included tracking and analysing the financial information and results of the Bank and its group; analysing the reaction of markets and investors to the institution's results; being apprised of the strategic plan and tracking strategic issues appropriately; and tracking business performance and trends in own stock and the share price. The Committee also analysed and, as appropriate, approved transactions in connection with the Group's corporate development. It was informed of new developments in legislation, of relations with the supervisors and of regulatory matters, and adopted the pertinent decisions for action. It was also informed of the Group's risks, deciding on the risk operations that fell under its remit due to their amount or relevance. It issued favourable reports to the Board of Directors on the incorporation and/or dissolution and liquidation of subsidiaries and investees, as well as changes in capital and other amendments to the articles of association; it informed the Appointments Committee and the Board of Directors of changes in the composition of such institutions' governing bodies. The Delegated Committee also performed a self-assessment of its performance in 2018, and the assessment of its performance in 2019 is being conducted in 2020 with the assistance of an independent external consultant.

| Audit and Control Committee | | |
|---|---|---|
| Name | Position | Category |
| Mr. MANUEL VALLS MORATÓ | CHAIRMAN | Independent |
| Mr. PEDRO FONTANA GARCIA | MEMBER | Independent |
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | MEMBER | Other external |
| Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI | MEMBER | Independent |

| | |
|---|---|
| % executive directors | 0.00 |
| % proprietary directors | 0.00 |
| % independent directors | 75.00 |
| % other external directors | 25.00 |

Detail the functions assigned to this committee, including any that are additional to those established by law, and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it fulfilled, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Audit and Control Committee is regulated by article 60 of the Articles of Association and article 13 of the Board of Directors Regulation, and it has its own terms of reference that regulate its organisation, functioning and governance.

The Audit Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least a majority of them must be independent directors, and one must be appointed on the basis of his/her knowledge and experience of accounting and/or auditing. The Board of Directors must appoint the committee's Chair from among the members who are independent directors, with the favourable vote of two-thirds of its members, and the committee secretary, who must not be a director. The Secretary must take minutes of every meeting, which must be approved at the end of the meeting itself or at the next meeting. The business transacted at Committee meetings must be reported to the Board of Directors at the next meeting by means of a reading of the minutes.

The Committee must meet at least once every three months, and whenever convened by the Chair at his/her own initiative or at the request of any Committee member, or at the request of the Chairman of the Board of Directors or of the external auditors, to discharge the duties assigned to it.

The purpose of the Audit and Control Committee is to exercise oversight to ensure good banking and accounting practices in the various echelons of the organisation, as well as to ensure that suitable measures are taken to address improper conduct or methods. It is also a watchdog, ensuring that the measures, polices and strategies defined by the Board are duly implemented.

The Audit and Control Committee has the responsibilities established by law, including:

a) Reporting to the General Meeting on all issues raised by shareholders that are within its remit.

- When notice is given of a General Meeting of Shareholders, the Committee makes the report on its activities during the year available to shareholders so as to inform them of the issues and actions under its area of competence.

b) Supervising the effectiveness of the company's internal control, internal audit and risk management systems, including those relating to tax risk, as well as discussing with the auditors or audit firms any significant weaknesses in the internal control system that were detected in the course of the audit.

- During the year, the Committee reviewed the Group's risk management and control systems using reports prepared by the Risk, Finance and Internal Audit Departments.

In compliance with the requirements as to disclosures to the markets in the framework of the provisions of Part Eight: "Disclosure by Institutions" of Regulation (EU) 575/2013 of the European Parliament and the Council, of 26 June 2013, (hereinafter, the Capital Requirements Regulation - CRR), the Committee reviewed the contents of the "Pillar III disclosures" and analysed the information in connection with the group's computable equity and capital and the degree to which it conformed to the criteria defined in the CRR and the risk management and control objectives set out in group policies. The Committee also carried out a detailed review of all financial data to be relied on as a basis for characterising the group's risk profile as conservative in the various categories of risk for which disclosure was required.

The Committee also reviewed the Internal Capital Adequacy Assessment Process (ICAAP) for 2018 in connection with risk governance, management and control systems, and concluded that they conformed to the institution's risk profile and reached a favourable conclusion as to the Banco Sabadell Group's consolidated capital, which assures coverage of the regulatory requirements. It also reviewed Internal Liquidity Adequacy Assessment Process (ILAAP). Based on the contents of the report, the Commission was able to conclude that the Banco Sabadell Group has a liquidity position that enables it to meet payment commitments at a reasonable cost, either under normal conditions or in a situation of stress, that the group has a stable and balanced funding structure, in line with the risk appetite and the defined risk management strategy, and that a robust governance framework is in place for managing and controlling liquidity and funding risk.

Regarding tax risks, in 2019 the Committee supervised and tracked tax management by the Banco Sabadell Group and, in particular, the application of the tax strategy and its guiding principles of efficiency, prudence, transparency and minimisation of tax risk, and it reviewed the actions and horizontal projects that were implemented for an appropriate analysis of the Group's tax issues.

In connection with its function of overseeing the internal audit units, on 24 May 2018, following a favourable report by the Appointments Committee, the Board of Directors resolved unanimously to ratify that the Internal Audit Department reports directly to the Board of Directors' Audit and Control Committee. This reinforced its hierarchical and functional independence from the rest of the institution's departments and positions the function at an appropriate level of the organisation.

On the basis of its policy, which was approved by the Board of Directors, the functions of the Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design, implementation, and effective functioning of the risk management and control systems.

The Overall Audit Plan that the Board of Directors approved at a meeting on 31 January 2019, based on a recommendation by the Audit and Control Committee dated 28 January 2019, determined the priorities of the Internal Audit activity, using a risk-based approach. During 2019, the Committee received information about the execution of the planned actions; in some cases, it reviewed the control environment and, in particular, evaluated the proper identification of risks in processes, and the sufficiency, design, implementation and effective functioning of existing controls. The committee evaluated the results of each internal audit and prioritised and monitored corrective actions.

In addition, during 2019, the Committee checked the independence and objectivity of the internal audit function, checking that it has sufficient resources and access to information to fulfill its tasks, in accordance with the professional standards that apply to internal auditors. On 28 January 2020, the Committee received the Annual Report on Internal Audit Activities, which includes the report of the Internal Audit Quality Assurance and Improvement Programme with the internal evaluations carried out on its function to assess its effectiveness, as well as the performance of the head of that unit.

In 2019, the Committee also received information about the conclusions of the reports issued by the external auditors and the supervisory authorities and on the proper implementation of the improvement measures proposed by the regulatory bodies.

c) Overseeing the drafting and presentation of regulated financial information.

- During the year, the Audit and Control Committee supervised the internal control model established in the institution with respect to the process of preparing and presenting regulated financial and regulated non-financial disclosures. To this end, it received information from the Finance Department, the Internal Audit Department and the External Auditors regarding the risks relating to financial and non-financial reporting processes and the adequacy and effectiveness of the controls that mitigate them, as well as aspects that may give rise to changes in the internal control model, including regulatory changes, the incorporation of new products or the modification of Banco Sabadell's processes.

d) Proposing to the Board of Directors, for submission to the General Meeting, the appointment of the external auditor, establishing the engagement conditions, the scope of the professional mandate, and revocation or non-renewal, if appropriate; reviewing compliance with the audit contract, striving to ensure that the opinion on the financial statements and the main content of the auditors' report are drafted clearly and accurately.

- With regard to the external auditor, the Committee reviewed the criteria and conditions of engagement and, as a result, proposed to the Board that the firm of PricewaterhouseCoopers Auditores, S.L. be re-appointed as auditors of the Bank’s separate and consolidated accounts for the year 2019. The Board of Directors resolved to submit the Committee’s recommendation to the General Meeting of Shareholders, which approved it on 28 March 2019. That same General Meeting of Shareholders approved the appointment of KPGM Auditores, S.L. for the years 2020 to 2022, based on a proposal by the Board of Directors, which was based on a reasoned recommendation from the Audit and Control Committee made following a selection process performed in accordance with the provisions of Regulation (EU) 537/2014 of 16 April, on specific requirements regarding statutory audit of public-interest entities.

In the course of the audit, the Committee remained in contact with the external auditor constantly to be apprised of the scope and schedule and the resources assigned to the work, the determation of materiality and the auditors' opinion on any material accounting or financial reporting issues arising in the course of the audit work. The Committee also reviewed in depth the contents of the audit report, as well as the Additional Report presented by the auditors to the Audit and Control Committee in connection with the audit of the year ended 31 December 2019, required to comply with the provisions of article 36 of Act 22/2015, of 20 July 2015, on Auditing and with article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities.

e) Advising on the annual, quarterly and half-yearly financial statements and the prospectuses that must be submitted to the regulatory or supervisory bodies, exercising vigilance to ensure compliance with the requirements of the law and the proper application of generally accepted accounting principles, and advising on proposals to amend those principles.

- In the course of the year, the Committee paid particular attention to reviewing the financial statements and the quarterly and half-yearly trading and financial reports as well as other information disclosed to the market, including the Share Registration Document, before they were released for publication. In order to carry out these reviews, the Finance Department and the External Auditor participated in meetings of the Committee to present matters relating to the financial disclosures.

f) Establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions and in the audit rules.

- In order to comply with the requirements for the engagement of non-audit services from audit firms and their networks, as established in the Banco Sabadell Group Policy to safeguard auditor independence, approved by the Audit and Control Committee on 19 April 2016, the Audit and Control Committee reviewed the main non-audit services provided by PricewaterhouseCoopers during 2019. The objective of these reviews was to ensure that all that work fulfilled the independence requirements established in Act 22/2015, of 20 July, on Auditing and in Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

Additionally, based on information received from the auditors, the Committee vetted the procedures and tools used by the firm to ensure compliance with the auditor independence requirements. Written confirmation of the firm’s independence with respect to the Banco Sabadell Group was received on 22 July 2019 and 28 January 2020.

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.

g) Advising on any issues referred to the Committee by the Board of Directors that are within its remit.

- In the course of its duties as assigned by the law, the Articles of Association and the Board of Directors Regulation and its own terms of reference, the Audit and Control Committee reviewed all the reports under its remit, including the annual assessment of its performance, as well as a report on the issues it dealt with and the activities it performed in discharging its duties.

h) Any other matters for which the Committee is responsible by law or under the Articles of Association or any regulations made in accordance therewith, or under any generally applicable rules on corporate governance.

- In pursuit of good governance of the Bank's business, the Committee decided to recommend that the Board of Directors give its approval to a report submitted by the Executive Committee on the corporate governance structure and practices at Banco Sabadell in the year.

The Committee also examined half-yearly reports from the Group’s Corporate Ethics Committee on action taken to ensure compliance with the Banco Sabadell Group Code of Conduct in relation to the securities market, the Group’s Code of Conduct, initiatives undertaken in the area of Corporate Social Responsibility and other key aspects.

By reviewing these reports, the Committee also received information on the performance of the whistleblower channel, including the number of notifications received, their origin and types, the results of the investigations and the proposals for action.

In connection with related-party transactions as referred to in recommendation 6 of the Good Governance Code of Listed Companies approved by the National Securities Market Commission (CNMV) on 18 February 2015, the Committee verified that the related-party transactions performed during the year fulfilled the terms and conditions established in current legislation such as not to require authorisation from the governing bodies or had obtained such authorisation based on a recommendation by the Committee, after it had checked that the consideration and other proposed conditions were in line with market parameters. The Committee also reviewed the information on related-party transactions that was disclosed in the financial statements.

Additionally, in conformity with the recommendations contained in a document published by the CNMV on 18 July 2013 entitled "Recommendations by the Comisión Nacional del Mercado de Valores for securities issuers and financial intermediaries acting on their behalf in discretionary transactions with own shares", the Audit and Control Committee received regular briefings from the Director-General Manager and the head of treasury share management on trading in the Bank's own shares and on compliance with the regulator's recommendations.

Identify the members of the audit committee who were appointed on the basis of their knowledge and experience in accounting, auditing or both, and state the date of appointment of the Chairman of this committee.

| | |
|---|---|
| Name of directors with experience | Mr. MANUEL VALLS MORATÓ |
| Date of appointment as Chairman | 30/03/2017 |

| Appointments Committee | | |
|---|---|---|
| Name | Position | Category |
| Ms. AURORA CATÁ SALA | CHAIRMAN | Independent |
| Mr. ANTHONY FRANK ELLIOTT BALL | MEMBER | Independent |
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | MEMBER | Other External |
| Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ | MEMBER | Independent |

| | |
|---|---|
| % executive directors | 0.00 |
| % proprietary directors | 0.00 |
| % independent directors | 75.00 |
| % other external directors | 25.00 |

Detail the functions assigned to this committee, including any that are additional to those established by law, and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it fulfilled, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Appointments Committee is regulated by article 61 of the Articles of Association and article 14 of the Board of Directors Regulation, and it has its own terms of reference approved by the Board of Directors on 24 October 2019 that regulate its organisation and functioning.

The Appointments Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least two of them must be independent directors. The Committee will have a Chair, appointed by the Board of Directors with a two-thirds majority from among the independent directors who are members of the Committee.

The Board of Directors will also appoint the Committee Secretary and, in the event, a Vice-Secretary, neither of whom need be a member of the Board of Directors.
The Appointments Committee meets as often as necessary, and at least once every three months, when convened by its Chairman, at his/her own initiative or at the request of any member of the Committee, or whenever the Board or its Chairman requests that it issue a report or adopt a proposal, and, in any event whenever it is advisable in order to properly discharge its duties. In any case, it must meet once per year to provide advice in advance on the Board's performance evaluation.

On 28 March 2019, Mr. José Manuel Martínez Martínez was appointed as a member of the Appointments Committee in place of Mr. Pedro Fontana García.

Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors, the Board of Directors Regulation or its own terms of reference, the Appointments Committee has the following basic duties:

a) Making proposals to the Board of Directors as to the appointment of independent directors, for co-optation or for referral to the General Meeting, and as to the re-appointment or removal of such directors;

- In fulfilment of its functions, it made a proposal to the Board of Directors that it refer to the General Meeting of Shareholders the re-appointment of independent directors, and ratify their fitness and suitability.

b) Advising on proposals to appoint other directors — proprietary, other external and executive — by co-optation or for referral to the General Meeting, and on proposals to re-appoint or remove them;

- In fulfilment of its functions, it advised the Board of Directors on proposals for the re-appointment of two executive directors, ratifying their fitness and suitability, for submission to the General Meeting of Shareholders, and it advised on the proposal, which was referred to the General Meeting of Shareholders, to ratify and appoint a female executive director, ratifying her fitness and suitability.

c) Ensuring that the qualitative composition of the Board of Directors complies with the provisions of article 53 of the Articles of Association, by assessing the balance of knowledge, capacity, diversity and experience among its members. To this end, it must define the necessary functions and skills to be possessed by candidates for each vacancy, as well as the time that it considers needs to be dedicated to properly discharge the duties;

- The Committee exercised oversight to ensure compliance with the qualitative composition of the Board in all its proposals for the re-appointment of independent directors, as well as advising on the Board's proposals with respect to the other directors. It also verified compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, in accordance with Recommendation 14 of the Code of Good Governance of Listed Companies, and analysed and advised the Board on the composition of the Board, the categories of directors, and the approval of the Annual Corporate Governance Report.

d) Striving to ensure that selection procedures for filling vacancies or appointing new directors favour a diversity of experience and knowledge, facilitate the selection of female directors and, generally, do not suffer from implicit biases that might result in discrimination of any type;

e) Evaluating to ensure that the members of the Board of Directors are suitable and have the requisite competency, knowledge and experience, and assessing their ability to devote the necessary time, with a view to referring their candidacy to the competent authorities;

- During 2019, it analysed the powers and diversity of the Board of Directors to determine the profiles of the candidates for directorships and assessed the suitability of the directors presented for appointment and/or re-appointment. It also performed a supplementary fitness assessment for one director as a result of the changes of functions and positions in the Banco Sabadell Group.

f) Advising on proposals for the appointment and removal of senior executives and other Group’s identified staff, and assessing their fitness and suitability;

- The Committee fulfilled its function of advising the Board of Directors on proposals for the appointment of senior executives, having assessed their suitability. It also reviewed the list of Group’s identified staff of the Bank, the group and the subsidiaries, and advised the Board of Directors on proposals to amend the list of Group's identified staff.

g) Advising on the basic contractual conditions for executive directors and, as appropriate, on their specific contracts, which must be approved by the Board of Directors and be attached to its minutes as an annex;

- The Appointments Committee issued a favourable report to the Board of Directors on the contractual terms and conditions under which the director appointed as Chief Risk Officer will perform executive functions, having switched category from independent to executive director.

h) Examining and organising succession plans for the Chairman of the Board of Directors and the Bank's Managing Director, and, as appropriate, raising proposals to the Board and implementing the provisions of any duly approved and published Succession Plan in the event;

- The Succession Plan for the Chairman and Managing Director of Banco Sabadell was approved by the Board of Directors on 21 July 2016.

i) establishing a target for representation of the gender that is less represented on the Board of Directors and drawing up guidelines on how to achieve that target;

- That target is set in the Banco Sabadell Policy for the Selection of Candidates for Directorship, which was approved by the Board of Directors at a meeting on 25 February 2016 and amended by the Board of Directors on 28 March 2019. The Appointments Committee verified compliance with this Policy in the resolutions adopted in 2019 regarding the re-appointment, ratification and/or appointment of directors, which conformed to the diversity parameters and requirements set out in the Policy and in the current regulations governing directorships of credit institutions and, in particular, with a view to achieving the objectives as to the weighting in the Board of the under-represented gender.

j) Evaluating regularly, and at least once per year, the structure, size and composition of the Board of Directors and its Committees, and advising the Board on the most appropriate configuration, as well as advising on proposals regarding the appointment or removal of their members;

- The Committee evaluated the structure, size and composition of the Board and its committees and advised the Board of Directors on the most appropriate configuration, also providing advice on proposals for re-appointment and appointment of directors, and on changes in the composition of the Board Committees.

k) Making proposals to the Board of Directors for the assignment of directors to the appropriate category, their continuance in that category in the event of re-appointment, and changes of category where necessary;

- The Committee analysed the implications of the change of category of two directors and submitted its conclusions to the Board for it to take cognizance and adopt the appropriate resolutions.

l) Reviewing directors' categories each year and informing the Board of Directors for inclusion in the Annual Corporate Governance Report;

- The Committee reviewed the directors' categories and informed the Board for inclusion in the Annual Corporate Governance Report.

m) Advising the Board of Directors on proposals for the appointment of the Vice-Chairman or Vice-Chairmen, as applicable;

n) Advising the Board of Directors on proposals regarding the appointment of the Secretary and, as appropriate, the Vice-Secretary of the Board of Directors, neither of whom need be a director.

o) Making proposals to the Board of Directors for the appointment, removal or re-appointment of the Lead Independent Director;

- In 2019, there was a change in the person acting as Lead Independent Director after three years in the position, to which end the Committee issued a favourable report to the Board of Directors on the appointment of a new Lead Independent Director.

p) Producing and regularly updating a matrix of competencies in the Board of Directors, evaluating the knowledge, skills and experience of the members of the Board of Directors and of the Board as a whole, for approval by the Board of Directors;

- The Committee drew up the Matrix of competencies and diversity of the members of the Board of Directors and provided advice to the Board in this connection; the matrix defines the skills and knowledge of the directors in accordance with the criteria of Technical Guide 1/2019 on Nominations and Remuneration Committees, issued by the Spanish National Securities Market Commission (CNMV) on 20 February 2019, and of the EBA Guidelines on the assessment of suitability of members of the management body and key function holders (EBA-GL-2017-12). The Committee issued a recommendation to the Board on the approval of the Competence Matrix at a meeting of 27 June 2019.

q) Periodically reviewing and making proposals to the Board for the amendment of the policies regarding the selection and diversity of the members of the Board of Directors, and verifying compliance with them annually, informing the Board of Directors as to the degree of compliance;

- At a meeting on 27 March 2019, the Committee amended the Policy for the Selection of Candidates for Directorship to expressly state that, in the area of candidates' professional competence, particular value will be attached to experience in banking and finance. It also checked compliance with the policy.

r) Providing advice each year on performance reviews for the Board of Directors and for the Chairman of the Board of Directors and the Managing Director;

- The Appointments Committee provided advice on the annual performance review of the Board of Directors, its Chairman and the Managing Director. The performance review for 2019 is being conducted in 2020 with the assistance of an independent external consultant.

s) Referring to the Board of Directors the assessments of the Board Committees with the results of the assessment and a proposal for an action plan or recommendations to correct any deficiencies detected or improve the functioning of the Board or its Committees;

- The Appointment Committee issued a favourable report to the Board on the annual performance review of the Committee itself for 2018, as well the performance reviews for the other Board committees (Delegated Committee, Audit and Control Committee, Appointments Committee, Remuneration Committee and Risk Committee), which included, depending on the outcome, an action plan to correct any deficiencies that had been detected.

t) Designing and organising regular refresher courses for directors;

- At a meeting on 31 January 2019, the Appointments Committee issued a favourable report to the Board of Directors on the 2019 Director Training Programme, with special emphasis on updating the skills and knowledge of the Bank's directors in specific issues related to the institution.

u) Reviewing, at least once per year, the execution and quality of the initial training and onboarding and the Director Training Programme, and informing the Board of Directors;

- At a meeting on 27 March 2019, the Appointments Committee advised the Board on the amendment to the 2019 Director Training Programme approved on 31 January 2019 in order to reinforce training in the banking business, by modifying the content of the planned training sessions to this end.

| Remuneration Committee | | |
|---|---|---|
| Name | Position | Category |
| Ms. AURORA CATÁ SALA | CHAIRMAN | Independent |
| Mr. ANTHONY FRANK ELLIOTT BALL | MEMBER | Independent |
| Mr. GEORGE DONALD JOHNSTON | MEMBER | Independent |
| Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI | MEMBER | Independent |

| | |
|---|---|
| % proprietary directors | 0.00 |
| % independent directors | 100.00 |
| % other external directors | 0.00 |

Detail the functions assigned to this committee, including any that are additional to those established by law, and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it fulfilled, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Remuneration Committee is regulated by article 62 of the Articles of Association and article 14 bis of the Board of Directors Regulation, and it has its own terms of reference approved by the Board of Directors on 24 October 2019 that regulate its organisation and functioning.

The Remuneration Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least two of them must be independent directors. The Committee will have a Chair, appointed by the Board of Directors with a two-thirds majority from among the independent directors who are members of the Committee. The Board of Directors will also appoint the Committee Secretary and, in the event, a Vice-Secretary, neither of whom need be a member of the Board of Directors.

The Remuneration Committee meets as often as necessary, and at least once every three months, when convened by its Chairman, at his/her own initiative or at the request of any member of the Committee, or whenever the Board or its Chairman requests that it issue a report or adopt a proposal, and, in any event, whenever it is advisable in order to properly discharge its duties. In any event, the Committee must meet once per year to prepare the information on directors' remuneration that the Board of Directors must approve and include in its annual public documentation.

On 28 March 2019, Mr. José Ramón Martínez Sufrategui was appointed as a member of the Remuneration Committee in place of Ms. Maria Teresa Garcia-Milà Lloveras.

Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors, the Board of Directors Regulation or its own terms of reference, the Remuneration Committee has the following basic duties:

a) Making proposals to the Board of Directors in connection with the director remuneration policy;

- The Remuneration Committee issued a favourable report to the Board of Directors on the proposal to the Ordinary General Meeting of Shareholders to approve the Banco Sabadell Director Remuneration Policy for the years 2019, 2020 and 2021, which was approved by the General Meeting of Shareholders on 28 March 2019.

b) Proposing, to the Board of Directors, the remuneration policy for general managers and others performing senior management functions who report directly to the Board of Directors, the Delegated Committee or the Managing Directors, and the individual remuneration and other contractual conditions for executive directors, exercising oversight to ensure that they are complied with;

- To perform this function, it cross-checked the compensation benchmark for the executive directors and senior management and internal audit with reports from external consultants; it issued a favourable report to the Board of Directors in connection with the degree of fulfilment of the 2017 objectives for executive directors, senior management and internal audit, as well as their fixed and variable remuneration for 2019.

c) Advising on remuneration programmes based on shares and/or options;

d) Periodically reviewing the general principles of remuneration and the remuneration programmes for all employees, and considering whether they conform to those principles;

- The Remuneration Committee examined the independent assessment of remuneration policy and practices produced by an external consultant, which analysed whether Banco Sabadell's remuneration policy and practices conform to the regulators' requirements and recommendations. It also reviewed the report produced each year by the Human Resources Department in order to provide the Remuneration Committee with the essential information to enable it to perform the functions entrusted to it in relation to reviewing the general principles of Banco Sabadell's remuneration policy and exercising oversight of the remuneration of the bank's executive directors, senior management and other members of the identified staff;

It also reported favourably to the Board of Directors on the fixed remuneration for group's entire workforce and an increase in the total salary expense for the year 2019.

e) Reviewing the remuneration policy each year to ensure that it is aligned with the institution's situation and short-, medium- and long-term strategy and with market conditions and to assess whether it contributes to the creation of long-term value and to appropriate risk control and management;

- In 2019, the Remuneration Committee analysed an independent report by an external consultant evaluating remuneration policy and practices; and it reviewed the remuneration policies of Banco Sabadell and reported favourably on this matter to the Board of Directors.

f) Ensuring that the institution's remuneration policy and practices are up to date, by proposing any necessary changes, and ensuring that they are subject to a central, independent internal review at least once per year;

- The Remuneration Committee analysed the Internal Audit Report on the Remuneration Policy of the Group and Subsidiaries, whose objective was to review the degree to which the institution's remuneration policies conform to the EBA/ESMA guidelines.

g) Verifying that the remuneration policy is properly applied and that directors do not receive remuneration outside the policy;

- The Remuneration Committee analysed the Independent performance evaluation report in connection with oversight over variable remuneration that was produced by an external consultant, which concluded that the Remuneration Committee, the second and third line of defence and the annual independent external evaluation comply with the provisions of the regulations and with the corporate governance recommendations regarding the control of variable remuneration, and that they conform to market best practices in this area.

h) Assessing the mechanisms and systems adopted to ensure that the remuneration system duly takes account of all types of risks and liquidity and capital levels, and that the remuneration policy promotes and is consistent with adequate, effective risk management, and that it is in line with the institution's business strategy, objectives, culture and corporate values and long-term interests;

- At a meeting on 29 January 2019, the Remuneration Committee examined the independent report on the evaluation of the remuneration policy and practices prepared by an external consultant, which concluded that Banco Sabadell has in place criteria for analysing risk in managing remuneration, and that the criteria used in the objective assessment systems consider present and future risks;

The Risk Committee also informed the Remuneration Committee about the coherence between the remuneration programmes and the Bank's risk, capital and liquidity levels, ensuring that its objectives are set in alignment with the Risk Appetite Statement (RAS). The report also concluded that the Remuneration Policy aligned to Risk conforms to the institution's business strategy and long-term objectives, values and interests, is consistent with the principles relating to the protection of customers, investors and shareholders, and does not encourage excessive risk-taking.

i) Reviewing the various possible scenarios to analyse how remuneration policies and practices react to internal and external events, and considering retrospective evidence of the criteria used to determine remuneration and the ex-ante adjustment to risk based on actual risk outcomes;

j) Reviewing the conditions of the contracts with executive directors and senior management and providing advice in this connection to the Board of Directors, and verifying that they are consistent with the current remuneration policy;

- The Committee analysed and approved the amendment or adjustment of the senior management contracts, verifying that they conform to the remuneration policy.

k) Evaluating the degree of compliance with the criteria and objectives established in relation to the previous year, which is what must determine the proposal for the individual remuneration for directors, particularly executive directors, senior management and other members of the identified staff, including the short-, medium- and long-term variable components, with the participation of the external advisor where appropriate;

- The Committee informed the Board about the degree of attainment of the 2018 objectives by the executive directors, and its proposal for fixed remuneration for 2019 and the establishment of objectives and the proposal for variable remuneration for 2019. It also issued a favourable report to the Board of Directors on the long-term remuneration target for executive directors. The committee also ratified the attainment of the 2018 objectives by senior management and the head of Internal Audit and gave advice to the Board on the payment of their variable remuneration, and it also advised on the establishment of senior management's objectives for 2019.

In connection with the identified staff, the Committee ratified the attainment of their objectives and their salary review, and provided advice on the variable remuneration target for 2019.

l) Proposing the determination of remuneration earned by the directors and senior management;

- The Remuneration Committee reported favourably to the Board of Directors on the fixed remuneration and short- and long-term variable remuneration for 2019 for executive directors and senior management.

m) Proposing the determination of the bonus for senior management at the Bank and its subsidiaries;

- The Remuneration Committee issued a favourable report to the Board of Directors on the 2019 variable remuneration for senior management at the Bank and its subsidiaries;

n) Verifying whether circumstances have arisen that justify triggering the malus or clawback clauses governing variable remuneration, and proposing the appropriate measures to recover any amounts due in that event;

o) Approving the appointment of external consultants on remuneration that the Board decides to hire to provide advice or support;

- It approved the hiring of remuneration advisers for 2020.

p) Ensuring that any conflicts of interests are not detrimental to the independence of external advisors;

q) Ensuring that remuneration is transparent;

- It cooperated actively in the Corporate Governance Road Show held at the beginning of February 2019 for proxy advisors and significant shareholders, in which it detailed the most salient aspects of the remuneration policy.

r) Verifying the information on remuneration contained in the various corporate documents, including the Report on Director Remuneration.

- The Remuneration Committee vetted and cleared the information on remuneration to be included in the Annual Corporate Governance Report, and recommended that the Board of Directors approve the Annual Report on Director Remuneration, and it exercised oversight to ensure that they were publicised properly on Banco Sabadell's corporate website.

s) Preparing the information on directors' remuneration that the Board of Directors must approve and include in its annual public documentation.

- The Remuneration Committee determined and reviewed the information on director remuneration that the Board must approve and disclose in the annual public documentation.

t) Reviewing to ensure that the information that the institution divulges via its website on matters that are the competence of the Committee in connection with directors and senior management is sufficient and adequate and conforms to the applicable corporate governance recommendations.

- The Remuneration Committee ensured the proper dissemination of the information on remuneration through the corporate website, in accordance with the applicable regulations and corporate governance recommendations.

The Remuneration Committee also approved, and resolved to submit to the Board of Directors, the Report on the assessment of the Remuneration Committee for 2018 and the proposal for the action plan for 2019. The performance review for 2019 is being conducted in 2020 with the assistance of an independent external consultant. It also reported favourably to the Board of Directors on the submission to the General Meeting of Shareholders of the maximum limit on variable remuneration for the Group's identified staff at an amount equivalent to 2 years' remuneration, i.e. 200% of the fixed annual remuneration assigned to each one of them.

| Risk Committee | | |
|---|---|---|
| Name | Position | Category |
| Mr. GEORGE DONALD JOHNSTON | CHAIRMAN | Independent |
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | MEMBER | Other external |
| Mr. MANUEL VALLS MORATÓ | MEMBER | Independent |

| | |
|---|---|
| % executive directors | 0.00 |
| % proprietary directors | 0.00 |
| % independent directors | 66.66 |
| % other external directors | 33.33 |

Detail the functions assigned to this committee, and describe its procedures and rules of organisation and operation. For each of these functions, describe the most salient actions during the year and how it exercised, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Risk Committee is regulated by article 63 of the Articles of Association and article 15 of the Board of Directors Regulation, and it has its own terms of reference approved by the Board of Directors on 24 October 2019 that regulate its organisation and functioning.

It comprises at most five directors, appointed by the Board of Directors, none of whom may be an executive director; they must have the appropriate knowledge, skill and experience to fully understand and oversee the Bank's risk strategy and risk appetite; at least two of them must be independent directors. The Board of Directors appoints its Chairman from among the members who are independent directors, with the favourable vote of two-thirds of its members.

In the exercise of its functions, the Risk Committee may directly request the information it sees fit from both the director who is Chief Risk Officer and the Risk Control Manager.

The Risk Committee meets as often as necessary, and at least once every two months, when convened by its Chairman, at his/her own initiative or at the request of any member of the Committee, or at the instance of Board or its Chairman.

On 31 January 2019, Mr. George Donald Johnson was appointed Chairman of the Risk Committee in place of Mr. David Vegara Figueras.

Its functions are focused on supervising and exercising oversight to ensure that all the risks of the bank and its consolidated group are accepted, controlled and managed appropriately, and reporting to the Board on the performance of the functions corresponding to it, in accordance with the law, the Articles of Association, the Board of Directors Regulation and its own terms of reference. The main functions of the Risk Committee are as follows:

a) Supervising implementation of the Overall Risk Policy;

b) Reporting each quarter to the full Board about the levels of risk assumed, investments made and their performance, and the potential repercussions on Group revenues of variations in interest rates, and the degree to which they conform to the VAR levels approved by the Board of Directors;

c) Monitoring and detecting any excess above the approved tolerance thresholds, and overseeing the activation of the contingency plans established for this purpose;

d) Advising the Remuneration Committee as to whether the employee compensation programmes are coherent with the Bank's levels of risk, capital and liquidity.

e) Advising and supporting the Board of Directors in connection with tracking the institution's risk appetite and general risk strategy, taking into account all types of risks, to ensure that they are in line with the institution's business strategy, objectives, corporate culture and values.

f) Assisting the Board of Directors in monitoring the application of the institution's risk strategy and established limits.

g) Monitoring implementation of the capital and liquidity management strategies, as well as all the institution's other material risks, in order to assess their conformity to the approved risk strategy and appetite.

h) Providing recommendations to the Board of Directors on such adjustments to the risk strategy as may be considered necessary as a result of, inter alia, changes in the institution's business model, market performance or recommendations made by the risk control function.

i) Advising on the appointment of external consultants in connection with overseeing the institution's activities.

j) Analysing a series of possible scenarios, including stress scenarios, to assess how the institution's risk profile would react to external and internal events.

k) Monitoring the degree to which the major financial products and services offered to customers conform to the institution's business model and risk strategy. The Risk Commission will assess the risks associated with the offered financial products and services and will take into account how the prices of those products and services relate to the rewards obtained.

l) Assessing internal or external auditors' recommendations and verifying proper implementation of any measures that are adopted.

m) Reporting to the full Board regarding the performance of its functions under this article and other applicable legislation and the provisions of the Articles of Association;

For each of the functions of the Risk Committee listed in the preceding paragraphs, items a) through m), the most salient actions carried out by the Committee during the year were as follows:

In relation to Governance functions, as referred to in items a), e), f), g), h), i), j), l) and m), the Risk Committee analysed and reviewed matters that required it to issue a recommendation for subsequent approval by the Board of Directors, including notably the Global Risk Framework, the Risk Appetite Framework (RAF), Risk Appetite Statement (RAS) and IFRS 16, as well as the Risk Policies. In this same area, as part of the development of the Global Risk Framework, the Risk Committee also analysed, and subsequently submitted to the Board of Directors for approval, the risk policies relating to credit, concentration and operational risk, IRRBB, CSRBB and liquidity, market, counterparty, exchange rate, actuarial, model and compliance risk, which set out the core principles and procedures governing the management and control of all the Group's material risks, incorporating the requirements established by the regulations.

Additionally, in 2019 the Risk Committee reviewed: the capital adequacy and liquidity adaptation processes (ICAAP and ILAAP reports), which assess the Group's capital and liquidity situation; it participated in the analysis of risks associated with the new preliminary projections for 2020-2024 and reviewed the Recovery Plan, as well as the internal crisis management framework.

In connection with its function of assessing the recommendations by internal and external auditors, the Risk Commission is informed about the results of the various audits and oversight of proper implementation of the recommendations.

Regarding the functions referred to in items b), c) and k) of the list of functions, the Risk Committee regularly monitored the Risk Appetite Statement during the year, including the following actions:

- Regularly reviewing a scorecard that reflects trends in the main metrics and variables associated with material risks in accordance with the existing risk taxonomy, and ensuring that they conform to the established risk appetite.
- Monographic analyses of market, operational, country and financial institution risk and certain portfolio risks, among others.
- Reporting and proposing the appropriate action (activating protocols, changing guidelines, etc.) as a result of analysing risk trends.
- Tracking risk-adjusted pricing trends and the degree to which prices conform to the related risks.
- Monitoring exposure to large groups that are reviewed by the Delegated Committee.
- Monitoring quarterly NPA performance.

Additionally, the Risk Committee took action in connection with the risk models. In this regard, during 2019 the Risk Committee reviewed the risk management and control model that covers IRB (Internal Rating Based), provisioning models, models for projecting fees, revenues and expenses, credit risk management models and models affecting the Interest Rate Risk in the Banking Book (IRRBB), in order to propose that the Board of Directors approve them.

Regarding the function of informing the Compensation Committee about the coherence of the employee remuneration programmes with the Bank's risk, capital and liquidity levels, as indicated in item d), the Risk Committee reviewed the analysis carried out on the composition of the Group's identified staff and the alignment of its objectives with the Bank's risk, capital and liquidity levels, and issued a favourable report to the Remuneration Committee. Finally, the Risk Committee reviewed the appropriateness of the Group's remuneration policies, verifying that they comply with the regulatory parameters applicable to credit institutions and that they are aligned to risk.

C.2.2 Complete the following table with information on the number of female directors in the Board sub-committees at the end of the last four years:

| | Number of female directors | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | | 2016 | |
| | Number | % | Number | % | Number | % | Number | % |
| Delegated Committee | | 0.00 | | 0.00 | | 0.00 | | 0.00 |
| Audit and Control Committee | 1 | 25.00 | 1 | 25.00 | 1 | 20.00 | 1 | 33.33 |
| Appointments Committee | 2 | 50.00 | 2 | 50.00 | 2 | 66.67 | 1 | 33.33 |
| Remuneration Committee | 1 | 25.00 | 2 | 50.00 | 2 | 50.00 | 2 | 66.66 |
| Risk Committee | 1 | 33.33 | 1 | 25.00 | 1 | 25.00 | 1 | 33.33 |

C.2.3 Indicate if there are any Board sub-committee regulations, where they can be consulted, and amendments made in the year. Also, indicate if an annual report on each committee's activities has been drafted voluntarily.

Section C.2.1 details the articles of the Articles of Association and the Board of Directors Regulation that contain the rules governing the workings and competencies of the Board's sub-committees.

The current texts of the Articles of Association and Board of Directors Regulation, and the terms of reference of the Board Committees, are available on the website (www.grupobancosabadell.com) in the section on "Corporate governance and remuneration policy".

The Audit and Control Committee has an Internal Regulation setting out its functions and procedures. This Regulation has been filed with the Mercantile Register and is accessible on the website (www.grupobancosabadell.com – in the section entitled "Corporate governance and remuneration policy" - Board of Directors Regulation).

All Board sub-committees draw up an annual self-assessment report on their activities, which is submitted to the Bank's Board of Directors for evaluation. Additionally, the Audit and Control Committee, Appointments Committee, Remuneration Committee and Risk Committee draw up annual reports on their functions and activities, which are available on the website (www.grupobancosabadell.com) in the section on "Corporate governance and remuneration policy".

## D. RELATED-PARTY AND INTERCOMPANY TRANSACTIONS

D.1. State, where applicable, the procedure for the approval of related-party and intercompany transactions, and the bodies empowered for this purpose.

The Audit and Control Committee vets any related-party transaction before it is approved by the Board of Directors.

D.2. Give details of any transactions that are material, because of their size or nature, between the company or any group undertakings and significant shareholders of the company:

| Name of significant shareholder | Name of group company or institution | Nature of relationship | Type of transaction | Amount (thousand euro) |
|---|---|---|---|---|
| No data | | | | N.A. |

D.3. Give details of any transactions that are material, because of their size or nature, between the company or any group undertakings and the company's directors or executives:

| Name of director or executive | Name of related party | Relationship | Nature of transaction | Amount (thousand euro) |
|---|---|---|---|---|
| No data | | | | N.A. |

D.4. Detail the material transactions between the company and other companies in the group, except those that are eliminated in consolidation and do not form part of the company's normal operations with regard to their purpose and conditions:

In any event, provide details of any intercompany transactions carried out with organisations based in countries or territories that are considered to be tax havens:

| Name of the group institution | Brief description of transaction | Amount (thousand euro) |
|---|---|---|
| No data | | N.A. |

D.5. Give details of any material transactions between the company or any group undertakings and other related parties that are not disclosed in the preceding sections:

| Name of related party | Brief description of transaction | Amount (thousand euro) |
|---|---|---|
| No data | | N.A. |

D.6. Detail the 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.

1. The General Policy on Conflicts of Interest of the Banco Sabadell Group and of Banco Sabadell are internal regulations approved by the Board of Directors of Banco Sabadell, which were adapted in 2019 to the EBA's Guidelines on Internal Governance, and their purpose is to be effective in identifying, evaluating, managing, mitigating, preventing or, ultimately, revealing potential or actual conflicts of interest. The Compliance Department is responsible for correctly applying those policies and, when necessary, it will urge the other departments in the group to which they apply to take the necessary action.

2. The Policy on Conflicts of Interest of Directors and Senior Executives, approved by the Board of Directors on 28 January 2016 and amended by the Board of Directors on 8 March 2018, establishes the necessary measures for managing conflicts of interest of directors and senior executives and their related parties in connection with corporate transactions or non-bank activities and also with ordinary banking business.

The Credit Transactions Committee analyses all credit operations carried out by directors, senior executives and their related parties and makes proposals to the Board of Directors for their approval.

Royal Decree 84/2005, implementing Act 10/2014, of 26 June, on Ordering, 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. The Banco Sabadell Group's Code of Conduct provides a set of rules for the guidance of all persons employed by the group and its stakeholders (customers, suppliers, shareholders, authorities and the local community) based on principles which we consider fundamental to carrying on our business.

It expressly contemplates rules applicable to possible conflicts of interest with customers and suppliers and sets out guidelines for such cases.

4. Banco Sabadell Group’s Internal Rules of Conduct in connection with the securities markets (IRC), approved by the Board of Directors on 24 May 2018, are applicable to the members of the Bank’s Board of Directors, and to all executives and employees whose work is directly or indirectly related to activities and services in the field of the stock markets or who have frequent or habitual access to price-sensitive

information related to the Bank itself or group companies.

Section 4 of the IRC sets out the mechanisms for identifying, preventing and resolving possible conflicts of interest that are detected by bound persons, 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. The 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 to the corporate and business units on decisions involving issues that might lead to conflicts of interest.

The Committee is also responsible for overseeing the group's compliance with its obligations as set out in the Code of Conduct and in the Internal Rules of Conduct in connection with the securities market.
To achieve its objectives, the Corporate Ethics Committee can call upon the resources of the Compliance Department, and has been given extensive powers by the Board to gain access to all the documents and information it requires to perform its supervisory function.

6. Under the Board of Directors Regulation, all Board members are bound by a duty of loyalty and confidentiality and are required to disclose any interest they may have in the company itself or in other companies outside the group.

Specifically, Article 25 of the Regulation states that a director may not provide professional services to Spanish companies whose corporate purpose coincides wholly or partly with that of the company. An exception is made for offices they hold in companies in the group. Directors must notify the Appointments Committee before accepting any executive appointment in another company or institution.

Article 27 of the Board of Directors Regulation states that directors must inform the company of any company shares which they own directly or through companies in which they hold a significant stake.

It is also necessary to disclose any shares held, directly or indirectly, by their close relatives. Directors must also inform the company of all positions that they hold and activities that they perform in other companies or entities and, generally, of any fact or situation that may be material in connection with their performance as directors of the company.

7. The Capital Companies Act 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.

D.7. Is more than one company in the Group listed in Spain?

| | |
|---|---|
| [ ] | Yes |
| [ √ ] | No |

## E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1. Describe the scope of the company's Risk Control and Management System, including that relating to tax risks:

For risk management and control, the Banco Sabadell Group has defined a Global Risk Framework that is formalised in the form of a set of principles, embodied in policies and deployed in procedures, strategies and processes that seek to increase the likelihood of achieving the strategic goals of the Group's various activities by facilitating management in a context of uncertainty.

The Group's Global Risk Framework includes, among other aspects, all those actions associated with the identification, decision-making, measurement, evaluation, monitoring and control of the risks to which the Group is exposed, including tax risk. These activities include the functions performed by the overall Group's areas and business units.

The Global Risk Framework comprises the Global Risk Framework Policy, the Risk Appetite Framework (RAF), the Risk Appetite Statement (RAS) and the set of policies for each of the risks, together with the operating and conceptual Procedures and Manuals that make up the regulations of the Group and its subsidiaries.

The Board of Directors of Banco Sabadell has approved the group's tax strategy. That strategy is governed by the principles of efficiency, prudence, transparency and minimisation of tax risk, it is broadly aligned with the Banco Sabadell Group's business strategy, and it is applied in all the companies controlled by the group, regardless of their geographical location.

E.2. Identify the bodies of the company responsible for drawing up and executing the Risk Control and Management System, including tax risk:

The functions of Banco Sabadell's Board of Directors include identifying the Group's main risks and implementing and monitoring the appropriate internal control and information systems, including challenges and tracking and strategic planning of the Group and oversight of management of the material risks and their alignment with the profile defined by the Group. To this end, it participates directly (or through the Bank's Risk Committee) in monitoring the risk strategy, including the definition of risk appetite, RAF, RAS and policies; in monitoring the implementation of the risk culture throughout the organisation, and in reviewing the adequacy of the organisational structure to that strategy.

The Board of Directors is the body responsible for establishing the general guidelines on the organisational distribution of the risk management and control functions and for determining the main lines of strategy in this respect, ensuring their consistency with the Group's short- and long-term strategic objectives, as well as with the business plan, capital and liquidity planning, risk capacity and remuneration programs and policies.

The Board of Directors has indelegable responsibility for: (i) determining the tax strategy; (ii) approving investments or operations considered strategic by virtue of their amount or special characteristics, strategic nature or particular tax risks, unless their approval corresponds to the General Meeting; (iii) approving the creation of special-purpose vehicles or entities resident in jurisdictions considered tax havens, or the acquisition of shares in such undertakings; and (iv) the approval of any other transactions or operations of a comparable nature whose complexity might impair the transparency of Banco Sabadell and its group.

Additionally, the Delegated Committee, the Risk Committee, the Remuneration Committee and the Audit and Control Committee are involved in the Group's Global Risk Framework and, therefore, in risk management and control. Moreover, a number of Committees and Departments have a significant involvement in the risk function.

Specifically, the following committees have been created and have risk control and management functions within the Global Risk Appetite Framework:

- Technical Risk Committee (CTR), which holds meetings on a monthly basis and has the following functions: (i) supporting the Risk Committee in performing its functions (including the determination, proposal, review and monitoring of the body of regulations related to risk, the Risk Appetite Statement and the frameworks associated with each portfolio and/or risk, global monitoring of material risks, monitoring of the RAS tolerance threshold metrics according to established governance and of adaptation plans, where appropriate); (ii) tracking, analysing and, as appropriate, approving matters in the Committee's remit (approving the limits of certain RAS metrics according to the established governance, making proposals to the Risk Committee regarding material changes in internal models for referral to the Board for approval, and approving asset allocation); (iii) tracking management of doubtful assets and foreclosed assets that together make up the Non-Performing Assets (NPAs), and reporting on this to the Risk Committee; (iv) analysing specific ad-hoc issues for specific portfolios or risk classes, for referral and inclusion in risk management.

- Credit Transactions Committee (COC), which holds meetings on a weekly basis and has the following functions: (i) approval of credit 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 in accordance with the established delegation of powers, monitoring their use, and referring proposals for changes to the Delegated Committee; and (iii) monthly reporting to the Delegated Committee of the transactions approved and performed in the previous month.

- Asset and Capital Transactions Committee (COAC), which holds meetings every two weeks and has the following functions: (i) approval of asset management transactions in accordance with the established delegation of powers; (ii) monthly reporting to the Delegated Committee of the transactions approved and performed in the previous month.

- 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 Banco Sabadell Group's structural risks; (ii) approving and tracking management of the structural risks in the balance sheet by the Balance Sheet Management unit at BS Spain (UGB BS) and the Group, including liquidity risk, IRRBB, CSRBB and currency risk; (iii) optimising the balance sheet structure vis-à-vis those structural risks in accordance with the guidelines, goals and policies defined by the Board of Directors; (iv) monitoring and defining management guidelines in relation to the structural liquidity position, securities issues, interest rate risk, the ALCO portfolio and the structural currency position; (v) 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);(vi) activating and, as appropriate, closing down the Liquidity Contingency Plan, with the possibility of delegating management of a liquidity crisis situation to the Investment and Liquidity Committee.

- Internal Control Body (OCI): The management body responsible for implementing the policies and procedures established in the Law on the prevention of money laundering and terrorist finance, with the following functions: (i) deciding whether to notify the Spanish government's anti-money laundering agency (SEPBLAC) of transactions or events likely to be related to money laundering or terrorist financing; (ii) approving files arising from alerts raised by employees which, after analysis by DPBCFT, it is decided not to notify to SEPBLAC; (iii) approving or rejecting proposals for responses to requests by SEPBLAC for information about customers and/or transactions; (iv) deciding on whether to maintain or terminate business relationships with customers that are analysed, on the basis of the established procedure; (v) authorising or rejecting proposals for the establishment of commercial relations with financial institutions resident in high-risk countries and/or sanctioned countries and the establishment and/or maintenance of commercial relations with politically exposed persons or their related parties; (vi) approving or rejecting requests to create exceptions for certain customers with respect to sending alerts of unusual transactions, requests from customers that operate with countries where there are certain international restrictions, requests to exempt customers with transactions that require prior authorisation, and proposals for corporate transactions, in accordance with the section of Group manual 4815 on Money Laundering Prevention; (vii) approving the annual training plan on the prevention of money laundering and terrorist financing; (viii) approving updates to the internal regulation manuals on the prevention of money laundering and terrorist financing of the bank and the domestic group companies that are subject to the Law; (ix) designating the members of the internal control body (OCI) to perform the functions delegated to them with respect to any decision that cannot wait until the OCI's next schedule 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.

E.3. Describe the main risks, including tax risks, and corruption-related risks, to the extent that they are material (within the scope of Royal Decree-Act 18/2017), that may affect attainment of the business targets:

The Group has established a taxonomy of risks that includes the risks to which it is exposed in the performance of its activities. Specifically, it identifies the following first-tier and second-tier risks:

Strategy risk

Risk of losses (or negative impacts in general) as a result of the adoption or subsequent implementation of strategic decisions. It also includes the inability of the Group's business model to adapt to changes in the environment in which it operates. This risk includes:

- Solvency risk: the risk of not having sufficient capital, in terms of quality or quantity, to achieve the strategic and business objectives, withstand operating losses or fulfil regulatory requirements and/or the expectations of the market where it operates.
- Business risk: the possibility of incurring losses as a result of adverse events with a negative impact on the capacity, strength and recurrence of the income statement, whether its viability (short term) or its sustainability (long term).
- Reputational risk: the risk of losses derived from failures in processes, operations, strategy or corporate governance that produce a negative perception among customers, counterparties, shareholders, investors or regulators that can negatively affect the Group's capacity to maintain its business relationships or establish new ones, and to continue accessing funding sources.
- Environmental risk: the risk associated with either factors in the physical environment related to adverse climate events (such as floods or heat waves) or long-term changes in climate (such as rising sea levels) or environmental transition factors derived from the transition towards a low-emission economy (such as regulatory changes, the emergence of disruptive technologies, etc.).

Credit risk:

the possibility that losses may be incurred as a result of borrowers failing to meet their obligations or through losses in value due simply to deterioration in borrower quality. This risk includes:

- Borrower default risk: the risk that borrowers fail to honour their payment obligations in a timely manner; it also includes the risk of fraud in applications for credit.
- Concentration risk: complementary to credit risk, concentration risk refers to exposures that can potentially generate losses large enough to threaten the institution's financial solvency or the viability of its ordinary business activity.
- Counterparty risk: exposure to certain financial contracts (derivatives and repos) where the exposure does not match the notional value of the contract. A distinction is made between counterparty risk, settlement risk and delivery risk.
- Country risk: the risk arising in the debts of a country, taken as a whole, as a result of reasons inherent to the country's sovereignty and economic and political situation, i.e. for circumstances other than regular credit risk. It manifests itself in a debtor's potential inability to honour their foreign currency payment obligations to external creditors due, among other reasons, to the country preventing access to foreign currency, the inability to transfer it, or the non-enforceability of legal action against borrowers for reasons of sovereignty, war, expropriation or nationalisation. Country risk affects not only debts contracted with a State or entities guaranteed by it but also all private debtors that belong to such State and who, for reasons outside their control and not at their volition, generally find themselves unable to honour debts.
- Non-performing asset (NPA) risk: the risk of incurring higher costs or losses associated with managing doubtful assets and/or foreclosed assets.
- Equity risk: the risk of incurring losses as a result of adverse changes in the value of an equity instrument. It refers basically to the Group's portfolio of unlisted equity holdings and the portfolio of listed shares.

Finance risk:

The possibility of obtaining insufficient returns or having insufficient liquidity such as to prevent compliance with requirements and future expectations. This risk includes:

- Liquidity risk: the possibility of incurring losses as a result of the Bank being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or of it being unable to access the markets to obtain finance at a reasonable price. This risk may be associated with factors of a systemic nature or specific to the institution itself.
- Exchange rate risk: risk arising from changes in exchange rates between different currencies and the possibility that these movements may result in losses in the P&L on financial investments and on permanent investments in foreign branches and subsidiaries.
- Interest Rate Risk in the Banking Book (IRRBB): the risk of incurring losses as a result of the impact caused by interest rate fluctuations on the income statement (revenues and expenses) and on an entity's equity structure (current value of assets, liabilities and off-balance sheet positions sensitive to interest rates).
- Market risk: arising from the possibility of loss in the market value of financial asset positions due to variations in risk factors with an impact on their market prices or volatility or the correlation between them.
- Insurance risk: arising from the institution's equity holdings in insurance companies, basically from actuarial risks as well as other risks (market, counterparty, operational, etc.).
- Credit Spread Risk in the Banking Book (CSRBB): any credit spread risk on credit instruments not attributable to structural interest rate risk or default risk.

Operational risk

Operational risk is defined as the risk of loss resulting from failures or inadequacies in people, processes, and systems or from unforeseen external events. This risk includes:

- Fraud risk: the possibility of losses arising from actions, performed by employees or by third parties, with the intent to defraud, usurp ownership or evade regulations, laws or company policies.
- Conduct risk: the possibility of losses derived from inadequate provision of financial services, including cases of malice or negligence.
- Process risk: the possibility of incurring losses due to failures in process management, execution or delivery.
- Technology risk: current or future risk of losses due to the inadequacy or failures in the hardware and software of technical infrastructures that may compromise the availability, integrity, accessibility and security of the infrastructures and data.
- Outsourcing risk: the risk of losses arising from the use of a third party's resources on a normalised stable, permanent basis to perform processes of the principal, which inherently entails exposure to a series of underlying risks, such as: reputational, compliance, operational (including technology and business continuity risk), legal, supplier replacement strategic risks, as well as counterparty, country, access and concentration risk.
- Talent/management risk: the risk of incurring losses due to events with an impact on employees, e.g. non-availability of suitable profiles, staff rotation and replacement, dissatisfaction among employees, etc.
- Property risk: the risk of incurring material losses on buildings and other tangible assets.
- Model risk: risk of losses derived from errors in the use of models for decision making, such as product pricing, valuation of financial instruments (or their hedges), measurement of credit risk and the monitoring of risk limits.
- Data aggregation risk: the risk associated with the accuracy, preparation, dissemination and, where appropriate, publication of internal and external reporting, including regulatory and financial reporting.
- Compliance risk: the current or future risk of losses arising from legal or administrative penalties, significant financial losses or an impairment of reputation due to a breach of laws, regulations, rules, self-regulation codes or codes of conduct applicable to the banking business.
- Legal risk: the risk of incurring losses or other negative consequences due to being sanctioned, fined, convicted or obliged to pay damages as a result of a breach of rules or regulations, directly or due to derivative liability. This risk also includes crime risk, including that arising from corruption. To this end, for the purposes of identifying and controlling corruption-related risk, the institution has a Criminal Liability Prevention Programme with a specific section related to combating corruption, and it also has a specific anti-corruption policy.
- Tax risk: the probability of failing to comply with the objectives set out in the institution's tax strategy from a dual perspective due to either internal or external factors:

1) On one hand, the probability of failing to comply with tax obligations that may result in a failure to pay taxes that are due or the occurrence of any other event that impairs attainment of the institution's goals.

2) On the other hand, the probability of paying taxes not actually due under tax obligations, thus impairing the position of shareholders or other stakeholders.

E.4. Identify whether the institution has levels of tolerance to risk, including tax risk:

The Group has a Risk Appetite Framework (RAF) that establishes the structure and mechanisms associated with the governance, definition, disclosure, management, measurement, monitoring and control of the group's Risk Appetite. In addition to the Group's RAF, each subsidiary has a Local RAF which, based on the principle of proportionality, is adapted to the local situation but is aligned at all times with the Group RAF.

The Group also has a Risk Appetite Statement, which is a written declaration of the level of risk that the Group is willing to accept, or wishes to avoid, in order to achieve its business objectives. Therefore, depending on the nature of each risk, the RAS includes both qualitative and quantitative metrics. Consequently, the RAF is a key element in setting the risk strategy, since it determines the scope.

In addition to the Group's RAF, each subsidiary has a Local RAF which, based on the principle of proportionality, is adapted to the local situation but is aligned at all times with the Group RAF.

As for tax risk, one of the main principles of the tax strategy referred to in section E1 above is to minimise tax risk.

This statement applies to all risks identified in section E3 above.

E.5. State what risks, including tax risks, materialised during the year:

The Group provides detailed information of the risks in the Annual Report, which is available on the corporate website (www.grupobancosabadell.com – section Information for shareholders and investors – Financial information – Annual Reports), specifically under section 4 of the consolidated directors' report.

E.6. Describe the response and supervision plans for the company's main risks, including tax risks, as well as the procedures applied by the company to ensure that the Board of Directors responds to emerging challenges:

In accordance with the provisions of the Risk Appetite Framework (RAF), the Group's Risk Appetite Statement (RAS) has a solid governance process which ensures its proper deployment to all participants in the decision-making process. Consequently, the RAS follows a set of guidelines for approval/review, regular monitoring and oversight (including notification of breaches) and deployment to Group subsidiaries.

Specifically, the mechanisms for regular tracking of the RAS ensure a high degree of involvement at all times by the Group's governing bodies, which must have an updated vision of compliance and adaptation to the Risk Appetite defined for the Group, making it possible to make informed decisions. Accordingly, depending on their nature and hierarchy, the metrics in the Group RAS are reported regularly to different echelons (including the Board of Directors and the Risk Committee) and committees, and there is a procedure for giving notice of breaches.

In the event of a breach, the RAF identifies the Governing Bodies and Committees that must receive notice of the breach, as well as the need to define an Adaptation Plan, and defines its main characteristics, such as the parties responsible for approving it, deadlines, and mandatory content.

The main mechanisms implemented by the Group for monitoring and supervising risks are the following:

- Risk governance through the definition of the Risk Appetite in the RAS (through quantitative metrics and qualitative aspects) and the set of risk policies.
- Evaluation of the risk profile through a systematic process that provides a holistic view of the risks and risk tracking.
- Regular reporting of risks (including tax risk), mainly via the Risk Committee scorecard, which facilitates risk

tracking. Specifically, that reporting covers at least the principal risks, maintaining a balance between qualitative data and comments, and, where possible, it incorporates prospective measures, information on risk appetite limits and emerging risks. It also exercises oversight to ensure a homogeneous vision that provides an integrated perspective at Group level, without prejudice to including the local perspective.

- Forward-looking risk management by using stress scenarios in cases where this is considered to be meaningful, which also makes it possible to identify new risks.

More information regarding the systems for controlling the risks to which the group is exposed can be found in the Annual Report, available on the corporate website: www.grupobancosabadell.com – Shareholder and Investor Information – Financial Information – Annual Reports.

## F. INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that comprise the systems for Internal Control over Financial Reporting (ICFR).

### F.1. The organisation's control environment.

Provide details, highlighting the main characteristics of, at least:

F.1.1 Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective ICFR system; (ii) its implementation; and (iii) its supervision.

The Group's Finance Department contributes to implementing the general framework of the internal control systems that are rolled out across the entire organisation.
Part of that contribution materialises in responsibility for designing and implementing internal control systems for financial information that ensure the accuracy of the financial information that is generated.
Article 5 of the Board of Directors Regulation states that the Board of Directors is an instrument of supervision and control whose responsibility is identifying the company's and the consolidated group's main risks and implementing and monitoring suitable internal control and reporting systems, as well as setting policies on the reporting and disclosure of information to shareholders, the markets and the general public.
In addition, as provided in Article 13 of its Regulation, the Board of Directors delegates supervision of internal control systems to the Audit and Control Committee.
The functions of the group's Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design and implementation and effective functioning of the risk management and control systems, which include ICFR.

F.1.2 The following elements, if any, with regard to the process in which the financial reporting is formulated:

- Departments and/or mechanisms entrusted with: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) ensuring that there are sufficient procedures for proper dissemination within the institution:

The design and review of the organisational structure is the responsibility of the Global Organisation and Corporate Projects Department which, based on the Banco Sabadell Group Master Plan, analyses each Division's needs and assesses the need to modify the structure to facilitate attainment of the established priorities and goals. This review is carried out periodically and modifications to the organisation structure of members of the Management Committee are submitted to the Delegated Committee for approval, while modifications 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 Department showing all the modifications that have been made, so as to equip them with the resources considered necessary to perform their duties.

The organisation chart of the Banco Sabadell Group arising from the above process addresses all the departments, areas and divisions into which the Banco Sabadell Group is divided. This organisation chart is complemented by the policies, procedures and functions of each Division, which determine the framework for action and the responsibilities of each unit of the Bank.

- Code of Conduct, approval body, degree of distribution and instruction, principles and values (indicating whether there are specific references to the recognition of transactions and production of financial information), the body entrusted with analysing non-compliance and with proposing corrective actions and sanctions.

The Banco Sabadell Group has a Code of Conduct, approved by the Board of Directors and available via the corporate intranet, whose fundamental principles include a commitment to transparency and, in particular, a commitment to place all the financial and corporate information at shareholders' disposal. The purpose is to comply strictly with the Banco Sabadell Group's obligation to offer reliable financial reporting prepared in accordance with the regulations so as to present a true and fair view of the company. It also includes the responsibilities of its employees and executives to ensure this is so, via both proper discharge of their duties and notification to the governing bodies of any circumstance which might affect this commitment.

There is a Corporate Ethics Committee, whose functions include fostering ethical behaviour throughout the organisation, making proposals and advising both the Board of Directors and the various corporate and business units in connection with decisions that refer to issues that may lead to conflicts of values.

Among the tasks carried out by the Corporate Ethics Committee is the analysis of compliance with the Code of Conduct or any other code or self-regulation that exists. In order to perform its functions, it has access to the human and material resources of the Compliance Department. If, as a consequence of exercising its functions, it detects any non-compliance, it must advise the Human Resources Department for the application of corrective actions and sanctions.

- A whistle-blower channel, that allows reporting to the audit committee of any irregularities of a financial or accounting nature, as well as cases of non-compliance with the code of conduct and irregular activities in the organisation, indicating if the matter is of a confidential nature.

The Banco Sabadell Group has, and encourages the use of, a whistleblower channel to report all types of irregularities, particularly possible 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 0901CEC@bancsabadell.com.

- Training programmes and regular updating for staff involved in the preparation and review of financial information, as well as in the evaluation of ICFR, and which cover at least accounting standards, auditing, internal control and risk management.

As regards training and refresher programmes and particularly regarding the financial reporting process, the Banco Sabadell Group's Finance Department has an on-site training plan that basically addresses areas such as the company's internal accounting/finance procedures, analysis of current regulations and drafts of new domestic and international accounting standards, analysis of the domestic and international economic situation, together with training in the use of software to facilitate management and oversight of the financial reporting process.

These training sessions are programmed based on two criteria:

- Sessions scheduled at the start of the year by selecting the areas considered of greatest interest by the Finance Department.

- Sessions scheduled during the current year when an issue arises that is believed to warrant prompt distribution (drafts of new accounting standards, changes in the economic situation, etc.).

The on-site training is taught chiefly by internal professionals of the Banco Sabadell Group and by external experts who are specialists in the subject area.

In addition, the Human Resources Department places at the disposal of Banco Sabadell Group employees a series of financial training courses which they can take online. The most notable courses refer to IFRS (International Financial Reporting Standards), financial mathematics, financial analysis, Spain's General Accounting Plan and general tax matters.

The Internal Audit Department has a training plan in place for all management professionals which includes a University Specialist Programme in Bank Internal Auditing (PSAI) at a prestigious academic institution. The course covers areas such as accounting principles and financial reporting, the basics of auditing, and financial risk monitoring and management. In the 2019-2020 academic year, eight audit professionals were taking this programme, and 74 members of the Internal Audit Department hold PSAI certificates. Additionally, during 2019, the members of the Internal Audit Department participated in workshops on new regulatory impacts, including new accounting and financial reporting, and 50 of them obtained certification in the COSO Integrated Framework for Internal Control.

## F.2. Evaluation of financial reporting risks.

Provide information on, at least:

F.2.1 What are the chief characteristics of the process for identifying risk, including error or fraud, in relation to:

· Whether the process exists and is documented:

The Banco Sabadell Group's process of identifying the risk of error or the probability of fraud in financial reporting is documented in a procedure which sets out the frequency, methods, types of risks and other basic features of the process.

· Whether the process covers all the financial reporting objectives (existence and occurrence; integrity; valuations; presentation, itemisation and comparability; and rights and obligations), and if it is updated and how often:

The process covers all the financial reporting objectives (existence and occurrence; integrity; valuation; presentation, itemisation and comparability; and rights and obligations) and focuses on identifying risks of material error based on transaction complexity, quantitative and qualitative materiality, complexity of the calculations and application of judgements and estimations, updated on an annual basis. If (i) circumstances not previously identified reveal possible errors in the financial information, or (ii) material changes to the operations of the Banco Sabadell Group arise during the year, the Finance Department evaluates the risks to be added to those already identified.

The process is structured such that, on a half-yearly basis, an analysis is conducted to identify in which areas or processes material transactions arise and in which 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.

· The existence of a process for identifying the consolidation scope, taking into account, among others, whether there are complex corporate structures, instrumentality companies or special purpose vehicles:

The process for identifying the scope of consolidation is described in section F.3.1. of this document.

· If the process takes into account the effects of other types of risks (operational, technology, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements:

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, the Banco Sabadell Group has the control activities described in section F.3.1. 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.

· What governing body of the institution supervises the process:

The aforementioned process is conducted and documented by the Banco Sabadell Group's Finance Department and is supervised ultimately by the Audit and Control Committee.

### F.3. Control activities.

State whether the company has at least the following, and describe their characteristics:

F.3.1 Review and authorisation procedures for financial reporting and description of the ICFR, to be published in the securities markets, indicating those responsible, together with documentation describing the flows of activities and controls (including those related to the risk of fraud) of the various types of transactions that may have a significant effect on the financial statements, including the accounting close procedure and specific review of the judgements, estimations, evaluations and major projections.

The procedure for reviewing and authorising the Banco Sabadell Group's financial reporting to the markets commences with a review by the Finance Department. In accordance with the Board of Directors Regulation, the separate and consolidated financial statements and half-yearly summary consolidated financial statements are reviewed by the Audit and Control Committee prior to being authorised by the Board of Directors. In accordance with the provisions of its terms of reference, the Audit and Control Committee reads and discusses the information with the heads of the Finance and Internal Audit departments and with the external auditors prior to submission to the Board of Directors.

Once the Audit and Control Committee has vetted the information and either approved it or attached its comments, the CFO, the Chairman and the Managing Director of the Banco Sabadell Group sign the accounts and submit them to the Board of Directors for authorisation. Although it is not obligatory, the mid-year summary consolidated financial statements are audited by the external auditor.

The Audit and Control Committee reviews the quarterly financial disclosures (income statement and trend of the main balance sheet items) before they are submitted to the Board of Directors.

With regard to the activities and controls directly relating to transactions that may have a significant impact on the financial statements, the 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 the Banco Sabadell Group, special emphasis is placed on developing solid descriptions of the flows of activities and controls, which cover, among others:

- Loans and advances
- Fixed-income portfolio and issuance
- Equity securities
- Customer deposits
- Derivatives
- Foreclosed real estate

These descriptions contain information on what form the control activity should take, its purpose (risk to be mitigated), the party responsible for executing it and the frequency. The descriptions cover controls on the proper accounting, measurement, presentation and disclosure of these areas.

The Banco Sabadell Group also has procedures for mitigating the risk of error in processes not related to specific transactions. In particular, there are procedures defined for the accounting close which include the consolidation process and specific review procedures for material judgements and estimates, which are escalated to senior management when appropriate.

With regard to the consolidation process within the accounting close, procedures have been implemented to ensure proper identification of the consolidation scope. In particular, for example, the Banco Sabadell Group conducts a monthly analysis of the consolidation scope, requesting the necessary information from all the 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 the Banco Sabadell Group describes the most important areas in which judgements and estimates are made, together with the key assumptions made in this connection. It also has procedures for reviewing accounting estimates. The main estimates relate to impairment losses on certain financial assets, actuarial calculations of pension liabilities and obligations, the useful life of tangible and intangible assets, measurement of goodwill, and the fair value of unlisted financial assets and of real estate.

F.3.2 Internal control policies and procedures on security, the information systems (among others, access control, change control, operation, operational continuity and segregation of functions) that support the institution's major processes with regard to the formulation and publication of financial reporting.

The 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, the 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 IT Risk & Security Department and the Banco Sabadell Group Business Continuity Department have policies aimed at covering access security by segregating functions and defining virtual roles and resources, and the continuity of operations by creating BRS centres, and performing periodic operating tests.

F.3.3 Internal control policies and procedures for managing outsourced activities, and measurement, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The 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, the Banco Sabadell Group has not outsourced processes with a material impact on financial reporting. However, the Banco Sabadell Group regularly uses reports from independent experts for measuring transactions that may materially affect the financial statements.

In 2019, the activities outsourced to third parties (appraisals and calculations by independent experts) were connected with real estate valuations, measuring post-employment benefits for employees, and reviewing goodwill.

The units of the 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 section F.3.1.

**F.4. Information and reporting.**

State whether the company has at least the following, and describe their characteristics:

F.4.1 A specific function responsible for defining the accounting policies and keeping them up to date (accounting policies department or area) and for resolving doubts or conflicts arising from their interpretation, maintaining regular communication with the persons responsible for operations within the organisation, together with an updated accounting policies manual distributed to all the bank's operating units.

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 the Banco Sabadell Group and for responding to queries concerning accounting from the subsidiaries and business units.

The Financial Reporting Department is responsible for informing Senior Management of the Banco Sabadell Group regarding new accounting standards, the results of their implementation and their impact on the financial statements of the Banco Sabadell Group.

The functions of the Technical Committee on Accounting and Financial Disclosures include identifying transactions that, in accordance with established procedures, must be cross-checked by an independent accounting expert, determining accounting issues to be referred to the Audit and Control Committee for approval, approving accounting procedures, and overseeing and checking the conclusions provided by the work groups that analyse one-off transactions, as well as any accounting treatment that has a material impact and involves a significant judgement and estimate component.

The Banco Sabadell Group has guides on accounting procedure that conform to the needs, requirements and dimension of the Banco Sabadell Group; they set out and explain the rules for preparing financial reporting and describe how to apply the rules to the bank's specific operations. These documents not only explicitly refer to the standards applied to each type of transaction but also elaborate upon and interpret them so as to adapt exactly to each transaction type.

These documents are updated regularly, and at least once per year. Significant modifications are notified to the dependent companies to which they are applicable.

F.4.2 Mechanisms using standard forms for gathering and preparing financial information, for application and use by all units in the bank or group, to support the main financial statements and notes as well as detailed disclosures on ICFR.

The chief IT systems and applications used in generating financial reporting by the Banco Sabadell Group are centralised and interconnected. There are procedures and controls that ensure proper development and maintenance of those systems, as well as their proper performance, continuity and security.

During the consolidation and preparation of the financial reporting, inputs such as the financial statements issued by the 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.

The 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.

The Banco Sabadell Group also has a computer application for producing full-year and mid-year accounts. The application makes it possible to add checks to ensure that the information in the accounts is internally coherent and that the arithmetic totals of the financial statements and the tables contained in the notes to financial statements are correct.

### F.5. Supervision of system operation.

Report on at least the following, giving details of their main features:

F.5.1 Supervision of ICFR by the Audit Committee, and whether the institution has an internal audit function with the duty of supporting the committee in supervising the internal control system, including ICFR. Also provide information on the scope of the evaluation of ICFR carried out during the year and the procedure by which the person assigned to perform the assessment reports the results, whether the institution has an action plan setting out corrective measures and whether its impact on financial reporting has been considered.

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 Department 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, identifying the risks associated with them and designing controls to mitigate them; it also reviews the criticality of the controls and the changes in the materiality of processes with an accounting impact.

In accordance with the Board of Directors Regulation, the Audit and Control Committee is entrusted with oversight of Internal Audit. Additionally, the Audit and Control Committee's functions include approving the Internal Audit plan, assessing the outcome of each audit, and prioritising and tracking corrective measures.

The Bank's Internal Audit Department reports directly to the Audit and Control Committee, which grants it hierarchical and functional independence from the rest of the institution's departments and positions the function at an appropriate level of the organisation.

On the basis of its policy, which was approved by the Board of Directors, the functions of the Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design, implementation, and effective functioning of the risk management and control systems.

The Overall Audit Plan that the Board of Directors Committee approved at a meeting on 31 January 2019, based on a favourable report by the Audit and Control Committee, set out, inter alia, the actions to be implemented with respect to the areas or processes considered to have the highest residual risk on the basis of a risk assessment exercise. The actions set out in the plan were performed in 2019; in some cases, the control environment was reviewed and, in particular, the proper identification of risks in processes was assessed, along with the sufficiency, design, implementation and effective functioning of existing controls. The general controls on reporting systems indicated in section F.3.2 are reviewed every year.

In addition to the aforementioned supervisory activities carried out by the ICFR Department, the Audit and Control Committee and the Internal Audit Department, in 2019 the external auditor reviewed the information relating to the ICFR, with no adverse findings.

F.5.2 Is there a discussion procedure through which the auditor (in accordance with the provisions of the Audit Technical Standards), the internal audit function and other experts can report to senior management and to the audit committee or company directors on any significant internal control weaknesses identified during the review of the financial statements, or any other entrusted to them? Also report on whether there is an action plan to remedy or mitigate identified weaknesses.

The Audit and Control Committee meets at least once every three months (prior to the publication of the regulated disclosures) in order to obtain and analyse the necessary information to fulfil the functions entrusted to it by the Board of Directors in connection with supervision of the process of producing and presenting the mandatory financial disclosures.

These meetings carry out an in-depth review of the annual and half-yearly accounts and the interim financial statements of the company together with the rest of the information made available to the market. To carry out this process, the Audit and Control Committee first receives all the documentation and meets with the Director - General Manager, the Internal Audit Department and the external auditor (in the case of the annual and half-yearly accounts) in order to ensure proper application of the current accounting standards and the reliability of the financial reporting. In addition, this discussion process assesses any ICFR weaknesses that were identified, the proposals to correct them and the status of any actions that have been taken.

The group's auditor has direct access to the group's senior management and holds regular meetings to obtain the necessary information and to report on control weaknesses detected during the audit. With regard to the latter, each year the external auditor submits a report to the Audit and Control Committee detailing any internal control weaknesses that were detected or certifying that there were none. This report incorporates comments by group management and any action plans implemented to remedy internal control weaknesses.

## F.6. Other material information

The Banco Sabadell Finance Department has implemented a software application that includes and formalises all the ICFR controls, 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).

## F.7. External auditor report.

Report on:

F.7.1 State whether the ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, give the reasons for the absence of this review.

The Banco Sabadell Group submitted the ICFR information supplied to the markets for 2019 to the external auditor for review. The report by the external auditor (PricewaterhouseCoopers) will be attached as an annex to this annual report on corporate governance once it is available.

The scope of the auditor's review is determined by "Guía de Actuación y Modelo de Informe del Auditor referidos a la Información relativa al Sistema de Control Interno sobre la Información Financiera (SCIIF) de las Entidades Cotizadas", issued by means of Circular E14/2013, dated 19 July 2013, of the Instituto de Censores Jurados de Cuentas de España.

## G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of compliance by the company with the recommendations of the Unified Good Governance Code for Listed Companies.

If any recommendation is not followed or is followed only in part, give a detailed explanation of the reasons so that shareholders, investors and the market in general have sufficient information to be able to evaluate the company's course of action. Explanations of a general nature will not be sufficient.

1. The Articles of Association of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

   Complies [ X ]  Explain [ ]

2. When a dominant and a subsidiary company are both listed, the two should provide detailed disclosure on:

   a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

   b) The mechanisms in place to resolve possible conflicts of interest.

   Complies [ ]  Partially complies [ ]  Explain [ ]  Not applicable [ X ]

3. During the Annual General Meeting, in addition to the written corporate governance annual report, the Chairman of the Board of Directors should verbally inform the shareholders, providing sufficient detail, of the most significant aspects of the company's corporate governance and, in particular:

   a) Any changes since the last ordinary General Meeting.

   b) The specific reasons for which the company does not follow one or more of the recommendations of the Code of Corporate Governance and, if any, alternative rules that are of application in this matter.

   Complies [ X ]  Partially complies [ ]  Explain [ ]

4. The company defines and promotes a communication and contact policy with shareholders, institutional investors and proxy advisors that fully complies with the standards to combat market abuse and that gives similar treatment to shareholders in the same position.

   This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those entrusted with its implementation.

   Complies [ X ]  Partially complies [ ]  Explain [ ]

5. The Board of Directors should not submit proposals to the General Meeting to grant powers to issue shares or convertible securities while overriding pre-emptive subscription rights for an amount greater than 20% of capital at the time of granting of these powers.

   Whenever the Board of Directors approves an issue of shares or convertible securities that overrides pre-emptive subscription rights, the company should immediately publish on its website the reports required in company law in connection with overriding pre-emptive rights.

   Complies [ X ]  Partially complies [ ]  Explain [ ]

6. Although not expressly required by company law, listed companies that have prepared the reports listed below, either obligatorily or voluntarily, should publish them on their website sufficiently in advance of the Ordinary General Meeting:

   a) Report on the auditor's independence.

   b) Reports on the operation of the Audit Committee and the Appointments and Remuneration Committees.

   c) Report by the Audit Committee on related-party transactions.

   d) Report on the company's corporate social responsibility policy.

   Complies [ X ]   Partially complies [ ]   Explain [ ]

7. The company should broadcast its general meetings live on the corporate website.

   Complies [ X ]   Explain [ ]

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

   Complies [ X ]   Partially complies [ ]   Explain [ ]

9. The company should disclose its conditions and procedures for accrediting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

   Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

   Complies [ X ]   Partially complies [ ]   Explain [ ]

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

   a) Immediately circulate the supplementary items and new proposals.

   b) Re-issue the attendance card or proxy appointment or remote voting form in a duly modified form so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

   c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

   d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

   Complies [ X ]   Partially complies [ ]   Explain [ ]   Not applicable [ ]

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

   Complies [ ]   Partially complies [ ]   Explain [ ]   Not applicable [ X ]

12. The Board of Directors should perform its duties with unity of purpose and independence, granting the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself in accordance with principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies [ X ]     Partially complies [  ]     Explain [ ]

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is between five and fifteen members.

Complies [ X ]     Explain [ ]

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published upon convening the general meeting that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The appointments committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies [ X ]     Partially complies [  ]     Explain [ ]

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be as low as is practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies [ X ]     Partially complies [  ]     Explain [ ]

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies [ X ]    Explain [ ]

17. Independent directors should account for at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, one-third of board places.

Complies [ X ]    Explain [ ]

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Professional experience and background.

b) Directorships held in other companies, listed or otherwise, and other remunerated activities they engage in, of any type.

c) Statement of the director category to which they belong, indicating, in the case of proprietary directors, the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on same.

Complies [ X ]    Partially complies [ ]    Explain [ ]

19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the instances of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others who applied successfully for a proprietary directorship.

Complies [ ]    Partially complies [ ]    Explain [ ]    Not applicable [ X ]

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. The appropriate number of such shareholders should also resign if that shareholder reduces its stake to a level requiring a reduction in the number of its proprietary directors.

Complies [ X ]    Partially complies [ ]    Explain [ ]    Not applicable [ ]

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the articles, except where there is just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them from allocating sufficient time to their duties as board members, or are in breach of their fiduciary duties or come under one of the cases enumerated in the applicable legislation that disqualify a person from being classified as independent.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company’s capital structure, provided the changes in board membership arise from the proportionality criterion set out in recommendation 16.

Complies [ X ]    Explain [ ]

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation’s good name or reputation and, in particular, to inform the board if they are investigated by the police and, and the progress of any subsequent court proceedings.

As soon as a director is indicted or arraigned for any of the offences listed in company law, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not the director should be called on to resign. The Board of Directors should give a reasoned report on this in the annual report on corporate governance.

Complies [ X ]    Partially complies [ ]    Explain [ ]

23. Directors should express clear opposition when they feel a proposal submitted for the board's approval might be detrimental to the company's interests. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that might harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies [ ]    Partially complies [ ]    Explain [ ]    Not applicable [ X ]

24. Directors who step down before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed in the form of a regulatory disclosure, the reasons should be set out in the annual corporate governance report.

Complies [ X ]    Partially complies [ ]    Explain [ ]    Not applicable [ ]

25. The appointments committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should establish the maximum number of company boards on which directors can serve.

Complies [ X ]    Partially complies [ ]    Explain [ ]

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies [ X ]    Partially complies [ ]    Explain [ ]

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of unavoidable absence, directors should grant proxy with the appropriate instructions.

Complies [ X ]    Partially complies [ ]    Explain [ ]

28. When directors or the secretary express concerns about a motion or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be entered in the minute book if the person expressing them so requests.

Complies [ ]    Partially complies [ ]    Explain [ ]    Not applicable [ X ]

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies [ X ] Partially complies [ ] Explain [ ]

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies [ X ] Explain [ ] Not applicable [ ]

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so that they can study the matter or gather the material they need beforehand.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies [ X ] Partially complies [ ] Explain [ ]

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies [ X ] Partially complies [ ] Explain [ ]

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's articles, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular assessments of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues; and approve and review refresher courses for each director, when circumstances so advise.

Complies [ X ] Partially complies [ ] Explain [ ]

34. When a lead independent director has been appointed, the articles or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice-chairmen; give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially related to the company's corporate governance; and coordinate the chairman's succession plan.

Complies [ ] Partially complies [ X ] Explain [ ] Not applicable [ ]

In line with Recommendation 34 of the Good Governance Code, article 54 of the Articles of Association and article 8 of the Board of Directors Regulation expressly give the Lead Independent Director the power to convene a meeting of the Board of Directors, add items to the agenda of meetings, coordinate and arrange meetings of the non-executive directors, convey the opinions of the external directors, direct the regular performance review of the Chairman and Vice-Chairman, and chair the Board of Directors.

Banco Sabadell considers that the wording of article 54 of the Articles of Association and article 8 of the Board of Directors Regulation is not restrictive and that the powers established therein are complemented by those that the Lead Independent Director has in practice and that do not require specific empowerment, such as those expressly established in the Succession Plan for the Chairman and Managing Director, which is published on the Banco Sabadell website.

In relation to contacts with investors and shareholders, in addition to regular contacts when necessary, the Lead Independent Director headed the annual corporate governance roadshow held with institutional investors and proxy advisors in both 2018 and 2019. In 2018, the roadshow was held in London and Barcelona (with telephone links to New York and Brussels) on 6 and 7 February. The Lead Independent Director reported to the Appointments Committee and the Board of Directors, as evidenced in the minutes dated 8 March 2018.

The Succession Plan for the Chairman and Managing Director assigns the Lead Independent Director functions of planning, promoting and coordinating the process for the succession of the Chairman and of the Managing Director.

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the recommendations of the Good Governance Code that are applicable to the company.

Complies [ X ]  Explain [ ]

36. The board in full should conduct an annual assessment, adopting, where necessary, an action plan to correct weaknesses detected in:

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competences.

d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairs of board committees.

The evaluation of board committees should start from the reports they send to the board of directors, while that of the board itself should start from the report of the appointments committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies [ X ]  Partially complies [ ]  Explain [ ]

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary of the executive committee.

Complies [ ]  Partially complies [X ]  Explain [ ]  Not applicable [ ]

In accordance with article 59 of the Articles of Association, the Delegated Committee will comprise at most 6 directors. At the end of 2019, the Delegated Committee comprised 2 executive directors and 3 independent directors. The Chairman of the Board of Directors is a member of the Delegated Committee and also its Chairman, and the Secretary, who is not a member of the Delegated Committee, is an executive director and Vice-Secretary of the Board of Directors, with the same powers as the Secretary of the Board of Directors.

The Appointments Committee has sought to ensure that the composition of the Delegated Committee is similar to that of the Board of Directors, with both executive directors and independent directors. Consequently, Banco Sabadell understands that the composition of the Delegated Committee in terms of the categories of directors who are represented is similar to that of the Board of Directors itself, in line with the principles of the Code of Good Governance.

Independent directors account for 53.33% of the Board of Directors and 60% of the Delegated Committee.

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Complies [ X ]  Partially complies [ ]  Explain [ ]  Not applicable [ ]

39. All members of the audit committee, particularly its chairman, should be appointed on the basis of their knowledge and experience in accounting, auditing and risk management. A majority of committee places should be held by independent directors.

Complies [ X ]  Partially complies [ ]  Explain [ ]

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies [ X ]  Partially complies [ ]  Explain [ ]

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation, and submit an activities report at the end of each year.

Complies [ X ]  Partially complies [ ]  Explain [ ]  Not applicable [ ]

42. The audit committee should have the following functions over and above those assigned to it by law:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information relating to the company and, as appropriate, the group, checking for compliance with legal provisions, accurate demarcation of the consolidation scope, and proper application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) In the event of resignation by the external auditor, investigate the reasons.

b) Ensure that the remuneration of the external auditor does not compromise their quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a regulatory disclosure, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for same.

d) Ensure that the external auditor holds an annual meeting with the full Board of Directors to report on the work carried out and on the evolution of the accounting situation and the company's risks.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies [ X ] Partially complies [ ] Explain [ ]

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another executive.

Complies [ X ] Partially complies [ ] Explain [ ]

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so that the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the proposed exchange ratio.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

45. Risk control and management policy should identify at least:

a) The types of financial and non-financial risk the company is exposed to (including operational, technology, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) Measures in place to mitigate the impact of risk events should they occur.

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies [ X ] Partially complies [ ] Explain [ ]

46. Companies should establish a risk control and management function and assign it to one of the company's internal department or units, reporting directly to the audit committee or another dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies [ X ] Partially complies [ ] Explain [ ]

47. Appointees to the nomination and remuneration committee — or the nomination committee and remuneration committee, if separate — should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies [ X ] Partially complies [ ] Explain [ ]

48. Large cap companies should have separate nomination and remuneration committees.

Complies [ X ] Explain [ ] Not applicable [ ]

49. The appointments committee should advise company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

Complies [ X ] Partially complies [ ] Explain [ ]

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior executive contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior executives in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advisory services engaged by the committee.

e) Verify the information on director and senior executive remuneration contained in corporate documents, including the annual report on director remuneration.

Complies [ X ] Partially complies [ ] Explain [ ]

51. The remuneration committee should advise the company's chairman and chief executive, especially on matters relating to executive directors and senior executives.

Complies [ X ] Partially complies [ ] Explain [ ]

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) Committees should be chaired by an independent director.

c) The board should appoint the members of such committees on the basis of the directors' knowledge, skills and experience and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary meeting following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, such as the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a dedicated committee

established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of the other stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess the degree of compliance.

f) Monitor and evaluate the company's interaction with its stakeholders.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technology, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies [ X ] Partially complies [ ] Explain [ ]

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Specific practices in matters relating to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and engagement.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies [ X ] Partially complies [ ] Explain [ ]

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies [ X ] Partially complies [ ] Explain [ ]

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate

the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independence of non-executive directors.

Complies [ X ]     Explain [ ]

57. Variable remuneration linked to the company's and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider share-based remuneration for non-executive directors provided that they must retain such shares until the end of their mandate. The above will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies [ X ]     Partially complies [ ]     Explain [ ]

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's industry, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies [ X ]     Partially complies [ ]     Explain [ ]     Not applicable [ ]

59. A major part of variable remuneration components should be deferred for long enough to ensure that predetermined performance criteria have effectively been met.

Complies [ X ]     Partially complies [ ]     Explain [ ]     Not applicable [ ]

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Complies [ X ]     Partially complies [ ]     Explain [ ]     Not applicable [ ]

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies [ X ]     Partially complies [ ]     Explain [ ]     Not applicable [ ]

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the stock options or other rights on shares, for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

## H. OTHER INFORMATION.

1. If there is any material issue relating to corporate governance at the company or any of the group companies that has not been disclosed in other sections of this report but whose disclosure is necessary to provide a more comprehensive and fully reasoned picture of the institution's governance structure and practices, describe it briefly.

2. This section may be used to provide further information, clarifications or reservations in relation to the preceding sections of this report, which should be significant and not repetitive.

   Specifically, indicate if the company is subject to corporate governance legislation of any jurisdiction other than Spain, and, if so, include the obligatory disclosures that differ from those required in this report.

3. The company may also indicate whether it has voluntarily adopted any other codes of ethics or good practices, whether international, industry-wide or otherwise. Identify any such code and the date on which it was adopted. In particular, disclose whether the company has adopted the Code of Good Tax Practices of 20 July 2010:

A.2
The information provided is based on communications sent by shareholders to the CNMV or directly to the bank.

A.9
See table.

B.6
In accordance with article 38 of the Articles of Association of Banco de Sabadell, S.A., in order to attend and vote at a General Meeting, shareholders must accredit that they possess or hold proxies for one thousand (1,000) shares. Shareholders whose holdings fail to reach that minimum may group together to attain the minimum and grant proxy to one of their number or to another shareholder who is entitled to attend in accordance with the provisions of the Articles of Association.

C.1.2
Mr. Miquel Roca i Junyent was appointed as Secretary of the Board of Directors (not a director) on 13 April 2000.

C.1.13
The amount of pension rights vested in directors includes the amounts accumulated since 2000 and, therefore, does not refer only to the amount contributed in the year.

C.1.14
In application of the standard, this section includes the 9 members of senior management, plus the Internal Auditor.

There were changes in the composition of senior management in 2019 due to the inclusion of the Deputy General Manager, Mr. Jaime Matas Vallverdú.

The total remuneration of senior management does not include the combined contributions to pension plans, structured through insurance policies, in the year 2019, which amounted to 2,333 thousand euro.

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This annual corporate governance report was approved by the company's Board of Directors at a meeting on:

30/01/2020

Indicate whether any board members voted against or abstained with respect to the approval of this report.

[ ] Yes
[ √ ] No

A.9 See table

| Date of disclosure | Total number of direct shares acquired | Total number of indirect shares acquired | Total % of share capital |
|---|---|---|---|
| 04/02/2019 | 95.406.123 | 10.155.636 | 1,876 |
| 09/05/2019 | 83.274.219 | 10.155.636 | 1,66 |
| 08/07/2019 | 92.770.392 | 10.155.636 | 1,829 |
| 08/10/2019 | 95.764.987 | 10.155.636 | 1,882 |
| 24/12/2019 | 5.552.105 | 10.155.636 | 0,279 |

At a meeting of the administrators of Banco de Sabadell, S.A. on 30 January 2020, and in compliance with the requirements set forth in Article 253.2 of the Spanish Capital Companies Act and Article 37 of the Spanish Commercial Code, the consolidated Annual financial statements and the consolidated Directors' report for the period from 1 January 2019 to 31 December 2019 of Banco de Sabadell, S.A. and its consolidated companies, presented on the 502 pages preceding this brief, have been prepared, printed, together with the latter, on the 253 consecutively numbered pages of class 8 series State paper.

| | | |
|---|---|---|
| José Oliu Creus<br>Chairman | José Javier Echenique Landiribar<br>Vice Chairman | Jaime Guardiola Romojaro<br>Chief Executive Officer |

| | | |
|---|---|---|
| Anthony Frank Elliott Ball<br>Director | Aurora Catá Sala<br>Director | Pedro Fontana García<br>Director |

| | | |
|---|---|---|
| María José García Beato<br>Director Secretary General | Maria Teresa Garcia-Milà Lloveras<br>Director | George Donald Johnston<br>Director |
| David Martínez Guzmán<br>Director | José Manuel Martínez Martínez<br>Director | José Ramón Martínez Sufrategui<br>Director |
| José Luis Negro Rodríguez<br>Director – General Manager | Manuel Valls Morató<br>Director | David Vegara Figueras<br>Director - General Manager |
| Miquel Roca i Junyent<br>Non-Director Secretary | | |

# Banco de Sabadell, S.A. and subsidiaries

Independent verification report
of the Non-Financial Information Statement
for the year ended 31 December 2019

***This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.***

# Independent verification report

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

Pursuant to Article 49 of the Code of Commerce, we have verified, under a limited assurance scope, the accompanying Non-Financial Information Statement ("NFIS") for the year ended 31 December 2019 of Banco de Sabadell, S.A. (parent company) and subsidiaries (hereinafter "Banco Sabadell" or the "Group") which forms part of Banco Sabadell's consolidated management report.

The content of the consolidated management report includes additional information to that required by the current mercantile legislation related to non-financial information reporting which has not been covered by our verification work. In this respect, our work has been restricted solely to verifying the information identified in Annex II: "Table of Contents Law 11/2018", of the accompanying NFIS.

## Responsibility of the Board of Directors of the parent company

The preparation of the NFIS included in Banco Sabadell's consolidated management report and the content thereof are the responsibility of the Board of Directors of Banco de Sabadell, S.A. The NFIS has been drawn up in accordance with the provisions of current mercantile legislation and following the selected criteria of the Sustainability Reporting Standards of the Global Reporting Initiative ("GRI Standards") in line with the details provided for each matter in Annex II: "Table of Contents Law 11/2018" of the mentioned NFIS.

This responsibility also includes the design, implementation and maintenance of the internal control considered necessary to allow the NFIS to be free from any material misstatement, due to fraud or error.

The Board of Directors of Banco de Sabadell, S.A. are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the NFIS is obtained.

## Our independence and quality control

We have complied with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA") which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and therefore has in place a global quality control system, which includes documented policies and procedures related to compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

The engagement team has been formed by professionals specialising in non-financial information reviews and specifically in information on economic, social and environmental performance.

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## Our responsibility

Our responsibility is to express our conclusions in an independent limited verification report based on the work performed. Our work has been carried out in accordance with the requirements laid down in the current International Standard on Assurance Engagements (ISAE) 3000 Revised, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and with the Guidelines for verification engagements on non-financial statements issued by the Spanish Institute of Auditors ("Instituto de Censores Jurados de Cuentas de España").

In a limited assurance engagement, the procedures performed vary in terms of their nature and timing of execution, and are less extensive than those carried out in a reasonable assurance engagement. Accordingly, the assurance obtained is substantially lower.

Our work has consisted of posing questions to Management and several Banco Sabadell units that were involved in the preparation of the NFIS, in the review of the processes for compiling and validating the information presented in the NFIS, and in the application of certain analytical procedures and review sampling tests, as described below:

- Meetings with Banco Sabadell personnel to ascertain the business model, policies and management approaches applied, the main risks related to these matters and to obtain the information required for the external review.

- Analysis of the scope, relevance and integrity of the contents included in the NFIS for 2019, based on the materiality analysis carried by Banco Sabadell, considering the content required under current mercantile legislation.

- Analysis of the procedures used to compile and validate the information presented in NFIS for 2019.

- Review of information concerning risks, policies and management approaches applied in relation to material issues presented in the NFIS for 2019.

- Verification, through sample testing, of the information relating to the content of the NFIS for 2019 and its adequate compilation using data supplied by the Banco Sabadell's sources of information.

- Obtainment of a management representation letter from the Board of Directors and Management of the parent company.

## Conclusions

Based on the procedures performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Banco Sabadell's NFIS, for the year ended 31 December 2019 has not been prepared, in all its significant aspects, in accordance with the provisions of current mercantile legislation and the selected criteria of the Sustainability Reporting Standards of the Global Reporting Initiative ("GRI Standards") in accordance with the details provided for each matter in Annex II: "Table of Contents Law 11/2018" of the mentioned NFIS.

## Use and distribution

This report has been drawn up in response to the requirement laid down in current Spanish mercantile legislation and therefore might not be suitable for other purposes or jurisdictions.

PricewaterhouseCoopers Auditores, S.L.

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by
Ignacio Marull

31 January 2020

# BANCO DE SABADELL, S.A.

Auditor´s report on "Information regarding the Internal Control System over Financial Reporting (ICSFR)" of Banco de Sabadell, S.A. for the 2019 financial year

*This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

# Auditor's report on "Information Regarding the Internal Control System over Financial Reporting (ICSFR)" of Banco de Sabadell, S.A. for the 2019 financial year

To the Board of Directors of Banco de Sabadell, S.A.,

In accordance with the request of the Board of Directors of Banco de Sabadell, S.A. and its subsidiaries ("the Group") and our engagement letter dated 14 November 2019, we have applied certain procedures in respect of the attached "Information regarding the Internal Control System over Financial Reporting" ("ICSFR"), included in Annual Corporate Governance Report in section F for listed companies of Group Banco de Sabadell for the 2019 financial year, which includes a summary of the Group's internal control procedures relating to its annual financial information.

The Board of Directors is responsible for adopting the necessary measures to reasonably ensure the implementation, maintenance and supervision of an appropriate internal control system, and for developing improvements to that system and preparing and establishing the content of the accompanying Information regarding the ICSFR.

In this regard, it should be borne in mind that, regardless of the quality of the design and operating efficiency of the internal control system used by the Group in relation to its annual financial information, only a reasonable, but not absolute, degree of assurance may be obtained in relation to the objectives it seeks to achieve, due to the limitations inherent in any internal control system.

In the course of our audit work on the consolidated annual accounts and in accordance with Spanish Auditing Standards, the sole purpose of our evaluation of the Group's internal control system is to enable us to establish the scope, nature and timing of our audit procedures in respect of the Group's annual accounts. Accordingly, our internal control evaluation, performed for the purposes of our audit, is not sufficient in scope to enable us to issue a specific opinion on the effectiveness of such internal control over the regulated annual financial information.

For the purposes of the present report, we have exclusively applied the specific procedures described below, as indicated in the "*Guidelines concerning the auditor's Report on the Information regarding the Internal Control System over Financial Reporting for listed entities*" published by the National Securities Market Commission on its web site, which sets out the work to be performed, the scope of such work and the content of this report. In view of the fact that, in any event, the scope of the work resulting from these procedures is reduced and substantially less than the scope of an audit or review of the internal control system, we do not express an opinion on the effectiveness thereof, its design or operational efficiency, in relation to the Group's annual financial information for the 2019 financial year described in the accompanying Information regarding the ICSFR. Had we applied additional procedures to those determined by the aforementioned Guidelines, or had we performed an audit or review of the internal control system in relation to the regulated annual financial information, other matters could have come to light in respect of which you would have been informed.

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In addition, provided that this special work neither constitutes an account audit it is not even submitted to the Law of Account audit, we do not express an opinion of audit in the terms foreseen in the mentioned regulation.

The procedures applied were as follows:

1. Reading and understanding the information prepared by the Group in relation to the ICSFR – as disclosed in the Directors' Report – and the evaluation of whether such information includes all the information required as per the minimum content set out in Section F regarding the description of the ICSFR, in the model of the Annual Corporate Governance Report, as established in Circular nº 7/2015 of the National Securities Market Commission dated December 22, 2015 and in Circular nº 2/2018 of the National Securities Market Commission dated June 12, 2018.

2. Making enquiries of personnel in charge of preparing the information mentioned in point 1 above in order to: (i) obtain an understanding of the preparation process; (ii) obtain information that enables us to assess whether the terminology used is in line with the framework of reference; (iii) obtain information as to whether the control procedures described have been implemented and are functioning in the Group.

3. Review of supporting documentation explaining the information described in point 1 above and which mainly comprises the information made directly available to the persons responsible for preparing the information on the ICSFR. Such documentation includes reports prepared by the internal audit function, senior management and other internal and external specialists in support of the functions of the audit committee.

4. Comparison of the information described in point 1 above with our knowledge of the Group´s ICSFR, obtained by means of the application of the procedures performed within the framework of the audit engagement on the consolidated annual accounts.

5. Reading the minutes of meetings of the board of directors, audit committee and other committees of the Group, for the purposes of evaluating the consistency between the matters dealt with therein in relation to the ICSFR and the information described in point 1 above.

6. Obtaining a representation letter concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in point 1 above.

As a result of the procedures applied in relation to the Information regarding the ICSFR, no inconsistencies or incidents have been identified which could affect such information.

This report has been prepared exclusively within the framework of the requirements of article 540 of the revised Spanish Companies Act and Circular nº 5/2013 of the National Securities Market Commission, dated June 12, 2013, as modified by Circular nº 7/2015 of the National Securities Market Commission, dated December 22, 2015 and by Circular nº 2/2018 of the National Securities Market Commission dated June 12, 2018, for the purposes of describing the ICSFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by
Raúl Ara Navarro

30 January, 2020

# Banco de Sabadell, S.A.

Independent auditor's report,
Annual Accounts and Director's Report
for the year ended December 31, 2019

pwc

"This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation."

# Independent auditor´s report on the annual accounts

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

## Report on the annual accounts

### Opinion

We have audited the annual accounts of Banco Sabadell, S.A. (the Company), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of recognized income and expenses, statement of total changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2019, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 1 of the notes to the annual accounts, and, in particular, with the accounting principles and criteria included therein.

### Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice 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 Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our 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.

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| Key audit matters | How our audit addressed the key audit matter |
|---|---|
| **Impairment for credit risk of "Loans and advances", impairment of real estate assets arising from foreclosured assets and sale of real estate portfolios** | |
| Determining impairment for credit risk is one of the most significant and complex estimation exercises performed when preparing the accompanying annual accounts. The evaluation of impairment for credit risk is based on both individualized and collective estimates of coverage, in this case through the application of the Company's internal models, and involves a process that implies judgments and estimates, and so it has been a key matter of our audit.<br><br>In the determination of hedges for credit risk, guarantees, real or personal, considered effective are considered. In this sense, the Company has developed internal methodologies for evaluating the recoverable amount of real estate collateral.<br><br>It should be noted that the estimation of the impairment of real estate assets originated from credit activities and which, through lieu in payment, purchase or judicial proceedings, are awarded to the Company, are subject to the same policies indicated above for real estate collateral.<br><br>The performance of the models used to calculate impairment for expected losses required by Bank of Spain Circular 4/2017, of 27 November require a high level of judgment to determine these credit losses considering, amongst others, elements such as:<br><br>• Identification and classification in categories of impaired assets or assets with a significant increase of credit risk.<br><br>• Use of concepts such as macroeconomic scenarios, expected life of the operation and segmentation criteria.<br><br>• Construction of parameters for these models such as probability of default and loss given default. | Our work has focused on the analysis, evaluation and testing of the internal control system, as well as the performance of test of details over credit risk impairment losses estimated collectively and individually.<br><br>With respect to internal control system we have performed the following procedures, among others:<br><br>• Verifying that the various policies and procedures and the approved internal models comply with applicable regulations and Company's internal governance model.<br><br>• Analysis of the periodic risk assessment and follow-up alerts carried out by the Company, as well as the effective performance of the process of periodic review of files of accredited persons for the follow-up of their classification and, in the cases in which it applies, registration of the impairment.<br><br>In addition, we carried out the following tests of details:<br><br>• Analysis of the methodology for classifying credit assets in the three stages defined in the standard, analyzing the adequacy of: i) the definition of impairment applied; and ii) the methodology for estimating the significant increase in credit risk for assets classified as normal under special surveillance, based on the definition of qualitative indicators and thresholds for the increase of quantitative indicators.<br><br>• Evaluation of the different calculation methodologies and the criteria adopted for the estimation of the risk parameters used in the calculation of the expected credit loss, including: i) the estimation of the risk parameters throughout lifetime or 12 months, depending on the corresponding category; ii) the use of alternative scenarios in the projections carried out in the future; and iii) the use of retrospective contrast methodologies for the most relevant parameters in the impairment's estimation. |

| Key audit matters | How our audit addressed the key audit matter |
|---|---|
| In 2019, the Company has executed the transfer of real estate assets included in the sales operations previously agreed. On 19 July 2018, the Company agreed to transfer almost all of its real estate exposure to a subsidiary of Cerberus Capital Management L.P. The real estate assets of the operation had a joint carrying amount of approximately €3,900 million at the date of the agreement. In addition, on 2 August 2019, the sale of an additional portfolio of real estate assets to the same company was agreed with a joint carrying amount of €342 million.<br><br>On 20 December 2019, the Company has executed the transfer of most of the real estate assets of the aforementioned portfolios to companies wholly owned by a subsidiary of Cerberus that owns 80% of its capital, the remaining 20% being owned by Banco de Sabadell, S.A., with the corresponding derecognition of these real estate assets from the Company's balance sheet. The price of the operation is approximately €3.430 million. The transferred real estate assets include, amongst others, certain units subject to the exercising, in the short term, of rights of pre-emption by third parties totalling €869 million. In addition, there is a payment that has been deferred by the aforementioned subsidiary of the Cerberus Group totalling €447 million, which matures in 24 months.<br><br>See Notes 1, 2, 3.4.2, 10 and Appendix VI to the accompanying annual accounts with respect to impairment for credit risk and Notes 1, 2, 3.4.2, 12, 14, 16 and Appendix VI to the accompanying annual accounts with respect to the impairment of real estate assets arising from foreclosured assets and sale of real estate portfolios. | • Checks referred to: i) the reliability and consistency of the data sources used; ii) historical loss rates for impairment in credit risk in the estimation of future cash flows and historic discount rates on sale of real estate assets against the appraised value; and iii) recalibrations and retrospective contrasts performed in internal models.<br><br>• Check referred to the working of the "calculation engine" and re-execution of the calculation of collective hedges, for portfolios with structural models, and of the calculation of impairment of real estate assets deriving from foreclosured assets based on the different asset categories.<br><br>• Analysis of a sample of individualized credit files, as well as real estate assets deriving from foreclosured assets, to evaluate their proper classification and registration, as the case may be, of the corresponding impairment.<br><br>Regarding the sale of real estate portfolios, we have performed the following tests:<br><br>• Verification and analysis of the support contractual documentation of the agreements reached, and the report prepared by an independent expert on the accounting treatment of the operation that has led to loss of control of the transferred real estate assets.<br><br>• Verification of the accounting classification and of the analysis of recoverability of the deferred payment and the collection right associated with the assets subject to the exercising of the rights of pre-emption by third parties.<br><br>As a result of our tests on the calculations and estimates of the amount of credit risk impairment and real estate assets deriving from foreclosured assets, we have not identified any differences outside a reasonable range in the amounts recorded in the accompanying annual accounts. |

| Key audit matters | How our audit addressed the key audit matter |
|---|---|
| Verification of the recoverability of goodwill<br><br>Evaluation of the recoverability of goodwill is a complex exercise and requires a high level of judgment and estimation, and therefore it has been a key matter in our audit.<br><br>On an annual basis, or when there are indications of impairment, the Company performs an assessment to determine whether the goodwill recognized in its annual accounts is impaired.<br><br>Each goodwill item is associated with one or more cash generating units (CGU), using the discount method for profits distributed through the various operating plans within each CGU to estimate their recoverable value.<br><br>The estimation of the recoverable value of each CGU is inherently uncertain and includes a high level of judgments and estimates given that it is based on assumptions concerning macroeconomics evolution and other matters such as key business assumptions (the evolution of credit, non-performing loans ratio, interest rates, etc...) that determine the cash flows, discount rates and long-term growth rates that are applied. The models are sensitive to the variables and assumptions used, and there is a risk of the inaccurate assessment of those items due to their nature.<br><br>See Notes 1 and 15 to the accompanying annual accounts. | We gained an understanding and performed a review of the estimation process carried out by the Company, as well as the internal control environment, focusing our procedures on aspects such as:<br><br>• Verification of the criteria for defining the Company's CGUs associated with the various goodwill items.<br><br>• Evaluation of the method used by to estimate the impairment of goodwill.<br><br>• Analysis of the annual measurement reports, prepared by both the Company and external experts, on the assessment of impairment of goodwill.<br><br>We have performed tests to examine the cash flow projection models for the various CGUs utilized by the Company, taking into consideration the content of current legislation, market practices and the specific expectations for the banking sector. This assessment included the verification of assumptions such as growth rates and discount rates used, as well as an analysis of the budgetary monitoring of the primary CGUs and the impact of variations identified in the budgets and growth rates.<br><br>Finally, we have also reviewed the adequacy of the information presented in the accompanying annual accounts.<br><br>As a result of the aforementioned procedures, we consider that the estimates made by the Company with respect to the recoverability of goodwill fall within a reasonable range within the context of the circumstances under which these annual accounts are prepared. |

| Key audit matters | How our audit addressed the key audit matter |
|---|---|
| **Financial information systems**<br><br>Due to its nature, the Company's business, particularly the preparation of financial and accounting information, is highly dependent on information technology systems, such that adequate control of these systems is crucial to ensuring correct data processing.<br><br>Moreover, as the systems become more complex, the risks relating to the organization's information technology systems and, by extension, the data they process, increase.<br><br>The effectiveness of the general internal control framework for information systems relating to the accounting recognition and closing process is essential for the performance of certain audit procedures relating to internal controls.<br><br>Considering this context, it is vital to evaluate aspects such as the organization and governance of the Information Technology Area, software maintenance and development controls, physical and logical security and system operation. | With the help of our information technology system experts, our work consisted of reviewing the general internal control environment associated with the information systems and applications that support the Company's accounting recognition and closings. We have also gained an understanding of the functionalities and involvement of the various information systems at the Company within the accounting recognition and closing process.<br><br>We essentially performed the following procedures on the information systems considered relevant to the financial reporting process:<br><br>• Review of the general computer controls relating to aspects deriving from operations, the development and maintenance of applications, their security and the governance and organization of the Company's Information Systems Area.<br><br>• Review of the general controls to manage authorization to access financial reporting systems and controls relating to the authorization of personnel to make changes to computer processes.<br><br>• Understanding of key business processes, identifying automatic controls that exist in those processes and their validation.<br><br>• Understanding and review of the process for generating manual accounting entries considered to give rise to a risk. Extraction, completeness validation and filtering of the accounting entries.<br><br>• Understanding and re-execution of some of the calculations performed by the Company considered to have the highest impact, particularly those relating to the apportionment of financial product interest (loans, credit facilities and deposits).<br><br>In general terms, the results of our procedures were satisfactory, and we did not detect any material aspect affecting the financial information included in the accompanying annual accounts. |

## Other information: Director's report

Other information comprises only the Director's report for the 2019 financial year, the formulation of which is the responsibility of the Company´s directors, and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the Director's report. Our responsibility regarding the information contained in the Director's report is defined in the legislation governing the audit practice, which establishes two distinct levels in this regard:

a) A specific level applicable to the statement of non-financial information and certain information included in the Annual Corporate Governance Report , as defined in article 35.2 b) of Audit Act 22/2015, that consists of verifying solely that the aforementioned information has been provided in the Director's report or, if appropriate, that the Director's report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.

b) A general level applicable to the rest of the information included in the Director's report that consists of evaluating and reporting on the consistency between that information and the annual accounts as a result of our knowledge of the Company obtained during the audit of the aforementioned annual accounts and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of that part of the Director's report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have ascertained that the Director's report includes a reference that the statement of non-financial information mentioned in section a) above is included in the consolidated Director's report of Banco Sabadell Group, of which the Company is the Parent Company, that the aforementioned information of the ACGR is included in the Director's report and that the rest of the information contained in the Director's report is consistent with that contained in the annual accounts for the 2019 financial year and its content and presentation are in accordance with the applicable regulations.

## Responsibility of the directors and the Audit and Control Committee for the annual accounts

The Company´s directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of Banco de Sabadell, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the directors 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 Company´s directors are responsible for assessing the Company´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

## 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 legislation governing the audit practice 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 legislation governing the audit practice in Spain, we exercise professional judgment 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 Company´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company´s directors.

- Conclude on the appropriateness of the directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the 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 Company 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 fair presentation.

We communicate with the Company´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 Company´s Audit and Control Committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Company´s Audit and Control Committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and 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

### Report to the Audit and Control Committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's Audit and Control Committee dated January 28, 2020.

### Appointment period

The General Ordinary Shareholders' Meeting held on March 28, 2019 appointed us as auditors of the Company for a period of 1 year, as from the year ended December 31, 2019.

Previously, we were appointed by resolution of the General Shareholders' Meeting for an initial period and we have audited the accounts continuously since the year ended December 31, 1983.

### Services provided

Services, different to the audit, provided to the Company are detailed in note 30 ofthe annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by

Raúl Ara Navarro (20210)

January 31, 2020

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

# BANCO DE SABADELL, S.A.

Annual financial statements
for the year ended 31 December 2019

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### Financial statements



### Annual Report

## Directors' Report

# Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2019 and 31 December 2018

Thousand euro

| Assets | Note | 2019 | 2018 (*) |
|---|---|---|---|
| **Cash, cash balances at central banks and other demand deposits (**)** | **6** | **8,792,496** | **14,816,294** |
| **Financial assets held for trading** | | **2,303,449** | **1,905,552** |
| Derivatives | 9 | 1,724,407 | 1,640,686 |
| Equity instruments | | - | - |
| Debt securities | 7 | 579,042 | 264,866 |
| Loans and advances | | - | - |
| Central banks | | - | - |
| Credit institutions | | - | - |
| Customers | | - | - |
| *Memorandum item: loaned or pledged as security with sale or pledging rights* | | *38,709* | *66,006* |
| **Non-trading financial assets mandatorily at fair value through profit or loss** | | **119,164** | **138,301** |
| Equity instruments | | - | - |
| Debt securities | 7 | 119,164 | 138,301 |
| 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** | | **5,419,218** | **10,061,773** |
| Equity instruments | 8 | 106,921 | 199,180 |
| Debt securities | 7 | 5,312,297 | 9,862,593 |
| Loans and advances | | - | - |
| Central banks | | - | - |
| Credit institutions | | - | - |
| Customers | | - | - |
| *Memorandum item: loaned or pledged as security with sale or pledging rights* | | *1,179,026* | *3,273,036* |
| **Financial assets at amortised cost** | | **146,894,393** | **135,938,959** |
| Debt securities | 7 | 18,425,483 | 12,915,865 |
| Loans and advances | 10 | 128,468,910 | 123,023,094 |
| Central banks | | - | - |
| Credit institutions | | 16,065,122 | 9,228,631 |
| Customers | | 112,403,788 | 113,794,463 |
| *Memorandum item: loaned or pledged as security with sale or pledging rights* | | *5,133,513* | *4,680,404* |
| **Derivatives – Hedge accounting** | **11** | **358,373** | **180,771** |
| **Fair value changes of the hedged items in portfolio hedge of interest rate risk** | | **225,437** | **98,684** |
| **Investments in subsidiaries, joint ventures and associates** | **13** | **5,490,128** | **5,362,502** |
| Group entities | | 5,204,829 | 5,231,121 |
| Associates | | 285,299 | 131,381 |
| **Tangible assets** | **14** | **2,197,750** | **1,292,607** |
| Property, plant and equipment | | 2,064,995 | 1,161,133 |
| For own use | | 2,064,995 | 1,161,133 |
| Leased out under operating leases | | - | - |
| Investment properties | | 132,755 | 131,474 |
| *Of which: leased out under operating leases* | | *132,755* | *131,474* |
| *Memorandum item: acquired through finance leases* | | *928,729* | - |
| **Intangible assets** | **15** | **160,724** | **223,589** |
| Goodwill | | 126,547 | 179,717 |
| Other intangible assets | | 34,177 | 43,872 |
| **Tax assets** | | **5,315,734** | **5,227,425** |
| Current tax assets | | 323,542 | 238,242 |
| Deferred tax assets | 35 | 4,992,192 | 4,989,183 |
| **Other assets** | **16** | **404,409** | **465,608** |
| Insurance contracts linked to pensions | | 133,960 | 132,299 |
| Inventories | | - | - |
| Rest of other assets | | 270,449 | 333,309 |
| **Non-current assets and disposal groups classified as held for sale** | **12** | **717,526** | **3,275,751** |
| **TOTAL ASSETS** | | **178,398,801** | **178,987,816** |

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

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

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the balance sheet as at 31 December 2019.

# Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2019 and 31 December 2018

Thousand euro

| Liabilities | Note | 2019 | 2018 (*) |
|---|---|---|---|
| **Financial liabilities held for trading** | | **2,563,334** | **1,634,324** |
| Derivatives | 9 | 1,691,522 | 1,586,203 |
| Short positions | | 871,812 | 48,121 |
| 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** | | **162,419,750** | **165,545,469** |
| Deposits | | 138,879,755 | 140,183,849 |
| Central banks | 17 | 14,791,893 | 21,549,041 |
| Credit institutions | 17 | 11,028,153 | 11,727,442 |
| Customers | 18 | 113,059,709 | 106,907,366 |
| Debt securities issued | 19 | 19,863,995 | 21,931,463 |
| Other financial liabilities | 20 | 3,676,000 | 3,430,157 |
| *Memorandum item: subordinated liabilities* | | *2,623,162* | *2,620,120* |
| **Derivatives – Hedge accounting** | **11** | **380,884** | **244,496** |
| **Fair value changes of the hedged items in portfolio hedge of interest rate risk** | | **173,129** | **14,771** |
| **Provisions** | **21** | **823,452** | **663,708** |
| Pensions and other post employment defined benefit obligations | | 95,056 | 88,456 |
| Other long term employee benefits | | 3,583 | 6,562 |
| Pending legal issues and tax litigation | | 66,882 | 58,219 |
| Commitments and guarantees given | | 571,712 | 384,207 |
| Other provisions | | 86,219 | 126,264 |
| **Tax liabilities** | | **206,501** | **162,659** |
| Current tax liabilities | | 36,557 | 29,293 |
| Deferred tax liabilities | 35 | 169,944 | 133,366 |
| **Share capital repayable on demand** | | **-** | **-** |
| **Other liabilities** | | **515,244** | **434,302** |
| **Liabilities included in disposal groups classified as held for sale** | | **-** | **-** |
| TOTAL LIABILITIES | | 167,082,294 | 168,699,729 |

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the balance sheet as at 31 December 2019.

# Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2019 and 31 December 2018

Thousand euro

| Equity | Note | 2019 | 2018 (*) |
|---|---|---|---|
| **Own funds** | **22** | **11,258,263** | **10,358,387** |
| 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 | | 17,077 | 15,054 |
| Retained earnings | | 3,481,494 | - |
| Revaluation reserves | | - | - |
| Other reserves | | (1,776,853) | 1,451,367 |
| (-) Treasury shares | | (8,503) | (139,760) |
| Profit or loss for the year | | 1,053,267 | 539,867 |
| (-) Interim dividends | | (110,817) | (110,739) |
| **Accumulated other comprehensive income** | **23** | **58,244** | **(70,300)** |
| Items that will not be reclassified to profit or loss | | (66,175) | (61,044) |
| Actuarial gains or (-) losses on defined benefit pension plans | | (1,754) | (329) |
| 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 | | (64,421) | (60,715) |
| 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 | | 124,419 | (9,256) |
| Hedge of net investments in foreign operations [effective portion] | | (221) | 123 |
| Foreign currency translation | | 46,576 | 26,627 |
| Hedging derivatives. Cash flow hedges reserve [effective portion] | | 96,461 | 8,009 |
| Fair value changes of debt instruments measured at fair value through other comprehensive income | | (18,397) | (44,015) |
| Hedging instruments [not designated elements] | | - | - |
| Non-current assets and disposal groups classified as held for sale | | - | - |
| TOTAL EQUITY | | 11,316,507 | 10,288,087 |
| TOTAL EQUITY AND TOTAL LIABIITIES | | 178,398,801 | 178,987,816 |

| Memorandum item: off-balance sheet exposures | | | |
|---|---|---|---|
| **Loan commitments given** | **24** | **23,867,895** | **18,589,840** |
| **Financial guarantees provided** | **24** | **2,830,293** | **2,465,904** |
| **Other commitments provided** | **24** | **10,362,134** | **8,139,882** |

(*) Shown for comparative purposes only (see section “Comparability” in Note 1).

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the balance sheet as at 31 December 2019.

# Income statements of Banco de Sabadell, S.A.

For the years ended 31 December 2019 and 2018

Thousand euro

| | Note | 2019 | 2018 (*) |
|---|---|---|---|
| Interest income | 26 | 3,451,032 | 3,425,446 |
| Financial assets at fair value through other comprehensive income | | 82,403 | 167,150 |
| Financial assets at amortised cost | | 2,931,318 | 2,869,756 |
| Other interest income | | 437,311 | 388,540 |
| (Interest expenses) | 26 | (1,022,925) | (948,756) |
| (Expenses on share capital repayable on demand) | | - | - |
| **Net interest income** | | **2,428,107** | **2,476,690** |
| Dividend income | | 464,061 | 201,919 |
| Fee and commission income | 27 | 1,310,421 | 1,244,963 |
| (Fee and commission expenses) | 27 | (143,676) | (130,732) |
| Gains or (-) losses on financial assets and liabilities, net | 28 | 51,449 | 237,455 |
| Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net | | 124,208 | 183,113 |
| Financial assets at amortised cost | | 65,282 | (76,821) |
| Other financial assets and liabilities | | 58,926 | 259,934 |
| Gains or (-) losses on financial assets and liabilities held for trading, net | | (65,881) | 73,101 |
| Reclassification of financial assets from fair value through other comprehensive income | | - | - |
| Reclassification of financial assets from amortised cost | | - | - |
| Other gains or (-) losses | | (65,881) | 73,101 |
| Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net | | (3,227) | (14,827) |
| Reclassification of financial assets from fair value through other comprehensive income | | - | - |
| Reclassification of financial assets from amortised cost | | - | - |
| Other gains or (-) losses | | (3,227) | (14,827) |
| Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net | | - | - |
| Gains or (-) losses from hedge accounting, net | | (3,651) | (3,932) |
| Exchange differences [gain or (-) loss], net | | 73,069 | 2,439 |
| Other operating income | | 74,804 | 87,312 |
| (Other operating expenses) | 29 | (328,844) | (303,753) |
| **Gross income** | | **3,929,391** | **3,816,293** |

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the profit and loss account for 2019.

# Income statements of Banco de Sabadell, S.A.

For the years ended 31 December 2019 and 2018

Thousand euro

| | Note | 2019 | 2018 (*) |
|---|---|---|---|
| (Administrative expenses) | | (1,833,896) | (1,884,542) |
| (Staff expenses) | 30 | (1,092,864) | (1,080,178) |
| (Other administrative expenses) | 30 | (741,032) | (804,364) |
| (Depreciation and amortisation) | 14, 15 | (246,052) | (173,866) |
| (Provisions or (-) reversal of provisions) | 21 | (212,710) | (223,271) |
| (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains) | 31 | (393,186) | (714,004) |
| (Financial assets at fair value through other comprehensive income) | | 3,761 | (2,457) |
| (Financial assets at amortised cost) | | (396,947) | (711,547) |
| **Profit/(loss) on operating activities** | | **1,243,547** | **820,610** |
| (Impairment or (-) reversal of impairment of investments in joint ventures and associates) | | 6,575 | (26,020) |
| (Impairment or (-) reversal of impairment on non-financial assets) | 32 | 9,260 | 9,035 |
| (Tangible assets) | | 9,260 | 9,035 |
| (Intangible assets) | | - | - |
| (Other) | | - | - |
| Gains or (-) losses on derecognition of non-financial assets, net | 33 | 33,347 | (4,975) |
| 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 | 16,953 | (50,833) |
| **Profit or (-) loss before tax from continuing operations** | | **1,309,682** | **747,817** |
| (Tax expense or (-) income related to profit or loss from continuing operations) | 35 | (256,415) | (207,950) |
| **Profit or (-) loss after tax from continuing operations** | | **1,053,267** | **539,867** |
| Profit or (-) loss after tax from discontinued operations | | - | - |
| **Profit or loss for the year** | | **1,053,267** | **539,867** |

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the profit and loss account for 2019.

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

Statements of recognised income and expenses
For the years ended 31 December 2019 and 2018

Thousand euro

| | Note | 2019 | 2018 (*) |
|---|---|---|---|
| **Profit or loss for the year** | | **1,053,267** | **539,867** |
| **Other comprehensive income** | **23** | **128,544** | **(239,754)** |
| Items that will not be reclassified to profit or loss | | (5,131) | (101,225) |
| Actuarial gains or (-) losses on defined benefit pension plans | | (2,036) | (10,138) |
| Non-current assets and disposal groups held for sale | | - | - |
| Fair value changes of equity instruments measured at fair value through other comprehensive income | | (13,455) | (134,469) |
| Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net | | - | - |
| Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item] | | - | - |
| Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument] | | - | - |
| Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk | | - | - |
| Income tax relating to items that will not be reclassified | | 10,360 | 43,382 |
| Items that may be reclassified to profit or loss | | 133,675 | (138,529) |
| Hedge of net investments in foreign operations [effective portion] | | (343) | 123 |
| Valuation gains or (-) losses taken to equity | | (343) | 123 |
| Transferred to profit or loss | | - | - |
| Other reclassifications | | - | - |
| Foreign currency translation | | 19,946 | 34,577 |
| Translation gains or (-) losses taken to equity | | 19,946 | 34,577 |
| Transferred to profit or loss | | - | - |
| Other reclassifications | | - | - |
| Cash flow hedges (effective portion) | | 126,362 | 151,485 |
| Valuation gains or (-) losses taken to equity | | 109,381 | 232,057 |
| Transferred to profit or loss | | 12,497 | (80,572) |
| Transferred to initial carrying amount of hedged items | | 4,484 | - |
| Other reclassifications | | - | - |
| Hedging instruments [not designated elements] | | - | - |
| Valuation gains or (-) losses taken to equity | | - | - |
| Transferred to profit or loss | | - | - |
| Other reclassifications | | - | - |
| Debt instruments at fair value through other comprehensive income | | 35,093 | (396,568) |
| Valuation gains or (-) losses taken to equity | | 94,081 | (128,624) |
| Transferred to profit or loss | | (58,988) | (267,944) |
| 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 | | (47,383) | 71,854 |
| **Total comprehensive income for the year** | | **1,181,811** | **300,113** |

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

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

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the statement of changes in equity for 2019.

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

Statements of total changes in equity

For the years ended 31 December 2019 and 2018

Thousand euro

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

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

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the statement of changes in equity at 31 December 2019

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

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

### Statements of total changes in equity

For the years ended 31 December 2019 and 2018

Thousand euro

| Sources of changes in equity | Capital | Share premium | Equity instruments issued other than capital | Other equity | Retained earnings | Revaluation reserves | Other reserves | (-) Treasury shares | Profit or loss for the year | (-) Interim dividends | Accumulated other comprehensive income | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Opening balance 31/12/2017** | **703,371** | **7,899,227** | **-** | **7,785** | **-** | **-** | **2,020,866** | **(87,953)** | **519,170** | **(111,628)** | **110,308** | **11,061,146** |
| Effects of corrections of errors | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Effects of changes in accounting policies | - | - | - | - | - | - | (631,012) | - | - | - | 59,146 | **(571,866)** |
| **Opening balance 01/01/2018** | **703,371** | **7,899,227** | **-** | **7,785** | **-** | **-** | **1,389,854** | **(87,953)** | **519,170** | **(111,628)** | **169,454** | **10,489,280** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **539,867** | **-** | **(239,754)** | **300,113** |
| **Other changes in equity** | **-** | **-** | **-** | **7,269** | **-** | **-** | **61,513** | **(51,807)** | **(519,170)** | **889** | **-** | **(501,306)** |
| 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) | - | - | - | - | - | - | (281,348) | - | - | (110,739) | - | **(392,087)** |
| Purchase of treasury shares | - | - | - | - | - | - | - | (266,478) | - | - | - | **(266,478)** |
| Sale or cancellation of treasury shares | - | - | - | - | - | - | 982 | 214,671 | - | - | - | **215,653** |
| Reclassification of financial instruments from equity to liability | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Reclassification of financial instruments from liability to equity | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Transfers among components of equity | - | - | - | - | - | - | 407,542 | - | (519,170) | 111,628 | - | **-** |
| Equity increase or (-) decrease resulting from business combinations | - | - | - | - | - | - | - | - | - | - | - | **-** |
| Share based payments | - | - | - | 7,269 | - | - | - | - | - | - | - | **7,269** |
| Other increase or (-) decrease in equity | - | - | - | - | - | - | (65,663) | - | - | - | - | **(65,663)** |
| **Closing balance 31/12/2018** | **703,371** | **7,899,227** | **-** | **15,054** | **-** | **-** | **1,451,367** | **(139,760)** | **539,867** | **(110,739)** | **(70,300)** | **10,288,087** |

Shown for comparative purposes only (see section "Comparability" in Note 1).

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the statement of changes in equity at 31 December 2019

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

For the years ended 31 December 2019 and 2018

Thousand euro

| | Note | 2019 | 2018 (*) |
|---|---|---|---|
| **Cash flows from operating activities** | | **(7,793,609)** | **(3,143,023)** |
| Profit or loss for the period | | 1,053,267 | 539,867 |
| Adjustments to obtain cash flows from operating activities | | 1,061,367 | 1,399,359 |
| Depreciation and amortisation | | 246,052 | 173,866 |
| Other adjustments | | 815,315 | 1,225,493 |
| Net increase/decrease in operating assets | | (6,863,961) | (6,247,455) |
| Financial assets held for trading | | (397,897) | (447,878) |
| Non-trading financial assets mandatorily at fair value through profit or loss | | 19,138 | 8,051 |
| Financial assets designated at fair value through profit or loss | | - | - |
| Financial assets at fair value through other comprehensive income | | 4,668,228 | 1,991,925 |
| Financial assets at amortised cost | | (10,391,280) | (7,526,108) |
| Other operating assets | | (762,150) | (273,445) |
| Net increase/decrease in operating liabilities | | (2,762,664) | 1,209,818 |
| Financial liabilities held for trading | | 929,010 | 207,001 |
| Financial liabilities designated at fair value through profit or loss | | - | - |
| Financial liabilities measured at amortised cost | | (4,050,950) | 1,239,395 |
| Other operating liabilities | | 359,276 | (236,578) |
| Income tax receipts or payments | | (281,618) | (44,612) |
| **Cash flows from investment activities** | | **2,047,867** | **509,432** |
| Payments | | (226,744) | (661,369) |
| Tangible assets | 14 | (204,158) | (106,662) |
| Intangible assets | 15 | (10,046) | (4,009) |
| Investments in joint ventures and associates | 13 | (12,522) | (12,223) |
| Other business units | 13 | (18) | (538,475) |
| Non-current assets and liabilities classified as held for sale | | - | - |
| Other payments related to investment activities | | - | - |
| Collections | | 2,274,611 | 1,170,801 |
| Tangible assets | 14, 33 | 29,574 | 34,604 |
| Intangible assets | | - | - |
| Investments in joint ventures and associates | 13 | 59,636 | 82,170 |
| Other business units | 13 | 544,681 | 443,600 |
| Non-current assets and liabilities classified as held for sale | | 1,640,720 | 610,427 |
| Other collections related to investment activities | | - | - |

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the cash flow statement for 2019.

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

For the years ended 31 December 2019 and 2018

Thousand euro

| | | 2019 | 2018 (*) |
|---|---|---|---|
| **Cash flows from financing activities** | | **(218,347)** | **5,813** |
| Payments | | (430,392) | (709,840) |
| Dividends | | (56,270) | (392,087) |
| Subordinated liabilities | | - | - |
| Amortisation of own equity instruments | | - | - |
| Acquisition of own equity instruments | | (209,783) | (266,478) |
| Other payments related to financing activities | | (164,339) | (51,275) |
| Collections | | 212,045 | 715,653 |
| Subordinated liabilities | | - | 500,000 |
| Issuance of own equity instruments | | - | - |
| Disposal of own equity instruments | | 212,045 | 215,653 |
| Other collections related to financing activities | | - | - |
| **Effect of exchange rate fluctuations** | | **(59,709)** | **32,529** |
| **Net increase (decrease) in cash and cash equivalents** | | **(6,023,798)** | **(2,595,249)** |
| **Cash and cash equivalents at the beginning of the year** | 6 | **14,816,294** | **17,411,543** |
| **Cash and cash equivalents at the end of the year** | 6 | **8,792,496** | **14,816,294** |

| **COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | | |
|---|---|---|---|
| Cash | 6 | 680,295 | 611,532 |
| Cash equivalents in central banks | 6 | 7,749,624 | 13,949,231 |
| Other demand deposits | 6 | 362,577 | 255,531 |
| Other financial assets | | - | - |
| Less: bank overdrafts repayable on demand | | - | - |

(*) Shown for comparative purposes only (see section “Comparability” in Note 1).

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the cash flow statement for 2019.

For the year ended 31 December 2019

## Note 1 – Activity, accounting policies and practices

### 1.1 Activity

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

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

### 1.2. Basis of presentation

The Bank's annual financial statements for the year ended 31 December 2019 have been prepared in accordance with that set forth in Bank of Spain Circular 4/2017, of 27 November (hereinafter, "Circular 4/2017") and other regulatory provisions on financial reporting applicable to the Bank, in a way that gives a faithful image of its equity and financial position as at 31 December 2019 and of the results of its operations, recognised income and expenses, changes in equity and cash flows materialising in 2019. Circular 4/2017 constitutes the implementation and adaptation to Spanish credit institutions of International Financial Reporting Standards adopted by the European Union (EU-IFRS) in accordance with that set forth in Regulation 1606/2002 of the European Parliament and of the Council regarding the application of these standards.

The information included in these annual financial statements is the responsibility of the directors of the Bank. The Bank's annual financial statements for 2019 were signed off by the directors of Banco Sabadell at a meeting of the Board of Directors on 30 January 2020 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

| | 2019 | 2018 |
|---|---|---|
| Total assets | 223,753,641 | 222,322,421 |
| Shareholders' equity | 13,171,806 | 12,544,931 |
| Income from financial activities | 6,800,982 | 6,710,716 |
| Profit or loss attributable to owners of the parent | 767,822 | 328,102 |

### Implementation of Circular 2/2018 – Leases

Bank of Spain Circular 2/2018 came into force on 1 January 2019. This standard adapts the accounting policies of Spanish credit institutions to IFRS 16 "Leases", setting forth principles for the recognition, valuation, presentation and disclosure of lease agreements and has involved the adoption of changes in the Bank's accounting policies in relation to these agreements (see Note 1.3.11).

At the date of the first implementation, the Bank decided to apply this standard retroactively, recognising the cumulative effect of the initial implementation in the balance sheet as at 1 January 2019, without restatement of the comparative information for 2018, in accordance with the transitional arrangements of the standard (see the "Comparability" section of this Note). In addition, the Bank has used the practical assumptions defined in paragraph 7 of the first transitional provision of Circular 2/2018 permitted for the selected first-time implementation approach.

As a result of the entry into force of Bank of Spain Circular 2/2018, the Bank has recognised a lease liability as at 1 January 2019 amounting to 925 million euros and an asset equal to the amount of the lease liability in relation to the agreements considered as operating leases in accordance with the accounting criteria previously in force. This lease liability bore an average annual interest rate of 1.88%.

The reconciliation between the operating lease commitments as at 31 December 2018 and the lease liability recognised as at 1 January 2019 is shown below:

| Million euro | |
|---|---|
| **Operating lease commitments as at 31 December 2018 discounted at the incremental borrowing rate** | **591** |
| Short-term leases recognised as a straight-line expense | (3) |
| Adjustments arising from different treatment of extension and termination options | 337 |
| **Lease liability as at 1 January 2019** | **925** |

The first application of this standard has had no impact on the Bank's equity. Likewise, the entry into force of this standard has had no significant impact on the Bank's earnings per share.

### 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 amount of the assets and liabilities and the disclosure of contingent assets and contingent liabilities as at the date of the annual financial statements, as well as income and expenses in the year.

The main judgements and estimates relate to the following:

- The determination of the business models under which financial assets are managed (see Notes 1.3.2, 7 and 10).
- The determination of the significant increase in the credit risk of financial assets since their initial recognition (see Notes 1.3.4, 7 and 10).
- Losses due to the impairment of certain financial assets (see Notes 1.3.3, 7, 8 and 10).
- The assumptions used in actuarial calculations of liabilities and post-employment obligations (see Notes 1.3.16 and 21).
- The valuation of goodwill (see Notes 1.3.12 and 15).
- The useful life 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 unquoted financial assets (see Note 5).

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

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

- The duration of lease contracts and the discount rate used in the valuation of the lease liability (see section "Implementation of Circular 2/2018 – Leases" of this note and Notes 1.3.11 and 14).

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

## 1.3 Accounting principles and policies and measurement criteria

The accounting principles and policies, as well as the most significant measurement criteria that have been applied in preparing these annual financial statements, are described below. There have been no cases in which accounting principles or measurement criteria have not been applied because of a material effect on the Bank's annual financial statements for 2019.

### 1.3.1 Investments in subsidiaries, joint ventures and associates

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

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

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

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

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

Joint ventures are institutions subject to joint control agreements whereby decisions on significant activities are made unanimously by all of the institutions which share control, and where the Bank has rights over its net assets. The Bank has not held investments in joint ventures during 2019.

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

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

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

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

- Significant financial difficulties.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- The characteristics of contractual cash flows from financial assets.

## Business model

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

The business models used by the Bank are indicated below:

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

- Sale of financial assets.

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

## Characteristics of contractual cash flows of financial assets

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

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

- All other financial assets.

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

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

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

Portfolios of financial instruments classified for the purpose of their valuation

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

*Financial assets at amortised cost*

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

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

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

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

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

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

*Financial assets at fair value through other comprehensive income*

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

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

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

These financial assets primarily correspond to debt securities.

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

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

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

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

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

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

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

*Financial assets at fair value through profit or loss*

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

This portfolio is in turn subdivided into:

- *Financial assets held for trading*

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

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

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

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

*Financial liabilities held for trading*

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

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

*Financial liabilities designated at fair value through profit or loss*

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

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

*Financial liabilities measured at amortised cost*

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

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

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

**Hybrid financial instruments**

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

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

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

The fair value of the Bank's financial instruments as at 31 December 2019 and 2018 is indicated in Note 5.

### 1.3.3 Impairment of financial assets

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

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

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

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

**Debt instruments and off-balance sheet exposures**

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

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

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

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

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

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

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

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

Definition of classification categories

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

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

- Stage 2: this category includes all transactions which, although they do not meet the criteria to be classified individually as Stage 3 or a write-off, show significant increases in credit risk since initial recognition. Transactions with amounts more than 30 days past due are included in this category. Refinanced and restructured transactions classified in this category shall be classified into a lower risk category when they meet the criteria for such reclassification. Transactions that have been classified as Stage 2, due to significant increases in credit risk or due to the existence of amounts more than 30 days past due, will be reclassified into Stage 1 after passing a 6-month probation period, depending on the likelihood of them re-entering the Stage 2 category.

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

    - As a result of borrower arrears: transactions any part of whose principal, interest or contractually agreed expenses is, in general, more than 90 days past due (although the specific characteristics of purchased or originated credit-impaired transactions are taken into account), unless they should be classed as write-offs. This category also includes guarantees given if the guaranteed party has fallen into in arrears for the guaranteed transaction. This category also includes the amounts of all of a borrower's transactions when the transactions with amounts that are generally (as indicated above) more than 90 days past due account for over 20% of the total amounts pending collection.

    - For reasons other than borrower arrears: transactions which are not classifiable 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 Bank is likely and whose recovery is doubtful.

The accounting definition of Stage 3 is in line with the definition used in the Group's credit risk management activities. It is also in line with the regulatory definition of default, with the exception that, in regulatory terms, all the transactions of a borrower in the business segment are considered to be defaulted when there are amounts more than 90 days past due, while the accounting definition of default only considers all of a borrower's transactions to be Stage 3 when the transactions with amounts more than 90 days past due account for over 20% of the amounts pending collection.

- Write-off:

  The Bank derecognises from the balance sheet transactions for which the possibility of full or partial recovery is concluded to be remote following an individual assessment. This category includes exposures of customers who are in bankruptcy proceedings filing for liquidation, as well as transactions classified as Stage 3 as a result of borrower 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. It also includes transactions which, despite not being in any of the previous situations, are undergoing a manifest and irreversible deterioration of their solvency.

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

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

Purchased or originated credit-impaired transactions

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

Transaction classification criteria

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

- Automatic criteria;

- Specific criteria for refinancing; and

- Criteria based on indicators (triggers).

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

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

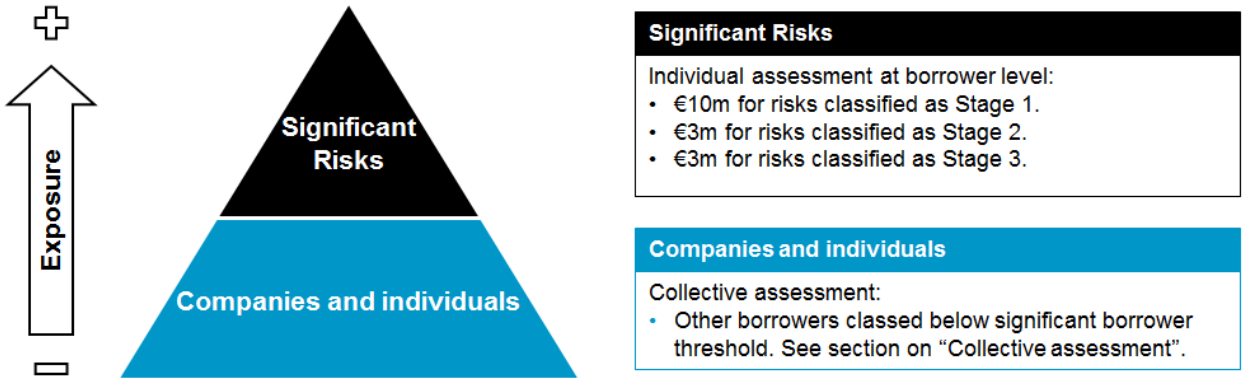
Transactions classified as Stage 3 are reclassified as Stage 1 or 2 when, due to the full or partial collection of unpaid exposures (in the case of transactions classed as Stage 3 as a result of borrower arrears) or due to the completion of the cure period (in the case of transactions classified as Stage 3 for reasons other than borrower arrears), the reasons for which they were originally classed as Stage 3 no longer exist, unless there are any other factors that make it advisable to keep such transactions in this category.

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

Individual assessment

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

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




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

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

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

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

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

The system of triggers for significant borrowers is automated and takes into account the particular characteristics of segments that perform differently from the loan portfolio. The system of triggers seeks to identify the following aspects:

- Significant financial difficulties of the issuer or obligor, indicative of a significant increase in credit risk or an impairment event insofar as their classification as being significant limits the ability of the issuer or obligor to honour their financial obligations as usual.

- In order to identify a significant increase in credit risk or an impairment event, it is necessary to consider variables that are indicative of a deteriorating or poor economic and financial situation as well as variables that could potentially give rise to impairment or which allow impairment to be anticipated.

For example:

- Stage 2 triggers:
    - Adverse changes in the financial situation, such as a significant increase in debt levels, sharp drops in turnover, or a significant tightening of operating margins.
    - Adverse changes in the economy or market indicators, such as a significant decline in share prices or a reduction in the price of debt issues. In the case of sovereign debt issues, price spreads with respect to the benchmark German bond (share premium) are also analysed.
    - Significant actual or expected downgrade of the internal credit rating assigned to the transaction or borrower, or a reduction in the behavioural score assigned during the internal credit risk monitoring process.
    - For transactions secured with collateral, a higher loan-to-value ratio, due to a dwindling value of the collateral, or due to the amount pending amortisation staying the same or increasing as a result of the established payment terms.
    - Significant increase in credit risk of other transactions of the same borrower, or in entities associated with the borrower's risk group.
- Stage 3 triggers:
    - Evidence of impairment of other transactions of the same borrower, or in entities associated with the borrower's risk group.
    - Negative EBITDA, significant decrease in EBITDA, in turnover, or in general, in the borrower's recurrent cash flows.
    - Increase in the borrower's leverage ratios.
    - Negative equity or equity reduction as a result of the borrower suffering income losses of 50% or more in the past year.
    - Existence of an internal or external credit rating showing that the borrower is in arrears.
    - Existence of a borrower's past-due commitments of significant value with public bodies.
    - For transactions secured with collateral, significant decline in the value of the collateral received.
    - Existence of debt remissions or debt reductions approved for the same borrower or for entities associated with the latter's risk group in the last 2 years.
    - Temporary suspension of the listing of the borrower's shares.

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

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

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

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

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

Collective assessment

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

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

- Systemic: macroeconomic characteristics shared by all exposures.

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

- Idiosyncratic: aspects specific to each transaction or borrower.

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

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

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

### Refinancing and restructuring operations

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

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

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

Formally introducing contractual amendments does not further deteriorate a borrower's circumstances to such an extent that additional provisions need to be allocated.

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

Forborne, refinanced and restructured transactions remain in the Stage *2* category during a probation period until all of the following requirements are met:

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

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

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

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

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

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

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

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

With regard to refinanced/restructured loans classified as Stage 2, different types of transactions are specifically assessed in order to reclassify them, where applicable, into one of the categories described previously that reflect a higher level of risk (i.e. into Stage 3 as a result of borrower 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).

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

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

*Measurement of allowances*

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

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

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

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

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

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

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

- Credit ratings: in general, credit risks undertaken with companies are rated using a rating system based on the internal estimate of their probability of default (PD). The rating system is based on factors that predict the probability of default over a one-year period. It has been designed for different segments. The rating model is reviewed annually based on the analysis of 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 decision-making process (system of discretions), risk monitoring and pricing policies.

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

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

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

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

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

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

- Multiple scenarios: in order to estimate expected losses, the Group applies different scenarios to identify the effect of the non-linearity of losses. To this end, the provisions required are estimated in the various different scenarios for which a probability of occurrence is established. Specifically, the Group has considered five macroeconomic scenarios that have been defined at Group level: one baseline scenario, which has the highest probability of occurrence (40%), one favourable scenario (10%) and three adverse scenarios (which together have a 50% probability of occurrence). 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.

  - Baseline scenario:

  Key assumptions:

  - Orderly Brexit.
  - Some form of trade agreement between the United States and China that alleviates the rising tension between both countries.
  - Moderate impact of trade tensions between the United States and the European Union.
  - Establishment of an economic policy in China capable of sustaining growth.
  - Lax funding conditions and more expansionary tax policies.

- Trade war and global recession

Assumption:

- Sharp slowdown in international trade as a result of an increase in protectionism and/or China's inability to absorb the shock.

Impacts:

- Global recession, affecting both developed and emerging economies. Sluggish economic activity for a protracted period of time, recovery is slow.
- Deflation in the euro area.
- Intensification of negative interest rates, with impacts on banks and insurers.
- Increased financial repression.
- Fiscal expansion and deteriorating fiscal metrics.
- New historic lows in terms of yields on core sovereign bonds and appreciation of the US dollar.

Geographical impacts

- Spain: economic downturn, with consequences for political stability. Increased uncertainty and the occasional rating downgrade.
- United Kingdom: fall in GDP and labour market deterioration. Substantial drops in house prices. Bank of England base rate cuts.
- Mexico: economic recession once the US abandons NAFTA. Devaluation of the peso and increases in the Banxico benchmark rate.

- End of trade war

Assumption:

- The US closes trade deals with China and Europe and tariffs are withdrawn.

Impacts:

- Uncertainty is eased and business confidence is boosted.
- Synchronised economic cycle and dynamic GDP and international trade.
- Gradual upturn in central banks' benchmark rates and long-term government bond yields.
- Global financial conditions remain lax, with no significant episodes of risk aversion.
- Political and geopolitical situation improves.
- Fiscal metrics improve and ratings increase in the European periphery.
- Devaluation of the dollar.

Geographical impacts:

- Spain: significant economic momentum. Structural reforms are adopted in a favourable political environment. Potential growth improves.
- United Kingdom: GDP picks up and labour market improves. The Bank of England gradually raises its base rate and house prices start to increase.
- Mexico: pragmatic public policies and resumed implementation of structural reforms. Entry into force of new NAFTA.

- No Deal No Cliff-Edge Brexit

Assumptions:

- The measures established by the United Kingdom and the European Union to avoid a cliff-edge Brexit are implemented and immediate disruption to cross-border and financial activity is averted.

Impacts in the UK:

- Devaluation of pound sterling.
- Economic recession in the UK in 2020.
- Upturn in inflation in the UK due to the devaluation of the pound and tariff barriers.
- The Bank of England cuts its base rate and the ECB adopts a more lax approach.
- Poor performance of UK real estate market.

Other impacts:

- Financial turbulence in capital markets.
- Recession in the euro zone, followed by a slow recovery. Reduced impact in the US, Mexico and third countries. The Spanish economy slows given the trade, investment and tourism links. The hardest hit sectors are tourism, food, transportation and the automotive industry.
- Intensification of negative interest rate environment in the euro area.
- Lending activity remains broadly flat in Spain.

- No Deal Cliff-Edge Brexit

Assumptions:

- Plans to avoid immediate disruption in cross-border and financial activity are not appropriate and/or not implemented. Additionally, a contingency not envisaged in these plans may occur.
- Air and road transportation may be disrupted, leading to delayed deliveries of goods, particularly food and medical supplies.
- Security issues along the border between Ireland and Northern Ireland.

Impacts in the UK:

- Foreign exchange crisis in the UK, with a sharp devaluation of the pound in its currency pair with the dollar and the euro.
- Steep increase in the Bank of England base rate.
- The UK falls into a severe recession, the unemployment rate soars, as does inflation (due to the devaluation of the pound).
- Significant declines in house prices.

Other impacts:

- Economic recession in the euro zone and Spain. In Spain, the tourism, food, transportation and automotive sectors are particularly hard hit.
- Europe enters an anti-inflationary phase and the ECB extends its negative interest rate policy.
- Lending in Spain declines and recovers very slowly.

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

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

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

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

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

12-month expected credit losses are defined as:

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

Where:

$\mathrm{EAD}_{12\mathrm{M}}$ is the exposure at default at 12 months, $\mathrm{PD}_{12\mathrm{M}}$ is the probability of a default occurring within 12 months and $\mathrm{LGD}_{12\mathrm{M}}$ is the expected loss given default.

Lifetime expected credit losses are defined as:

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

Where:

$\mathrm{EAD}_\mathrm{i}$ is the exposure at default for each year, taking into account both the entry into default and the amortisation (on the agreed date and/or early), $\mathrm{PD}_\mathrm{i}$ is the probability of a default occurring within the next twelve months for each year, $\mathrm{LGD}_\mathrm{i}$ is the expected loss given default for each year, and EIR is the effective interest rate of each transaction.

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

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

The Bank uses estimated prepayment rates for different products and segments based on observed historical data (historical data from 2000 onwards). These prepayment rates are used to determine the lifetime expected credit losses on exposures classified as Stage *2*. The agreed amortisation schedule for each transaction is used.

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

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

*Individual allowance estimates*

The following must be estimated individually:

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

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

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

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

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

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

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

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

*Collective allowance estimates*

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

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

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

    - transactions with central banks;
    - transactions with general governments of European Union countries, including those arising from reverse repurchase agreements of debt securities;
    - transactions with central governments of countries classified as Group 1 for country risk purposes;
    - transactions in the name of deposit guarantee funds and resolution funds, provided they are comparable in terms of credit quality to those of the European Union;
    - transactions in the name of credit institutions and specialised credit institutions of European Union countries and, in general, of countries classified as Group 1 for country risk purposes;
    - transactions with Spanish mutual guarantee societies and with public bodies or public companies of other countries classified as Group 1 for country risk purposes whose main activity is providing credit insurance or guarantees;
    - transactions with non-financial companies which are not included in the public sector;
    - advances of pensions and wages corresponding to the following month, always provided that the paying institution is a general government and that these items are arranged to be paid into accounts held in Banco Sabadell, as well as advances other than loans.

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

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

Observed credit impairment since initial recognition

| Credit risk category | Stage 1 | Stage 2 | Stage 3 | Write-off |
|---|---|---|---|---|
| Criteria for classification into stages | Transactions in which there has been no significant increase in credit risk since initial recognition and which do not meet the requirements for classification into other categories. | Transactions with no default events but which do show a significant increase in credit risk since initial recognition. | Transactions whose full recovery is considered doubtful, even if no amounts are more than ninety days past due.<br><br>Transactions with amounts more than 90 days past due. | Transactions whose possibility of recovery is considered remote due to a manifest and irreversible deterioration of the solvency of the transaction or the borrower. |
| Calculation of allowance | 12-month expected credit loss | Lifetime expected credit loss | | Write-off from balance sheet and recognition of the loss in the income statement, at the carrying amount of the transaction |
| Accrual of interest | Calculated by applying the effective interest rate to the gross carrying amount of the transaction | | Calculated by applying the effective interest rate to the amortised cost (adjusted to account for any impairment allowances) | Not recognised in the income statement |
| Transactions included, by stage | Initial recognition | Transactions which show a significant increase in credit risk since initial recognition<br><br>Transactions included in a debt sustainability agreement.<br><br>Risks of borrowers who are in bankruptcy proceedings that do not meet the conditions for classification into Stage 3.<br><br>Forborne, refinanced and restructured transactions that do not meet the conditions for classification as Stage 3.<br><br>Transactions with amounts more than 30 days past due. | **Transactions classified as Stage 3 as a result of borrower arrears:**<br>Amount of debt instruments with one or more amounts more than 90 days past due.<br>Amount of all of a borrower's transactions when the transactions with amounts more than 90 days past due account for over 20% of the total amounts pending collection.<br><br>**Transactions classified as Stage 3 for reasons other than borrower arrears:**<br>• Transactions with no amounts more than 90 days past due but whose full recovery is considered doubtful.<br>• Transactions with outstanding balances claimed through judicial proceedings.<br>• Transactions in which the collateral enforcement process has been initiated.<br>• Transactions and guarantees given to borrowers who have filed for bankruptcy or who have declared that they will be filing for bankruptcy without requesting liquidation.<br>• Forborne, refinanced and restructured transactions not qualifying for classification as Stage 2.<br>• Purchased or originated credit-impaired (POCI) transactions. | Transactions whose possibility of recovery is considered remote.<br><br>Transactions partially deemed to be irrecoverable even though debt collection rights have not yet been terminated (write-downs).<br><br>- Transactions classified as Stage 3 as a result of borrower arrears, when they have been in this category for over 4 years or when the amount not covered by effective guarantees has been kept on the balance sheet with a credit risk allowance covering 100% of that amount for more than two years, unless the effective collateral covers at least 10% of the gross amount.<br><br>- Transactions of borrowers who are in bankruptcy proceedings filing for liquidation or who have declared they will be filing for liquidation, unless they have effective collateral covering at least 10% of the gross carrying amount. |

*Classification of credit risk and allowances for country risk*

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

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

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

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

*Guarantees*

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

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

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

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

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

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

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

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

*Backtesting of allowances for loan losses and real estate asset impairment*

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

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

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

### 1.3.4 Hedging transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 1.3.5 Financial guarantees

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

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

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

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

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

### 1.3.6 Transfers and derecognition of financial instruments from the balance sheet

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

Note 3 provides details of asset transfers in effect at the end of 2019 and 2018, indicating those that did not involve the derecognition of the asset from the balance sheet.

### 1.3.7 Offsetting of financial instruments

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

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

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

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

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

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

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

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

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

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

### 1.3.9 Discontinued operations

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

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

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

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

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

**1.3.10 Tangible assets**

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

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

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

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

| | Useful life (years) |
|---|---|
| Land and buildings | 37.5 a 75 |
| Fixtures and fittings | 4.2 a 25 |
| Furniture and office equipment | 3.3 a 18 |
| Vehicles | 3.1 a 6.25 |
| Cash dispensers, computers and computer equipment | 4 |

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

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

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

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

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

### 1.3.11 Leases

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

*Leases in which the Bank acts as lessee*

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

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

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

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

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

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

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

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

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

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

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

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

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

*Sale and leaseback*

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

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

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

*Leases in which the Bank acts as lessor*

*Finance leases*

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

*Operating leases*

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

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

### 1.3.12 intangible assets

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

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

*Goodwill*

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

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

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

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

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

- Estimates of macroeconomic variables and other financial parameters.

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

- Discount rate: the present value of future dividends, from which a value in use is obtained, is calculated using the institution's cost of capital (Ke), from the standpoint of a market participant, as a discount rate. To determine the cost of capital the CAPM (Capital Asset Pricing Model) is used in accordance with the formula: "$Ke = Rf + \beta (Pm) + \alpha$", where: Ke = Required return or cost of capital, Rf = Risk-free rate, $\beta$ = Company's systemic risk coefficient, Pm = Market premium and $\alpha$ = 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 book value of a UGE 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 book value of the remaining allocated assets on a proportional 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 7 to 15 years. In particular, the sub-systems corresponding to the infrastructure, communications, architecture and corporate functions of the banking platform used by the Bank to carry out its activity generally have a useful life of between 10 and 15 years, while the useful life of sub-systems corresponding to channels and data & analytics ranges from 7 to 10 years.

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

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

### 1.3.13 Own equity instruments

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

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

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

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

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

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

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

Assigning the initial carrying amount to the various component parts of the compound instrument shall not imply, under any circumstances, a recognition of earnings. An amount shall first be assigned to the component part that is a financial liability, including any embedded derivative with an underlying asset that is anything other than an own equity instrument. This amount will be obtained based on the fair value of the institution's financial liabilities that share similar characteristics with the compound instruments, but which are not associated with own equity instruments. The initial carrying amount assigned to the equity instrument will be the residual portion of the initial carrying amount of the compound instrument as a whole, after deducting the fair value assigned to the financial liability.

### 1.3.14 Remuneration in equity instruments

The delivery to employees of the Group's own equity instruments in payment for their services (where these instruments are determined at the start of, and delivered upon completion of, a specified period of service) is recognised as a service expense over the period during which the services are being provided, with a balancing entry under the heading *"Other equity"* in the statement of equity. On the date these instruments are awarded, the services received are measured at fair value unless this cannot be reliably estimated, in which case they are measured by reference to the fair value of the committed equity instruments, bearing in mind the terms and other conditions envisaged in the commitments.

The amounts recognised in equity cannot be subsequently reversed, even when employees do not exercise their right to receive the equity items.

For transactions involving share-based remuneration paid in cash, the Bank records a service expense over the period during which the services are being provided, with a balancing entry on the liabilities side of the balance sheet. The Bank recognises this liability at fair value until it is settled. Changes in value are recognised in the income statement for the year.

### 1.3.15 Provisions, contingent assets and contingent liabilities

Provisions are present obligations of the Bank resulting from past events and whose nature as at the date of the financial statements is clearly specified, but which are of uncertain timing and amount; when such obligations mature or become due for settlement, the Bank expects to settle them with an expenditure.

In general, the Bank's annual financial statements include all significant provisions based on which it is estimated that it is more likely than not that the obligation will need to be settled. These provisions include, among others, pension commitments undertaken with employees (see Note 1.3.16), as well as provisions for tax litigation and other contingencies.

Contingent liabilities are any possible obligations in the Bank that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Bank. Contingent liabilities include present obligations of the Bank for which payment is not probable or whose amount, in extremely rare cases, cannot be measured reliably. Contingent liabilities are not recognised in the annual financial statements, rather, they are disclosed in the notes to the annual financial statements.

If the disclosure of some or all of the information required regarding provisions and contingent liabilities can be expected to seriously undermine the position of the Bank in disputes with third parties in relation to the situations that consider these provisions and contingent liabilities (such as those linked to litigation or arbitration issues), the Bank can choose not to disclose this information.

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of events not wholly within the control of the Bank. These contingent assets are not recognised on the balance sheet or in the income statement, but they are disclosed in the corresponding report where an inflow of economic benefits is probable.

### 1.3.16 Provisions for pensions

The Group's pension commitments to its employees are as follows:

***Defined contribution plans***

These are plans under which fixed contributions are made to a separate entity in accordance with the agreements entered into with each particular group of employees, without any legal or constructive obligation to pay further contributions if the separate entity is unable to pay all employee benefits relating to employee service in the current and prior periods.

These contributions are recognised each year in the consolidated income statement (see Note 30).

***Defined benefit plans***

Defined benefit plans provide for all existing commitments arising from the application of Articles 42, 43, 44 and 48 of the 23rd Collective Bargaining Agreement for Banks (*XXIII Convenio Colectivo de Banca*).

These commitments are financed in the following ways: the pension plan, insurance contracts, the voluntary social welfare agency ("E.P.S.V.") and internal funds.

1. The pension plan

Banco Sabadell's employee pension plan covers benefits payable under the aforementioned collective bargaining agreement with employees belonging to regulated groups, with the following exceptions:

- Additional commitments due to early retirement, as set out in Article 43 of the Collective Bargaining Agreement.

- Disability or incapacity arising in certain circumstances.

- Widowhood and orphanhood benefits arising from the death of a retired member of staff who began their employment in the entity after 8 March 1980.

The Banco Sabadell employee pension plan is regarded to all intents and purposes as a plan asset for the obligations insured by entities that are not a related party of the Group. Obligations of the pension plan insured by companies that are related parties of the Group are not considered plan assets.

A Control Committee has been created for the pension plan, formed of representatives of the sponsor and representatives of the participants and beneficiaries. This Control Committee is the body responsible for supervising its operation and execution.

2. Insurance contracts

Insurance contracts generally provide cover for certain commitments arising from Articles 43 and 44 of the 23rd Collective Bargaining Agreement for Banks, including:

- Commitments that are expressly excluded from the Banco Sabadell employee pension plan (listed in the previous section).

- Serving employees covered by a collective bargaining agreement of Banco Atlántico.

- Pension commitments in respect of some serving employees not provided for under the collective bargaining agreement.

- Commitments towards employees on extended leave of absence who are not entitled to benefits under the Banco Sabadell employee pension plan.

- Commitments towards early retirees. These may be partly financed with benefits accrued under the Banco Sabadell employee pension plan.

These insurance policies have been arranged with insurers separate from the Group, whose insured commitments are mainly those towards former Banco Atlántico employees and BanSabadell Vida, S.A. de Seguros y Reaseguros.

3. The voluntary social welfare agency "E.P.S.V.".

The acquisition and subsequent merger of Banco Guipuzcoano resulted in the takeover of Gertakizun, E.P.S.V., which covers defined benefit commitments in respect of the Bank's serving and former employees, who are insured by policies. It was set up by Banco Guipuzcoano in 1991 as an agency with a separate legal personality. All of the pension commitments to serving and former employees are insured by entities separate from the Group.

4. Internal funds

Internal funds are used to settle obligations with early retirees up to their legal retirement age and relate to employees previously working for Banco Sabadell, Banco Guipuzcoano and Banco CAM.

*Accounting record of defined benefit obligations*

The *"Provisions – Pensions and other post-employment defined benefit obligations"* heading on the liabilities side of the balance sheet includes the current actuarial value of pension commitments, which is calculated individually using the projected unit credit method on the basis of the financial and actuarial assumptions set out below. This is the same method used for the sensitivity analysis described in Note 21.

From the obligations thus calculated, the fair value of the plan assets has been deducted. Plan assets are assets that will be used to settle obligations, including insurance policies, since they meet the following requirements:

- They are not owned by the Bank but by a legally separate third party not qualifying as a related party.

- They are available only to pay or fund employee benefits and are not available to creditors of the Bank, even in the event of the Bank becoming insolvent.

- They cannot be returned to the Bank unless the assets remaining in the plan are sufficient to settle all obligations, of the plan or of the entity, relating to employee benefits, or unless assets are to be returned to the Bank to reimburse it for employee benefits previously paid.

- They are not non-transferable financial instruments issued by the Group.

The assets that back pension commitments shown in the individual balance sheet of BanSabadell Vida, S.A. de Seguros y Reaseguros are not plan assets as the company is a related party of the Bank.

Pension commitments are recognised as follows:

- In the income statement, net interest on the defined benefit liability (asset) net of pension commitments as well as the cost of the services, which includes (i) the cost of services in the current period, (ii) the cost of past services arising from past changes made to existing commitments or from the introduction of new benefits and (iii) any gain or loss arising from a settlement of the plan.

- Under the heading *"Accumulated other comprehensive income"* in the statement of equity, the remeasurement of the net defined benefit liability (asset) for pension commitments, which includes (i) actuarial gains and losses generated in the year arising from differences between the previous actuarial assumptions and the real situation and from changes in the actuarial assumptions made, (ii) the return on plan assets, and (iii) any change in the effect of the asset ceiling, excluding, for the last two items, the amounts included in net interest on the defined benefit liability (asset).

  The amounts recognised in the statement of equity are not reclassified into the income statement in subsequent years, rather, they are reclassified under the heading *"Other reserves – Other"* of the statement of equity.

The heading "*Provisions – Other long term employee benefits*" on the liabilities side of the balance sheet mainly includes the value of commitments undertaken with early retirees. Changes occurring during the year in the value of liabilities are recognised in the income statement.

*Actuarial assumptions*

The most significant actuarial assumptions used in the valuation of pension commitments are as follows:

| | 2019 | 2018 |
|---|---|---|
| Tables | PERM / F 2000 New production | PERM / F 2000 New production |
| Discount rate, pension scheme | 0.75% per annum | 1.50% per annum |
| Discount rate, internal fund | 0.75% per annum | 1.50% per annum |
| Discount rate, related insurance | 0.75% per annum | 1.50% per annum |
| Discount rate, non-related insurance | 0.75% per annum | 1.50% per annum |
| Inflation | 2.00% per annum | 2.00% per annum |
| Rate of increase in salaries | 3.00% per annum | 3.00% per annum |
| Retirement due to disability | SS90-Absolute | SS90-Absolute |
| Staff turnover | None assumed | None assumed |
| Early retirement | Allowed for | Allowed for |
| Normal retirement age | 65 or 67 years | 65 or 67 years |

In 2019 and 2018, the technical interest rate on all commitments has been determined by reference to the return on AA-rated corporate bonds (iBoxx € Corporates AA 10+), with an average duration of 12.50 years in 2019 and 11.94 years in 2018.

The early retirement age considered is the earliest retirement date after which pension entitlements cannot be revoked by the employer for all employees.

The return on long-term assets corresponding to plan assets and insurance policies linked to pensions has been determined by applying the same technical interest rate used in actuarial assumptions (0.75% in 2019).

### 1.3.17 Transactions in foreign currency

The Bank's functional and presentation currency is the euro. Consequently, all balances and transactions denominated in currencies other than the euro are treated as denominated in a foreign currency.

On initial recognition, debit and credit balances denominated in foreign currency are translated to the functional currency at the spot exchange rate, defined as the exchange rate for immediate delivery, on the recognition date. Subsequent to the initial recognition, the following rules are used to translate foreign currency balances to the functional currency:

- Monetary assets and liabilities are translated at the closing rate, defined as the average spot exchange rate at the end of the reporting period.

- Non-monetary items measured at historical cost are translated at the exchange rate ruling on the acquisition date.

- Non-monetary items measured at fair value are translated at the exchange rate ruling on the date on which the fair value was determined.

- Income and expenses are translated at the exchange rate ruling at the transaction date.

In general, exchange differences arising on the translation of debit and credit balances denominated in foreign currency are recognised in the income statement. However, for exchange differences arising on non-monetary items measured at fair value where the fair value adjustment is made and recognised under the heading *"Accumulated other comprehensive income"* in the statement of equity, a breakdown is given for the exchange rate component of the remeasurement of the non-monetary item.

### 1.3.18 Recognition of income and expense

*Interest income and expense and other similar items*

Interest income and expense and other similar items are generally accounted for over the period in which they accrue using the effective interest rate method, under the headings *"Interest income" or "Interest expense"* of the income statement, as applicable. Dividends received from other entities are recognised as income at the time the right to receive them originates.

*Commissions, fees and similar items*

Generally, income and expense in the form of commissions and similar fees are recognised in the income statement based on the following criteria:

- Those linked to financial assets and financial liabilities measured at fair value through profit or loss are recognised at the time of disbursement.

- Those related to transactions carried out or services rendered over a given period of time are recognised throughout that period.

- Those related to a transaction or service that is carried out or rendered in a single act are recognised when the originating act takes place.

Financial fees and commissions, which form an integral part of the effective cost or yield of a financial transaction, are accrued net of associated direct costs and recognised in the income statement over their expected average life.

Assets managed by the Bank but owned by third parties are not included in the balance sheet. Fees generated by this activity are recognised under the heading *"Fee and commission income"* in the income statement.

*Non-financial income and expense*

These items are recognised in the accounts upon delivery of the non-financial asset or upon the provision of the non-financial service. To determine the carrying amount and when this item should be recognised, a model is used that consists of five steps: identification of the contract with the customer, identification of the separate obligations of the contract, calculation of the transaction price, allocation of the transaction price to the identified obligations and, lastly, recognition of the revenue when, or as, the obligations are settled.

*Deferred payments and collections*

Deferred payments and collections are accounted for at the carrying amount obtained by discounting expected cash flows at market rates.

*Levies*

For levies and tax obligations whose amount and date of payment are certain, the obligation is recognised when the event that leads to its payment takes place in line with the legislative terms and conditions. Therefore, the item to be paid is recognised when there is a present obligation to pay the tax.

*Deposit guarantee fund*

The Bank is a member of the Deposit Guarantee Fund. In 2019, the Management Committee of the Deposit Guarantee Fund of Credit Institutions, in accordance with that established in Royal Decree Law 16/2011 and Royal Decree 2606/1996, set the contribution for all entities covered by the Fund's deposit guarantee at 0.18% of the amount of the deposits guaranteed as at 30 June 2019 (0.18% of the amount of deposits guaranteed as at 30 June 2018 in 2018). Each entity's contribution is calculated based on the amount of deposits guaranteed and its risk profile, taking into account indicators such as capital adequacy, asset quality and liquidity, which have been defined in Bank of Spain Circular 5/2016 of 27 May. Furthermore, the contribution to the securities guarantee offered by the Fund has been set at 0.2% of 5% of the amount of the securities guaranteed as at 31 December 2019 (0.2%f 5% of the amount of the securities guaranteed as at 31 December 2018 in 2018). In accordance with current regulations, the transaction is recognised whenever there is a payment obligation, recorded as at 31 December each year (see Note 29).

*Single Resolution Fund*

Law 11/2015 of 18 June, together with its implementing regulation through Royal Decree 1012/2015, entailed the transposition into Spanish law of Directive 2014/59/EU. This Directive established a new framework for the resolution of credit institutions and investment firms, and it is also one of the standards that have contributed to the establishment of the Single Resolution Mechanism, created through Regulation (EU) No 806/2014. This regulation sets out standard rules and procedures for the resolution of credit institutions and investment firms within the framework of a Single Supervisory Mechanism and a Single Resolution Fund at European level.

As part of the implementation of this regulation, on 1 January 2016 the Single Resolution Fund entered into effect, to operate as a financing instrument which the Single Resolution Board can use. The Single Resolution Board is the European authority that makes decisions on the resolution of failing banks, in order to efficiently undertake the resolution measures that have been adopted. The Single Resolution Fund receives contributions from credit institutions and investment firms subject to the same.

The calculation of each entity's contribution to the Single Resolution Fund, governed by Regulation (EU) 2015/63, is based on the proportion that each entity represents with respect to the aggregate total liabilities of the Fund's member entities, after deducting own funds and the guaranteed amount of the deposits. The latter is then adjusted to the entity's risk profile (see Note 29). The obligation to contribute to the Single Resolution Fund accrues on 1 January of each year.

### 1.3.19 Corporation tax

Corporation tax and similar taxes applicable to foreign branches and offices is considered to be an expense and is recognised under the heading *"Tax expense or income related to profit or loss from continuing operations"* in the income statement, except when it arises as a result of a transaction that has been directly recognised in the statement of equity, in which case it is directly recorded in the latter.

The total corporation tax expense is equivalent to the sum of current tax, calculated by applying the relevant levy to taxable income for the year (after applying fiscally admissible deductions and benefits), and the variation in deferred tax assets and deferred tax liabilities recognised in the income statement.

Taxable income for the year may be at variance with the income for the year as shown in the income statement, as it excludes items of income or expenditure that are taxable or deductible in other years as well as items that are non-taxable or non-deductible.

Deferred tax assets and deferred tax liabilities relate to taxes expected to be payable or recoverable arising from differences between the carrying amount of the assets and liabilities appearing in the financial statements and the related tax bases ("tax value"), as well as tax losses carried forward and unused tax credits that might be offset or applied in the future. They are calculated by applying to the relevant timing differences or tax credits the tax rate at which they are expected to be recovered or settled (see Note 35).

A deferred tax asset such as a tax prepayment or a credit in respect of a tax deduction or tax benefit, or a credit in respect of tax-loss carry-forwards, is always recognised provided that the tax group is likely to obtain sufficient future taxable profits against which the tax asset can be realised, and that these are not derived from the initial recognition (except in a business combination) of other assets and liabilities in an operation that does not affect either the tax result or the accounting result.

Deferred tax assets arising due to deductible timing differences arising from investments in subsidiaries, branches and associates, or from equity interests in joint ventures, are only recognised insofar as that difference is expected to be reverted due to the dissolution of the company.

Deferred tax liabilities arising from timing differences associated with investments in subsidiaries and associates are recognised in the accounts unless the Bank is capable of determining when the timing difference will reverse and, in addition, such a reversal is unlikely.

The "*Tax assets*" and "*Tax liabilities*" on the balance sheet include all tax assets and tax liabilities, differentiating between current tax assets/liabilities (to be recovered/paid in the next 12 months) and deferred tax assets/liabilities (to be recovered/paid in future years).

At each year-end closing, recognised deferred tax assets and liabilities are reviewed to ascertain whether they are still current and to ensure that there is sufficient evidence of the likelihood of generating future tax profits that will allow them to be realised, in the case of assets, by applying relevant adjustments as necessary.

To conduct the aforementioned analysis, the following variables are taken into account:

- Forecasts of results of the Spanish tax group and of the other entities, based on the financial budgets approved by the Bank's administrators for a five-year period, subsequently applying constant growth rates similar to the mean long-term growth rates of the sector in which the various companies of the Group operate;

- Estimate of the reversal of timing differences on the basis of their nature;

- The period or limit set forth in current legislation in each country for the reversal of the different tax assets.

Income or expenses recognised directly in the statement of equity that do not affect profits for tax purposes, and income or expenses that are not recognised directly and do affect profits for tax purposes, are recorded as timing differences.

Banco Sabadell Group companies included in Spain's consolidated tax regime for Corporation Tax are listed in Schedule I. Therefore, the amount of this tax in the year has been calculated bearing in mind this circumstance and it will be paid to Banco de Sabadell S.A., as the parent company of the group, settling this consolidated tax with the tax authority.

#### 1.3.20 Cash flow statements

The cash flow statement includes certain items which are defined as follows:

- Cash flows: inflows and outflows of cash and cash equivalents, where 'cash equivalents' are short-term, highly liquid investments with a low risk of changes in value. For these purposes, in addition to cash, deposits held with central banks and demand deposits held with credit institutions are also classified as cash components or equivalents.

- Operating activities: typical day-to-day activities of the Bank and other activities that cannot be classified as investment or financing activities.

- Investment activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents or in operating activities.

- Financing activities: activities that result in changes in the size and composition of equity and of liabilities that do not form part of operating activities.

No situations requiring the application of significant judgements to classify cash flows have arisen during the year.

There have been no significant transactions that have generated cash flows not reflected in the cash flow statement.

### 1.4 Comparability

The information presented in these annual financial statements for 2018 is provided solely and exclusively for purposes of comparison with the information for the year ended 31 December 2019 and therefore does not constitute the Bank's annual financial statements for 2018.

In accordance with the first transitional provision of Bank of Spain Circular 2/2018, the Bank has opted not to restate the comparative information of 2018 by applying the classification and measurement criteria set in forth in the aforesaid Circular, instead recognising, as at 1 January 2019, the accumulated impact arising from the entry into force of the aforementioned regulation on the financial statements. This impact is disclosed in the section "Implementation of Circular 2/2018 – Leases" of this note.

## Note 2 – Shareholder remuneration and earnings per share

Set out below is the distribution of 2019 Banco de Sabadell, S.A. profits which the Board of Directors will propose to the shareholders at the Annual General Meeting for approval, together with the proposed distribution of Banco de Sabadell S.A.'s 2018 profits, which was approved by shareholders at the AGM on 28 March 2019.

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| To dividends | 223,356 | 167,008 |
| To Canary Island investment reserve | 1,174 | 383 |
| To voluntary reserves | 828,737 | 372,475 |
| **Profit for the year of Banco de Sabadell, S.A.** | **1,053,267** | **539,866** |

The Board of Directors will submit a proposal at the Annual General Meeting for the distribution of a gross dividend of 0.04 euros per share for 2019.

On 24 October 2019, the Board of Directors agreed to distribute an interim dividend of the 2019 earnings amounting to 110,817 thousand euros (0.02 euros gross per share), paid out on 24 December 2019. It was decided that the amount of the interim dividend net of the corresponding tax withholding (0.0162 euros per share) would be paid through (i) the remittance of the Bank's own shares valued at the simple arithmetic average of their weighted average prices on Spain's electronic trading system in the trading sessions between 11 and 17 December 2019, inclusive (the "Reference Price"), up to a distributed maximum of 90 million shares and (ii) if insufficient, a cash amount up to supplementing this net amount.

The Reference Price of Banco Sabadell shares was 1.0725 euros and the interim dividend was settled by delivering one Banco Sabadell share to shareholders for every 66.20368225 shares held. The fractions of shares lower than the unit which the shareholders were entitled to receive in accordance with the above ratio were settled in cash, applying the Reference Price. Shareholders whose depository institutions accredited in good time and in an appropriate manner their right to exemption from withholding or the application of a reduced rate of withholding have been paid the corresponding amount in cash.

Pursuant to Article 277 of the Spanish Capital Companies Act, the forward-looking accounting statement prepared as a mandatory requirement to demonstrate the existence of sufficient liquidity and profit at the Bank at the time of approving the interim dividend is shown below:

Thousand euro

| **Available for the payment of dividends according to the interim statement at:** | **30/09/2019** |
|---|---|
| Banco Sabadell profit as at the date indicated, after provisions for taxes | 823,429 |
| Estimated statutory reserve | - |
| Estimated Canary Island investment reserve | 361 |
| Maximum amount available for distribution | 823,068 |
| Interim dividend proposed | 110,688 |
| Cash balance at Banco de Sabadell, S.A. available (*) | 11,955,899 |

(*) Includes the balance of the heading "Cash, cash balances at central banks and other demand deposits".

The Annual General Meeting, held on 28 March 2019, approved a shareholder remuneration, supplementary to the dividend corresponding to 2018, of 0.01 euros per share (56,270 thousand euros), which was paid on 5 April 2019. Previously, in December 2018, shareholders received remuneration in the form of a dividend of 0.02 euros per share, charged to the income statement for 2018, which was paid on 28 December 2018.

Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by remuneration in 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:

| | 2019 | 2018 |
|---|---|---|
| Profit or loss attributable to owners of the parent (thousand euro) | 767,822 | 328,102 |
| Adjustment: Remuneration of other equity instruments (thousand euro) | (73,250) | (51,275) |
| Profit or (-) loss after tax from discontinued operations (thousand euro) | - | - |
| Adjusted net profit attributable to the owners of the parent company (thousand euros) | 694,572 | 276,827 |
| Weighted average number of ordinary shares outstanding (*) | 5,538,122,771 | 5,564,718,978 |
| Conversion undertaken of convertible debt and other equity instruments | - | - |
| Adjusted weighted average number of ordinary shares outstanding | 5,538,122,771 | 5,564,718,978 |
| Earnings per share (euro) | 0.13 | 0.05 |
| Basic earnings per share adjusted for mandatory convertible bonds (euro) | 0.13 | 0.05 |
| Diluted earnings per share (euro) | 0.13 | 0.05 |

(*) Average number of shares outstanding, excluding the average number of own shares held in treasury stock during the year.

As at 31 December 2019 and 2018, there were no other share-based financial instruments or commitments to employees with a material 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

During 2019, 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 performance of its activities, good management of these risks is a key part of the business. In this regard, a set of principles has been defined, translated into policies and deployed in 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 environment of uncertainty. This set is called the Global Risk Framework.

In its management of risks, the Group considers the macroeconomic environment and the regulatory environment. The most significant aspects of 2019 are set out below:

- Political and geopolitical issues have once again conditioned the international economic and financial environment.
- The trade war between the United States and China has led to an increase in tariffs. Tensions have also become evident in the technological field.
- Brexit did not materialised during 2019. Boris Johnson's big electoral win makes it easier for the UK to leave the EU on 31 January 2020.
- The global economy has weakened in this environment of uncertainty, recording the lowest growth since the financial crisis.
- The manufacturing sector and business investment have been the hardest hit by the trade war, while services have been more resilient.
- Spain has experienced a growth performance similar to that of the previous year, with an increase in the year of around 2% per year.
- In the United Kingdom, activity has recorded reduced growth, affected by the uncertainty surrounding Brexit.

- In Mexico, the economy has stagnated, influenced by uncertainty over domestic policy and the slow execution of expenditure by the government.
- Risk assets have performed positively, supported by the shift towards a more accommodating monetary policy from the developed countries' Central Banks.
- In September, the ECB approved a comprehensive stimulus package (borrowing interest rate cut, resumption of the asset purchase programme, etc.)
- The Fed lowered interest rates as an insurance against global risks, held liquidity auctions and initiated a Treasury bill purchase program to combat money market stress.
- German long-term government bond yields returned to negative figures for the first time since 2016, influenced by the degree of uncertainty and the ECB policy.
- Sovereign risk premiums of the European periphery have narrowed, influenced by the ECB's new accommodating measures and the new Italian government.
- The euro has depreciated against the dollar, influenced by economic weakness in the euro zone and trade tensions.
- The pound has remained sensitive to Brexit and has appreciated against the euro with the British Parliament's rejection of a no-deal Brexit and Boris Johnson's search for a deal.
- As regards the financial markets of emerging economies, the accommodating shift of the Central Banks of the main developed countries has been a supporting factor.
- The European banking system has held its solvency and continued making progress in reducing its NPL ratio.
- Progress in the Banking Union and the Capital Markets Union has been limited due to the electoral scenario in the EU. The main milestones have been the adoption of the reform of the single rule book, the agreement on the resolution framework and the roll-out of the Sustainable Finance Action Plan.
- The use of macro-prudential policy has intensified in the face of accumulated financial vulnerabilities in an environment of an accommodating monetary policy.
- In the regulatory and supervisory framework, the work related to the reform of benchmarks and the increasing attention by Central Banks and supervisors to the consequences of climate change on the banking sector are noteworthy.

*Brexit*

The Group has considered the potential developments and consequences of Brexit in its macroeconomic and financial scenarios. The United Kingdom will maintain the trade and regulatory status quo during the transition period. The UK will also continue to bear the economic costs of the uncertainty associated with the negotiating process of the new relational framework with the EU. The scenario also considers the relocation of some services, particularly financial services. The baseline scenario considers that the Brexit process takes place in an orderly manner following a trade agreement with the EU.

The Group also works with risk scenarios in which the UK's exit from the EU ends up being disorderly, generating significant impacts on the UK economy. The Spanish economy would also be significantly affected given the existing trade, tourism and investment links with the United Kingdom. The most stressed scenario is aligned with those established by the Bank of England for stress tests of financial institutions.

Other than the impacts on the actual economy, TSB's exposure to Brexit is relatively limited, given the domestic nature of its activities. From an operational point of view, it does not show any vulnerability in terms of existing contracts with counterparties, cross dependency on financial market infrastructures, reliance on funding markets, etc. As such, it is worth noting that TSB has a low risk profile, with one of the most robust capital positions in the UK (fully-loaded CET1 capital ratio of 20.4%), an evenly distributed balance sheet between loans and deposits (loan-to-deposit ratio of 103%), as well as a loan portfolio in which over 90% of loans are secured with a mortgage. The quality of this mortgage portfolio is also very high, with an average LTV of 44%, and it has a relatively low exposure to London and high-risk segments.

In 2019, the Bank has carried out an analysis of the recoverability of the invested capital, based on the business plan approved by TSB's Board and presented to analysts and investors last November. The result of this analysis shows that there are no indications of impairment of this investment, as detailed in Note 15.

## 3.2 Key milestones during the year

### 3.2.1 Improvement of the Group's risk profile during the year

The Group's risk profile during 2019 has mainly improved for the following reasons:

**(i) Reduction of non-performing assets:**

- Reduction of the NPA ratio from 5.6% to 4.8% in year-on-year terms, additionally bringing the net NPA to total asset ratio to 1.7% and virtually eliminating non-performing real estate exposure from the Group's balance sheet.
- Furthermore, the Group's NPL ratio fell to 3.83% from 4.22% in December 2018.

**(ii) Concentration**

- From a sectoral point of view, the portfolio is well diversified with an upward trend in sectors with higher credit quality. Reduction of real estate exposures (its weight is one third of that of 2014).
- In terms of individual concentration, concentration risk metrics of large exposures have also been reduced, while the credit rating in the TOPs composition has improved.
- In geographical terms, the portfolio is positioned in the most dynamic regions, both nationally and internationally.
- International risk continues to account for almost a third of the loan portfolio, with year-on-year increases in all relevant regions (Mexico +7.9%, TSB +3.2% and foreign branches +16.2%).

**(iii) TSB lending performance:**

- Positive lending performance at TSB in the second half of the year, recovering the year-on-year growth path. Net lending grew due to the high volume of mortgage applications received, which resulted in increased agreements.
- Loan recovery maintaining the low risk profile (more than 94% in retail mortgages with average LTV of 44%), while improving the portfolio composition by reducing exposures in the Interest Only and Buy to Let portfolios.
- In November 2019, TSB presented its new strategic plan (2019-2022), with the aim of improving profitability, increasing lending, its commitment to digital transformation, as well as increasing the Bank's profits and improving the customer experience.

**(iv) Improvement of the capital position:**

- Improvement in the (fully-loaded) CET1 ratio which stands at 11.7% at the end of 2019, as a result of significant organic capital generation.
- The Total Capital ratio ended 2019 at 15.0% and the Leverage ratio improved from 4.54% to 4.75% year-on-year.

**(v) Robust liquidity position:**

- At the end of 2019, the LCR stood at 172% and the Loan-to-Deposit (LtD) ratio stood at 99%.
- The Group met the MREL requirement at the end of the year. This ratio stood above regulatory requirements.

The improvement in the Group's fundamentals, mainly in terms of risk, is reflected in the Investment Grade consideration by all the agencies that rate its debt (see Directors' Report - Section 1.4 Banco Sabadell shares and shareholders - Credit Rating Management).

### 3.2.2 Strengthened credit risk management and control environment

*Planning and control of existing and new stock*

During 2019, the risk management and control environment has been further strengthened by preparing and deploying credit risk management and control frameworks for certain portfolios, sectors and regions, providing a powerful tool that allows the Global Risk Framework to be implemented and guides the growth of lending, seeking to optimise the duality between long-term profitability and risk.

Each of these frameworks defines the Group’s risk appetite in each sector or portfolio and the requirements to achieve them, establishing:

- Asset allocation, setting the growth targets in each key pillar (quality, type, etc.).
- General criteria that should govern activity in each portfolio, sector or region.
- Basic policies for the approval and monitoring of loans and credit.
- Risk monitoring and control metrics (for both existing and new stock).

Lastly, the set of management and control frameworks, together with ongoing planning and management, allow portfolio performance to be anticipated, enabling the Group to guide the growth in a way that is profitable in the long term.

*Asset Allocation/Sectoral Strategic Debate*

The Sectoral Strategic Debate arises in the environment of the Risk Appetite Framework (RAF) and the Risk Appetite Statement (RAS), and is one of the key developments that have taken place since 2014 with the creation of the Sectoral Risk Management and Control model of Banco Sabadell Group.

As a result of this initial development, the following steps were taken:

- Definition and calculation of key metrics to monitor and manage sectoral concentration risk and their subsequent incorporation into the RAS as first-tier metrics.
- Generation of a correlated sectorisation model, grouping sectors with an outlook focused on risk management.

In this context, a decision was made to create a mechanism that would allow all of the current outlooks of the Group in relation to sectoral risk to be integrated. This determined the need to promote a Sectoral Strategic Debate in order to establish the Group’s sectoral asset allocation strategy, integrating to this end the various existing outlooks within the organisation in relation to the various economic activity sectors.

The project pursues the following objectives:

- Obtain the Group’s sectoral strategic outlook.
- Detect growth opportunities, as well as undesirable scenarios.
- Define mechanisms to achieve the agreed objectives.

*Pricing system that guarantees alignment with credit risk*

Pricing process in which prices are assigned on the basis of the cost, risk and capital allocated at transaction level, which is particularly important in the current environment of very competitive pricing.

The Group uses Risk adjusted Return on Capital (RaRoC) as a key risk screening factor to ensure the existence of a framework that measures return on the basis of risks and that contributes a coherent outlook of profitability among the various portfolios.

*Improvement of monitoring environment*

In 2019, the Group has continued to strengthen its customer credit risk monitoring environment, incorporating the sectoral strategic outlook into the monitoring environment and using this outlook on a forward-looking basis in order to anticipate customers' needs. The early warnings system is incorporated into management procedures through a monitoring environment that allows different strategies to be implemented depending on the segment (individuals, retailers and self-employed professionals, and corporates).

The main input used in this monitoring environment is taken from the early warning models adapted to different segments. This leads to:

- Improved efficiency by focusing monitoring activities on customers with signs of impairment.
- Forward-looking management when there are signs of deterioration, in which the Basic Management Team is responsible for renewing the rating of customers in which there has been an impairment.
- Regular monitoring of customers whose situation remains unchanged and who have been analysed by the Basic Management Team.
- Feedback using the information provided by the Basic Management Team as a result of this management.

## 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, evaluation, monitoring and control of the various risks to which the Group is exposed. With the Global Risk Framework, the Group aims to:

- Tackle risk through a structured and consistent approach throughout the Group.
- Foster an open and transparent culture with regard to risk management and control, promoting the involvement of the entire organisation.
- Facilitate the decision-making process.
- Align the accepted risk with 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 relevant 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 pillars for the risk management and control activities of Banco Sabadell Group. 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 develops a general framework for the establishment of other policies related to risk management and control, determining core/common aspects which are applicable to the different risk management and control policies.

When implementing the Global Risk Framework to all Group's business lines and entities, proportionality criteria are taken into account in relation to the size, 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 from the Board of Directors through the three lines of defence model, among others.

The risk governance established in the various policies that form part of the Global Risk Framework promotes a solid organisation of risk management and control, categorising it, defining limits and establishing clear responsibilities at all levels of the organisation through policies, procedures and manuals for each risk.

Banco de Sabadell, S.A. Board of Directors 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 questioning and monitoring and strategic planning of the Group and the supervision of the management of relevant risks and the alignment thereof with the profile defined by the Group.

Similarly, the equivalent bodies of the Group's various subsidiaries maintain the same level of involvement in risk management and control at local level.

- Alignment with the Group's business strategy, especially through the implementation of 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 should contribute to the achievement of objectives and improve medium-term performance. Therefore, it is integrated into 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 to the risk profile.

Corporate culture and values are a key element as they reinforce ethical and responsible behaviour by all members of the organisation.

Accordingly, 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, and 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 mentioned aspects, understanding that this favours an adequate risk-taking, facilitates the identification and management of emerging risks and promotes employees to carry out their activities and develop the business in a legal and ethical manner.

- A holistic view of risk that translates into the definition of the taxonomy of first- and second-tier risks by their nature; and

The Global Risk Framework, through the set of documents that comprise it, contemplates a holistic view of risk: it includes all risks, with special 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 disseminates relevant information to the public, so that market participants can maintain an informed opinion on the suitability of the management and control framework for these risks, thus ensuring transparency in risk management.

Likewise, risk management and control ensure that the interests of the Group and its shareholders are protected at all times.

### 3.3.2 Risk Appetite Framework (RAF)

Risk appetite is a key element in determining risk strategy, since it defines the scope of action. The Group has a Risk Appetite Framework (RAF) that sets out the governance framework governing Risk Appetite.

Consequently, the RAF establishes the structure and mechanisms associated with the governance, definition, communication, management, measurement, monitoring and control of the Group's Risk Appetite established by Banco de Sabadell, S.A. Board of Directors.

The RAF's effective implementation requires an adequate combination of policies, processes, controls, systems and procedures which enable a set of defined objectives to be achieved, and to do so effectively and continuously.

The RAF covers all the Group's business lines and units, in accordance with the principle of proportionality, and must enable adequately informed decision-making, taking into account the relevant 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, self-assessment of capital and liquidity, the Recovery Plan and the remuneration framework, among others, and takes into account the material risks to which the Group is exposed, as well as their impact on stakeholders, such as shareholders, customers, investors, employees and the general public.

### 3.3.3 Risk Appetite Statement (RAS)

The Risk Appetite Statement (RAS) is the written articulation of the types of risks the Group is willing to accept, or wishes to avoid, in order to achieve its business objectives. Depending on the nature of each risk, the RAS includes both qualitative and quantitative metrics, which are expressed in terms of capital, asset quality, liquidity, profitability or any other relevant measure. The RAS is therefore a key element in determining risk strategy, since it determines the scope of action.

RAS' qualitative aspects

The Group's RAS incorporates the definition of a set of qualitative aspects, which fundamentally allow the definition of the Group's position against certain risks when these are difficult to quantify.

These qualitative aspects complement the quantitative metrics, establish the overall tone of the Group's risk-taking approach and articulate the motivations for taking or avoiding certain types of risks, products, geographic exposures or others.

RAS' quantitative aspects

The set of quantitative metrics defined in the RAS are intended to provide objective elements of comparison of the Group's situation with respect to 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 mechanisms for approval, monitoring and acting in the event of breaches of thresholds.

In order to gradually detect likely situations of deterioration in the risk position and thus be able to better monitor and control them, the RAS articulates a system of thresholds associated with the quantitative metrics. These thresholds reflect the desirable levels of risk by metric, as well as the levels to be avoided –their breach may trigger the activation of adjustment plans aimed at redirecting the situation.

The articulation of the different thresholds is graduated according to the severity, which allows the execution of preventive actions before reaching excessive levels. Setting all or only part of the thresholds for a given metric will depend on its nature and its hierarchy within the RAS metrics structure.

### 3.3.4 Specific policies for the different relevant risks

The set of policies for each of the risks, together with the operating and conceptual Procedures and Manuals that form part of the body of regulations of the Group and its subsidiaries, are tools on which the Group and subsidiaries rely to develop more specific aspects of each of the risks.

For each of the Group's significant 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.

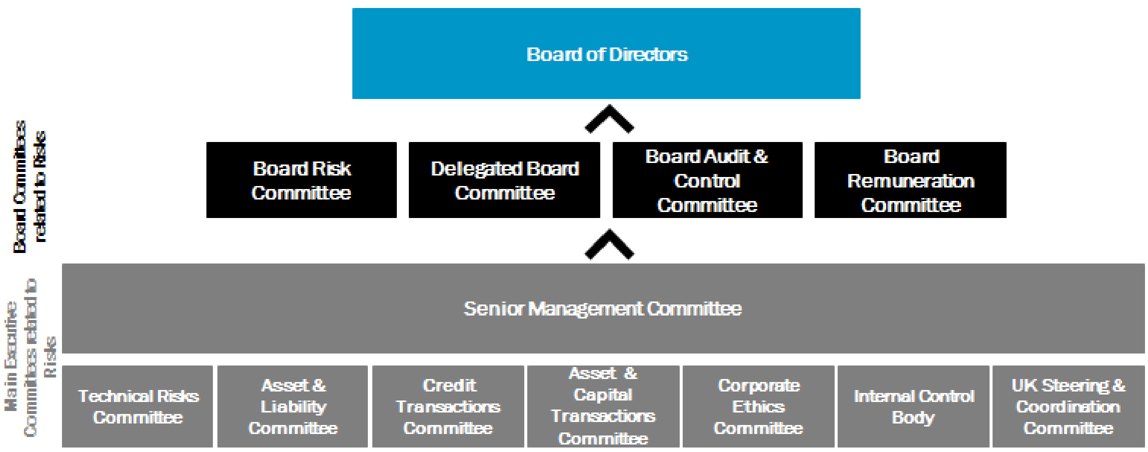
### 3.3.5 Overall organisation of the risk function

Governance structure

Banco de Sabadell, S.A. Board of Directors is the body responsible for establishing the general guidelines on the organisational distribution of the risk management and control functions, as well as determining the main strategic lines 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 capacity and remuneration programmes and policies.

Banco de Sabadell, S.A. Board of Directors is also responsible for approving the Group's Global Risk Framework.

In addition, within the Board of Directors of Banco de Sabadell, S.A. itself, there are four Committees involved in the Group's Global Risk Framework and, therefore, in risk management and control (the Delegated Committee, the Board Risk Committee, the Remuneration Committee and the Audit and Control Committee). Likewise, various Committees and Divisions are significantly involved in the risk function.



The governance structure defined aims to ensure the appropriate development and implementation of the Global Risk Framework and, therefore, of the risk management and control activity within the Group, while at the same time it aims to facilitate:

- Participation and involvement in risk decisions, and also in their supervision and control, of the Group's management bodies and Senior Management.
- Alignment of objectives at all levels, monitoring of their fulfilment and implementation of corrective measures when 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 three lines of defence model. This model is developed, for each of the risks, in the various policies that make up the Group's regulatory body, where specific responsibilities for each of the three lines of defence are established.

For each of the lines of defence, the set of risk policies describes and assigns responsibilities, as appropriate, to the following functions (or additional ones to be considered):

- First line of defence: responsible for maintaining sufficient and effective internal controls and implementing corrective actions to remedy 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 targets and objectives;

    - Implementing adequate management and oversight processes to guarantee regulatory compliance and which focus 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 management and control framework.

    - Guiding and ensuring the implementation of risk policies, defining responsibilities and objectives for their effective implementation.

    - Overseeing the development 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 development of its businesses.

    - Analysing and comparing existing and potential incidents by reviewing available information.

    - Ensuring that the models work as expected and that the results obtained from them are appropriate to their various uses, both internal and regulatory.

    - Promoting and pursuing the highest possible levels of compliance with current legislation and professional ethics within the Group.

    - Guaranteeing both the continuity of ordinary business activities and the security of the information on which such activities are based.

- Third line of defence: it helps the Group to achieve its objectives by providing a systematic, disciplined approach to assess the sufficiency and effectiveness of the organisation's governance processes and its risk management and internal control activities.

## 3.4 Management and monitoring of the main significant risks

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 2019:

### 3.4.1 Strategic risk

Strategic risk is associated with the risk of losses or negative impacts resulting from strategic decisions or their subsequent implementation. It also includes the inability to adapt the Group's business model to the evolution of the environment in which it operates.

The Group develops a Strategic Business Plan which sets out the institution's strategy over a certain period of time (currently 2018-2020). In addition, the Plan is periodically monitored in order to study the Group's most recent performance and the environment, as well as the risks taken. This projection is carried out on the basis of the most likely economic scenario for the key regions (baseline scenario), and it is also included in the ICAAP as a baseline scenario. The economic scenario is described in terms of the key risk factors impacting the Group's income statement and balance sheet.

The projection exercises of the Strategic Business Plan and its monitoring are integrated into management procedures, as they set out the key aspects of the Group's strategy in the medium and long term. The Plan is prepared at business unit level, on the basis of which the Group manages its activities, and annual profit and loss is also assessed in terms of compliance with the target risk appetite.

In addition, it is worth noting that in November, TSB presented its new strategic plan (2019-2022), with the aim of improving profitability, increasing lending, its commitment to digital transformation, as well as increasing the Bank's profits and improving the customer experience.

Strategic risk includes the management and control of four risks:

- 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 its 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.

- Environmental risk: this is the risk associated with "physical environmental factors" related to adverse weather events (such as floods or heat waves) or changes in the weather over the long-term (such as rising sea levels) or "environmental transition factors" arising from the processes of transitioning towards a low-emission economy (such as regulatory changes, the emergence of disruptive technologies, etc.).

3.4.1.1 Solvency risk

The CET1 ratio has performed positively throughout 2019. It stood at 11.7% (fully-loaded) at the end of 2019, as a result of significant organic capital generation.

The Total Capital ratio also performed along these lines, standing at 15.0% in December 2019. Likewise, the Leverage ratio stood at 4.75% as at December 2019 compared to 4.54% in the previous year.
As at 31 December 2019, Banco Sabadell's phased-in CET1 capital ratio stood at 12.5% and the Total Capital ratio at 15.7%.

Banco Sabadell exceeds the limits required by the European Central Bank in the decision it sent to the Group in December 2019 and which are applicable to it for 2020. Therefore, Banco Sabadell has no limitations on distributions of dividends, variable remuneration and coupon payments to holders of AT1 capital instruments.

The current levels of solvency show that Banco Sabadell is generally in compliance with capital levels in terms of regulatory requirements.

Furthermore, Banco Sabadell complies with the minimum MREL requirement, which coincides with supervisory expectations and is in line with its funding plans.

For further details on own funds and capital management, see Section 5 of the consolidated annual financial statements.

3.4.1.2 Business risk

The strength of the Group's banking business revenues, despite the interest rate environment, continues to evolve positively, growing 1% year-on-year. In terms of fee income, there was a good year-on-year performance with growth of 7.7%, driven by service fees. As a result, the profit obtained at the end of December 2019 was 768 million euros and the ROE was solid at 5.9%.

At the same time, it was possible to carry out actions that lay the foundations for greater future profitability based on the growth of core revenues, mainly by promoting digitalisation and divestment in non-strategic businesses.

In addition, as part of the strategy, the Group has sped up the digital transformation process, increasing both the volume of customers and the number of digital sales throughout 2019. In Spain, the launch of the NOMO application to help self-employed individuals manage their finances, and the partnership with SQUARE in the UK to facilitate card payments for customers in TSB's business segment are noteworthy.

Finally, it is worth noting the improvement in TSB's recurring profit envisaged in the strategic plan disseminated to the market, which will stand between 130 million and 140 million pounds in 2022. At these levels, TSB's ROE will be close to 7%. The Bank also plans to increase and diversify its loan portfolio, with a net annual increase of 5% over the next three years. Cost savings, after absorbing the impact of amortisation of investments, will reach around 100 million pounds, which will help to improve its cost-to-income ratio by 15 percentage points.

3.4.1.3 Reputational risk

With regard to reputational risk, Banco Sabadell continues to maintain its competitive advantage by excelling in service quality. Accordingly, the service quality index has performed positively throughout 2019, and is above the average for the sector. In addition, the Group has consolidated its top position in the NPS ranking for the SME segment, while it is second in the ranking for Corporates and Personal Banking segments.

Similarly, TSB's NPS continued to improve during the year and especially the mobile NPS, which is practically at pre-migration levels.

3.4.1.4 Environmental risk

Climate change has led to the identification of new sources of financial risk to which the regulatory and supervisory community is paying greater attention. Consequently, and in line with the trend in the sector, Banco Sabadell has started a project to deepen the management and control of environmental risk.

As part of this, in September 2019 Banco Sabadell became one of the founding signatories to the Principles of Responsible Banking, committing itself to strategically align its business with the Sustainable Development Goals and the Paris Agreement on Climate Change. By signing the Principles of Responsible Banking, Banco Sabadell joined a coalition of 130 banks worldwide, representing more than 47 trillion dollars in assets, which are committed to playing a crucial role in achieving a sustainable future.

Banco Sabadell's growing commitment to promoting more sustainable energy models is reflected in the increase in investment in renewable energy projects throughout 2019.

### 3.4.2. Credit risk

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 deterioration of borrowers' creditworthiness.

#### *3.4.2.1 Credit risk management framework*

*Acceptance and monitoring*

Credit risk exposures are rigorously managed and monitored through regular assessments of borrowers' creditworthiness and their ability to honour their payment obligations undertaken with the Group, adjusting the exposure limits for each counterparty to levels that are deemed to be acceptable. It is also normal practice to mitigate credit risk exposures by requiring borrowers to provide collateral or other guarantees to the Bank.

The Board of Directors grants powers and discretions to the Delegated Committee to allow the latter to delegate responsibilities to different decision-making levels. The implementation of authority thresholds in credit approval management systems ensures that the conferral of powers established at each level is linked to the expected loss calculated for each transaction requested.

To optimise the business opportunities provided by each customer and guarantee an appropriate level of security, responsibility for accepting and monitoring risks is shared between the account manager and the risk analyst who, by maintaining effective communication with the corresponding units, are able to obtain a comprehensive (360°) and forward-looking view of each customer's individual circumstances and needs.

The account manager monitors the business aspect through direct contact with customers and by handling their day-to-day banking activities, whilst the risk analyst takes a more system-based approach making use of their 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 corporate borrowers and credit scoring systems for retail customers, as well as early warning indicators for monitoring risk. These are integrated into a single tool that provides a comprehensive and forward-looking view of customers.

The analysis of indicators and early warnings, in addition to credit rating reviews, allows 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 by enabling a proactive policy to be devised based on a preliminary 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 the deterioration of credit quality. In general, this monitoring is based on early warnings systems at both transaction/borrower level and at portfolio level, and both systems use the firm's internal information and external information in order to obtain results. The 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 (increased 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, based on risks in excess of a set limit and predicted default rates, groups or categories are established to be treated individually. These warnings are additionally managed by the account manager and the risk analyst.

*NPA risk management*

Generally, during stages of weakness in the economic cycle, debt refinancing and restructuring are the main risk management techniques used. The Bank's objective, when faced with debtors or 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 availability of a sufficiently detailed compliance record for 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.

- Refinancing and restructuring conditions based on a realistic repayment schedule which is in line with the borrower's current and expected repayment capacity, preventing issues being put off until a later date.

- If new guarantees are provided, these must be regarded as a secondary and exceptional means for recovering the debt, so as to avoid adversely affecting existing means. All ordinary interest accrued must always be paid up to the refinancing date.

- A maximum length is applied to grace periods.

The Group continually monitors compliance with the agreed terms and conditions 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 of 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 carries out internal approval functions, depending on the levels of materiality of the risks, and which also monitors internal credit risk models.

Banco Sabadell Group also has an advanced NPA risk management model in place to manage the impaired assets portfolio. The purpose of managing NPA risk is to identify the best solution for the customer upon detecting the first signs of impairment, whilst reducing the entry into default of customers with financial difficulties, ensuring intensive management and avoiding downtime between the different phases.

For further quantitative information, see Schedule VI "*Other risk information: Forbearance*" to these annual financial statements.

*Real estate credit risk management*

As part of its general policy on risks and, in particular, its policy on the construction and real estate development sector, the Group has a number of specific policies in place for mitigating risks.

The main measure being implemented in this portfolio is the continuous monitoring of risks and the reappraisal of borrowers' financial viability based on their new economic circumstances. If the results of the reappraisal are satisfactory, the existing arrangements continue on the basis agreed, with new commitments being required where appropriate in light of the new circumstances.

The Bank has established three strategic lines of action:

- 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 assessment to be obtained, taking into account the expert real estate vision.

Accordingly, 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 which enables the Group to have a detailed understanding of the projects being analysed by the unit (including the surface area, the number of units, the sales volume, the construction budget and the extent of pre-marketing activities).

- Two Real Estate Investment Analysis and Monitoring Divisions, East and West (reporting to the Real Estate Risk and Investees Division), responsible for analysing all of the real estate projects that the Bank is considering awarding funding to from a purely real estate business point of view, analysing the location and suitability of the product, as well as the potential current supply and demand, and comparing in each case 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 control drawdowns and compliance with the business plan (sales, costs and timelines).

This management model has allowed the definition of alerts to be monitored from 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 optimum 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/file.

Cases in which the stabilisation or settlement of the loan by the customer is not a feasible option are managed using support models on the basis of the type of loan or financed asset.

In the case of completed real estate developments or completed non-residential properties, the possibility of marketing at prices that can drive the market is offered.

For other funded real estate developments, the possibility of closing sale agreements with third parties is considered and amicable settlement solutions are proposed (purchase, payment in kind, which in the case of properties owned by retail customers can be coupled with favourable conditions for relocation or social renting depending on the needs of the customer) or else judicial proceedings are initiated.

- Management of foreclosed assets

Once the loan has been converted into a real estate asset, a management strategy is defined depending on the type of asset and its location, in order to identify the potential of each asset according to its potential demand.
The main disposal mechanism is the sale of the asset, for which the Bank, through Solvia, has developed different channels on the basis of the type of property and customer.

The Group, given the past significance of high concentrations of this type of risk, has a first-tier RAS metric in place which establishes a maximum level of concentration of exposures associated with real estate developments based on the TIER 1 capital in Spain. This metric is monitored on a monthly basis and reported to the Technical Risks 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. Results of this monitoring exercise are escalated to the Technical Risks Committee for information.

For further quantitative information, see Schedule VI "*Credit risk: Risk concentration and exposure to the construction and real estate development sector*" to these annual financial statements.

*3.4.2.2. Risk management models*

*Rating*

Credit risks incurred with corporates, real estate developers, specialised lending projects, financial institutions and countries are rated using a rating system based on predictive factors and an internal estimate of the probability of default.

The rating model is reviewed annually based on the analysis of performance patterns of actual defaulted loans. A predicted default rate is assigned to each internal credit rating level, which also allows a uniform comparison to be made against other segments and ratings assigned by external credit agencies using a master ratings scale.

%

| Breakdown of Sabadell corporates portfolio by rating | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 9 | 8 | 7 | 6 | 5 | 4 | 3 | 2 | 1 | 0 | **TOTAL** |
| 0.36% | 11.36% | 20.08% | 22.88% | 29.35% | 11.35% | 3.48% | 0.91% | 0.18% | 0.07% | 100% |

*Scoring*

In general, credit risks undertaken with individual customers are rated using credit scoring systems that are based on a quantitative model of past statistical data, and which identify the relevant predictive factors. In regions in which credit scoring takes place, the latter is divided into two types:

*Behavioural scoring*: the system automatically classifies customers based on information on their transactions and on each product which they have acquired. These scores are mainly used in: approving transactions, setting (authorised) overdraft limits, advertising campaigns, monitoring and segmentation of claims and/or recovery procedures.

*Reactive scoring*: this is used to evaluate applications for consumer loans, mortgage loans and credit cards. Once all of the data relating to the various transactions has been entered, the system calculates a result based on the estimated repayment capacity, financial profile and, if applicable, the level of assets pledged as guarantees.

If no credit scoring system exists, individual assessments supplemented with policies are used instead.

%

| Breakdown of individuals portfolio by rating | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 9 | 8 | 7 | 6 | 5 | 4 | 3 | 2 | 1 | 0 | **TOTAL** |
| 0.93% | 4.34% | 16.69% | 35.93% | 22.30% | 11.78% | 5.11% | 1.61% | 0.55% | 0.74% | 100% |

Excluding transactions relating to TSB.

*Warning tools*

In general, Banco Sabadell Group has a system of warning tools in place, which include both individual warnings and advanced early warning models for both the Corporates sector and the Individuals sector. These warning tools are based on behavioural factors obtained from available sources of information (credit rating 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 corporates and individuals.

This warnings system enables:

- Efficiency to be improved, as monitoring exercises focus on customers with the lowest credit rating or credit score (different cut-off points for each group).
- The institution to anticipate actions required to manage any negative change in the situation of the customer (change in rating, new severe warnings, etc.).
- Regular monitoring of customers whose situation remains unchanged and who have been analysed by the Basic Management Team.

### *3.4.2.3 Credit risk exposure*

The tables below show the breakdown, by headings of Banco de Sabadell, S.A. balance sheet and off-balance sheet exposures, of the Bank's maximum gross exposure to credit risk as at 31 December 2019 and 2018, 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 | 2019 | 2018 |
|---|---|---|---|
| **Financial assets held for trading** | | **579,042** | **264,866** |
| Debt securities | 7 | 579,042 | 264,866 |
| **Non-trading financial assets mandatorily at fair value through profit or loss** | | **119,164** | **138,301** |
| Debt securities | 7 | 119,164 | 138,301 |
| **Financial assets at fair value through other comprehensive income** | | **5,551,698** | **10,061,773** |
| Equity instruments | 8 | 239,401 | 199,180 |
| Debt securities | 7 | 5,312,297 | 9,862,593 |
| **Financial assets at amortised cost** | | **151,652,607** | **141,310,265** |
| Debt securities | 7 | 18,425,483 | 12,915,865 |
| Loans and advances | 10 | 133,227,124 | 128,394,400 |
| **Derivatives** | **9, 11** | **2,082,780** | **1,821,457** |
| **Total credit risk due to financial assets** | | **159,985,291** | **153,596,662** |
| Loan commitments provided | 24 | 23,867,895 | 18,589,840 |
| Financial guarantees provided | 24 | 2,830,293 | 2,465,904 |
| Other commitments provided | 24 | 10,362,133 | 8,139,882 |
| **Total off-balance sheet exposures** | | **37,060,321** | **29,195,626** |
| **Total maximum credit risk exposure** | | **197,045,612** | **182,792,288** |

The Bank has also given borrowers guarantees and loan commitments, materialised 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 assume credit risk and are subject to the same management and monitoring systems described above. For further information, see Note 24.

Schedule VI of these annual financial statements shows quantitative data relating to credit risk exposures by region.

### *3.4.2.4. Credit risk mitigation*

Credit risk exposures are rigorously managed and monitored through regular assessments of borrowers' creditworthiness and their ability to honour their payment obligations undertaken with the Group, adjusting the exposure limits for each counterparty to levels that are deemed to be acceptable. It is also normal practice to mitigate credit risk exposures by requiring borrowers to provide collateral or other guarantees to the Bank.

Generally, these take the form of collateral, mainly mortgages on properties used as housing, whether finished or under construction. The Group also accepts, although to a lesser degree, other types of collateral, such as mortgages on retail properties, industrial warehouses, etc. and financial assets. Another credit risk mitigation technique commonly used by the institution is the acceptance of sureties, in this case subject to the surety presenting a certificate of good standing.

All of these mitigation techniques are established ensuring their legal certainty, i.e. under legal contracts that are legally binding for all parties and which are enforceable in all relevant jurisdictions, thus guaranteeing that the collateral can be seized at any time. This process is fully subject to an internal verification of the legal adequacy of these contracts, and legal opinions of international specialists can be requested and applied where these contracts have been entered into under foreign legislation.

All collateral is executed before a notary public through a public document, thus ensuring its enforceability before third parties. In the case of property mortgages, these public documents are also registered with the corresponding land registries, thus gaining constitutive effectiveness before third parties. In the case of pledges, the pledged items are generally deposited with the institution. Unilateral cancellation by the obligor is not permitted, and the guarantee remains valid until the debt has been fully repaid.

Personal guarantees or sureties are established in favour of the institution and, except in certain exceptional cases, these are also executed before a notary public through a public document, to vest the agreement with the highest possible legal certainty and to allow legal claims to be filed through executive proceedings in the event of default. They constitute a credit right with respect to the guarantor that is irrevocable and payable on first demand.

In addition to the mitigation of the risk arising from guarantees executed between the obligors and the institution, as a result of the acquisition of Banco CAM, the Group also has an additional guarantee for a particular asset portfolio, provided by the APS, with retroactive effects from 31 July 2011 and for a period of ten years (see Note 13).

The Bank has not received any significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of the referred guarantees, except for those intrinsic to treasury activities, which are mostly repos with maturities of no more than three months, therefore their fair value does not differ substantially from their carrying value (see Note 5). The fair value of the assets sold in connection with repos is included under the heading "*Financial liabilities held for trading*" as part of the short positions of securities.

Assets assigned under the same transactions amounted to 888,078 thousand euros and are included by type under the repos heading in Notes 17 and 18.

There have been no significant changes to the Group's policies in relation to guarantees during this year. Neither have there been any significant changes in the quality of the Group's guarantees with respect to the preceding year.

The values of the guarantees received to ensure collection, broken down into collateral and other guarantees, as at 31 December 2019 and 2018 are as follows:

Thousand euro

| **Guarantees received** | **2019** | **2018** |
|---|---|---|
| Value of collateral | 56,347,871 | 54,578,501 |
| *Of which: securing Stage 2 loans* | *2,804,733* | *3,225,452* |
| *Of which: securing Stage 3 loans* | *2,365,467* | *2,511,048* |
| Value of other guarantees | 9,504,076 | 9,890,866 |
| *Of which: securing Stage 2 loans* | *608,882* | *840,174* |
| *Of which: securing Stage 3 loans* | *351,667* | *316,842* |
| **Total value of guarantees received** | **65,851,947** | **64,469,367** |

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 for use in the financing or construction of housing or other types of real estate. On a like-for-like basis, exposures secured with mortgage loans represent 50% of total gross lending.

In the case of market transactions, counterparty credit risk is managed as explained in Section 3.4.2.7.

*3.4.2.5. Credit quality of financial assets*

As stated earlier, in general terms, the Group uses internal models to rate most borrowers (or transactions) through which credit risk is incurred. These models have been designed considering the best practices proposed by the New Basel Capital Accord (NBCA). However, not all portfolios in which credit risk is incurred have internal models, partly due to the fact that such models can only be reasonably designed if a minimum level of experience with cases of non-payment is available.

The exposure percentage of the institution calculated using internal models, for solvency purposes, is 76%. This percentage has been calculated following the TRIM guidelines (Article 31[a]).

The breakdown of the Group's total exposures, rated based on the various internal rating levels, as at 31 December 2019 and 2018 is as follows:

Million euro

| Breakdown of exposure by rating | Loans assigned rating/score | | | | |
|---|---|---|---|---|---|
| | 2019 | | | | |
| | Stage 1 | Stage 2 | Stage 3 | *Of which: purchased credit-impaired* | Total |
| AAA/AA | 14,347 | 111 | - | *74* | 14,458 |
| A | 7,724 | 25 | - | - | 7,749 |
| BBB | 75,193 | 115 | - | - | 75,308 |
| BB | 41,977 | 482 | 2 | *2* | 42,461 |
| B | 23,055 | 2,991 | - | *104* | 26,046 |
| Rest | 2,824 | 4,168 | 5,863 | *82* | 12,855 |
| No rating/score assigned | 13,261 | 39 | 58 | *4* | 13,358 |
| **Total gross amount** | **178,381** | **7,931** | **5,923** | **266** | **192,235** |
| **Impairment allowances** | **(400)** | **(269)** | **(2,265)** | ***(3)*** | **(2,934)** |
| **Total net amount** | **177,981** | **7,662** | **3,658** | ***263*** | **189,301** |

Million euro

| Breakdown of exposure by rating | Loans assigned rating/score | | | | |
|---|---|---|---|---|---|
| | 2018 | | | | |
| | Stage 1 | Stage 2 | Stage 3 | *Of which: purchased credit-impaired* | Total |
| AAA/AA | 10,703 | 228 | - | - | 10,931 |
| A | 9,245 | 27 | - | - | 9,272 |
| BBB | 70,519 | 200 | - | - | 70,719 |
| BB | 41,027 | 481 | - | - | 41,508 |
| B | 25,907 | 2,975 | - | *15* | 28,882 |
| Rest | 1,206 | 4,917 | 6,368 | *405* | 12,491 |
| No rating/score assigned | 7,048 | 66 | 104 | - | 7,218 |
| **Total gross amount** | **165,655** | **8,894** | **6,472** | **420** | **181,021** |
| **Impairment allowances** | **(373)** | **(325)** | **(2,737)** | ***(86)*** | **(3,435)** |
| **Total net amount** | **165,282** | **8,569** | **3,735** | ***334*** | **177,586** |

The breakdown of the Group's total off-balance sheet exposures, rated based on the various internal rating levels, as at 31 December 2019 and 2018 is as follows:

Million euro

| Breakdown of exposure by rating | Loans assigned rating/score | | | | |
|---|---|---|---|---|---|
| | 2019 | | | | |
| | Stage 1 | Stage 2 | Stage 3 | *Of which: purchased credit-impaired* | Total |
| AAA/AA | 1,757 | 28 | - | *3* | 1,785 |
| A | 1,628 | 1 | - | - | 1,629 |
| BBB | 11,072 | 27 | - | - | 11,099 |
| BB | 13,586 | 220 | - | - | 13,806 |
| B | 6,492 | 655 | - | *19* | 7,147 |
| Rest | 302 | 344 | 250 | *1* | 896 |
| No rating/score assigned | 3,683 | 20 | 5 | - | 3,708 |
| **Total gross amount** | **38,520** | **1,295** | **255** | ***23*** | **40,070** |
| **Impairment allowances** | **(48)** | **(12)** | **(51)** | **-** | **(111)** |
| **Total net amount** | **38,472** | **1,283** | **204** | ***23*** | **39,959** |

Million euro

| Breakdown of exposure by rating | Loans assigned rating/score | | | | |
|---|---|---|---|---|---|
| | 2018 | | | | |
| | Stage 1 | Stage 2 | Stage 3 | *Of which: purchased credit-impaired* | Total |
| AAA/AA | 2,705 | 33 | - | *9* | 2,738 |
| A | 1,584 | 5 | - | - | 1,589 |
| BBB | 9,204 | 77 | - | - | 9,281 |
| BB | 9,959 | 156 | - | - | 10,115 |
| B | 6,366 | 401 | - | - | 6,767 |
| Rest | 391 | 347 | 135 | - | 873 |
| No rating/score assigned | 1,549 | 6 | 2 | - | 1,557 |
| **Total gross amount** | **31,758** | **1,025** | **137** | ***9*** | **32,920** |
| **Impairment allowances** | **(46)** | **(14)** | **(48)** | **-** | **(108)** |
| **Total net amount** | **31,712** | **1,011** | **89** | **9** | **32,812** |

Further details on the credit rating and credit scoring models are included in Section 3.4.2.2 of these annual financial statements.

For Spain business' borrowers that do not exceed the materiality threshold and whose coverage has been assessed under internal models in 2019, 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 at which the transactions are classified according to their credit risk.

%

| | Average EL 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** | 1.10% | 23.50% | 20.30% | 19.60% | 100.00% | 34.70% | 6.80% | 23.80% |
| Other financial corporations | 1.20% | 26.50% | 10.80% | 9.00% | 100.00% | 45.20% | 1.60% | 26.30% |
| Non-financial corporations | 1.30% | 34.40% | 18.90% | 25.00% | 100.00% | 40.40% | 5.60% | 34.10% |
| Households | 1.00% | 12.10% | 21.90% | 13.70% | 100.00% | 31.40% | 8.10% | 13.60% |

%

| | Average EL 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** | 0.90% | 31.40% | 31.30% | 32.30% | 100.00% | 53.80% | 1.40% | 31.50% |
| Other financial corporations | 1.60% | 41.00% | 4.70% | 42.00% | - | - | 1.60% | 41.00% |
| Non-financial corporations | 1.10% | 37.50% | 32.60% | 33.00% | 100.00% | 54.20% | 1.90% | 37.50% |
| Households | 1.00% | 32.30% | 14.70% | 23.10% | 100.00% | 40.00% | 1.10% | 32.20% |

During 2019, an improvement has been observed in the reduction of Group's assets classified as Stage 3, which have been reduced by 413 million euros during the year, resulting in a reduction of the Group's NPL ratio as shown in the table below:

%

| | 2019 | 2018 |
|---|---|---|
| NPL ratio (*) | 3.83 | 4.22 |
| NPL coverage ratio (*) | 49.58 | 54.07 |

(*) The NPL ratio excluding TSB stands at 4.62% and the NPL coverage ratio at 50.09% (in 2018, 5.04% and 54.34%, respectively).

A more detailed breakdown of allowances and assets classified as Stage 3 can be found in Note 10 and a more detailed breakdown of forborne and restructured transactions is included in Schedule VI.

### *3.4.2.6. Concentration risk*

Concentration risk is defined as credit risk to exposures with the potential to generate sufficiently large losses that threaten the solvency of the institution or the viability of its ordinary business.

Exposures can be concentrated within a single customer or economic group, or at sector or geographical level.

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.

- 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 an efficient management of concentration risk:

- Quantitative metrics from the Risk Appetite Statement and their subsequent monitoring as first-tier metrics.

- Individual limits for risks and customers considered to be significant, which are set by the Delegated Committee.

- A structure of conferred powers which requires transactions with significant customers to be approved by the Credit Operations Committee, or even by the Delegated Committee.

In order to control its concentration risk, Banco Sabadell Group has deployed the following critical control parameters:

**Consistency with the Global Risk Framework**

The Group guarantees the consistency between the concentration of its risk exposures and the tolerance of such risks, as defined in the RAS. There are overall concentration risk limits and adequate internal controls are in place to ensure that the concentration of these risk exposures does not exceed 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 historical 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.

All of the metrics used to measure such levels, as well as appetite limits and tolerance thresholds for the identified risks, are described as part of the RAS metrics.

**Risk control monitoring and regular reporting**

Banco Sabadell Group ensures that concentration risk is monitored on a regular basis, in order to enable any weaknesses in the mechanisms implemented to manage this risk to be quickly identified and resolved. This information is also reported to the Board of Directors on a recurring basis in accordance with the established risk governance.

**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.

If necessary, the Group will take the corresponding measures 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 2019, there were no borrowers with approved lending that individually exceeded 10% of the Group's own funds.

*Country risk: geographic exposure to credit risk*

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 the eventual inability of obligors to honour their foreign currency payment obligations to external creditors due to, among other reasons, the country preventing access to that foreign currency, the inability to transfer it or the non-enforceability of legal actions against borrowers for reasons of sovereignty, or for reasons of war, expropriation or nationalisation.

Country risk not only affects debts undertaken with a state or entities guaranteed by it, but also all private debtors that belong to that State and who, for reasons outside their control and not at their volition, are generally unable to honour their debts.

An exposure limit is set for each country which is applicable across the whole of Banco Sabadell Group. These limits are approved by the Delegated Committee and the corresponding decision-making bodies, as per their conferred powers, and they are continuously monitored to ensure that any deterioration in the political, economic or social situation of a country can be detected in good time.

The main component of the framework 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 committees 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 transactions with counterparty credit risk. Counterparty 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.

Accordingly, the amount subject to the potential default of the counterparty does not correspond to the notional of the contract, but is uncertain and depends on the fluctuation of market prices 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 exposure by credit rating and by the regions in which the Group operates.

%

| AAA | AA+ | AA | AA- | A+ | A | A- | BBB+ | BBB | BBB- | BB+ | BB | BB- | B+ | Rest | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0.0% | 0.0% | 7.2% | 38.7% | 18.1% | 11.7% | 6.3% | 5.7% | 3.5% | 1.8% | 1.0% | 3.1% | 1.4% | 0.3% | 1.3% | **100.0%** |

%

| | **2019** |
|---|---|
| Euro Zone | 73.8% |
| Rest of Europe | 18.9% |
| U.S.A. and Canada | 5.6% |
| Rest of the world | 1.7% |
| **Total** | **100.0%** |

As can be seen in the table, the risk is concentrated in counterparties with a high credit quality, with 82% of the risk relating to counterparties with a credit rating of A.

In 2016, under the European Market Infrastructure Regulation (EMIR) (Regulation 648/2012), the obligation to settle and clear certain over-the-counter derivatives through central counterparty clearing houses (CCPs) has been applicable to the Group. For this reason, the derivatives subscribed by the Group and subject to the foregoing are channelled via these agents. At the same time, the Group has strengthened the standardisation of OTC derivatives with a view to promoting 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), it is considered, based on management criteria, that there is no exposure, given that there is no risk as the OMs act as counterparties in the transactions and a daily settlement and guarantee mechanism is in place to ensure the transparency and continuity of the activity. In OMs the exposure is equivalent to the deposited guarantees.

The breakdown of transactions involving derivatives in financial markets depending on whether the counterparty is another financial institution, clearing house or organised market is as follows:

Million euro

| | 2019 | 2018 |
|---|---|---|
| Transactions with organised markets | 3,779 | 2,784 |
| OTC transactions | 127,232 | 141,738 |
| *Settled through clearing houses* | *44,532* | *49,734* |
| **Total** | **131,011** | **144,522** |

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 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 2019 and 2018:

Thousand euro

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Financial assets subject to collateral agreements | | | | |
| | | | Guarantee received | | |
| | Amount recognised on balance sheet | Amount offset (for collateral calculations only) | Cash | Securities | Net value |
| **Financial assets** | (a) | (b) | (c) | (d) | (a) - (b) - (c) - (d) |
| Derivatives | 1,610,914 | 1,446,017 | 169,143 | - | (4,246) |
| Repos | 11,801,144 | - | 24,870 | 11,958,955 | (182,681) |
| **TOTAL** | **13,412,058** | **1,446,017** | **194,013** | **11,958,955** | **(186,927)** |

Thousand euro

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Financial liabilities subject to collateral agreements | | | | |
| | | | Guarantee given | | |
| | Amount recognised on balance sheet | Amount offset (for collateral calculations only) | Cash | Securities | Net value |
| **Financial liabilities** | (a) | (b) | (c) | (d) | (a) - (b) - (c) - (d) |
| Derivatives | 1,996,922 | 1,446,017 | 739,792 | 3,103 | (191,991) |
| Repos | 8,442,811 | - | 617,509 | 8,416,140 | (590,838) |
| **TOTAL** | **10,439,733** | **1,446,017** | **1,357,301** | **8,419,243** | **(782,829)** |

Thousand euro

| | 2018 | | | | |
|---|---|---|---|---|---|
| | 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 | 1,290,714 | 1,063,385 | 241,247 | - | (13,918) |
| Repos | 5,960,839 | - | 7,194 | 5,992,028 | (38,383) |
| **Total** | **7,251,553** | **1,063,385** | **248,441** | **5,992,028** | **(52,301)** |

Thousand euro

| | 2018 | | | | |
|---|---|---|---|---|---|
| | 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 | 1,727,606 | 1,063,385 | 917,529 | 1,853 | (255,161) |
| Repos | 8,606,666 | - | 258,490 | 8,727,448 | (379,272) |
| **Total** | **10,334,272** | **1,063,385** | **1,176,019** | **8,729,301** | **(634,433)** |

The values of derivative financial instruments which are settled through a clearing house as at 31 December 2019 and 2018 are indicated hereafter:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Derivative financial assets settled through a clearing house | 744,659 | 511,129 |
| Derivative financial liabilities settled through a clearing house | 752,209 | 370,990 |

The philosophy behind counterparty credit risk management is consistent with the business strategy, and seeks to ensure the creation of value at all times whilst maintaining a balance between return and risk. To this end, criteria have been established for controlling and monitoring counterparty credit risk arising from activity in financial markets so as to ensure that the Bank can carry out its business activity whilst adhering to the risk thresholds approved by Senior Management.

The approach for quantifying counterparty credit risk exposure takes into account current and future exposure. Current exposure represents the cost of substituting a transaction at market value in the event of a default by a counterparty. To calculate it, the current or Mark to Market (MtM) value of the transaction is required. The future exposure represents the risk that a transaction could potentially represent over a certain period of time, given the characteristics of the transaction and the market variables on which it depends. In the case of transactions carried out under a collateral agreement, the future exposure represents the possible fluctuation of the MtM between the time of default and the replacement of such transactions in the market. If the transaction is not carried out through 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 control in accordance with the limits approved by Senior Management. This information is included in risk reports for disclosure to the departments and units responsible for their management and monitoring.

With regard to counterparty credit risk, the Group adopts different mitigation measures. The main measures are:

- Netting agreements for derivatives (ISDA and CMOF).
- Variation margin collateral agreements for derivatives (CSA and Schedule 3 - CMOF), repos (GMRA, EMA) and securities lending (GMSLA).

Netting agreements allow positive and negative MtM to be aggregated for transactions with a single counterparty, in such a way that in the event of default, a single payment or collection obligation is established in relation to all of the transactions closed with such counterparty.

By default, the Group has netting agreements with all of the counterparties that wish to operate with derivatives.

Variation margin collateral agreements, as well as including the netting effect, also include the regular exchange of guarantees which mitigate the current exposure with a counterparty in respect of the transactions subject to such agreement.

In order to operate in derivatives or repos with financial institutions, the Group has established the requirement of having variation margin collateral agreements. Furthermore, for derivative transactions with such 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 2019 and 2018, there were certain financial assets pledged in financing transactions, i.e. offered as collateral or guarantees for certain liabilities. These assets correspond mainly to loans linked to the issuance of covered bonds, public sector covered bonds and long-term securitisation bonds (see Note 19 and Schedules III and IV). The remaining pledged assets are debt securities which are submitted in transactions involving assets sold under repurchase agreements, pledged collateral (loans or debt instruments) to access certain financing transactions with central banks and all types of collateral provided to secure derivatives transactions.

Information on mortgage-secured loans awarded in Spain and included in the "*Loans and advances – Customers*" portfolio, which are linked to the issuance of covered bonds pursuant to the Spanish Mortgage Market Law, is included in Schedule III on "Mortgage Market Policies and Procedures", a special accounting record of the issuing entity Banco Sabadell, as required by Bank of Spain Circular 5/2011, implementing Royal Decree 716/2009 of 24 April (implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market).

The Bank has used part of its portfolio of loans and similar credit in fixed-income securities by transferring assets to various securitisation funds created for this purpose. Under current regulations, securitisations in which there is no substantial risk transfer cannot be derecognised from the balance sheet.

The balance of the financial assets securitised under these programmes by the Bank, identifying those in which the risks and associated rewards of ownership have been transferred, is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Fully derecognised from the balance sheet:** | **1,069,491** | **833,792** |
| Securitised mortgage assets | 165,571 | 186,899 |
| Other securitised assets | 896,022 | 16,122 |
| Other transferred financial assets | 7,898 | 630,771 |
| **Fully retained on the balance sheet:** | **9,392,993** | **10,892,159** |
| Securitised mortgage assets | 8,673,159 | 9,676,976 |
| Other securitised assets | 719,834 | 1,215,183 |
| Other transfers to credit institutions | - | - |
| **Total** | **10,462,484** | **11,725,951** |

The assets and liabilities associated with securitisation funds of assets which originated after 1 January 2004, and for which inherent risks and rewards of ownership have not been transferred to third parties, have been maintained in the financial statements. In terms of the assets shown, the risk is not transferred as some form of subordinated loan or credit enhancement has been transferred to the securitisation funds. As at 31 December 2019, there was no significant aid from the Group for off-balance sheet securitisations.

The heading 'Other transferred financial assets fully derecognised from the balance sheet' included, as at 31 December 2018, mainly assets transferred to the Spanish company for the management of assets arising from the restructuring of the banking system (Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, SAREB) by Banco Gallego, as they continue to be managed by the institution for 621,627 thousand euros. As at 31 December 2019, this management practice is no longer in place.

Schedule II to these annual financial statements includes certain information regarding securitisation funds.

### 3.4.3. Financial risks

Financial risk is defined as the possibility of obtaining an inadequate return or insufficient levels of liquidity to prevent compliance with 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 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 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 or under a stress situation caused by systemic and/or idiosyncratic factors.

The pillars of Banco Sabadell's governance structure for liquidity management and control are the direct involvement of governing bodies, management bodies and Senior Management, following the model of three lines of defence, and a strict separation of duties, as well as a clear-cut structure of responsibilities.

*Liquidity management*

Banco Sabadell's liquidity management seeks to ensure funding for its business activity at an appropriate cost and term while minimising liquidity risk. The institution's funding policy focuses on maintaining a balanced funding structure, based mainly on customer deposits and supplemented with access to wholesale funding 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, the UGLs are Banco Sabadell (includes foreign branches, or OFEX for their acronym in Spanish), BancSabadell d'Andorra (BSA), TSB and the entities Banco Sabadell S.A., I.B.M. and Sabcapital S.A. de C.V., SOFOM, E.R., which correspond to the business in Mexico.

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 responsibility for the oversight of liquidity risk.

- Integration of the risk culture, based on prudent liquidity risk management and its alignment with the established risk appetite.

- Clear separation of functions and duties between the different areas and units within the organisation, with a clear-cut delineation of the three lines of defence, ensuring the involvement of the governing bodies and Senior Management.

- Implementation of best practices in liquidity risk management and control, ensuring not only compliance with regulatory requirements but also that, under a criterion of prudence, a sufficient level of liquid assets is available to cope with 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 on the various 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 defence.

- 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 issuing capacity of covered bonds.

- Holistic view of risk, complying with regulatory requirements, recommendations and guidelines.

- Alignment with stakeholders' interests through regular public disclosure of liquidity risk information.

- Availability of a Liquidity Contingency Plan.

*Tools/Metrics for monitoring and controlling liquidity risk management*

Banco Sabadell Group has a system of metrics and tolerance limits which are described in the RAS and which define the appetite for liquidity risk, 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. As part of the monitoring of liquidity metrics at Group level, there are metrics that have been established at Group level and which are calculated on a consolidated basis, metrics established at Group level and deployed to each Group UGL, as well as metrics established at 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 relating to the approval, monitoring, reporting of breaches and remediation plans established in the Risk Appetite Framework (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 an early warning indicators (EWIs) system at the UGL level, which includes market and liquidity indicators adapted to the funding structure and the business model of each UGL. The deployment of these indicators at UGL level complements the RAS metrics and allows tensions in the local liquidity position and funding structure to be detected early, thereby facilitating the implementation of corrective measures and actions and reducing the risk of contagion between the different management units.

The risk of each UGL is also monitored daily through the Structural Treasury Report, which measures the daily changes in the funding needs of the balance sheet, the daily changes in the outstanding balance of transactions in capital markets, as well as the daily changes in the first line of liquidity maintained by each UGL.

The reporting and control framework involves, among other aspects:

- Monitoring the RAS metrics and the associated thresholds on a consolidated basis, as well as those established for each UGL, in line with the established monitoring frequency.

- Reporting to the relevant committees, governing and management bodies on the basis of the levels into which such metrics have been classified.

- In the event a 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 target risk appetite. Each UGL has a 1 and 3-year funding plan in which they set out their potential funding needs as well as their management strategy, and they regularly analyse the compliance therewith, any deviations from the projected budget and the adequacy of the plan in terms of the market environment.

The institution also has an internal funds transfer pricing system to transfer the funding costs to business units.

Lastly, Banco Sabadell has a Liquidity Contingency Plan (LCP) in place, which sets forth the strategy for guaranteeing that the institution has sufficient management capacities and measures in place to limit any negative impacts of a crisis situation affecting its liquidity position and to allow it to return to a business-as-usual situation. The LCP also aims to facilitate business continuity in the management of liquidity, particularly in the event that a crisis has arisen due to a substandard performance of one or more financial market infrastructures. The LCP can be activated in response to different crisis situations in either the markets or the institution itself. The key components of the LCP include: measures available to generate liquidity in business-as-usual situations or in a crisis situation linked to the activation of the LCP and a communication plan (both internal and external) for the LCP.

*Residual maturity periods*

The table below shows the breakdown by contractual term to maturity, excluding, in some cases, valuation adjustments and impairment losses, of certain balance sheet items as at 31 December 2019 and 2018, under business-as-usual market conditions:

Thousand euro

| 2019 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Time to revision or maturity** | **On demand** | **Up to 1 month** | **1 to 3 months** | **3 to 12 months** | **1 to 2 years** | **2 to 3 years** | **3 to 4 years** | **4 to 5 years** | **More than 5 years** | **Total** |
| Money Market | - | 15,240,386 | 1,611,854 | 2,172,218 | 1,042,214 | 489,946 | 156,667 | 155,777 | 59,903 | **20,928,965** |
| Loans and receivables | - | 7,986,580 | 6,265,346 | 18,339,482 | 9,657,342 | 11,537,215 | 8,962,212 | 6,931,415 | 40,655,535 | **110,335,125** |
| Debt securities | - | 186,226 | 137,604 | 1,317,124 | 525,155 | 392,330 | 197,309 | 1,513,158 | 16,845,072 | **21,113,977** |
| Other assets | - | - | - | - | - | - | - | - | - | **-** |
| **Total assets** | **-** | **23,413,192** | **8,014,804** | **21,828,824** | **11,224,711** | **12,419,490** | **9,316,188** | **8,600,350** | **57,560,509** | **152,378,067** |
| Money Market | - | 7,587,381 | 2,606,919 | 4,900,064 | 10,893,765 | - | - | - | - | **25,988,129** |
| *Of which: Repos* | - | 4,758,554 | 1,610,538 | 1,797,785 | 393,765 | - | - | - | - | ***8,560,642*** |
| Customer funds | 86,907,998 | 1,905,139 | 2,374,550 | 11,685,894 | 1,633,244 | 707,334 | 275,767 | 914,616 | 9,536 | **106,414,078** |
| Marketable debt securities (*) | - | 154,890 | 1,569,000 | 3,478,533 | 2,451,175 | 3,071,643 | 2,990,734 | 4,320,070 | 4,753,890 | **22,789,935** |
| *Of which: Secured senior debt* | - | *15,426* | *311,100* | *2,044,377* | *2,092,891* | *1,239,428* | *1,501,734* | *1,936,736* | *2,717,164* | ***11,858,857*** |
| *Of which: Unsecured senior debt* | - | - | *491,122* | *9,975* | *358,284* | *682,215* | *989,000* | *2,383,333* | *1,521,700* | ***6,435,630*** |
| *Of which: Subordinated liabilities* | - | - | - | *424,600* | - | *1,150,000* | *500,000* | - | *515,025* | ***2,589,625*** |
| Other liabilities | - | 46,145 | 93,012 | 383,878 | 355,660 | 271,468 | 216,377 | 184,644 | 1,017,406 | **2,568,589** |
| **Total liabilities** | **86,907,998** | **9,693,554** | **6,643,481** | **20,448,369** | **15,333,845** | **4,050,445** | **3,482,878** | **5,419,330** | **5,780,832** | **157,760,732** |
| ***Of which:*** | | | | | | | | | | |
| *Secured liabilities* | - | *4,771,834* | *1,921,638* | *3,842,162* | *2,486,656* | *1,239,428* | *1,501,734* | *1,936,736* | *2,717,164* | ***20,417,353*** |
| *Unsecured liabilities* | *86,907,998* | *4,921,720* | *4,721,843* | *16,606,207* | *12,847,189* | *2,811,016* | *1,981,144* | *3,482,593* | *3,063,668* | ***137,343,378*** |
| **Trading and Hedging Derivatives** | | | | | | | | | | |
| Receivable | - | 5,202,921 | 6,055,049 | 16,199,259 | 11,271,554 | 5,394,036 | 6,853,934 | 14,593,557 | 32,064,774 | **97,635,084** |
| Payable | - | 6,135,270 | 9,408,311 | 19,087,579 | 11,087,959 | 5,480,385 | 6,938,206 | 14,173,087 | 32,026,036 | **104,336,833** |
| **Net** | **-** | **(932,349)** | **(3,353,262)** | **(2,888,320)** | **183,595** | **(86,349)** | **(84,272)** | **420,470** | **38,738** | **(6,701,749)** |
| **Contingent risks** | | | | | | | | | | |
| Financial guarantees | 15,613 | 29,919 | 152,478 | 350,188 | 248,845 | 115,578 | 56,500 | 46,599 | 1,814,573 | **2,830,293** |

(*) For details of maturities of issues aimed at institutional investors, see the section entitled "Funding strategy and liquidity trends in 2019" in this note.

Thousand euro

| | | | | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Time to revision or maturity** | **A la vista** | **Hasta 1 mes** | **Entre 1 y 3 meses** | **Entre 3 y 12 meses** | **Entre 1 y 2 años** | **Entre 2 y 3 años** | **Entre 3 y 4 años** | **Entre 4 y 5 años** | **Más de 5 años** | **Total** |
| Money Market | - | 17,982,328 | 995,316 | 1,674,640 | 492,576 | 492,576 | 197,003 | - | 32,097 | **21,866,536** |
| Loans and receivables | - | 6,667,148 | 7,502,458 | 19,472,401 | 9,195,813 | 8,354,951 | 8,694,011 | 7,709,913 | 39,498,177 | **107,094,872** |
| Debt securities | - | 48,352 | 257,297 | 742,514 | 910,891 | 655,767 | 306,678 | 1,155,849 | 18,565,116 | **22,642,464** |
| Other assets | - | - | - | - | - | - | - | - | - | **-** |
| **Total assets** | **-** | **24,697,828** | **8,755,071** | **21,889,555** | **10,599,280** | **9,503,294** | **9,197,692** | **8,865,762** | **58,095,390** | **151,603,872** |
| Money Market | - | 8,704,206 | 1,749,446 | 1,166,790 | 10,264,091 | 10,500,000 | - | - | - | **32,384,533** |
| *Of which: Repos* | - | *6,224,439* | *1,332,730* | *1,102,010* | *264,091* | - | - | - | - | ***8,923,270*** |
| Customer funds | 77,127,234 | 2,297,434 | 4,244,723 | 13,934,858 | 1,136,462 | 333,053 | 377,905 | 527,412 | 740 | **99,979,821** |
| Marketable debt securities (*) | - | 826,992 | 2,185,686 | 5,946,748 | 3,200,645 | 2,158,077 | 2,456,932 | 2,967,201 | 5,961,569 | **25,703,850** |
| *Of which: Secured senior debt* | - | *300,000* | *607,566* | *1,792,316* | *2,533,294* | *1,866,284* | *1,214,244* | *2,392,000* | *4,947,110* | ***15,652,814*** |
| *Of which: Unsecured senior debt* | - | *16,423* | *819,309* | *1,192,362* | *761,112* | *350,077* | *167,487* | *1,079,201* | *1,295,133* | ***5,681,104*** |
| *Of which: Subordinated liabilities* | - | - | - | - | *424,600* | - | *1,150,000* | *500,000* | *515,025* | ***2,589,625*** |
| Other liabilities | - | 54,884 | 81,694 | 421,697 | 326,364 | 227,169 | 146,347 | 101,462 | 374,976 | **1,734,593** |
| **Total liabilities** | **77,127,234** | **11,883,516** | **8,261,549** | **21,470,093** | **14,927,562** | **13,218,299** | **2,981,184** | **3,596,075** | **6,337,285** | **159,802,797** |
| ***Of which:*** | | | | | | | | | | |
| *Secured liabilities* | - | *6,540,862* | *1,544,473* | *2,150,349* | *2,521,776* | *2,099,792* | *1,232,132* | *1,463,201* | *4,650,843* | ***22,203,428*** |
| *Unsecured liabilities* | *77,127,234* | *5,342,656* | *6,717,076* | *19,319,743* | *12,405,786* | *11,118,506* | *1,749,052* | *2,132,874* | *1,686,442* | ***137,599,369*** |
| **Trading and Hedging Derivatives** | | | | | | | | | | |
| Receivable | - | 8,200,556 | 6,002,539 | 12,834,576 | 7,020,194 | 9,324,313 | 7,924,385 | 8,454,746 | 48,043,472 | **107,804,781** |
| Payable | - | 9,685,298 | 9,449,205 | 12,730,739 | 11,401,884 | 9,314,112 | 8,071,094 | 8,893,925 | 48,371,206 | **117,917,463** |
| **Net** | **-** | **(1,484,742)** | **(3,446,666)** | **103,837** | **(4,381,690)** | **10,201** | **(146,709)** | **(439,179)** | **(327,734)** | **(10,112,682)** |
| **Contingent risks** | | | | | | | | | | |
| Financial guarantees | 734 | 59,921 | 89,736 | 323,211 | 259,880 | 118,180 | 62,675 | 45,077 | 1,506,490 | **2,465,904** |

(*) For details of maturities of issues aimed at institutional investors, see the section entitled "Funding strategy and liquidity trends in 2019" in this note.

In this analysis, very short-term maturities traditionally represent funding requirements, as they include continuous maturities of short-term liabilities, which in typical banking activities see higher turnover rates than assets, but as they are continuously renewed they actually end up satisfying these requirements and even resulting in an increase in outstanding balances.

It should be noted that the Group's funding capacity in capital markets is systematically checked to ensure it can meet its short-, medium- and long-term needs.

With regard to the information included in this table, it is worth highlighting that the table shows residual time to maturity of the asset and liability positions on the balance sheet, broken down into different time brackets.

The information provided is static and does not reflect foreseeable funding requirements, as it does not include behaviour models of asset and/or liability items.

It should also be noted that cash flows broken down in the parent company have not been discounted.

In order to present the contractual maturities of financial liabilities with certain particular characteristics, the parent company has applied the following approach:

- For any transaction that includes flows corresponding to (regular or irregular) early repayments, each capital flow is shown in the time bracket in which the payment/collection is expected to take place (in accordance with the contractual amortisation 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 their control.

- Balances from financial guarantee contracts have been included in the parent company’s table, assigning the maximum amount of the guarantee to the first year in which the guarantee can be enforced.

- Financing in the capital markets via instruments which include clauses that could lead to accelerated repayment (puttables or instruments with clauses linked to a downgrade in credit rating) 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 2019, the Group has no instruments in addition to those regulated by master agreements associated with the acquisition of derivatives and repos/reverse repos.

- The Group 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 2019.

- As at 31 December 2019, the Group does not have any instruments which are subject to master netting agreements.

*Funding strategy and evolution of liquidity in 2019*

The Group’s primary source of funding is customer deposits (mainly demand deposit accounts and term deposits acquired through the branch network), supplemented by funding through interbank and capital markets in which the institution maintains various short-term and long-term funding programmes in effect in order to achieve an adequate level of diversification by type of product, term and investor. The institution maintains a diversified portfolio of liquid assets that are largely eligible as collateral in exchange for access to funding operations with the European Central Bank (ECB).

*On-balance sheet customer funds*

As at 31 December 2019 and 2018, on-balance sheet customer funds by maturity are shown below:

Million euro / %

| | Note | 2019 | 3 months | 6 months | 12 months | >12 months | No mat. |
|---|---|---|---|---|---|---|---|
| **Total on-balance sheet customer funds (*)** | | **146,309** | **6.1%** | **2.8%** | **5.9%** | **4.0%** | **81.2%** |
| Deposits with agreed maturity | | 25,748 | 31.2% | 15.1% | 33.7% | 20.0% | - |
| Sight accounts | | 118,868 | - | - | - | - | 100.0% |
| Retail issues | | 1,693 | 42.3% | 13.2% | 0.1% | 44.4% | - |

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: non-convertible bonds issued by Banco Sabadell, commercial paper and others.

Million euro / %

| | Note | 2018 | 3 months | 6 months | 12 months | >12 months | No mat. |
|---|---|---|---|---|---|---|---|
| **Total on-balance sheet customer funds (*)** | | **137,343** | **7.3%** | **4.3%** | **7.4%** | **2.6%** | **78.4%** |
| Deposits with agreed maturity | | 26,593 | 32.9% | 18.7% | 37.3% | 11.1% | - |
| Sight accounts | | 107,665 | - | - | - | - | 100.0% |
| Retail issues | | 3,085 | 42.3% | 31.1% | 5.5% | 21.2% | - |

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: non-convertible bonds issued by Banco Sabadell, commercial paper and others.

The downward trend of interest rates in financial markets has caused a shift in the composition of on-balance sheet customer funds from term deposits to demand deposit accounts.

Off-balance sheet customer funds managed by the Group and those sold but not under management are shown in Note 25 to these annual financial statements.

The Group's deposits are sold through the following business units/companies of the Group (Commercial Banking, Corporate Banking and Global Businesses, Private Banking and TSB). Details of the volumes of these business units are included in the Section "Businesses" of the Directors' Report.

In 2019, 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 with its policy to reduce the Group's Loan-to-Deposit (LtD) ratio (from 147% as at 2010 year-end to 98.6% as at 2019 year-end).

*Capital Markets*

During 2019, although the customer funding gap has shown a positive performance allowing the partial refinancing of maturities in the capital market, the level of funding in said market has increased due to the need to comply with regulatory requirements such as MREL (Minimum Requirement for own funds and Eligible Liabilities) focusing on those products in which, given the institution's rating, the cost/term ratio is more adjusted. The outstanding nominal balance of funding in capital markets by product type as at 31 December 2019 and 2018 is shown below:

Million euro

| | 2019 | 2018 |
|---|---|---|
| **Nominal balance** | **22,480** | **21,719** |
| Covered Bonds | 11,951 | 12,165 |
| *Of which: TSB* | *1,469* | *559* |
| Commercial paper and ECP | 633 | 2,353 |
| Senior debt | 3,626 | 1,805 |
| Senior non-preferred debt | 1,451 | - |
| Subordinated debt and preference shares | 3,025 | 3,001 |
| *Of which: TSB* | *453* | *430* |
| Securitisation bonds | 1,779 | 2,381 |
| *Of which: TSB* | *501* | *698* |
| Other | 14 | 14 |

Maturities of issues (excluding securitisations, ECP and commercial papers) by product type and considering its legal maturity aimed at institutional investors as at 31 December 2019 are analysed below:

Million euro

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | >2025 | Balance outstanding |
|---|---|---|---|---|---|---|---|---|
| Covered bonds (*) | 2,015 | 1,808 | 1,707 | 1,388 | 2,732 | 836 | 1,465 | 11,951 |
| Senior Debt (**) | - | 299 | 25 | 973 | 849 | 1,480 | - | 3,626 |
| Senior non-preferred debt (**) | - | - | - | - | 951 | 500 | - | 1,451 |
| Subordinated Debt and Preferred Securities (**) | 413 | - | - | - | - | - | 2,613 | 3,026 |
| Other medium/long term financial instruments (**) | - | 10 | - | - | 3 | - | - | 13 |
| **Total** | **2,428** | **2,117** | **1,732** | **2,361** | **4,535** | **2,816** | **4,078** | **20,067** |

(*) Secured issues.

(**) Unsecured issues.

Banco Sabadell Group is an active participant in capital markets and has a number of funding programmes in operation, with a view to diversifying its sources of liquidity.

In terms of short-term funding, the institution maintains a corporate commercial paper programme and a Euro Commercial Paper (ECP) programme:

- Corporate commercial paper programme: this programme regulates issues of commercial papers and is aimed at institutional and retail investors. On 16 May 2019, the commercial paper programme of Banco Sabadell for 2019 was registered with the CNMV (Spanish Securities Market Commission), with an issue limit of 7 billion euros, eligible to be extended up to 9 billion euros. The outstanding balance of the commercial paper programme has been declining over the year. As at 31 December 2019, the outstanding balance of the programme was of 790 million euros (net of commercial papers subscribed by Group companies), compared with the 2,565 million euros as at 31 December 2018.

- Euro Commercial Paper (ECP) Programme: this programme is aimed at institutional investors, whereby short-term securities are issued in various foreign currencies (EUR, USD and GBP). On 18 December 2015, Banco Sabadell renewed its Euro Commercial Paper Programme for a maximum nominal amount of 3.5 billion euros. As at 31 December 2019, the outstanding balance of the programme was of 290 million euros (net of Euro Commercial Papers subscribed by Group companies), decreasing when compared with the 696 million euros as at 31 December 2018.

Regarding medium- and long-term funding, the institution has the following programmes in effect:

- Programme for the issuance of non-equity securities ("Fixed Income Programme") registered with the CNMV on 4 July 2019, with a maximum issue amount of 16.5 billion euros: this programme regulates the issues of ordinary or non-preferential, subordinated or structured bonds and debentures, as well as covered bonds, public sector covered bonds and mortgage bonds carried out under Spanish law through the CNMV and aimed at both national and foreign institutional and retail investors. The limit available for new issues under the Programme for the issue of non-equity securities for 2019 of Banco Sabadell as at 31 December 2019 was of 14,080 million euros (as at 31 December 2018, the limit available under the 2018 Fixed Income Programme was of 12,280 million euros).

  During 2019, Banco Sabadell has carried out public issues under the Fixed-Income Programme in force at all times for a total of 1,027 million euros. Banco Sabadell has carried out the following issues throughout the year:

Million euro

| | ISIN Code | Type of investor | Issue Date | Amount | Term |
|---|---|---|---|---|---|
| Structured Bonds 1/2019 | ES03138603D5 | Institutional | February-19 | 3 | 3 |
| Sabadell bond I/2019 | ES03138603C7 | Retail | March-19 | 601 | 3 |
| Sabadell bond 3/2019 issue | ES03138603G8 | Institutional | April-19 | 300 | 2 |
| Structured Bonds 2/2019 | ES03138603F0 | Institutional | April-19 | 3 | 3 |
| Sabadell bond 4/2019 | ES03138603H6 | Institutional | November-19 | 120 | 4.5 |

- Euro Medium Term Notes (EMTN) programme, registered with the Irish Stock Exchange on 29 April 2019, and supplemented on 26 July and 25 October 2019. This programme allows (preferred and non-preferred) senior debt and subordinated bonds to be issued in any currency, with a maximum limit of 10 billion euros.

  During 2019, Banco Sabadell has carried out issues under the EMTN Programme in force at any given time for a total of 3 billion euros, including the inaugural issue of 5-year non-preferred senior debt for an amount of 1 billion on 10 May 2019 and a senior preferred issue with a nominal value of 500 million, maturing in 6 years, with an early cancellation option in favour of Banco Sabadell in the fifth year. Banco Sabadell has carried out the following issues throughout the year:

Million euro

| | ISIN Code | Type of investor | Issue Date | Amount | Term |
|---|---|---|---|---|---|
| Senior Non Preferred 1/2019 issue | XS1991397545 | Institutional | May-19 | 1,000 | 5 |
| Senior bond 1/2019 issue | XS2028816028 | Institutional | July-19 | 1,000 | 6 |
| Senior Non Preferred 2/2019 issue | XS2055190172 | Institutional | September-19 | 500 | 5.5 |
| Senior bond 2/2019 issue | XS2076079594 | Institutional | November-19 | 500 | 6 |

- In addition, on 15 February 2019, TSB issued 500 million pounds in covered bonds to the institutional market with a 5-year maturity, which it extended on 28 February by a further 250 million pounds to reach a total issue amount of 750 million pounds.

In relation to asset securitisation transactions:

- Since 1993, the Group has been an active participant in this market and has taken part in a number of securitisation programmes, in some cases together with other highly solvent institutions, awarding mortgage loans, SME loans, consumer loans and credit claims arising from finance lease agreements.
- There are currently 21 outstanding asset securitisation transactions recognised fully on the balance sheet (including those performed by Banco Guipuzcoano, Banco CAM, BMN, Banco Gallego and TSB). Although part of the bonds issued were retained by the institution as liquid assets eligible for funding operations with the European Central Bank, the rest of the bonds were placed in capital markets. As at the end of 2019, the balance of securitisation bonds placed in the market stood at 1,779 million euros.
- In the third quarter of 2019, Banco Sabadell sold all the tranches of the Sabadell Consumer Securitisation Fund 1 to the market, including the excess margin tranche. This is Banco Sabadell's first securitisation of consumer loans, amounting to 1 billion euros. This transaction has been implemented as a capital and liquidity management tool.

In March 2016, the European Central Bank announced new economic stimulus measures through a new targeted longer-term refinancing operations programme (TLTRO II), consisting of four auctions of liquidity at a term of four years, to be performed between June 2016 and March 2017. Banco Sabadell took part in TLTRO II for a total amount of 20.5 billion euros (10 billion euros in the first auction of June 2016 and 10.5 billion euros in the last auction of March 2017). In June and September 2019, Banco Sabadell carried out the early amortisation of TLTRO II for a value of 5 billion and 2 billion euros, respectively. The balance drawn down under this programme at the end of 2019 amounted to 13.5 billion euros, of which 3 billion euros will mature in June 2020 and 10.5 billion euros in March 2021.

In 2016, the Bank of England also implemented a package of measures to support economic growth. This package includes the introduction of the Term Funding Scheme (TFS), a scheme to incentivise lending which was implemented in August 2016 by the Bank of England, through which British banks could carry out 4-year drawdowns in exchange for the provision of collateral eligible as consideration. TSB, as a member of the Sterling Monetary Framework (SMF), made use of the TFS throughout 2017, drawing 6,606 million euros, and also in February 2018, with an additional drawdown of 999 million euros. In August and November 2019, TSB carried out early repayments of the amount drawn under the TFS amounting to 529 and 1,822 million euros, respectively. This brings the amount drawn down under this programme to 5,254 million euros at the end of 2019.

*Liquid Assets*

In addition to these sources of funding, the Group maintains a liquidity buffer in the form of liquid assets with which to meet potential liquidity needs.

Million euro

| | 2019 | 2018 |
|---|---|---|
| Cash (*) + Net Interbank Position | 7,044 | 18,229 |
| Funds available in Bank of Spain facility (**) | 7,633 | 4,081 |
| ECB eligible assets not pledged in facility | 21,335 | 12,468 |
| Other non-ECB eligible marketable assets | 3,518 | 2,177 |
| *Memorandum item:* | | |
| *Balance drawn from Bank of Spain facility (***)* | *14,613* | *21,548* |
| *Balance drawn from Bank of England Term Funding Scheme* | *5,254* | *7,233* |
| **Total Liquid Assets Available** | **39,530** | **36,955** |

(*) Excess reserves at Central Banks.

(**) Market value, and after applying the Liquidity Coverage Ratio (LCR) haircut. Includes Fixed Income qualifying as a high quality liquid asset according to LCR (HQLA) and other marketable assets from different Group entities.

(***) Includes TLTRO-II and borrowing of USD 1,250 million from the ECB for a period of 3 weeks.

With respect to 2018, the Group's first line of liquidity has grown by 2,575 million euros, mainly due to the generation of a positive customer funding gap and liquidity inflows associated with the sale of real estate portfolios during the year. The balance of Central Bank reserves and the net interbank position have decreased by 11,185 million euros in 2019, mainly due to the early repayment of TLTRO II, as well as a reduction in net repo funding during the year. There is also a volume of ECB eligible liquid assets, whose volume over the year has increased by 12,419 million euros, while available non-ECB eligible assets have grown by 1,341 million euros.

In the case of TSB, the first line of liquidity as at 31 December 2019 is mainly comprised of high quality and liquidity assets, mainly gilts, amounting to 2,578 million euros (1,372 million euros as at 31 December 2018) and a surplus of reserves in the Bank of England (BoE) amounting to 4,803 million euros (7,703 million euros as at 31 December 2018), mostly as a result of the TFS drawdowns made.

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 which meet the eligibility, availability and liquidity criteria set forth both internally and in regulations in order to comply with regulatory minima.

There are no significant amounts of cash or cash equivalents that are unavailable for use by the Group.

In addition to the first line of liquidity, a buffer is maintained by the institution comprising of real estate assets and loans to general governments eligible as collateral for covered bonds and public sector covered bonds respectively, which at the end of 2019 contributed 4,640 million euros in terms of the capacity to issue new treasury bonds eligible as collateral in return for access to the ECB facility. At the end of 2019, available liquidity amounted to 44,170 million euros in cash, corresponding to the amount of the first line of liquidity plus the Bank's capacity to issue covered bonds and public sector covered bonds as at this date.

*Compliance with regulatory ratios*

As part of its liquidity management approach, Banco Sabadell Group monitors the short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) and reports the necessary information to the regulator on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of the liquidity risk control in the set of UGLs.

In terms of LCR, as of 1 January 2018, the regulatory required minimum LCR is 100%, a level which is amply surpassed by all of the institution's UGLs. At Group level, throughout the year, the LCR has consistently been well above 100%. As at the end of December 2019, the LCR stands at 184% (excl. TSB) and at 231% in TSB.

As for the NSFR ratio, it is due to come into force in June 2021. However, the Group has already started to monitor this ratio as a liquidity metric for UGLs.

Given the Group's funding structure, with a preponderance of customer deposits, and as the majority of its market funding is in the medium-/long-term, the Group has maintained stable levels consistently well over 100%.

### 3.4.3.2. Market risk

Market risk is defined as the risk of financial asset positions losing their market value due to changes in risk factors affecting their quoted price or market performance, their volatility, or the interconnections that exist between them.

Positions that generate market risk are usually held in connection with trading activity, which consists of hedging transactions arranged by the Bank to provide services to its customers as well as discretionary proprietary positions.

It may also arise simply due to maintaining overall balance sheet positions (also known as structural positions) that in net terms are left open. In the latter case, the institution uses the market risk management and monitoring system to manage its structural foreign exchange risk position.

The items of the consolidated balance sheet as at 31 December 2019 and 2018 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

| | On-balance sheet balance | Trading activity | Rest | Main risk factor for balance sheet under "Rest" |
|---|---|---|---|---|
| **Assets subject to market risk** | **178,398,801** | **1,757,516** | **176,641,286** | |
| Cash, cash balances at central banks and other demand deposits | 8,792,496 | - | 8,792,496 | Interest rate |
| Financial assets held for trading | 2,303,449 | 1,665,843 | 637,607 | Interest rate; credit spread |
| Non-trading financial assets mandatorily at fair value through profit or loss | 119,164 | - | 119,164 | Interest rate; credit spread |
| Financial assets at fair value through other comprehensive income | 5,419,218 | 91,673 | 5,327,545 | Interest rate; credit spread |
| Financial assets at amortised cost | 146,894,393 | - | 146,894,394 | Interest rate |
| Derivatives – Hedge accounting | 358,373 | - | 358,373 | Interest rate |
| Investments in joint ventures and associates | 5,490,128 | - | 5,490,129 | Exchange rate |
| Other financial assets | 225,437 | - | 225,437 | Interest rate |
| Other non-financial assets | 8,796,143 | - | 8,796,141 | - |
| **Liabilities subject to market risk** | **167,082,294** | **2,012,614** | **165,069,680** | |
| Financial liabilities held for trading | 2,563,334 | 2,012,614 | 550,720 | Interest rate |
| Financial liabilities designated at fair value through profit or loss | | | | Interest rate |
| Derivatives – Hedge accounting | 380,884 | - | 380,884 | Interest rate |
| Financial liabilities measured at amortised cost | 162,419,750 | - | 162,419,750 | Interest rate |
| Provisions | 823,452 | - | 823,452 | Interest rate |
| Other financial liabilities | 173,129 | - | 173,129 | Interest rate |
| Other non-financial liabilities | 721,745 | - | 721,745 | - |
| **Equity** | **11,316,507** | **-** | **11,316,506** | |

Thousand euro

| | On-balance sheet balance | Trading activity | Rest | Main risk factor for balance sheet under "Rest" |
|---|---|---|---|---|
| **Assets subject to market risk** | **178,987,816** | **1,974,271** | **177,013,545** | |
| Cash, cash balances at central banks and other demand deposits | 14,816,294 | - | 14,816,294 | Interest rate |
| Financial assets held for trading | 1,905,552 | 1,564,828 | 340,724 | Interest rate |
| Non-trading financial assets mandatorily at fair value through profit or loss | 138,301 | - | 138,301 | Interest rate; credit spread |
| Financial assets at fair value through other comprehensive income | 10,061,773 | 409,443 | 9,652,330 | Interest rate; credit spread |
| Financial assets at amortised cost | 135,938,959 | - | 135,938,959 | Interest rate |
| Derivatives – Hedge accounting | 180,771 | - | 180,771 | Interest rate |
| Investments in joint ventures and associates | 5,362,502 | - | 5,362,502 | Equity; Exchange rate |
| Other financial assets | 98,684 | - | 98,684 | Interest rate |
| Other non-financial assets | 10,484,980 | - | 10,484,980 | |
| **Liabilities subject to market risk** | **168,699,729** | **1,319,238** | **167,380,491** | |
| Financial liabilities held for trading | 1,634,324 | 1,319,238 | 315,086 | Interest rate |
| Derivatives – Hedge accounting | 244,496 | - | 244,496 | Interest rate |
| Financial liabilities measured at amortised cost | 165,545,469 | - | 165,545,469 | Interest rate |
| Provisions | 663,708 | - | 663,708 | Interest rate |
| Other financial liabilities | 14,771 | - | 14,771 | Interest rate |
| Other non-financial liabilities | 596,961 | - | 596,961 | |
| **Equity** | **10,288,087** | **-** | **10,288,087** | |

The market risk acceptance, management and oversight system is based on managing positions expressly assigned to different trading desks and the establishment of limits for each one, in such a way that the trading desks have the obligation to manage their positions within the limits established by the risks unit.

*Trading activity*

The main market risk factors considered by the Group in its trading activity are:

- Interest rate risk: risk associated with the possibility of interest rate fluctuations adversely affecting the value of a financial instrument. This is reflected, for example, in transactions involving interbank deposits, fixed income and interest rate derivatives.

- Credit spread risk: this risk arises from fluctuations in the credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This risk occurs mainly in fixed-income instruments.

- Exchange rate risk: risk associated with the fluctuation in 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 their derivatives.

- Equity price risk: risk arising from fluctuations in the value of capital instruments (shares and 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, since the Group's has residual (both direct and underlying) exposures.

Market risk in trading activities is measured using the VaR and stressed VaR methodologies. This allows for a standardisation of risks 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 that influence 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 liquidity level 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 the full revaluation of the transactions under recent historical scenarios, and that no assumptions are required concerning the distribution of market prices. The main limitation to this methodology is its reliance on historical data, given that, if a potential 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 considered confidence level. Backtesting consists of comparing daily VaR against daily results. If losses exceed the level of VaR, an exception occurs. In 2019, there were no exceptions in the backtesting due to the low exposure within the trading activity to the significant events of the year, such as pound fluctuations due to Brexit uncertainty and the devaluations of the euro against the dollar throughout the year in an environment of trade tensions between China and the US.

Stressed VaR is calculated in the same way as VaR but with a historical insight into variations of the risk factors in stressed market conditions. This stress situation is determined on the basis of currently outstanding transactions, and it can vary if the portfolios' risk profile changes. The methodology used for this risk metric is historical simulation.

Its supervision is supplemented with additional measurements such as risk sensitivities, which refer to a change in the value of a position or portfolio in response to a change in a specific risk factor, and also with the calculation of management results, which are used to monitor stop-loss limits.

Furthermore, specific simulation exercises are carried out applying extreme market scenarios (stress testing), which analyse the impacts of different historical and theoretical scenarios on the portfolios.

Market risks are monitored on a daily basis and reports are made to the control bodies on the existing risk levels and on the compliance with the limits set forth by the Board Risk Committee for each management unit (limits based on nominal, VaR and sensitivity, as applicable). This makes it possible to keep track of changes in exposure levels and measure the contribution of market risk factors.

Market risk incurred on trading activity in terms of the 1-day VaR with a 99% confidence interval for 2019 and 2018 is as follows:

Million euro

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Average | Maximum | Minimum | Average | Maximum | Minimum |
| Interest rate risk | 0.63 | 1.23 | 0.42 | 2.35 | 26.73 | 0.41 |
| Currency risk-trading | 0.04 | 0.13 | 0.01 | 0.11 | 0.27 | 0.04 |
| Equities | 0.43 | 1.36 | 0.13 | 0.59 | 1.59 | 0.29 |
| Credit spread | 0.54 | 1.27 | 0.08 | 0.15 | 0.61 | 0.07 |
| **Aggregate VaR** | **1.64** | **2.32** | **0.97** | **3.19** | **27.46** | **0.97** |

The preceding table shows the market risk associated with trading activity, initially including interest rate derivatives (swaps) under accounting hedges, which were discontinued in 2018, between the date of discontinuation of the accounting hedge and the subsequent final cancellation of the derivative. Taking into account only trading activity excluding discontinued hedging derivatives, the average VaR over 1 day and with a 99% confidence interval stood at 1.73 million euros in 2018.

*Structural interest rate risk*

Structural interest rate risk is inherent in banking activities and is defined as the current or future risk to both the income statement (income and expenses) and the economic value (present value of assets, liabilities and off-balance sheet positions) arising from adverse interest rate fluctuations affecting interest rate-sensitive instruments in non-trading activities (also known as IRRBB, Interest Rate Risk in the Banking Book).

The Group identifies three interest rate sub-risks:

- Repricing risk arising from the different rate at which assets and liabilities renew their interest rate. It covers both parallel changes in the interest rate curve and non-parallel changes (i.e. changes in the slope and shape of the curve).
- Basis risk arising from having financial instruments with similar pricing terms but based on different benchmarks.
- Optionality risk arising from explicit or implicit options on assets and liabilities, in which the institution or the customer or counterparty may alter the level and/or timing of their flows. Automatic options, related to the evolution of interest rates, and those related to the behaviour of customers that do not only depend on interest rates are considered.

The management of this risk pursues two fundamental objectives:

- To stabilise and protect net interest income by preventing interest rate movements from causing excessive variations in the budgeted margin.
- To minimise the volatility of economic value, this perspective being complementary to that of the margin.

Interest rate risk is managed through a global approach at Group level 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 divisions, each UGB has the autonomy and capacity to carry out risk management and control duties.

The Group's current interest rate risk management strategy is based particularly on the following principles, in line with the business model and the defined strategic objectives:

- Each UGB has appropriate tools and processes and robust systems in order to properly identify, measure, manage, control and report on IRRBB. Thus, the Group obtains information from all of the identified sources of IRRBB, assesses their effect on net interest margin and the economic value of equity and measures the vulnerability of the Group/UGB in the event of potential losses deriving from IRRBB under different stress scenarios.
- At the corporate level, the Group establishes a set of limits for overseeing and monitoring the level of IRRBB exposure that are appropriate to its internal risk tolerance policies. However, each UGB is given discretions to set any other additional limits deemed necessary, based on their specific needs and the nature of their activities.
- The existence of a funds transfer pricing system.
- The set of systems, processes, metrics, limits, reporting and governance system covered by the IRRBB strategy must comply with regulatory requirements at all times.

As defined in the IRRBB's management and control policy, the first line of defence is undertaken by the Balance Sheet Management Units (UGB), which report to local Asset and Liability Committees. Their main function is to manage interest rate risk, guaranteeing its recurrent evaluation through management and regulatory metrics, taking into account the modelling of the various balance sheet items and the level of risk taken.

The metrics developed to control and monitor Banco Sabadell structural interest rate risk are aligned with the market's best practices and are consistently implemented by local Asset and Liability Committees. The diversification effect between currencies is taken into account when presenting overall figures.

The metrics that Banco Sabadell calculates monthly are as follows:

- Interest rate gap: static metric showing the distribution of maturities and repricing of sensitive balance sheet items. This metric compares the amounts of assets that are reviewed or mature in a given period and the liabilities that mature or reprice in that same period.
- Net interest margin sensitivity: dynamic metric that measures the short- and medium-term impact of interest rate fluctuations. It is obtained by comparing the 1-year net interest margin in the baseline scenario, which would be the one obtained from implicit market rates, and the one obtained in a scenario of instant disruption, always considering the result obtained in the most unfavourable scenario.
- Economic value sensitivity: static metric that measures the long-term impact of interest rate fluctuations. It is obtained by comparing the economic value of the balance sheet in the baseline scenario and the one obtained in a scenario of instant disruption, always considering the result obtained in the most unfavourable scenario. This is done by calculating the present value of interest rate-sensitive items as a discount to the risk-free interest rate curve on the reference date of future principal and interest flows without taking account of the trade margins, in line with the IRRBB management strategy followed.

In the quantitative estimates of interest rate risk made by Banco Sabadell, a series of interest rate scenarios are designed to capture the various sources of risk mentioned above. These scenarios include, for each significant currency, parallel movements and non-parallel movements in the interest rate curve. On this basis, the sensitivity is calculated as the difference of:

- Baseline scenario: market interest rate movements based on implicit interest rates.
- Stressed scenario: from the baseline scenario, a shift in interest rates takes place depending on the scenario to be calculated. A minimum post-disruption interest rate is applied, starting with -100 bps for immediate maturities and increasing by 5 bps to 0% in 20 years or more.

Also, in accordance with the Group’s corporate principles, Banco Sabadell periodically performs stress exercises that enable it to project situations of high impact and low likelihood of occurrence that could place the Bank in an extreme exposure with respect to interest rate risk and to propose mitigating actions in such situations.

The following table gives details of the Bank’s interest rate gap as at 31 December 2019 and 2018:

Thousand euro

| | 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Time to revision or 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 | 16,821,818 | 1,602,952 | 1,958,581 | 517,913 | 27,700 | - | - | - | **20,928,965** |
| Loans and receivables | 14,977,134 | 23,844,020 | 39,437,163 | 5,622,290 | 7,224,351 | 4,472,393 | 2,678,139 | 12,079,636 | **110,335,125** |
| Debt securities | 644,613 | 239,023 | 913,024 | 492,755 | 392,330 | 197,309 | 1,513,158 | 16,721,766 | **21,113,977** |
| Other assets | - | - | - | - | - | - | - | - | **-** |
| **Total assets** | **32,443,564** | **25,685,995** | **42,308,768** | **6,632,958** | **7,644,380** | **4,669,701** | **4,191,297** | **28,801,402** | **152,378,067** |
| Money Market | 7,587,381 | 2,871,010 | 4,635,973 | 10,893,765 | - | - | - | - | **25,988,129** |
| Customer funds | 39,077,458 | 6,914,621 | 17,850,772 | 7,943,595 | 5,463,917 | 3,942,706 | 2,678,925 | 22,542,085 | **106,414,078** |
| Marketable debt securities | 1,325,409 | 3,372,642 | 3,102,089 | 1,956,000 | 2,526,659 | 2,539,000 | 3,630,000 | 4,338,136 | **22,789,935** |
| *Of which: Subordinated liabilities* | *-* | *-* | *424,600* | *-* | *1,150,000* | *500,000* | *-* | *515,025* | ***2,589,625*** |
| Other liabilities | 114,192 | 193,420 | 605,057 | 257,827 | 203,178 | 166,437 | 143,618 | 884,860 | **2,568,589** |
| **Total liabilities** | **48,104,439** | **13,351,693** | **26,193,891** | **21,051,188** | **8,193,755** | **6,648,143** | **6,452,543** | **27,765,080** | **157,760,732** |
| **Hedging Derivatives** | 2,614,149 | (862,437) | (1,561,368) | (69,049) | 487,666 | 239,188 | 1,929,229 | (2,777,378) | **-** |
| **Interest rate gap** | **(13,046,726)** | **11,471,865** | **14,553,509** | **(14,487,279)** | **(61,708)** | **(1,739,254)** | **(332,017)** | **(1,741,055)** | **(5,382,665)** |

Thousand euro

| | 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Time to revision or 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 | 19,574,429 | 969,115 | 1,305,208 | - | - | 17,784 | - | - | **21,866,536** |
| Loans and receivables | 13,966,144 | 27,000,280 | 40,773,920 | 4,789,850 | 3,604,170 | 3,769,973 | 3,177,081 | 10,013,454 | **107,094,872** |
| Debt securities | 283,267 | 624,654 | 597,102 | 692,179 | 605,775 | 287,281 | 1,141,811 | 18,410,395 | **22,642,464** |
| Other assets | - | - | - | - | - | - | - | - | **-** |
| **Total assets** | **33,823,840** | **28,594,049** | **42,676,230** | **5,482,029** | **4,209,945** | **4,075,038** | **4,318,892** | **28,423,849** | **151,603,872** |
| Money Market | 8,704,207 | 1,749,446 | 1,166,790 | 10,264,091 | 10,500,000 | - | - | - | **32,384,534** |
| Customer funds | 33,664,827 | 7,673,472 | 20,558,675 | 5,692,937 | 4,366,358 | 2,737,917 | 2,842,600 | 22,443,034 | **99,979,820** |
| Marketable debt securities | 2,009,516 | 4,469,927 | 5,590,742 | 2,646,285 | 1,656,000 | 1,919,244 | 2,554,000 | 4,858,136 | **25,703,850** |
| *Of which: Subordinated liabilities* | - | - | - | *424,600* | - | *1,150,000* | *500,000* | *515,025* | ***2,589,625*** |
| Other liabilities | 147,305 | 220,654 | 721,221 | 195,361 | 126,033 | 76,811 | 51,152 | 196,056 | **1,734,593** |
| **Total liabilities** | **44,525,855** | **14,113,499** | **28,037,428** | **18,798,674** | **16,648,391** | **4,733,972** | **5,447,752** | **27,497,226** | **159,802,797** |
| **Hedging Derivatives** | 2,940,448 | (1,879,696) | (4,788,006) | 189,534 | 979,499 | 316,519 | 2,410,007 | (168,305) | **-** |
| **Interest rate gap** | **(7,761,567)** | **12,600,854** | **9,850,796** | **(13,127,111)** | **(11,458,947)** | **(342,415)** | **1,281,147** | **758,318** | **(8,198,925)** |

The following table shows the interest rate risk levels in terms of the sensitivity of the Bank's main currencies, as at 2019 year-end, to the most frequently used interest rate scenarios in the sector.

| | Instant and parallel increase of 100 bps | |
|---|---|---|
| Interest rate sensitivity | Impact on net interest margin | Impact on economic value of equity |
| EUR | 5.7% | (2.3%) |
| USD | (0.1%) | (0.0%) |

The calculation of the metrics takes into account the assumptions on the behaviour of items with no contractual maturity and those whose expected maturity is different from the maturity established in the agreements, in order to obtain a more realistic view and therefore more effective for management purposes. Among the most relevant are:

- Prepayment of the loan portfolio and early cancellation of term deposits (implicit optionality): in order to reflect the behaviour of customers in relation to interest rate movements, prepayment/cancellation assumptions are defined and segmented by product type. To this end, the institution uses historical data to allow such assumptions to be aligned with the market's best practices.

- Modelling of sight accounts and other liabilities with no contractual maturity: a model has been defined on the basis of monthly historical data with the aim of reproducing customer behaviour, establishing stability parameters, the percentage of translation of interest rate movements to remuneration and the delay with which this occurs, according to product and customer type, enabling the institution to meet current regulatory requirements.

- Modelling of non-performing loans: a model has been defined that enables the expected flows associated with these non-performing loans (net of provisions), i.e. those expected to be recovered, to be included within the scope of interest rate-sensitive items. Accordingly, both the balances and the estimated recovery periods have been incorporated.

The approval and updating of the IRRBB models is part of the corporate governance of models whereby these models are reviewed and validated by a division independent from the one that has developed 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 captured and recorded taking into account their interest rate characteristics, the sources of information being the official ones of the institution on which quality, consistency and completeness controls have been established. These transactions are aggregated according to predefined criteria, so that greater agility is allowed in the calculations without losing quality or reliability of data. Additionally, a regular reconciliation process of the information loaded into the measurement tool with the accounting information is carried out.

Based on the positioning of the balance sheet and the market situation and outlook, mitigation strategies are proposed and agreed upon to adapt this positioning to the one desired by the Bank. As such techniques, interest rate instruments are used in addition to the natural hedges of balance sheet items, such as fixed-income bond portfolios or hedging derivatives that enable the metrics to be placed at levels appropriate to the institution's risk appetite. In addition, it may be proposed 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-hedging are used:

- Interest rate risk macro-hedging of cash flows, the purpose of which is to reduce the volatility of the net interest margin in the event of interest rate fluctuations, for a one-year time horizon.
- Interest rate risk macro-hedging of fair value, the purpose of which is to maintain the economic value of the hedged items, consisting of assets and liabilities at a fixed interest rate.

For each type of macro-hedging, there is a framework document that includes the hedging strategy, defining it in terms of management and accounting, as well as 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.

*Structural foreign exchange risk*

Structural foreign exchange risk arises in the event that changes in market exchange rates between different currencies generate losses on financial investments and on permanent investments in foreign branches and subsidiaries with functional currencies other than the euro.

The purpose of managing structural foreign exchange risk is to minimise the impact on the value of the portfolio/the institution's equity in the event of any adverse movements in currency markets. The foregoing takes into account the potential impacts on the capital (CET1) ratio and on the net interest margin, subject to the risk appetite defined in the RAS. Furthermore, the established levels for the risk metrics must be complied with at all times.

Foreign exchange risk is monitored regularly, and reports on current risk levels and on compliance with the limits set forth by the Board Risk Committee are sent to the risk control bodies. The main monitoring metric is currency exposure (measured as a percentage of Tier 1), which measures the sum of the net open position (assets less liabilities) maintained by the institution in each currency through any type of financial instrument (FX spots, forwards and options), valued in euros and in terms of Tier 1.

Compliance with, and the effectiveness of, the Group's objectives and policies are monitored and reported on a monthly basis to the Board Risk Committee and to the Audit and Control Committee, respectively.

The Bank's Financial Division, through the ALCO, designs and executes strategies to hedge structural FX positions in order to achieve its objectives in relation to the management of structural foreign exchange risk.

As regards permanent investments in US dollars, the structural position in this currency has gone from 913 million US dollars as at 31 December 2018 to 958 million US dollars as at 31 December 2019. In relation to this structural position, as at 31 December 2019, coverage is maintained at 21% of total investment.

In terms of permanent investments in Mexican pesos, the evolution of balances deriving from the business in Mexico is monitored, as is the EUR/MXN currency pair, in order to maintain a coverage level of over 70% of the total exposure in this currency. This has enabled the capital buffer to go from 10,630 million Mexican pesos as at 31 December 2018 (of a total exposure of 12,763 million Mexican pesos) to 9,998 million Mexican pesos as at 31 December 2019 (of a total exposure of 13,175 million Mexican pesos). See Note 11 on the *"Hedges of net investments in foreign operations"* section.

As for the structural position in pounds sterling, the Group has been implementing a hedging policy that seeks to mitigate any negative effects on capital ratios and on revenue generated by its business in GBP that may result from fluctuations in the aforementioned EUR/GBP exchange rate. Accordingly, Banco de Sabadell, S.A. has continuously monitored the political situation in the United Kingdom and its impact on the exchange rate. Considering the foregoing, during 2019 the capital buffer has gone from 1,368 million pounds as at 31 December 2018 to 573 million pounds as at 31 December 2019, representing 33% of the total investment made (excluding intangibles). See Note 11, on the *"Hedges of net investments in foreign operations"* section.

Currency hedges are continuously monitored in light of market fluctuations.

The exchange value in euros of assets and liabilities in foreign currencies maintained by the Bank as at 31 December 2019 and 2018, classified in accordance with their nature, is as follows:

Thousand euro

| | 2019 | | | |
|---|---|---|---|---|
| | USD | GBP | Other currencies | TOTAL |
| **Assets denominated in foreign currency:** | **9,626,262** | **3,759,934** | **1,098,403** | **14,484,599** |
| Cash, cash balances with central banks and other demand deposits | 461,998 | 21,676 | 39,320 | 522,994 |
| Debt securities | 1,245,879 | - | 43,342 | 1,289,221 |
| Loans and advances | 7,754,656 | 1,457,290 | 357,136 | 9,569,082 |
| Central banks and Credit institutions | 857,656 | 5,075 | 45,371 | 908,102 |
| Customers | 6,897,000 | 1,452,215 | 311,765 | 8,660,980 |
| Other assets | 163,729 | 2,280,968 | 658,605 | 3,103,302 |
| **Liabilities denominated in foreign currency:** | **9,429,442** | **429,105** | **289,182** | **10,147,729** |
| Deposits | 9,201,660 | 400,224 | 271,531 | 9,873,415 |
| Central banks and Credit institutions | 2,018,717 | 45,741 | 153,739 | 2,218,197 |
| Customers | 7,182,943 | 354,483 | 117,792 | 7,655,218 |
| Other liabilities | 227,782 | 28,881 | 17,651 | 274,314 |

Thousand euro

| | 2018 | | | |
|---|---|---|---|---|
| | USD | GBP | Other currencies | TOTAL |
| **Assets denominated in foreign currency:** | **10,205,326** | **3,465,986** | **1,095,484** | **14,766,796** |
| Cash, cash balances at central banks and other demand deposits | 261,319 | 44,209 | 43,948 | 349,476 |
| Debt securities | 1,674,754 | 43 | 40,451 | 1,715,248 |
| Loans and advances | 8,071,039 | 1,228,050 | 387,654 | 6,986,743 |
| Central banks and Credit institutions | 918,711 | 5,933 | 32,575 | 957,219 |
| Customers | 7,152,328 | 1,222,117 | 355,079 | 8,729,524 |
| Other assets | 198,214 | 2,193,684 | 623,431 | 3,015,329 |
| **Liabilities denominated in foreign currency:** | **9,221,392** | **600,818** | **189,408** | **10,011,618** |
| Deposits | 8,991,507 | 582,059 | 171,480 | 9,745,046 |
| Central banks and Credit institutions | 2,787,941 | 109,800 | 33,598 | 2,931,339 |
| Customers | 6,203,566 | 472,259 | 137,882 | 6,813,707 |
| Other liabilities | 229,885 | 18,759 | 17,928 | 266,572 |

The net position of foreign currency assets and liabilities includes the structural position of the institution, valued at the exchange rates at the end of the analysed month, which amounted to 2,209 million euros, of which 1,342 million euros corresponded to permanent shareholdings in GBP, 675 million euros corresponded to permanent shareholdings in USD, 150 million euros corresponded to permanent shareholdings in MXN and 42 million euros to permanent shareholdings in MAD. Net assets and liabilities valued at fixing rate are hedged with forwards and options denominated in foreign currencies in line with the Group's risk management policy.

As at 2019 year-end, the equity exposure sensitivity to a 2% devaluation in exchange rates against the euro of the main currencies to which the Bank is exposed amounted to 44 million euros, of which 61% correspond to the pound sterling, 31% to the US dollar and 7% to the Mexican peso. This potential devaluation is in line with historical quarterly volatility in recent years.

### 3.4.4. 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.

The effective 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 specialised in the management of operational risk, whose main functions are to coordinate, oversee and promote the identification, assessment and management of risks by the process managers, based on the management model adopted by Banco Sabadell Group.

Senior Management and the Board of Directors are directly involved and effectively take part in managing this risk by approving the management framework and its implementation as proposed by the Board Risk Committee. The latter is formed of Senior Management members from different functional areas within the institution. The management of this risk also requires regular audits to be carried out of the application of the management framework and the reliability of the information provided, as well as internal validation tests of the operational risk model. Operational risk management is based on two lines of action:

The first line of action is based on the analysis of processes, the identification of risks associated with such 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 which lets the Bank know its future exposure to the risk in terms of expected and unexpected loss and also allows trends to be foreseen and the corresponding mitigating actions to be adequately planned.

This is complemented by the identification, monitoring and active management of the risk through the use of key risk indicators. These allow warnings to be established, which alert the Bank to any increase in this exposure, and also enable the identification of the causes for this increase, and the measurement of the effectiveness of the implemented controls and improvements.

At the same time, a check is carried out to ensure that processes identified as being highly critical in the event of discontinued service have specific business continuity plans defined and in place. In terms of the identified risks, a qualitative estimate is made of the reputational impact that these risks could cause in the event of their occurrence.

The second line of action is based on experience. It consists in recording all losses incurred by the institution in a database, which provides information about operational risks encountered by each line of business as well as their causes, so that action may be taken to minimise these risks and detect potential weaknesses in the processes that require action plans aimed at mitigating the associated risks. Also included are the recoveries that make it possible to reduce the level of loss either as a result of direct management or by having an insurance policy that covers all or part of the resulting impacts.

Additionally, this information allows the consistency between the estimated losses and the 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:

- Technology risk: Technology risk (or ICT risk) is defined as the current or future risk of losses due to the inadequacy or deficiencies of hardware and software of technical infrastructures, which may compromise the availability, integrity, accessibility and security of infrastructures and data. This includes security risks resulting from inadequate or deficient internal processes or external events, including cyberattacks or inadequate physical security.

- Outsourcing risk: the possibility of incurring losses deriving from 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 or risk of non-compliance.

- Model risk: the possibility of losses arising from decisions made using inadequate models.

- Tax risk is defined as the probability of failing to comply with the objectives set out in Banco Sabadell's tax strategy from a dual perspective and due to either internal or external factors:

  - On one hand, the probability of failing to comply with tax obligations, potentially resulting in an undue shortfall of income, or the occurrence of any other event that generates potential damages for the Bank in terms of meeting its objectives.

  - On the other hand, the probability of incurring an undue income when complying with tax obligations, thus negatively affecting shareholders and other stakeholders.

- Compliance risk is 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 and codes of conduct applicable to the Group's activity.

Reputational risk, understood as the possibility of incurring losses arising from negative publicity related to the institution's practices and businesses, is also managed and controlled according to the methodological framework of Operational Risk, as this is a potential relevant source of reputational risk. This risk also considers the loss of trust in the institution that may affect its solvency.

#### 3.4.4.1 Technology risk

In relation to technology risk, it should be noted that this has become a key focus area in the risk management of Banco Sabadell Group for different reasons:

- Increase in the significance, complexity and use of technology in banking processes.

- Increase in external threats (cybercrime) and their potential impacts on institutions and the financial system in general.

- Implementation of new business models based on data and new technologies and which therefore bring about new risks (emerging risks) which could potentially change Banco Sabadell's risk profile.

Additionally, this risk is not only applicable to the Bank's systems, but it is also applicable to suppliers, given the widespread use of third parties for support in technological and business processes, and this therefore represents a significant risk when it comes to managing outsourcing.

#### 3.4.4.2 Tax risk

Banco Sabadell Group's tax risk policies aim to set out principles and guidelines in order to ensure that any tax risks that may affect the Group's tax strategy and fiscal objectives are systematically identified, measured 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 comply with its tax obligations at all times, adhering to the current legal framework in matters relating to taxation.

Banco Sabadell Group's tax strategy reflects its commitment to promoting responsible taxation, promoting preventive measures and developing key transparency schemes in order to gain the confidence and trust of its various stakeholders.

The tax strategy is governed by the principles of efficiency, prudence, transparency and mitigation of tax risk, and is generally aligned with the business strategy of Banco Sabadell Group.

The Board of Directors of Banco Sabadell, under the mandate set out in the Spanish Capital Companies Act for the improvement of corporate governance, is responsible, and cannot delegate such responsibility, for the following:

- Setting the institution's tax strategy.
- Approving investments and operations of all types which are considered strategic or that have a particular tax risk due to their amounts or special 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 regions classified as tax havens.
- Approving any transaction which, due to its complexity, might undermine the transparency of the institution and its Group.

Thus, the duties of the Board of Directors of Banco Sabadell include the obligation to approve the corporate tax policy and ensure compliance therewith by implementing an appropriate control and oversight system, which is enshrined in the general risk management and control framework of the Group.

#### 3.4.4.3 Compliance risk

As regards compliance risk, one of the essential aspects of Banco Sabadell Group's policy, and the basis of its organisational culture, is strict compliance with all legal provisions, so that the achievement of business objectives must be made compatible, at all times, with subjection 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 current legislation and ensure that professional ethics is manifest in all areas of the Group's activities.

This Division assesses and manages compliance risk in order to minimise the possibility of any failure to comply with such legislation, and to ensure that any instances of non-compliance are identified, reported and diligently resolved. It does this by:

- Monitoring and overseeing the adaptation to new regulations through proactive management to ensure regular and systematic monitoring of legal updates.
- Identifying and periodically evaluating the risks of regulatory compliance in the different areas of activities and contributing to their management in an efficient manner. To this end, to establish, apply and maintain appropriate procedures to prevent, detect, correct and minimise any compliance risk.
- Establishing, in accordance with the above, an updated oversight and control programme, with the appropriate tools and methodologies for control.
- Supervising the risk management activities carried out by the 1st line of defence to ensure that they are aligned with the established policies and procedures.
- Keeping, for at least the period of time established by the legislation in force at any given time, the documentary verification of the controls carried out by the Compliance Division, as well as any other policies and procedures implemented for the best compliance with the regulatory obligations.

- Submitting to the administrative and management bodies the regular or ad-hoc reports on regulatory compliance that are legally required at any given time.

- Reporting to the administrative and management bodies any relevant information on regulatory compliance arising from all areas and activities of each of the Group's entities.

- 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 (Directorate General of Insurance and Pension Plans) and data protection (AEPD).

- Assigning functional responsibilities for regulatory compliance when necessary.

- Intervening in the development process of 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 registration and during the business relationship; applying due diligence measures in accordance with the risk assigned to customers, with special attention to those classified as high risk to which reinforced measures will be applied at the time of registration for their prior acceptance and due updating; managing tracking alerts and identifications of lists of designated persons and transactions of countries subject to international sanctions; performing special analysis of suspicious activities and their communication via alerts; preparing training plans; approving new products, services, channels and business areas and preparing a periodic risk analysis of internal control procedures in the area of AML/CTF and international sanctions, providing support to the Internal Control Body (ICB) responsible for legal compliance on 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 established internal procedures.

- Informing, reviewing or proposing corrective measures and/or responses to incidents detected in matters of conduct or to consultations submitted to the Corporate Ethics Committee (CEC), whose mission is to promote the Group’s ethical conduct to ensure compliance with the principles of action set forth in Banco Sabadell Group Code of Conduct, the Internal Code of Conduct relating to the securities market of Banco Sabadell Group, Banco Sabadell Group General Policy on Conflicts of Interest and the Policy on Criminal Liability Prevention of Banco Sabadell Group.

## Note 4 – Minimum own funds and capital management

As at 31 December 2019 and 2018, the Bank's eligible own funds exceeded those required by the current capital regulatory framework (Directive 2013/36/EU and Regulation EU 575/2013).

Note 5 to Banco Sabadell Group's consolidated annual financial statements describes data and information on capital management.

## Note 5 – Fair value of assets and liabilities

### Financial assets and financial liabilities

The fair value of a financial asset or financial liability at a given date is understood as the amount at which it could be sold or transferred, respectively, as at that date, between two independent and knowledgeable parties acting freely and prudently and without coercion, under market conditions. The most objective and commonly used reference for the fair value of a financial asset or financial liability is the price that would be paid in an organised, transparent and deep market ("quoted price" or "market price").

When there is no market price for a particular financial asset or financial liability, the fair value is estimated from the values established for similar instruments in recent transactions or, alternatively, by using mathematical valuation models that have been suitably tested by the international financial community. When using these models, the particular characteristics of the financial asset or financial liability to be valued are taken into account, particularly the different types of risk that may be associated therewith. The above notwithstanding, the limitations inherent in the valuation models that have been developed and possible inaccuracies in the assumptions and parameters required by these models may result in the estimated fair value of a financial asset or financial liability not precisely matching the price at which the asset or liability could be delivered or settled on the valuation date.

The fair value of financial derivatives quoted on an active market is the daily quoted price.

In the case of instruments for which quoted prices cannot be determined, prices are estimated using internal models developed by the Bank, most of which take data based on observable market parameters as significant inputs. Otherwise, the models make use of other inputs which rely on internal assumptions based on generally accepted practices within the financial community.

For financial instruments, the fair values disclosed in the financial statements are classified according to the following fair value levels:

- Level 1: Fair values are obtained from the (unadjusted) prices quoted on active markets for that instrument.

- Level 2: Fair values are obtained from the prices being quoted on active markets for similar instruments, the prices of recent transactions, expected flows or other valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

- Level 3: Fair values are obtained through valuation techniques in which some significant inputs are not based on observable market data.

Set out below are the main valuation methods, assumptions and inputs used when estimating the fair value of financial instruments classified in Levels 2 and 3, according to the type of 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:<br>- An estimate of pre-payment rates<br>- Issuers' credit risk | - Issuers' credit spreads<br>- 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<br>- Share price listings in organised markets |
| Simple derivatives (a) | Net present value method | Implicit curves calculated based on quoted market prices | This model assumes:<br>- Observable yield curve<br>- FX swaps curve and spot curve |
| Rest of derivatives (a) | For equity derivatives, currencies and commodities:<br>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.)<br>- Volatility surfaces of options.<br>- For forex derivatives Probability of default for the calculation of CVA and DVA (b) |
| | For equity derivatives, currencies and commodities:<br>- Monte Carlo simulations<br>- SABR | Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term.<br>- SABR: stochastic volatility model. | |
| | For interest rate derivatives:<br>- Standard Model<br>- Shifted Libor Market Model | These models assume that:<br>- The standard and shifted models allow negative interest rates.<br>- Forward rates in the term structure of the interest rate curve are fully correlated. | - Term structure of interest<br>- Volatility surfaces of Libor rate options (caps) and swap rates (swaptions)<br>- Probability of default to calculate CVA and DVA (b). |
| | For credit derivatives:<br>- Intensity models | These models assume a default probability structure resulting from term-based default intensity rates. | - Price listings of credit default Swaps (CDS)<br>- 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.

| 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:<br>- An estimate of pre-payment rates<br>- Issuers' credit risk<br>- Other estimates for variables that affect future cash flows: claims, losses, amortisations | - Estimated credit spreads of the issuer or a similar issuer.<br>- Rates of claims, losses and/or amortisations |
| Equity instruments | Cash flow discount method | Calculation of the present value of future cash flows discounted at current market interest rates adjusted for risk (CAPM method), taking into account:<br>- An estimate of the company's estimated cash flows<br>- Risk in the company's sector<br>- Macroeconomic inputs | Entity's business plans:<br>- Risk premiums of the company's sector<br>- Adjustment for systemic Risk (Beta Parameter) |
| Derivatives (a) | For equity derivatives, currencies and commodities:<br>- Monte Carlo simulations | Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term.<br>- SABR: stochastic volatility model. | For equity derivatives, inflation, currencies and commodities:<br>- Historic volatility<br>- Historic correlation<br>- Probability of internal default for the calculation of CVA and DVA (b) |
| | For credit derivatives:<br>- Intensity models | These models assume a default probability structure resulting from term-based default intensity rates. | For credit derivatives:<br>- Estimated credit spreads of the issuer or a similar issuer.<br>- Historic volatility of credit spreads |
| | For interest rate derivatives:<br>- Standard Model<br>- Libor Market Model | These models assume that:<br>- The standard model allows negative interest rates<br>- Forward rates in the term structure of the interest rate curve are fully correlated. | For interest rate derivatives:<br>- Internal probability of default for the calculation of CVA and DVA (b) |

(a) Given the small net position of Banco Sabadell, the funding value adjustment (FVA) is estimated to have a non-material impact on the valuation of derivatives.

(b) To calculate CVA and DVA, levels of severity fixed at 60% have been used, which corresponds to the market standard for senior debt. Average future, positive and negative exposures have been estimated using market models, Libor for interest rates and the Black-Scholes model for currencies, using market inputs. The probability of default of customers with no quoted debt instruments or CDS have been obtained using the IRB model and for Banco Sabadell those obtained from the CDS stock prices have been assigned.

**Determination of the fair value of financial instruments**

A comparison between the value at which the financial assets and liabilities are recognised on the accompanying balance sheets and the related fair value is given below:

Thousand euro

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | Note | Carrying amount | Fair value | Carrying amount | Fair value |
| **Assets:** | | | | | |
| Cash, cash balances at central banks and other demand deposits | 6 | 8,792,496 | 8,792,496 | 14,816,294 | 14,816,294 |
| Financial assets held for trading | 7, 9 | 2,303,449 | 2,303,449 | 1,905,552 | 1,905,552 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 7 | 119,164 | 119,164 | 138,301 | 138,301 |
| Financial assets at fair value through other comprehensive income | 7, 8 | 5,419,218 | 5,419,218 | 10,061,773 | 10,061,773 |
| Financial assets at amortised cost | 7, 10 | 146,894,393 | 154,156,365 | 135,938,959 | 142,530,539 |
| Derivatives – Hedge accounting | 11 | 358,373 | 358,373 | 180,771 | 180,771 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 225,437 | 225,437 | 98,684 | 98,684 |
| **Total assets** | | **164,112,530** | **171,374,502** | **163,140,334** | **169,731,914** |

Thousand euro

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | Note | Carrying amount | Fair value | Carrying amount | Fair value |
| **Liabilities:** | | | | | |
| Financial liabilities held for trading | 9 | 2,563,334 | 2,563,334 | 1,634,324 | 1,634,324 |
| Financial liabilities measured at amortised cost | 17, 18, 19, 20 | 162,419,750 | 161,444,505 | 165,545,469 | 164,968,172 |
| Derivatives – Hedge accounting | 11 | 380,884 | 380,884 | 244,496 | 244,496 |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | | 173,129 | 173,129 | 14,771 | 14,771 |
| **Total liabilities** | | **165,537,097** | **164,561,852** | **167,439,060** | **166,861,763** |

In relation to financial instruments whose book value differs from their fair value, the latter has been calculated as follows:

– The fair value of the heading "*Cash, cash balances at central banks and other demand deposits*" has been likened to its book value, as these are mainly short-term balances.

– The fair value of the headings "*Financial assets at amortised cost*" and "*Financial liabilities measured at amortised cost*" has been estimated by the discounted cash flow method, using market interest rates at the end of each year, with the exception of debt securities, for which it has been estimated using year-end market prices. The majority of the valuations of these financial assets are considered as Level 2.

– Under the heading "*Fair value changes of hedged items in portfolio hedge of interest rate risk*" of the accompanying balance sheets, adjustments (positive or negative) are recorded measured at the fair value of the financial assets or financial liabilities included in the amortised cost portfolio, which correspond exclusively to hedged interest rate risk. Fair value is calculated using internal models and observable market data variables.

The following tables show the main financial instruments recognised at fair value in the accompanying balance sheets, broken down according to the valuation method used when estimating their fair value:

Thousand euro

| | | 2019 | | | |
|---|---|---|---|---|---|
| | Note | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | | |
| Financial assets held for trading | | 548,524 | 1,754,825 | 100 | 2,303,449 |
| Derivatives | 9 | - | 1,724,407 | - | 1,724,407 |
| Equity instruments | | - | - | - | - |
| Debt securities | 7 | 548,524 | 30,418 | 100 | 579,042 |
| Loans and advances – Customers | | - | - | - | - |
| Non-trading financial assets mandatorily at fair value through profit or loss | | 1,424 | 354 | 117,386 | 119,164 |
| Equity instruments | | - | - | - | - |
| Debt securities | 7 | 1,424 | 354 | 117,386 | 119,164 |
| Loans and advances | | - | - | - | - |
| Financial assets designated at fair value through profit or loss | | - | - | - | - |
| Debt securities | | - | - | - | - |
| Loans and advances – Credit institutions | | - | - | - | - |
| Financial assets at fair value through other comprehensive income | | 5,141,458 | 257,666 | 20,094 | 5,419,218 |
| Equity instruments | 8 | 21,443 | 81,245 | 4,233 | 106,921 |
| Debt securities | 7 | 5,120,015 | 176,421 | 15,861 | 5,312,297 |
| Loans and advances | | - | - | - | - |
| Derivatives – Hedge accounting | 11 | - | 358,373 | - | 358,373 |
| **Total assets** | | **5,691,406** | **2,371,218** | **137,580** | **8,200,204** |

Thousand euro

| | | 2019 | | | |
|---|---|---|---|---|---|
| | Note | Level 1 | Level 2 | Level 3 | Total |
| **Liabilities:** | | | | | |
| Financial liabilities held for trading | | 871,812 | 1,691,522 | - | 2,563,334 |
| Derivatives | 9 | - | 1,691,522 | - | 1,691,522 |
| Short positions | | 871,812 | - | - | 871,812 |
| Deposits with credit institutions | | - | - | - | - |
| Financial liabilities designated at fair value through profit or loss | | - | - | - | - |
| Derivatives – Hedge accounting | 11 | - | 380,884 | - | 380,884 |
| **Total liabilities** | | **871,812** | **2,072,406** | **-** | **2,944,218** |

Thousand euro

| | Note | 2018 | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | | |
| Financial assets held for trading | | 264,866 | 1,640,686 | - | 1,905,552 |
| Derivatives | 9 | - | 1,640,686 | - | 1,640,686 |
| Equity instruments | | - | - | - | - |
| Debt securities | 7 | 264,866 | - | - | 264,866 |
| Loans and advances – Customers | | - | - | - | - |
| Non-trading financial assets mandatorily at fair value through profit or loss | | 24,412 | 39,635 | 74,254 | 138,301 |
| Equity instruments | | - | - | - | - |
| Debt securities | 7 | 24,412 | 39,635 | 74,254 | 138,301 |
| 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 | | 9,604,054 | 452,629 | 5,090 | 10,061,773 |
| Equity instruments | 8 | 54,263 | 139,827 | 5,090 | 199,180 |
| Debt securities | 7 | 9,549,791 | 312,802 | - | 9,862,593 |
| Loans and advances | | - | - | - | - |
| Derivatives – Hedge accounting | 11 | 737 | 180,034 | - | 180,771 |
| **Total assets** | | **9,894,069** | **2,312,984** | **79,344** | **12,286,397** |

Thousand euro

| | Note | 2018 | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| **Liabilities:** | | | | | |
| Financial liabilities held for trading | | 48,121 | 1,586,203 | - | 1,634,324 |
| Derivatives | 9 | - | 1,586,203 | - | 1,586,203 |
| Short positions | | 48,121 | - | - | 48,121 |
| Deposits with credit institutions | | - | - | - | - |
| Financial liabilities designated at fair value through profit or loss | | - | - | - | - |
| Derivatives – Hedge accounting | 11 | 35,871 | 208,625 | - | 244,496 |
| **Total liabilities** | | **83,992** | **1,794,828** | **-** | **1,878,820** |

Derivatives without a collateral contract (CSAs) include Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA) in their fair value. The fair value of these derivatives represents 7.31% of the total, and their adjustment for credit and debit risks represents 3.77% of their fair value.

The movements in the balances of the financial assets and financial liabilities recognised at fair value and classified as Level 3 that are disclosed in the accompanying balance sheets are as follows:

Thousand euro

| | Assets | Liabilities |
|---|---|---|
| **Balance as at 31 December 2017** | **133,181** | **-** |
| Valuation adjustments recognised in profit and loss (*) | (20,296) | - |
| Valuation adjustments not recognised in profit and loss | (129,759) | - |
| Purchases, sales and write-offs | 1,668 | - |
| Net additions/removals in Level 3 | 94,550 | - |
| Exchange differences and other | - | - |
| **Balance as at 31 December 2018** | **79,344** | **-** |
| Valuation adjustments recognised in profit and loss (*) | (38,434) | - |
| Valuation adjustments not recognised in profit and loss | (5,124) | - |
| Purchases, sales and write-offs | (433) | - |
| Net additions/removals in Level 3 | 103,256 | - |
| Exchange differences and other | (1,029) | - |
| **Balance as at 31 December 2019** | **137,580** | **-** |

(*) Relates to securities retained on the balance sheet.

Net level 3 inflows primarily correspond to debt instruments previously classified as level 1 and level 2 whose fair value is now calculated using valuation techniques in which the main significant inputs are based on unobservable data.

Details of financial instruments that were transferred between valuation levels in 2019 are as follows:

Thousand euro

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| From: | Level 1 | | Level 2 | | Level 3 | |
| To: | Level 2 | Level 3 | Level 1 | Level 3 | Level 1 | Level 2 |
| **Assets:** | | | | | | |
| Financial assets held for trading | - | - | - | - | - | - |
| Non-trading financial assets mandatorily at fair value through profit or loss | - | 22,399 | - | 62,229 | - | 505 |
| Financial assets designated at fair value through profit or loss | - | - | - | - | - | - |
| Financial assets at fair value through other comprehensive income | 5,209 | 4,147 | - | 14,987 | - | - |
| Derivatives – Hedge accounting | - | - | - | - | - | - |
| **Liabilities:** | | | | | | |
| Financial liabilities held for trading | - | - | - | - | - | - |
| Financial liabilities designated at fair value through profit or loss | - | - | - | - | - | - |
| Derivatives – Hedge accounting | - | - | - | - | - | - |
| **Total** | **5,209** | **26,546** | **-** | **77,216** | **-** | **505** |

In 2018 there were no transfers between different valuation levels.

As at 31 December 2019, 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.

The instruments considered as Level 3 correspond, among other things, to the interest that the institution holds in the Spanish company for the management of assets arising from the restructuring of the banking system (Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, SAREB), and which, given the unique nature of this investment, is measured at fair value calculated based on the business plan and financial projections of that entity.

Transfers from Level 1 to Level 2 are due to the fact that the markets in which these instruments (mainly bonds issued by Autonomous Communities) are traded are no longer considered as active markets; therefore, their valuation is now calculated using valuation techniques in which all significant inputs are based on directly or indirectly observable market data.

In addition, transfers from Level 1 to Level 3 are due to the fact that the markets in which these instruments (mainly asset-backed securities) are traded are no longer considered as active markets; therefore, their valuations are now calculated using valuation techniques in which one of the main significant inputs (prepayment rate of securitised loans) is based on data that is unobservable in the market.

In addition, transfers from Level 2 to Level 3 are due to the fact that these instruments (mainly perpetual convertible preferred stock) are now calculated using valuation techniques in which one of the main significant inputs (illiquidity discount rate) is based on data that is unobservable in the market.

At the end of both years there were no derivatives using equity instruments as underlying assets or material interests in discretionary gains in any companies.

**Loans and financial liabilities at fair value through profit or loss**

As at 31 December 2019 and 2018, there were no loans or financial liabilities recognised at fair value through profit or loss.

**Financial instruments at cost**

As at the end of 2019 and 2018, there were also no equity instruments valued at their cost of acquisition that could be considered significant.

## Non-financial assets

**Real estate assets**

At 31 December 2019 and 2018, net book values of real estate assets do not differ significantly from the fair values of these assets (see Notes 12 and 14).

The selection criteria for valuation suppliers and the update of appraisals are defined in the section “Guarantees”, in Note 1.3.3. of these Annual financial statements.

Valuation techniques are generally used by all appraisal companies based on the type of each real estate asset.

As per regulatory requirements, in the valuation techniques used, the valuation companies maximise the use of observable market data and other factors which would be taken into account by market operators when setting prices, endeavouring to keep the use of subjective considerations and unobservable or non-verifiable data to a minimum.

The main valuation methods used fall into the following measurement levels:

Level 2

- Comparison method: applicable to all kinds of properties provided that there is a representative market of comparable properties and that sufficient data is available relating to transactions that reflect the current market situation.

- Rental update method: applicable when the valued property generates or may generate rental income and there is a representative market of comparable data.

- Statistical model: this model adjusts the value of the assets based on the date of acquisition and their location, updating the value in accordance with price trends in the area concerned as from the date of purchase. To this end, it includes statistical information on price trends in all provinces, as provided by external valuation firms, as well as demographic data from the Spanish Office for National Statistics (INE) to calculate sensitivity at a municipality level. The value obtained is in turn adjusted based on the construction progress (finished product, development in progress, plots or land under management) and use (residential, industrial, etc.) of the asset.

Level 3

- Cost method: applicable to determine the value of buildings being planned, under construction or undergoing renovations.

- Residual method: in the present macroeconomic climate, the dynamic calculation procedure is being used preferentially in new land valuations to the detriment of the static procedure, which is reserved for specific cases in which the envisaged time frames for project completion are in line with the relevant regulations.

Depending on the type of asset, the methods used in the valuation of the Bank's portfolio are the following:

- Completed works: valued in comparable terms, based on updates to income or the statistical model (Level 2).

- Works in progress: valued using the cost method as a sum of the land value and the value of the work carried out (Level 3).

- Land: valued using the residual method (Level 3).

**Determination of the fair value of real estate assets**

The following tables show the main real estate assets broken down using the valuation method used in their fair value estimate as at 31 December 2019 and 2018:

Thousand euro

| | 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Housing | - | 514,632 | - | 514,632 |
| Offices, retail establishments and other real estate | - | 723,734 | - | 723,734 |
| Land and building plots | - | - | 64,081 | 64,081 |
| Work in progress | - | - | 7,431 | 7,431 |
| **Total assets** | **-** | **1,238,366** | **71,512** | **1,309,878** |

Thousand euro

| | 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Housing | - | 2,248,474 | - | 2,248,474 |
| Offices, retail establishments and other real estate | - | 1,083,281 | - | 1,083,281 |
| Land and building plots | - | - | 159,063 | 159,063 |
| Work in progress | - | - | 80,880 | 80,880 |
| **Total assets** | **-** | **3,331,755** | **239,943** | **3,571,698** |

Significant unobservable variables used in valuations classed as Level 3 have not been developed by the Group but by the independent third party valuation companies that performed the appraisals. Given the widespread use of the appraisals, the valuation techniques of which are clearly set out in the regulation governing the valuation of properties, the unobservable variables used reflect the assumptions frequently used by all valuation firms. In terms of proportional weight, unobservable variables represent almost all of the value of these appraisals.

The main unobservable variables used in the valuation of assets in accordance with the dynamic residual method are the future sale price, the estimated construction costs, the costs of development, the time required for land planning and development and the discount rate. The main unobservable variables used in accordance with the static residual method are construction costs, the costs of development and the profit for the developer.

The number of plots in the Bank's possession is very fragmented, and they are very varied, both in terms of location and in terms of the stage of development of the urban infrastructure and the possibility of future development. For this reason, no quantitative information can be provided regarding the unobservable variables affecting the fair value of these types of assets.

Movements in the balances of real estate assets classified as Level 3 in 2019 and 2018 are shown below:

Thousand euro

| | For house purchase | Offices, retail establishments and other real estate | Land |
|---|---|---|---|
| **Balance as at 31 December 2017** | **-** | **-** | **350,946** |
| Purchases | - | - | 27,605 |
| Sales | - | - | (29,284) |
| Net additions/removals in Level 3 | - | - | (109,324) |
| **Balance as at 31 December 2018** | **-** | **-** | **239,943** |
| Purchases | - | - | 17,011 |
| Sales | - | - | (9,855) |
| Net additions/removals in Level 3 | - | - | (175,587) |
| **Balance as at 31 December 2019** | **-** | **-** | **71,512** |

During 2019, certain real estate assets have been transferred between the different valuation levels, due to the transformation of assets that were in the process of construction into finished products.

The following table shows a comparison between the value at which the real estate assets were recognised under the headings "*Non-current assets and disposal groups classified as held for sale*" and "*Investment properties*" and their appraisal value, as at the end of 2019 and 2018:

Thousand euro

| | | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Carrying amount (*) | Impairment | Net carrying amount | Valuation amount | Carrying amount (*) | Impairment | Net carrying amount | Valuation amount |
| Investment properties | 14 | 139,532 | (6,777) | 132,755 | 192,385 | 141,243 | (9,769) | 131,474 | 200,017 |
| Non-current assets held for sale | 12 | 689,815 | (143,337) | 546,478 | 869,842 | 3,598,238 | (793,978) | 2,804,260 | 4,337,875 |
| **Total** | | **829,347** | **(150,114)** | **679,233** | **1,062,227** | **3,739,481** | **(803,747)** | **2,935,734** | **4,537,892** |

(*) Cost less accumulated depreciation.

The fair value of real estate assets valued by appraisal companies and included in the headings "*Non-current assets and disposal groups classified as held for sale*" and "*Investment properties*" in 2019 is as follows:

Thousand euro

| Valuation firm | Non-current assets held for sale | Investment properties |
|---|---|---|
| Afes Técnicas de Tasación, S.A. | - | 3,138 |
| Alia Tasaciones, S.A. | 75,481 | 8,291 |
| Aplicaciones Estadistícas y Consultoría, S.L. | 926 | - |
| Eurovaloraciones, S.A. | 16,893 | 8,910 |
| Gestión de Valoraciones y Tasaciones, S.A. | 11,942 | 4,011 |
| Gloval Valuation, S.A.U. | 14,012 | 8,015 |
| Ibertasa, S.A. | 6,652 | 3,699 |
| Instituto de Valoraciones, S.A. | 1,371 | - |
| JLL Valoraciones, S.A. | 313 | - |
| Krata, S.A. | 815 | 1,865 |
| Sociedad de Tasación, S.A. | 313,796 | 77,227 |
| Tabimed Gestión de Proyectos, S.L. | 311 | - |
| Tasasur Sociedad de Tasaciones, S.A. | 66 | - |
| Tecnitasa Técnicos en Tasación, S.A | 5,596 | 3,012 |
| Thirsa | 192 | - |
| Tinsa Tasaciones Inmobiliarias, S.A. | 42,367 | 12,332 |
| Valoraciones Mediterráneo, S.A. | 52,649 | 1,970 |
| Rest | 3,095 | 285 |
| **Total** | **546,477** | **132,755** |

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 asset heading at 31 December 2019 and 2018 was as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By nature:** | | |
| Cash | 680,295 | 611,532 |
| Cash balances at central banks | 7,749,624 | 13,949,231 |
| Other demand deposits | 362,577 | 255,531 |
| **Total** | **8,792,496** | **14,816,294** |
| **By currency:** | | |
| In euro | 8,269,502 | 14,466,818 |
| In foreign currency | 522,994 | 349,476 |
| **Total** | **8,792,496** | **14,816,294** |

Cash balances at central banks include balances held to comply with the central bank's mandatory minimum reserve requirement. Throughout 2019 Banco Sabadell has complied with minimum requirements set out in applicable regulations regarding this ratio.

## Note 7 – Debt securities

Debt securities reported in the accompanying balance sheets as at 31 December 2019 and 2018 are analysed below:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By heading:** | | |
| Financial assets held for trading | 579,042 | 264,866 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 119,164 | 138,301 |
| Financial assets designated at fair value through profit or loss | - | - |
| Financial assets at fair value through other comprehensive income | 5,312,297 | 9,862,593 |
| Financial assets at amortised cost | 18,425,483 | 12,915,865 |
| **Total** | **24,435,986** | **23,181,625** |
| **By nature:** | | |
| Central banks | - | - |
| General governments | 22,489,641 | 21,044,130 |
| Credit institutions | 182,538 | 298,521 |
| Other sectors | 1,374,725 | 1,575,348 |
| Stage 3 assets | 73 | 357 |
| Impairment allowances | - | - |
| Other valuation adjustments (interest, fees and commissions, other) | 389,009 | 263,269 |
| **Total** | **24,435,986** | **23,181,625** |
| **By currency:** | | |
| In euro | 23,146,765 | 21,466,377 |
| In foreign currency | 1,289,221 | 1,715,248 |
| **Total** | **24,435,986** | **23,181,625** |

The breakdown of the debt securities classified based on their credit risk and the movement of value adjustments due to impairment associated with these instruments are included, together with those of other financial assets, in note 10.

Details of debt instruments included under the "*Financial assets at fair value through other comprehensive income*" heading are as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Amortised cost (*) | 5,342,637 | 9,935,516 |
| Fair value | 5,312,297 | 9,862,593 |
| Accumulated losses recognised in equity | (80,264) | (133,594) |
| Accumulated capital gains recognised in equity | 52,004 | 66,499 |
| Value adjustments made for credit risk | (2,080) | (5,828) |

(*) Includes net gains/(-) losses due to impairment in the profit and loss account for 2019 and 2018 of 3,761 and (2,457) thousand euros, of which those due to provisions during the year amount to (1,080) and (7,670) thousand euros, and those due to reversal of impairment amount to 4,841 and 5,213 thousand in 2019 and 2018 (see Note 31).

The breakdown of public debt securities classified as "*Financial assets at fair value through other comprehensive income*" is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Amortised cost | 4,590,994 | 8,740,542 |
| Fair value | 4,557,767 | 8,677,127 |
| Accumulated losses recognised in equity | (71,455) | (115,273) |
| Accumulated capital gains recognised in equity | 38,330 | 52,373 |
| Value adjustments made for credit risk | (102) | (515) |

The portfolio of "*Financial assets at amortised cost*" breaks down as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Central banks | - | - |
| General governments | 17,963,157 | 12,470,965 |
| Credit institutions | - | - |
| Other sectors | 462,326 | 444,900 |
| Impairment allowances | - | - |
| **Total** | **18,425,483** | **12,915,865** |

## Note 8 – Equity instruments

The breakdown of the balance of equity instruments as at 31 December 2019 and 2018 was as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By heading:** | | |
| 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 | 106,921 | 199,180 |
| **Total** | **106,921** | **199,180** |
| **By nature:** | | |
| Resident sector | 83,830 | 92,788 |
| Credit institutions | 7,065 | 8,869 |
| Other | 76,765 | 83,919 |
| Non-resident sector | 1,965 | 58,430 |
| Credit institutions | - | 52,815 |
| Other | 1,965 | 5,615 |
| Participations in investment vehicles | 21,126 | 47,962 |
| **Total** | **106,921** | **199,180** |
| **By currency:** | | |
| In euro | 106,562 | 142,849 |
| In foreign currency | 359 | 56,331 |
| **Total** | **106,921** | **199,180** |

As at 2019 year-end there were no investments in listed equity instruments for which their quoted market price has not been considered as a reference of their fair value.

As at 31 December 2019 there were no investments in equity instruments included in the portfolio of "*Financial assets at fair value through other comprehensive income*" considered to be individually significant.

Details of equity instruments included under the "*Financial assets at fair value through other comprehensive income*" heading are as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Cost of acquisition | 207,112 | 285,915 |
| Fair value | 106,921 | 199,180 |
| Accumulated capital losses recognised in equity at reporting date | (142,693) | (139,005) |
| Accumulated capital gains recognised in equity at reporting date | 42,502 | 52,270 |
| Transfers of gains or losses within equity during the period | - | - |
| Recognised dividends from investments held at the end of the year | 3,653 | 4,533 |
| Recognised dividends from investments derecognised during the year | - | 569 |

At the end of 2019, the Bank, based on the last strategic plan presented by the Company for the Management of Assets proceeding from Restructuring of the Banking System (SAREB) has reduced the book value of the investment held in this company by 4,535 thousand euros, which has been recognised in equity, with the book value of the investment being impaired by 100%. Furthermore, the Bank has reduced the book value of the subordinated debt it holds in this company by 6,749 thousand euros, which have been 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 as at the end of 2019. As at 31 December 2019, the book value of subordinated debt in SAREB amounted to 27,000 thousand euros (73,749 thousand euros as at 31 December 2018).

On 13 March 2019, the Bank made a transfer to Glenoaks Investments, S.A. of the 8,238,084 shares of Colombian bank Banco GNB Sudameris, S.A. (Banco GNB Sudameris), owned by Banco Sabadell, representing 4.99% of the share capital of Banco GNB Sudameris, for a total price of 60,352 thousand US dollars.

The transaction has been executed by exercising the purchase option granted by Banco Sabadell to Starmites Corporation, S.à r.l. on 1 October 2015, which was assigned by the latter to Glenoaks Investments, S.A.

## Note 9 – Asset and liability derivatives held for trading

The breakdown by type of risk of this heading on the asset and liability sides of the balance sheets as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Securities risk | 97,646 | 97,909 | 163,335 | 165,141 |
| Interest rate risk | 1,082,473 | 1,032,395 | 988,213 | 952,496 |
| Currency risk | 357,610 | 373,731 | 477,742 | 456,631 |
| Other types of risk | 186,678 | 187,487 | 11,397 | 11,936 |
| **Total** | **1,724,407** | **1,691,522** | **1,640,687** | **1,586,204** |
| **By currency:** | | | | |
| In euro | 1,610,411 | 1,592,932 | 1,558,736 | 1,519,395 |
| In foreign currency | 113,996 | 98,590 | 81,950 | 66,808 |
| **Total** | **1,724,407** | **1,691,522** | **1,640,686** | **1,586,203** |

The fair values of derivatives held for trading, broken down by type of derivative instrument as at 31 December 2019 and 2018, are shown below:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Swaps, CCIRS, Call Money Swap | 1,238,786 | 965,892 |
| Currency options | 30,743 | 95,011 |
| Interest rate options | 28,683 | 33,793 |
| Index and securities options | 97,584 | 162,383 |
| Currency forwards | 326,867 | 382,731 |
| Fixed income forwards | 1,715 | - |
| Equity forward | - | 876 |
| Interest rate forwards | 29 | - |
| **Total derivatives on asset side held for trading** | **1,724,407** | **1,640,686** |
| **Liabilities** | | |
| Swaps, CCIRS, Call Money Swap | 1,186,640 | 926,421 |
| Currency options | 30,773 | 95,289 |
| Interest rate options | 24,214 | 29,502 |
| Index and securities options | 105,362 | 173,649 |
| Currency forwards | 342,958 | 361,342 |
| Fixed income forwards | 927 | - |
| Equity forward | 583 | - |
| Interest rate forwards | 65 | - |
| **Total derivatives on liability side held for trading** | **1,691,522** | **1,586,203** |

## Note 10 – Loans and advances

### Credit institutions

The composition of the heading "*Loans and advances - Credit institutions*" of the balance sheets as at 31 December 2019 and 31 December 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **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 | 16,065,122 | 9,228,631 |
| **Total** | **16,065,122** | **9,228,631** |
| **By nature:** | | |
| Deposits with agreed maturity | 3,504,944 | 3,403,675 |
| Repos | 11,805,180 | 5,367,349 |
| Hybrid financial assets | - | - |
| Other | 741,427 | 445,830 |
| Stage 3 assets | 304 | 299 |
| Impairment allowances | (492) | (1,861) |
| Other valuation adjustments (interest, fees and commissions, other) | 13,759 | 13,339 |
| **Total** | **16,065,122** | **9,228,631** |
| **By currency:** | | |
| In euro | 15,157,020 | 8,271,412 |
| In foreign currency | 908,102 | 957,219 |
| **Total** | **16,065,122** | **9,228,631** |

Customers

The breakdown of the heading "*Loans and advances - Customers*" (General governments and Other sectors) at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **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 | 112,403,788 | 113,794,463 |
| **Total** | **112,403,788** | **113,794,463** |
| **By nature:** | | |
| Overdrafts, etc. | 5,965,448 | 6,579,002 |
| Commercial loans | 6,302,002 | 6,095,736 |
| Finance leases | 2,216,680 | 2,269,541 |
| Secured loans | 52,193,830 | 51,955,254 |
| Repos | - | 595,917 |
| Other term loans | 45,282,509 | 45,825,696 |
| Stage 3 assets | 5,303,990 | 5,918,757 |
| Impairment allowances | (4,757,722) | (5,369,446) |
| Other valuation adjustments (interest, fees and commissions, other) | (102,949) | (75,994) |
| **Total** | **112,403,788** | **113,794,463** |
| **By sector:** | | |
| General governments | 10,489,703 | 10,855,325 |
| Other sectors | 101,470,766 | 102,465,821 |
| Stage 3 assets | 5,303,990 | 5,918,757 |
| Impairment allowances | (4,757,722) | (5,369,446) |
| Other valuation adjustments (interest, fees and commissions, other) | (102,949) | (75,994) |
| **Total** | **112,403,788** | **113,794,463** |
| **By currency:** | | |
| In euro | 103,742,808 | 105,064,939 |
| In foreign currency | 8,660,980 | 8,729,524 |
| **Total** | **112,403,788** | **113,794,463** |
| **By geography:** | | |
| Spain | 102,436,551 | 105,030,883 |
| United Kingdom | 2,448,539 | 2,576,932 |
| Rest of European Union | 4,505,449 | 3,760,067 |
| Americas | 6,292,073 | 6,408,638 |
| Rest of the world | 1,478,898 | 1,387,389 |
| Impairment allowances | (4,757,722) | (5,369,446) |
| **Total** | **112,403,788** | **113,794,463** |

The balance sheet heading "*Loans and receivables – Customers*" includes certain assets pledged in financing operations, i.e. those pledged as collateral or guarantees with respect to certain liabilities. For further information, see Note 3 "*Financial risk management*" in the section entitled "*Credit risk*".

## Finance leases

Certain information concerning financial leasing transactions carried out by the Bank in which it acts as lessor is set out below:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Finance leases** | | |
| Total gross investment | 2,453,966 | 2,358,585 |
| Impairment allowances | *(45,861)* | (46,199) |
| Interest income | 61,749 | 50,814 |

At 31 December 2019, the reconciliation of undiscounted lease receipts to the net investment on the leases is as follows:

Thousand euro

| | 2019 |
|---|---|
| Undiscounted lease receipts | 2,266,505 |
| Unguaranteed residual value | 187,461 |
| **Gross investment in the lease** | **2,453,966** |
| Unearned financial income | 193,287 |
| **Net investment in the lease (*)** | **2,260,679** |

(*) Relates mainly to finance leases granted to customers in the amount of 2,216,680 thousand euros.

The table below shows a breakdown by term of the minimum undiscounted future amounts receivable by the Group during the period of mandatory compliance (assuming that no extensions or existing purchase options will be exercised) as set out in the financial lease contracts:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Undiscounted lease receipts** | | |
| Up to 1 year | 600,035 | 563,901 |
| 1-2 years | 508,523 | 427,809 |
| 2-3 years | 333,006 | 326,767 |
| 3-4 years | 207,397 | 202,622 |
| 4-5 years | 151,723 | 145,053 |
| More than 5 years | 465,821 | 533,100 |
| **Total** | **2,266,505** | **2,199,252** |

## 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 2019 amounted to 126,789 thousand euros (130,317 thousand euros as at 31 December 2018). Of this total, over 78% of the balance as at 31 December 2019 (52% of the balance as at 31 December 2018) had become due in a period no longer than one month.

## Financial assets classified on the basis of their credit risk

The breakdown of the gross book values, excluding valuation adjustments, of financial assets classified on the basis of their credit risk as at 31 December 2019 and 2018 is as follows:

Thousand euro

| *Stage* 1 | 2019 | 2018 |
|---|---|---|
| Debt securities | 24,046,905 | 22,917,999 |
| Loans and advances | 123,144,566 | 116,844,585 |
| Customers | 107,104,603 | 107,651,261 |
| Central banks and Credit institutions | 16,039,963 | 9,193,324 |
| **Total *stage 1*** | **147,191,472** | **139,762,584** |
| **By sector:** | | |
| General governments | 32,941,745 | 31,864,972 |
| Central banks and Credit institutions | 16,222,500 | 9,491,846 |
| Other private sectors | 98,027,226 | 98,405,766 |
| **Total *stage 1*** | **147,191,472** | **139,762,584** |
| *Stage* 2 | | |
| Debt securities | - | - |
| Loans and advances | 4,867,452 | 5,693,412 |
| Customers | 4,855,864 | 5,669,883 |
| Central banks and Credit institutions | 11,588 | 23,529 |
| **Total *stage 2*** | **4,867,452** | **5,693,412** |
| **By sector:** | | |
| General governments | 37,598 | 34,482 |
| Central banks and Credit institutions | 11,588 | 23,529 |
| Other private sectors | 4,818,266 | 5,635,401 |
| **Total *stage 2*** | **4,867,452** | **5,693,412** |
| *Stage* 3 | | |
| Debt securities | 73 | 357 |
| Loans and advances | 5,304,294 | 5,919,056 |
| Customers | 5,303,990 | 5,918,757 |
| Central banks and Credit institutions | 304 | 299 |
| **Total *stage 3*** | **5,304,367** | **5,919,414** |
| **By sector:** | | |
| General governments | 11,772 | 20,434 |
| Central banks and Credit institutions | 304 | 299 |
| Other private sectors | 5,292,291 | 5,898,681 |
| **Total *stage 3*** | **5,304,367** | **5,919,414** |
| **Total stages** | **157,363,291** | **151,375,410** |

Movements of gross values, excluding valuation adjustments, of assets subject to impairment by the Group during the years ended 31 December 2019 and 2018 were as follows:

Thousand euro

| | Stage 1 | Stage 2 | Stage 3 | *Of which: purchased credit-impaired* | Total |
|---|---|---|---|---|---|
| **Balance as at 31 December 2017** | **135,241,201** | **5,384,051** | **7,629,133** | ***228,804*** | **148,254,385** |
| Transfers between impairment stages | (1,700,949) | 758,910 | 942,039 | - | - |
| To stage 1 | 684,248 | (671,513) | (12,735) | - | - |
| To stage 2 | (1,597,995) | 1,895,588 | (297,593) | - | - |
| To stage 3 | (787,202) | (465,165) | 1,252,367 | - | - |
| Increases | 36,149,074 | 716,930 | 272,686 | 19,417 | 37,138,690 |
| Decreases | (29,845,367) | (1,158,412) | (2,129,357) | (40,648) | (33,133,136) |
| Transfers to write-offs | - | - | (794,320) | - | (794,320) |
| Adjustments for exchange differences | (81,375) | (8,067) | (767) | - | (90,209) |
| **Balance as at 31 December 2018** | **139,762,584** | **5,693,412** | **5,919,414** | ***207,573*** | **151,375,410** |
| Transfers between impairment stages | (1,193,848) | 261,488 | 932,360 | - | - |
| To stage 1 | 1,737,340 | (1,695,380) | (41,959) | - | - |
| To stage 2 | (2,673,394) | 2,939,783 | (266,389) | - | - |
| To stage 3 | (257,794) | (982,915) | 1,240,709 | - | - |
| Increases | 39,587,502 | 592,032 | 331,622 | 926 | 40,511,157 |
| Decreases | (31,007,420) | (1,682,272) | (1,390,209) | (132,602) | (34,079,902) |
| Transfers to write-offs | - | - | (490,300) | - | (490,300) |
| Adjustments for exchange differences | 42,655 | 2,792 | 1,479 | - | 46,926 |
| **Balance as at 31 December 2019** | **147,191,472** | **4,867,452** | **5,304,367** | ***75,897*** | **157,363,291** |

The breakdown of assets classified as Stage 3 by type of guarantee as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Secured with a mortgage (*) | 2,821,115 | 3,135,923 |
| *Of which: Stage 3 financial assets with guarantees covering all of the risk* | *2,018,798* | *2,148,597* |
| Other collateral (**) | 308,360 | 327,997 |
| *Of which: Stage 3 financial assets with guarantees covering all of the risk* | *184,338* | *190,900* |
| Rest | 2,174,892 | 2,455,494 |
| **Total** | **5,304,367** | **5,919,414** |

(*) 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 geography of the balance of assets classed as stage 3 as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Spain | 5,073,593 | 5,706,550 |
| United Kingdom | 53,830 | 69,189 |
| Rest of European Union | 40,700 | 46,831 |
| Americas | 109,045 | 65,965 |
| Rest of the world | 27,199 | 30,879 |
| **Total** | **5,304,367** | **5,919,414** |

Accumulated financial income on impaired financial assets incurred but not recorded in the income statement amounted to 328,871 thousand euros as at 31 December 2019 and to 401,153 thousand euros as at 31 December 2018.

The movements in impaired financial assets derecognised due to the remote likelihood of their recovery during 2019 and 2018 are as follows:

| Thousand euro | |
|---|---|
| **Balance as at 31 December 2017** | **4,533,453** |
| **Additions** | **864,352** |
| Use of accumulated impairment balance | 804,441 |
| Directly recognised on income statement | - |
| Contractually payable interests | 59,911 |
| Other items | - |
| **Disposals** | **(319,659)** |
| Collections of principal in cash from counterparties | (58,654) |
| Collections of interest in cash from counterparties | (2,590) |
| Debt forgiveness | (44,269) |
| Referrals | - |
| Sales | (214,146) |
| **Exchange differences** | **-** |
| **Balance as at 31 December 2018** | **5,078,146** |
| **Additions** | **541,058** |
| Use of accumulated impairment balance | 490,334 |
| Directly recognised on income statement | - |
| Contractually payable interests | 50,724 |
| Other items | - |
| **Disposals** | **(1,033,624)** |
| Collections of principal in cash from counterparties | (64,591) |
| Collections of interest in cash from counterparties | (1,001) |
| Debt forgiveness | (29,285) |
| Referrals | - |
| Sales | (894,762) |
| Other items | (43,985) |
| **Exchange differences** | **-** |
| **Balance as at 31 December 2019** | **4,585,580** |

## Allowances

The values of financial asset impairment allowances under the different headings on the asset side, listed according to risk, as at 31 December 2019 and 2018, are as follows:

Thousand euro

| *Stage 1* | 2019 | 2018 |
|---|---|---|
| Debt securities | - | - |
| Loans and advances | 2,452,929 | 2,553,500 |
| Central banks and Credit institutions | 191 | 1,539 |
| Customers | 2,452,737 | 2,551,961 |
| **Total *stage 1*** | **2,452,929** | **2,553,500** |
| *Stage 2* | | |
| Debt securities | - | - |
| Loans and advances | 213,836 | 259,046 |
| Central banks and Credit institutions | - | 24 |
| Customers | 213,836 | 259,023 |
| **Total *stage 2*** | **213,836** | **259,046** |
| *Stage 3* | | |
| Debt securities | - | - |
| Loans and advances | 2,091,448 | 2,558,761 |
| Central banks and Credit institutions | 300 | 298 |
| Customers | 2,091,148 | 2,558,463 |
| **Total *stage 3*** | **2,091,448** | **2,558,761** |
| **Total *stages*** | **4,758,213** | **5,371,307** |

Detailed movements in impairment allowances allocated to cover credit risk during the 2019 and 2018 financial years are as follows:

Thousand euro

| | Individually measured | | Collectively measured | | | Total |
|---|---|---|---|---|---|---|
| | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| **Balance as at 1 January 2018 (*)** | **40,056** | **857,124** | **2,638,498** | **331,809** | **2,624,193** | **6,491,680** |
| **Movements reflected in impairment gains/(losses) (**)** | **13,666** | **106,751** | **197,410** | **(5,877)** | **353,407** | **665,357** |
| Increases due to origination | - | - | 165,228 | - | - | 165,228 |
| Changes due to credit risk variance | 15,717 | 118,663 | 135,290 | 11,255 | 411,642 | 692,567 |
| Changes in calculation approach | - | - | - | - | - | - |
| Other movements | (2,051) | (11,912) | (103,108) | (17,132) | (58,235) | (192,438) |
| **Movements not reflected in impairment gains/(losses)** | **(35,440)** | **(219,830)** | **(280,277)** | **(85,124)** | **(1,161,486)** | **(1,782,157)** |
| Transfers between impairment stages | (35,440) | 81,356 | (42,892) | (39,481) | 36,456 | - |
| To stage 1 | (1,543) | (20,746) | 73,727 | (33,664) | (17,774) | - |
| To stage 2 | (11,221) | (3,284) | (79,697) | 152,012 | (57,810) | - |
| To stage 3 | (22,675) | 105,386 | (36,923) | (157,828) | 112,040 | - |
| Utilisation of allocated provisions | - | (294,352) | (36,765) | (45,210) | (1,042,751) | (1,419,078) |
| Other movements (***) | - | (6,834) | (200,620) | (433) | (155,191) | (363,078) |
| **Adjustments for exchange differences** | **(20)** | **(1,400)** | **(2,051)** | **(26)** | **(77)** | **(3,574)** |
| **Balance as at 31 December 2018** | **18,262** | **742,645** | **2,553,580** | **240,782** | **1,816,037** | **5,371,307** |
| **Movements reflected in impairment gains/(losses) (**)** | **(6,105)** | **81,173** | **(64,226)** | **25,612** | **320,811** | **357,264** |
| Increases due to origination | - | - | 181,617 | - | - | 181,617 |
| Changes due to credit risk variance | (6,243) | 72,264 | (48,845) | (9,001) | 392,107 | 400,281 |
| Changes in calculation approach | - | - | - | - | - | - |
| Other movements | 138 | 8,909 | (196,998) | 34,613 | (71,296) | (224,634) |
| **Movements not reflected in impairment gains/(losses)** | **(4,820)** | **(360,668)** | **(37,371)** | **(59,995)** | **(509,081)** | **(971,935)** |
| Transfers between impairment stages | (4,820) | 98,703 | (36,802) | (22,141) | (34,940) | - |
| To stage 1 | (1,023) | (5,417) | 35,066 | (18,446) | (10,180) | - |
| To stage 2 | 2,763 | (570) | (46,773) | 67,341 | (22,761) | - |
| To stage 3 | (6,560) | 104,690 | (25,095) | (71,036) | (1,999) | - |
| Utilisation of allocated provisions | (1) | (456,642) | (477) | (37,521) | (364,853) | (859,494) |
| Other movements (***) | - | (2,729) | (92) | (333) | (109,288) | (112,442) |
| **Adjustments for exchange differences** | **8** | **511** | **946** | **93** | **20** | **1,578** |
| **Balance as at 31 December 2019** | **7,346** | **463,661** | **2,452,929** | **206,491** | **1,627,787** | **4,758,214** |

(*) Includes the impact of the adoption of Circular 2/2018 which has entailed an increase in impairment allowances for the amount of 890,749 thousand euros.

(**) This figure, corresponding to the amortisation charged to results on impaired financial assets derecognised from the asset side of the balance sheet and the recovery of write-offs, has been recognised with a contra account under the heading "Impairment and gains or losses on changes in cash flows of financial assets not measured at fair value through profit or loss and net gains or (-) losses on changes" (see Note 31).

(***) Relates mainly to the transfer of 112,442 thousand euros in 2019 to cover credit risk on non-current assets held for sale (note 12) and investment property (note 14). In 2018, it related mainly to the transfer of 200,615 thousand euro of impairment booked for the outcome of contingencies related to interest rate floor clauses and to the transfer of 162,463 thousand euro for risk cover to non-current assets held for sale and to investment property.

The breakdown by geography of the balance of impairment allowances as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Spain | 4,633,485 | 5,263,808 |
| United Kingdom | 28,834 | 29,730 |
| Rest of European Union | 33,855 | 32,124 |
| Americas | 44,331 | 30,963 |
| Rest of the world | 17,708 | 14,682 |
| **Total** | **4,758,213** | **5,371,307** |

*Sensitivity analysis of the key variables of macroeconomic scenarios*

An analysis of the sensitivity of cost or risk and of its impact by stage in the event of a change, ceteris paribus, from the actual macroeconomic environment, relative to the most probable baseline macroeconomic scenario included in the Group's business plan, is set out below. The results of this analysis are shown below:

| | Change in the variable | Impact on cost of risk | *Of which: stage 2* | *Of which: stage 3* |
|---|---|---|---|---|
| **Deviation in GDP growth** | - 100 bps<br>+ 100 bps | + 7 bps<br>- 6 bps | + 2 bps<br>- 2 bps | + 4 bps<br>- 3 bps |
| **Deviation in unemployment rate** | + 350 bps<br>- 350 bps | + 10 bps<br>- 8 bps | + 2 bps<br>- 3 bps | + 6 bps<br>- 5 bps |
| **Changes in housing prices** | - 300 bps<br>+ 300 bps | + 14 bps<br>- 7 bps | + 2 bps<br>- 3 bps | + 11 bps<br>- 4 bpsb |

## Note 11 – Derivatives - asset and liability hedge accounting

### Hedging management

The main hedges arranged by the Bank are described below:

**Interest rate risk hedge**

Based on the balance sheet positioning and the market situation and outlook, interest rate risk mitigation strategies are proposed and agreed in order to adjust the aforesaid positioning to that desired by Banco Sabadell. With this aim in mind, Banco Sabadell establishes interest rate hedging strategies for positions that are not included in the trading book and, to that end, derivative instruments are used, whether fair value instruments or cash flows, and a distinction is made between them depending on the items hedged:

- Macro-hedges: hedges intended to mitigate the risk of balance sheet components.
- Micro-hedges: hedges intended to mitigate the risk of a particular asset or liability.

When a transaction is designated as a hedging operation, it is classified as such from the outset of the transaction or the inception of the instruments included in the hedge, and a document is prepared which covers the hedging strategy, defining it in management and accounting terms, and setting out its governance. The said document clearly identifies the item hedged and the hedging instrument, the risk that it seeks to hedge and the criteria or methodologies followed by the Bank to evaluate its effectiveness.

The Bank operates with the following types of hedges intended to mitigate structural interest rate risk:

- Fair value hedges: hedges against the exposure to changes in the fair value of assets and liabilities recognised on the balance sheet, or against the analogous exposure of a specific selection of such assets and liabilities, that can be attributed to interest rate risk. These are used to keep a stable economic value of equity.

  The main types of balance sheet items hedged are:

  - Fixed-rate loans included in the lending portfolio.
  - Debt securities included in the portfolio of "*Financial assets at fair value through other comprehensive income*" and the portfolio of "*Financial assets at amortised cost*".
  - Fixed-rate liabilities, including fixed-term deposits and the institution's capital market funding transactions.

  If the hedge relates to assets, the Bank enters into a fixed-for-floating swap, whereas if the macro-hedge relates to liabilities, it enters into a floating-to-fixed interest rate swap. These derivatives can be traded in cash or as F&O. The hedged risk is the interest rate risk arising from a potential change in the risk-free interest rate that gives rise to changes in the value of the hedged balance sheet items. As such, the hedge will not cover any risk inherent to the hedged items other than the risk of a change in the risk-free interest rate.

  In order to asses the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated monthly variance in the fair value of the hedged item against the accumulated monthly variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that future changes to the fair value of the hedged balance sheet items are offset by future changes in the fair value of the derivative.

- Cash flows: hedging against the exposure to changes in cash flows arising from a particular risk associated with a previously recognised asset or liability, or a forecast transaction that is highly likely to materialise and which could affect the results for the year. They are used to reduce net interest income volatility.

  The main types of balance sheet items hedged are:

  - Floating rate mortgage loans indexed to the mortgage Euribor.
  - Floating rate liabilities indexed to the 3-month Euribor.

  If the hedge relates to assets, the Bank enters into a floating-to-fixed interest rate swap, whereas if the macro-hedge relates to liabilities, it enters into a fixed-for-floating swap. These derivatives can be traded in cash or as F&O. The hedged risk is the interest rate risk associated with the effect that a potential change in the benchmark interest rate could have on the future interest accrued on balance sheet items. The credit spread and risk premium which, together with the benchmark index, make up the contractual interest rate applicable to the hedged balance sheet items is expressly excluded from the hedge.

  In order to asses the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated variance in the fair value of the hedged item against the accumulated variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that the expected cash flows on the hedged items are still highly likely to materialise.

Possible causes of partial or total ineffectiveness include changes in the sufficiency of the portfolio of hedged balance sheet items or differences in their contractual characteristics in relation to hedging derivatives.

Every month the Bank calculates the interest rate risk metrics and establishes hedging strategies in accordance with the established risk appetite framework. Hedges are therefore managed, establishing hedges or discontinuing them, as required, on the basis of the evolution of the balance sheet items described previously within the management and control framework defined by the Bank in its policies and procedures.

**Exchange rate risk hedges - Permanent investments**

The Bank has investments in foreign subsidiaries that are consolidated in its financial statements. These positions implicitly entail exposure to exchange rate risk, which is managed by creating hedges through the use of forward contracts.

The maturities of these instruments are periodically renewed on the basis of prudential and forward-looking criteria.

## 2019 hedging disclosures

The nominal values and the fair values of the hedging instruments as at 31 December 2019 and 2018, broken down by risk category and type of hedge, are as follows:

Thousand euro

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Nominal | Assets | Liabilities | Nominal | Assets | Liabilities |
| **Micro-hedges:** | | | | | | |
| Fair value hedges | **7,900,922** | **44,420** | **77,479** | **10,432,335** | **40,260** | **86,520** |
| Exchange rate risk | 1,450,233 | 644 | 25,212 | 2,159,346 | 5,438 | 22,642 |
| *For funding operations (A)* | - | - | - | *5,000* | - | *58* |
| *Of permanent investments (B)* | *1,450,233* | *644* | *25,212* | *2,101,508* | *5,091* | *22,584* |
| *Of non-monetary items (C)* | - | - | - | *52,838* | *347* | - |
| Interest rate risk | 4,392,056 | 36,764 | 41,868 | 6,313,183 | 34,788 | 37,009 |
| *For funding operations (A)* | *15,866* | - | *1,010* | *24,500* | - | *1,138* |
| *For lending operations (D)* | *4,376,190* | *36,764* | *40,858* | *6,288,683* | *34,788* | *35,871* |
| Risk associated with shares | 2,058,633 | 7,012 | 10,399 | 1,959,806 | 34 | 26,869 |
| *For funding operations (A)* | *2,058,633* | *7,012* | *10,399* | *1,959,806* | *34* | *26,869* |
| Cash flow hedges | **2,010,996** | **181,560** | **236** | **2,809,175** | **67,758** | **8,488** |
| Exchange rate risk | - | - | - | - | - | - |
| *Of non-monetary items (C)* | - | - | - | - | - | - |
| Interest rate risk | - | - | - | 557,375 | - | 4,461 |
| *Of future transactions (E)* | - | - | - | *557,375* | - | *4,461* |
| *For securitisation operations* | - | - | - | - | - | - |
| *Rest* | - | - | - | - | - | - |
| Risk associated with shares | 9,996 | - | 100 | 800 | 1 | 3 |
| *For funding operations (F)* | *9,996* | - | *100* | *800* | *1* | *3* |
| Other risks | 2,001,000 | 181,560 | 136 | 2,251,000 | 67,757 | 4,024 |
| *For inflation-linked bonds (G)* | *2,001,000* | *181,560* | *136* | *2,251,000* | *67,757* | *4,024* |
| Hedge of net investment in foreign operations | **178,031** | **1,912** | **-** | **34,934** | **224** | **-** |
| Exchange rate risk (B) | 178,031 | 1,912 | - | 34,934 | 224 | - |
| **Macro-hedges:** | | | | | | |
| Fair value hedges | **7,252,500** | **130,481** | **290,805** | **9,462,500** | **51,252** | **127,492** |
| Interest rate risk | 7,252,500 | 130,481 | 290,805 | 9,462,500 | 51,252 | 127,492 |
| *For funding operations (H)* | *3,350,000* | *130,481* | *2,095* | *6,850,000* | *51,252* | *6,700* |
| *For lending operations (I)* | *3,902,500* | - | *288,710* | *2,612,500* | - | *120,792* |
| Cash flow hedges | **400,000** | **-** | **12,366** | **2,050,000** | **21,277** | **21,996** |
| Interest rate risk | 400,000 | - | 12,366 | 2,050,000 | 21,277 | 21,996 |
| *For funding operations (J)* | *400,000* | - | *12,366* | *700,000* | - | *21,996* |
| *For lending operations (K)* | - | - | - | *1,350,000* | *21,277* | - |
| **Total** | **17,742,449** | **358,373** | **380,886** | **24,788,944** | **180,771** | **244,496** |
| **By currency:** | | | | | | |
| In euro | 15,599,859 | 357,757 | 379,999 | 22,526,040 | 180,770 | 240,484 |
| In foreign currency | 2,142,590 | 616 | 885 | 2,262,904 | 1 | 4,012 |
| **Total** | **17,742,449** | **358,373** | **380,884** | **24,788,944** | **180,771** | **244,496** |

The types of hedges according to their composition that are identified in the table are as follows:

A. Micro-hedges of interest rate risk on funding transactions in capital markets, transactions involving term deposits opened by customers and recognised under the heading "*Financial liabilities measured at amortised cost*".
B. Hedges against exchange rate risk on permanent shareholdings, recognised under the heading "*Investments in subsidiaries, joint ventures and associates*", currently cover 573 million pounds sterling and 9,998 million Mexican pesos corresponding to shareholdings in Group entities, considered as fair value hedges (1,368 million pounds sterling and 10,630 million Mexican pesos as at 31 December 2018), and 200 million US dollars corresponding to shareholdings in foreign branches (40 million US dollars as at 31 December 2018), 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 against the exchange rate risk of equity transactions recognised under the heading "*Financial assets at fair value through other comprehensive income*". As at 31 December 2019, the micro-hedges against exchange rate risk on equity transactions are not current.
D. Micro-hedges of transactions involving customer loans, recognised under the heading "*Financial assets at amortised cost*" and debt securities classified in the fair value through other comprehensive income portfolio.
E. Micro-hedges against interest rate risk on futures transactions, mainly fixed-income securities. The institution designates as a hedging item derivative contracts that will be settled at their gross value by transferring the underlying asset (according to the contracted price) which, in accordance with the implementation guidelines of IAS 39, can be considered as a cash flow hedge in respect of the consideration that will be settled in a future transaction arising from the settlement of the derivative itself in gross terms. If the derivative has not been contracted, the Bank would be exposed to changes in price. As at 31 December 2019, the micro-hedges against interest rate risk on futures transactions are not current.
F. Micro-hedges for transactions involving term deposits arranged by customers and which are currently being sold.
G. Micro-hedges of interest rates on inflation-linked bonds recognised under the headings "*Financial assets at fair value through other comprehensive income*" and "*Financial assets at amortised cost*". The Bank has arranged financial swaps to hedge future changes in cash flows that will be settled by ILBs.
H. Macro-hedges of funding transactions in capital markets, transactions involving term deposits opened by customers and recognised under the heading "*Financial liabilities measured at amortised cost*". The average rate of interest rate swaps used for this hedge was 0.47% (0.31% as at 31 December 2018).
I. Macro-hedges of debt securities classified in the portfolio under "fair value through other comprehensive income" and "amortised cost". The average rate of financial interest rate swaps used to hedge debt securities was 1.06% and 0.83%, respectively, (1.10% and 1.05%, respectively, as at 31 December 2018.
J. Cash flow macro-hedges the purpose of which is to reduce the volatility of the buy-sell spread as a result of interest rate fluctuations, for a one-year time horizon. Thus, this macro-hedge covers future cash flows based on the net exposure of a portfolio consisting of floating rate liabilities recognised under the heading "*Financial liabilities measured at amortised cost*". The average rate of interest rate swaps used for this hedge was -0.40% (-0.32% as at 31 December 2018).
K. Macro-hedges for floating rate mortgage loans granted to customers recognised under the heading "*Financial assets at amortised cost*". As at 31 December 2019, the macro-hedge for fixed-rate mortgage loans was not in effect. The average rate of interest rate swaps used for this hedge was -0.18% as at 31 December 2018.

The maturity profiles of the hedging instruments used by the Bank as at 31 December 2019 and 2018 are shown below:

Thousand euro

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Nominal | | | | | |
| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 and 5 years | More than 5 years | Total |
| Exchange rate risk | 706,675 | 921,589 | - | - | - | 1,628,264 |
| Interest rate risk | 1,869,952 | - | 150,000 | 2,055,866 | 7,968,738 | 12,044,556 |
| Risk associated with shares | 15,406 | 59,835 | 242,785 | 1,717,835 | 32,768 | 2,068,629 |
| Other risks | - | - | - | 11,000 | 1,990,000 | 2,001,000 |
| **Total** | **2,592,033** | **981,424** | **392,785** | **3,784,701** | **9,991,506** | **17,742,449** |

Thousand euro

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 627,601 | 1,561,679 | 5,000 | - | - | 2,194,280 |
| Interest rate risk | 4,101,149 | - | 214,500 | 4,125,000 | 9,942,409 | 18,383,058 |
| Risk associated with shares | 4,600 | 263,626 | 288,737 | 1,378,902 | 24,741 | 1,960,606 |
| Other risks | - | - | - | 261,000 | 1,990,000 | 2,251,000 |
| **Total** | **4,733,350** | **1,825,305** | **508,237** | **5,764,902** | **11,957,150** | **24,788,944** |

In 2019 and 2018 there were no reclassifications from equity to the income statement due to cash flow hedges and hedges of net investments in foreign operations for transactions that were ultimately not executed.

The following table shows the accounting information of items covered by the fair value micro-hedges contracted by the Bank:

Thousand euro

| | **2019** | | | | | **2018** | |
|---|---|---|---|---|---|---|---|
| | **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 | 1,144,639 | - | - | - | - | 2,054,731 | 4,984 |
| Interest rate risk | 3,701,998 | 66,978 | (35,717) | 782 | 18,312 | 6,029,029 | 67,530 |
| Risk associated with shares | - | 2,182,389 | - | 28,272 | (28) | - | 2,052,016 |
| **Total** | **4,846,637** | **2,249,367** | **(35,717)** | **29,054** | **18,284** | **8,083,760** | **2,124,530** |

In terms of fair value macro-hedges, the book value of the hedged items recognised in assets and liabilities for 2019 amounts to 18,750,613 and 43,898,869 thousand euros, respectively (5,106,673 and 51,578,962 thousand euros in 2018). Similarly, fair value adjustments of the hedged items amount to 225,437 and 173,129 thousand euros as at 31 December 2019, respectively (98,684 and 14,771 thousand euros as at 31 December 2018).

In relation to fair value hedges, the losses and gains recognised in 2019 and 2018, arising from both hedging instruments and hedged items are detailed hereafter:

Thousand euro

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Hedging instruments | Hedged items | Hedging instruments | Hedged items |
| **Microhedges:** | **(126,604)** | **126,371** | **(68,632)** | **66,209** |
| Fixed-rate assets | (53,306) | 53,574 | (50,701) | 48,535 |
| Capital markets | 998 | (997) | (3,815) | 3,660 |
| Fixed-rate liabilities | 24,045 | (24,354) | 1,696 | (1,895) |
| Assets denominated in foreign currency | (98,341) | 98,148 | (15,812) | 15,909 |
| **Macrohedges:** | **(63,103)** | **60,241** | **(47,089)** | **46,183** |
| Capital markets and fixed-rate liabilities | 162,129 | (161,823) | 71,460 | (71,256) |
| Fixed-rate assets | (225,232) | 222,064 | (118,549) | 117,439 |
| **Total** | **(189,707)** | **186,612** | **(115,721)** | **112,392** |

In cash flow hedges, the amounts recognised in the statement of equity during the year and the amounts derecognised from the statement of equity and included in earnings during the year are indicated in the statement of total changes in equity of the Bank.

The hedge ineffectiveness in the results for 2019 related to cash flow hedges amounted to losses of 555 thousand euros (losses of 602 thousand euros in 2018).

## Note 12 – Non-current assets and assets and liabilities included in disposal groups classified as held for sale

The composition of these headings in the balance sheets as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Assets** | **868,947** | **4,079,213** |
| Loans and advances | - | 308,648 |
| Credit institutions | - | - |
| Customers | - | 308,648 |
| Debt securities | - | - |
| Real estate exposure | 715,767 | 3,603,496 |
| Tangible assets for own use | 30,967 | 104,451 |
| Foreclosed assets | 684,800 | 3,499,045 |
| Rest of other assets | 153,180 | 167,069 |
| **Impairment allowances** | **(151,421)** | **(803,462)** |
| **Non-current assets and disposal groups classified as held for sale** | **717,526** | **3,275,751** |
| **Liabilities** | - | - |
| **Liabilities included in disposal groups classified as held for sale** | - | - |

Changes in the balances recognised under this heading are mainly due to the asset transfer deals described below:

- On 19 July 2018, Banco Sabadell agreed to transfer practically all of its problematic real estate exposures to a subsidiary of Cerberus Capital Management L.P. (hereinafter, Cerberus), structured around the transfer of two real estate asset portfolios, with the commercial names “Challenger” and “Coliseum”. The overall gross book value of the real estate assets involved in the transaction amounted to approximately 9,100 million euros, and their overall net book value amounted to approximately 3,900 million euros as at the date of the agreement.

  In addition, on 2 August 2019, Banco Sabadell agreed to sell a portfolio of real estate assets called Rex to Cerberus. The real estate assets involved in this transaction had an overall net book value of approximately 342 million euros at the date of the agreement, with the sale amount reaching 314 million euros.

  On 20 December 2019, the Bank completed the transfer of most of the real estate assets that comprise these three portfolios to companies fully owned by a subsidiary of Cerberus called Promontoria Challenger I, S.A., which is itself owned 80% by Cerberus and the remaining 20% by Banco Sabadell; as a consequence, those assets were deconsolidated and removed from the balance sheet of Banco Sabadell Group.

  The real estate assets transferred constitute around 46,000 units with a combined gross book value of approximately 6,414 million euros in the consolidated financial statements; this amount does not include assets that had already been marketed and sold to third parties up to that time. The transfer of the remaining 15,000 (approx.) units of real estate assets, for 1,149 million euros (of which 869 million euros are recognised on the Bank’s balance sheet), remains pending the possible execution of pre-emptive rights by third parties, although this would not alter the anticipated financial impacts, and it is believed that this transfer will be completed in the short term.

  The price of these transactions is approximately 3,430 million euros. Upon closing of the transactions, the application of certain contractual clauses to the entire scope of assets involved in the transactions has required the recognition of additional provisions for 52 million euros net of tax.

  On the other hand, in the fourth quarter of 2019, 20 million euros were recognised (after tax) for charges linked to assets not attributable to the sale.

  As at 31 December 2019, the Bank had an account receivable with Cerberus amounting to 447 million euros in relation to this divestment, which falls due 24 months following the closing of this transaction.

- On 24 July 2018, Banco Sabadell reached an agreement to transfer an asset portfolio, comprised in turn of three sub-portfolios, mostly consisting of mortgage loans, to Deutsche Bank and to Carval Investors.

  On 24 July 2019, having obtained the relevant authorisations, the transfer of the aforesaid portfolio was completed, consisting of loans with a gross book value of approximately 1,834 million euros and a net book value of approximately 268 million euros, as well as real estate assets with a gross book value of approximately 290 million euros and a net book value of approximately 106 million euros as the date of transfer.

This transaction did not require the recognition of additional provisions.

- On 23 April 2019, having obtained the relevant authorisations, the Bank closed the sale of 80% of the share capital of Solvia Servicios Inmobiliarios, S.L. (Solvia) to Intrum Holding Spain, S.A.U. (formerly, Lindorff Holding Spain, S.A.U.), a company belonging to Intrum AB Group.

  The transaction price amounted to 241 million euros, which is in line with Solvia's total share capital of 300 million euros, and which may be increased by up to 40 million euros, provided that certain conditions related to the evolution of specific business lines of Solvia are met.

  The transaction generated a profit of 189 million euros (133 million euros in the consolidated financial statements).

- On 5 February 2019, the Bank began a competitive bidding process to sell 100% of the share capital of Solvia Desarrollos Inmobiliarios, S.L.U. (SDIn), together with a pool of plots and real estate developments managed by this company and owned by Banco Sabadell. SDIn is the result of the divestiture and transfer in share blocks of part of the equity of Solvia Servicios Inmobiliarios, S.L.U., a company engaging in the provision of real estate development services.

  On 3 August, the Bank transferred 100% of the share capital of this investee company, together with the aforementioned plots and real estate developments, to an entity controlled by funds managed and/or advised by Oaktree Capital Management. The total amount of the transaction, indexed to the scope of Banco Sabadell Group assets as at 1 January 2019, amounted to 882 million euros. The assets belonging to the Bank included under this scope had a book value of 40 million euros as at 31 December 2019 and are recognised under the heading "*Non-current assets and disposal groups classified as held for sale*" on the balance sheet.

  The closing of the transaction is subject to obtaining the relevant authorisations.

Tangible assets for own use relate mainly to commercial establishments.

In respect of real estate assets originating in foreclosures, 94.11% of the balance corresponds to residential assets, 5.37% to industrial assets and 0.52% to agricultural assets.

The average term during which assets remained within the category of "*Non-current assets and assets and liabilities in disposal groups classified as held for sale - Foreclosed assets*" was 21.9 months in 2019.

The percentage of foreclosed assets sold with financing granted to the buyer by the Bank in 2019 was 8.72% (21.25% in 2018).

Movements in "*Non-current assets and disposal groups classified as held for sale*" during 2019 and 2018 were as follows:

Thousand euro

| | Note | Non-current assets held for sale |
|---|---|---|
| **Cost:** | | |
| **Balances as at 31 December 2017** | | **3,061,951** |
| Additions | | 956,268 |
| Disposals | | (791,406) |
| Transfer of credit losses (*) | | (169,904) |
| Other transfers/reclassifications | | 1,022,304 |
| **Balances as at 31 December 2018** | | **4,079,213** |
| Additions | | 467,818 |
| Disposals | | (3,586,167) |
| Transfer of credit losses (*) | | (112,400) |
| Other transfers/reclassifications | | 20,483 |
| **Balances as at 31 December 2019** | | **868,947** |
| **Impairment allowances:** | | |
| **Balances as at 31 December 2017** | | **765,987** |
| Impairment through profit or loss | 34 | 685,263 |
| Reversal of impairment through profit or loss | 34 | (619,149) |
| Utilisations | | (194,319) |
| Other transfers/reclassifications | | 165,680 |
| **Balances as at 31 December 2018** | | **803,462** |
| Impairment through profit or loss | 34 | 243,903 |
| Reversal of impairment through profit or loss | 34 | (138,826) |
| Utilisations | | (750,998) |
| Other transfers/reclassifications | | (6,120) |
| **Balances as at 31 December 2019** | | **151,421** |
| **Net balances as at 31 December 2018** | | **3,275,751** |
| **Net balances as at 31 December 2019** | | **717,526** |

(*) Allowance arising from provisions allocated to cover credit risk.

Details of the net carrying value of transfers shown in the table above are as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Loans and advances | | - | 308,648 |
| Tangible assets | 14 | 26,603 | 533,968 |
| Rest | | - | 14,008 |
| **Total** | | **26,603** | **856,624** |

## Note 13 – Investments in subsidiaries, joint ventures and associates

The breakdown of the balance of this heading of the balance sheets as at 31 December 2019 and 2018 was as follows:

Thousand euro

| | 2019 | | |
|---|---|---|---|
| | Group entities | Associates | Total |
| **By nature:** | | | |
| Credit institutions | 768,507 | - | 768,507 |
| Other resident sectors | 2,180,550 | 266,155 | 2,446,705 |
| Other non-resident sectors | 2,255,772 | 19,144 | 2,274,916 |
| **Total** | **5,204,829** | **285,299** | **5,490,128** |
| **By quote:** | | | |
| Quoted | 2,312 | 397 | 2,709 |
| Not quoted | 5,202,517 | 284,902 | 5,487,419 |
| **Total** | **5,204,829** | **285,299** | **5,490,128** |
| **By currency:** | | | |
| In euro | 2,292,149 | 266,155 | 2,558,304 |
| In foreign currency | 2,912,680 | 19,144 | 2,931,824 |
| **Total** | **5,204,829** | **285,299** | **5,490,128** |

Thousand euro

| | 2018 | | |
|---|---|---|---|
| | Group entities | Associates | Total |
| **By nature:** | | | |
| Credit institutions | 733,526 | - | 733,526 |
| Other resident sectors | 2,310,276 | 112,237 | 2,422,513 |
| Other non-resident sectors | 2,187,319 | 19,144 | 2,206,463 |
| **Total** | **5,231,121** | **131,381** | **5,362,502** |
| **By quote:** | | | |
| Quoted | 2,363 | 422 | 2,785 |
| Not quoted | 5,228,758 | 130,959 | 5,359,717 |
| **Total** | **5,231,121** | **131,381** | **5,362,502** |
| **By currency:** | | | |
| In euro | 2,421,927 | 112,237 | 2,534,164 |
| In foreign currency | 2,809,194 | 19,144 | 2,828,338 |
| **Total** | **5,231,121** | **131,381** | **5,362,502** |

Movements during 2019 and 2018 were as follows:

Thousand euro

| | | Group entities | Associates | Total |
|---|---|---|---|---|
| **Balance as at 31 December 2017** | **Nota** | **5,036,262** | **130,961** | **5,167,223** |
| Additions due to acquisition(s) | | 7,983 | 12,223 | 20,206 |
| Contributions | | 9,015 | - | 9,015 |
| Capital increases | | 521,477 | - | 521,477 |
| Sale, dissolution, recovery of investment(s) | | (330,274) | (3) | (330,277) |
| Transfers (*) | 12 | (14,008) | (11,800) | (25,808) |
| Exchange differences | | 22,816 | - | 22,816 |
| Impairments | | (22,150) | - | (22,150) |
| **Balance as at 31 December 2018** | | **5,231,121** | **131,381** | **5,362,502** |
| Additions due to acquisition(s) | | - | 1,233 | 1,233 |
| Contributions | | - | 150,657 | 150,657 |
| Capital increases | | 18 | 11,289 | 11,307 |
| Sale, dissolution, recovery of investment(s) | | (110,937) | (11,025) | (121,962) |
| Transfers | | (15) | 924 | 909 |
| Exchange differences | | 78,907 | - | 78,907 |
| Impairments | | 5,735 | 840 | 6,575 |
| **Balance as at 31 December 2019** | | **5,204,829** | **285,299** | **5,490,128** |

(*) Related to reclassifications of "Non-current assets and assets and liabilities in disposable groups of items that have been classified as held for sale".

The section of the cash flow statements relating to "*Investment activities -– Collections from investments in joint ventures and associates*", shows a figure of 59,636 thousand euros, which correspond to "Sales, settlement, recovery of the investment" amounting to 11,025 thousand euros, dividends received from associates amounting to 48,500 thousand euros and results of derecognitions of associates amounting to 111 thousand euros.

The section of the cash flow statements relating to "*Investment activities -– Collections from investments in other business units*", shows a figure of 544,681 thousand euros, which correspond to "Sales, settlement, recovery of the investment" amounting to 110,937 thousand euros, dividends received from associates amounting to 411,908 thousand euros and results of derecognitions of Group entities amounting to 21,836 thousand euros.

## Most significant changes in investments during 2019

Schedule I sets out details of the recognition and derecognition of equity interests in 2019 and 2018.

*Group entities*

- In 2019, Gestión Financiera del Mediterráneo and Mediterráneo distributed dividends which resulted in an investment recovery amounting to 44,521 thousand euros.

- In 2019, SabCapital, S.A. de C.V., SOFOM reduced its share capital through shareholder returns which represented an investment recovery of 41,301 thousand euros.

*Associates*

- In the section concerning additions to and withdrawals from the scope of consolidation, the addition of Promontoria Challenger I. S.A. Is included (see Note 12), which had a book value of 161,958 thousand euros as at 31 December 2019.

- In 2019, Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros distributed dividends charged to the share premium which resulted in an investment recovery of 11,000 thousand euros.

## Most significant changes in investments during 2018

*Group entities*

- The most significant capital increases and contributions carried out during 2018 were as follows:

    - Banco de Sabadell, S.A. de I.B.M for 381,468 thousand euros.
    - Sabadell Information Systems, S.A.U., for 140,009 thousand euros.

- In 2018, Gestión Financiera del Mediterráneo and Mediterráneo Sabadell distributed dividends which resulted in the recovery of the investments of 131,906 and 48,345 thousand euros, respectively.

- In November 2018, SabCapital, S.A. de C.V., SOFOM reduced its share capital through shareholder returns which represented an investment recovery of 48,358 thousand euros.

- On 13 December 2018, the Bank sold the 49.27% stake held in SabCapital SOFOM to Banco Sabadell I.B.M, which reduced the book value of its investment by 99,752 thousand euros.

- On 14 December 2018, the Bank reached an agreement for the sale of 80% of the share capital of Solvia Servicios Inmobiliarios, S.L.U. to Lindorff Holding Spain, S.A.U., a company owned by Intrum AB Group. The closing of this transaction, which took place in 2019 (see Note 12), was subject to the attainment of the relevant authorisations and, as such, as at 31 December 2018 the Bank reclassified this equity interest under the heading *"Non-current assets and assets and liabilities included in disposal groups classified as held for sale*" of the balance sheet.

## Other significant corporate transactions and contracts

### Asset protection scheme

As a result of the acquisition of Banco CAM on 1 June 2012, the Asset Protection Scheme (hereinafter, APS) envisaged in the protocol on financial assistance measures for the restructuring of Banco CAM came into force with retroactive effect from 31 July 2011. Under the scheme, which covers a specified portfolio of assets with a gross value of 24,644 million euros as at 31 July 2011, the Deposit Guarantee Fund (hereinafter, "DGF") will bear 80% of the losses on the portfolio for a period of ten years, once impairment allowances in respect of those assets, which amounted to 3,882 million euros at the aforementioned date, have been fully applied.

The portfolio of assets protected by the APS on the date it entered into force (31 July 2011) breaks down as follows:

Million euro

| | On individual balance sheet | | On Group balance sheet | |
|---|---|---|---|---|
| | Balance | Provision | Balance | Provision |
| Loans and advances | 21,711 | 2,912 | 19,117 | 2,263 |
| *Of which: amount drawn* | *21,091* | - | *18,460* | - |
| *Of which: guarantees and contingent liabilities* | *620* | - | *657* | - |
| Real estate assets | 2,380 | 558 | 4,663 | 1,096 |
| Investments in joint ventures and associates | 193 | 52 | 504 | 163 |
| Write-offs | 360 | 360 | 360 | 360 |
| **Total** | **24,644** | **3,882** | **24,644** | **3,882** |

For all of the losses that have been accounted for (those deriving from loan loss provisions, loan reductions, impairment allowances for real estate assets and losses from the disposal of these assets), the Bank keeps an account receivable classed under the *"Loans and receivables"* heading and recognised on the income statement, in order to reflect the rights of collection from the DGF as a result of its guarantee. The accumulated amount recorded as at 31 December 2019 amounts to close to 3,092 million euros.

## Note 14 – Tangible assets

The composition of this item as at 31 December 2019 and 2018 was as follows:

Thousand euro

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | Depreciation and amortisation | Impairment | Net value | Cost | Depreciation and amortisation | Impairment | Net value |
| **Property, plant and equipment** | **3,181,237** | **(1,110,694)** | **(5,548)** | **2,064,995** | **2,208,241** | **(1,040,885)** | **(6,223)** | **1,161,133** |
| For own use (*): | 3,181,237 | (1,110,694) | (5,548) | 2,064,995 | 2,208,241 | (1,040,885) | (6,223) | 1,161,133 |
| Computer equipment and related facilities | 430,785 | (296,178) | - | 134,607 | 437,747 | (314,063) | - | 123,684 |
| Furniture, vehicles and other facilities | 914,254 | (533,573) | - | 380,681 | 925,365 | (536,231) | - | 389,134 |
| Buildings | 1,817,545 | (280,943) | (5,548) | 1,531,054 | 827,335 | (190,591) | (6,223) | 630,521 |
| Work in progress | - | - | - | - | - | - | - | - |
| Other | 18,653 | - | - | 18,653 | 17,794 | - | - | 17,794 |
| **Investment properties:** | **147,371** | **(7,839)** | **(6,777)** | **132,755** | **147,955** | **(6,712)** | **(9,769)** | **131,474** |
| Buildings | 147,371 | (7,839) | (6,777) | 132,755 | 147,955 | (6,712) | (9,769) | 131,474 |
| **Total** | **3,328,608** | **(1,118,533)** | **(12,325)** | **2,197,750** | **2,356,196** | **(1,047,597)** | **(15,992)** | **1,292,607** |

(*) As of 31 December 2019, the cost of property, plant and equipment for own use includes the right-of-use assets corresponding to the leased tangible assets where the bank acts as a lessee, for an amount of 1,011,089 thousand euro, of which 82,360 thousand euro have been amortised to date (see 'Adoption of Circular 2/2018' in note 1).

Movements in the balance under the "*Tangible assets*" heading during 2019 and 2018 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 2017** | | **932,264** | **1,469,156** | **806,479** | **3,207,899** |
| Additions | | 1,063 | 56,370 | 49,229 | 106,662 |
| Disposals | | (20,429) | (138,653) | (30,481) | (189,563) |
| Other transfers | | (67,769) | (23,761) | (671,006) | (762,536) |
| Transfer of credit losses | | - | - | (6,266) | (6,266) |
| **Balances as at 31 December 2018** | | **845,129** | **1,363,112** | **147,955** | **2,356,196** |
| Additions (*) | | 1,027,817 | 90,247 | 11,324 | 1,129,388 |
| Disposals | | (21,419) | (108,320) | (1,550) | (131,289) |
| Other transfers | | (15,329) | - | (10,316) | (25,645) |
| Transfer of credit losses | | - | - | (42) | (42) |
| **Balances as at 31 December 2019** | | **1,836,198** | **1,345,039** | **147,371** | **3,328,608** |
| **Accumulated depreciation:** | | | | | |
| **Balances as at 31 December 2017** | | **196,038** | **919,024** | **37,094** | **1,152,156** |
| Additions | | 12,541 | 75,806 | 10,600 | 98,947 |
| Disposals | | (7,849) | (130,330) | (2,439) | (140,618) |
| Other transfers | | (10,139) | (14,206) | (38,543) | (62,888) |
| **Balances as at 31 December 2018** | | **190,591** | **850,294** | **6,712** | **1,047,597** |
| Additions (**) | | 94,426 | 76,850 | 2,870 | 174,146 |
| Disposals | | (970) | (97,393) | (21) | (98,384) |
| Other transfers | | (3,104) | - | (1,722) | (4,826) |
| **Balances as at 31 December 2019** | | **280,943** | **829,751** | **7,839** | **1,118,533** |
| **Impairment losses:** | | | | | |
| **Balances as at 31 December 2017** | | **16,914** | **4,657** | **179,828** | **201,399** |
| Impairment through profit or loss | 32 | - | 77 | 64,170 | 64,247 |
| Reversal of impairment through profit or loss | 32 | (985) | - | (72,299) | (73,284) |
| Utilisations | | - | (4,734) | (5,956) | (10,690) |
| Other transfers | | (9,706) | - | (155,974) | (165,680) |
| **Balances as at 31 December 2018** | | **6,223** | **-** | **9,769** | **15,992** |
| Impairment through profit or loss | 32 | - | - | 12,982 | 12,982 |
| Reversal of impairment through profit or loss | 32 | - | - | (22,241) | (22,241) |
| Utilisations | | (411) | - | (117) | (528) |
| Other transfers | | (264) | - | 6,384 | 6,120 |
| **Balances as at 31 December 2019** | | **5,548** | **-** | **6,777** | **12,325** |
| **Net balances as at 31 December 2018** | | **648,315** | **512,818** | **131,474** | **1,292,607** |
| **Net balances as at 31 December 2019** | | **1,549,707** | **515,288** | **132,755** | **2,197,750** |

(*) Includes 1,011,089 thousand euro corresponding to the recognition in the balance sheet of the right-of-use assets in leased property, plant and equipment where the bank acts as lessee, of which 925,230 correspond to the impact of the adoption of Bank of Spain Circular 2/2018 (see 'Adoption of Circular 2/2018' in note 1).

(**) Includes 82,360 thousand euro corresponding to the recognition in the profit and loss account of the amortisation of the right-of-use assets in leased property, plant and equipment where the bank acts as lessee (see 'Adoption of Circular 2/2018' in note 1).

Details of the net carrying value of transfers shown in the table above are as follows:

| Thousand euro | Note | 2019 | 2018 |
|---|---|---|---|
| Non-current assets and disposal groups classified as held for sale | 12 | (26,603) | (533,968) |
| Credit losses | | (42) | (6,266) |
| Other assets | | (336) | - |
| **Total** | | **(26,981)** | **(540,234)** |

Specific information relating to tangible assets as at 31 December 2019 and 2018 is shown hereafter:

| Thousand euro | 2019 | 2018 |
|---|---|---|
| Gross value of tangible assets for own use in use and fully amortised | 241,809 | 299,206 |
| Net carrying value of tangible assets of foreign operations | 4,407 | 3,628 |

*Lease contracts in which the Group acts as lessee*

Information is set out below concerning the operating lease contracts in which the Group acts as lessee:

| Thousand euro | 2019 |
|---|---|
| Interest expense on lease liabilities | (16,760) |
| Expense related to short-term low-value leases (*) | (14,157) |
| Total lease payments in cash (**) | 91,089 |

(*) 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 period that cannot be cancelled for lease contracts in effect as at 31 December 2019 and 2018 are indicated below:

| Thousand euro | 2019 |
|---|---|
| **Undiscounted future lease payments** | |
| Up to 1 month | 13,747 |
| 1 to 3 months | 9,536 |
| 3 to 12 months | 68,350 |
| 1 to 5 years | 308,216 |
| More than 5 years | 683,936 |

The future cash outflows to which the Bank may potentially be exposed and which are not included in the amount recorded under Lease liabilities as at 31 December 2019 is not significant.

*Sale and leaseback transactions*

Between 2009 and 2012, the Bank completed transactions for the sale of properties and simultaneously entered into a lease contract with the buyers for the same properties (maintenance, insurance and taxes to be borne by the Bank), whose main features are set out below:

| 2019 | | | | |
|---|---|---|---|---|
| **Operating lease contracts** | **No. properties sold** | **No. contracts with purchase option** | **No. contracts without purchase option** | **Mandatory term** |
| 2009 | 68 | 28 | 40 | 10 to 20 years |
| 2010 | 379 | 378 | 1 | 10 to 25 years |
| 2011 (acquisition B.Guipuzcoano) | 82 | 64 | 18 | 8 to 20 years |
| 2012 (acquisition Banco CAM) | 22 | 22 | - | 10 to 25 years |
| 2012 | 4 | 4 | - | 15 years |

Specific information in connection with this set of lease contracts is given below:

Thousand euro

| | **2019** |
|---|---|
| **Undiscounted future lease payments** | |
| Up to 1 month | 9,936 |
| 1 to 3 months | 2,768 |
| 3 to 12 months | 38,113 |
| 1 to 5 years | 198,032 |
| More than 5 years | 579,049 |

During 2019 no individually material gain or loss was obtained through sale and leaseback transactions.

## Note 15 – Intangible assets

The composition of this item as at 31 December 2019 and 2018 was as follows:

Thousand euro

| | **2019** | **2018** |
|---|---|---|
| **Goodwill** | **126,547** | **179,717** |
| Grupo Banco Guipuzcoano | 40,424 | 68,958 |
| BS Profesional, S.A. | 246 | 344 |
| From acquisition of Banco BMN Penedés assets | 85,878 | 110,414 |
| **Other intangible assets:** | **34,177** | **43,872** |
| With a finite useful life: | 34,177 | 43,872 |
| Contractual relations with customers (Banco Guipuzcoano) | 5,007 | 10,495 |
| Private Banking Business, Miami | 16,244 | 19,730 |
| Administrative franchises | 1,181 | 1,260 |
| Computer applications | 11,624 | 12,220 |
| Other | 121 | 167 |
| **Total** | **160,724** | **223,589** |

Movements in the balance of goodwill and intangible assets during 2019 and 2018 were as follows:

Thousand euro

| | Goodwill: | | |
|---|---|---|---|
| | Cost | Depreciation and amortisation | Total |
| **Balance as at 31 December 2017** | **1,005,530** | **(772,644)** | **232,886** |
| Additions | - | (53,169) | (53,169) |
| **Balance as at 31 December 2018** | **1,005,530** | **(825,813)** | **179,717** |
| Additions | - | (53,169) | (53,169) |
| **Balance as at 31 December 2019** | **1,005,530** | **(878,982)** | **126,548** |

Thousand euro

| | Other intangible assets: | | |
|---|---|---|---|
| | Cost | Depreciation and amortisation | Total |
| **Balance as at 31 December 2017** | **640,146** | **(579,450)** | **60,696** |
| Additions | 4,009 | (21,749) | (17,740) |
| Disposals | (39,715) | 39,542 | (174) |
| Other | 2,601 | (1,512) | 1,089 |
| **Balance as at 31 December 2018** | **607,041** | **(563,169)** | **43,872** |
| Additions | 10,046 | (18,736) | (8,690) |
| Disposals | (130,337) | 128,926 | (1,411) |
| Other | 1,155 | (750) | 406 |
| **Balance as at 31 December 2019** | **487,905** | **(453,729)** | **34,177** |

The gross value of items included under other intangible assets that were in use and fully amortised as at 31 December 2019 and 2018 amounted to 351,770 thousand euros and 429,190 thousand euros, respectively.

## Goodwill

As set forth in the regulatory frame of reference, Banco Sabadell has carried out an analysis to evaluate the existence of any potential impairment of its goodwill.

The valuation method used in this analysis was that of discounting future net distributable profit associated with the activity carried out by the Bank over a 5-year projection period (to 2024). Given the current environment of zero or negative interest rates estimated for the entire projection period, by 2024 the Bank's income statement will still not have reached its normal level. Nevertheless, 2024 has been taken as the reference year for calculating the terminal value, using a perpetual growth rate of 1.7%. A discount rate of 9.1% was used, a figure reached using the CAPM (Capital Asset Pricing Model) approach.

The key variables on which the financial projections are based are: growth in the buy-sell spread (determined by expected trading volumes and interest rates) and changes of other items on the income statement and solvency levels.

Recoverable values, both at Group-wide level and at the level of the Cash Generating Units (CGUs), namely Commercial Banking, Corporate Banking, Private Banking, TSB and others, are higher than their respective book values and therefore no impairment has been recognised.

In addition, the Group has carried out a sensitivity analysis using reasonable adjustments to the most significant assumptions for the calculation of a recovery value for each of the CGUs.

This analysis consisted of adjusting the following:

- Discount rate +/- 0.5%.
- Growth rate in perpetuity +/- 0.5%.
- Minimum capital requirement +/-0.5%.
- NIM/ATAs +/- 5pbs.
- Recurrent cost of risk for the year 2024 +/- 10pbs.

The sensitivity analysis does not alter the conclusions drawn from the goodwill impairment test.

The impairment of goodwill is calculated taking into account the central macroeconomic scenario described in Note 1.3.3.

## Evaluation of whether there is any evidence of significant impairment to goodwill:

**Banco Guipuzcoano**

Banco Guipuzcoano's goodwill was assigned to the Commercial Banking CGU and reflects the future income-generating capacity of the acquired assets and liabilities, the value of the potential income and cost synergies identified and the costs associated with the transaction.

**BMN-Penedès**

Goodwill generated from the business combination corresponding to the acquisition of assets from BMN-Penedès was assigned to the Commercial Banking CGU.

In accordance with the specifications of the restated text of the Corporation Tax Law, the goodwill generated is not tax-deductible.

## Other intangible assets

**Contractual relations with customers (Banco Guipuzcoano)**

The intangible assets associated with the acquisition of Banco Guipuzcoano mainly include the value of the contractual rights arising from relationships with customers taken over from Banco Guipuzcoano for core deposits and mutual funds. The valuation of core deposits has been carried out with the income approach using the cost savings method. The fair value was mainly determined by estimating the net present value of the cash flows generated by the lower cost of core deposits compared with alternative sources of funding. Mutual fund management was valued by the income approach using the excess earnings method. The fair value was mainly determined by estimating the net present value of the cash flows generated by the fees received for the sale of mutual funds. These assets are amortised within ten years from the date of acquisition of Banco Guipuzcoano.

To measure the evidence of impairment of other intangible assets, the value in use is calculated using the income approach (discounted cash flows), with the multi-period excess earnings technique being used for income from contractual customer relations and deposits, and the price premium technique to measure the brand value. These intangible assets have not suffered any decline in value.

**Private Banking business, Miami**

The intangible assets associated with various acquisitions related to businesses in Miami (2008 Private Banking business, Miami, 2012 Caja de Ahorros del Mediterráneo Miami branch and 2013 Private Banking of Lloyds Bank in Miami) include the value of contractual rights arising from customer relationships taken over, basically short-term lending, deposits and contractual relationships with specific customers. These assets are amortised over a period of between 10 and 15 years.

**IT applications**

Software purchase costs comprise mainly the capitalised costs of developing the Group's computer software and the purchase of software licences.

## Note 16 – Other assets

The "*Other assets*" heading on the balance sheets as at 31 December 2019 and 2018 breaks down as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Insurance contracts linked to pensions | 21 | 133,960 | 132,299 |
| Rest of other assets | | 270,449 | 333,309 |
| **Total** | | **404,409** | **465,608** |

The heading "*Rest of Other assets*" includes mainly prepaid expenses, the accrual of fees and commissions and transactions in progress.

## Note 17 – Deposits in central banks and credit institutions

The breakdown of deposits in credit institutions and central banks in the balance sheets at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By heading:** | | |
| Financial liabilities measured at amortised cost | 25,820,046 | 33,276,483 |
| **Total** | **25,820,046** | **33,276,483** |
| **By nature:** | | |
| Demand deposits | 478,944 | 395,264 |
| Deposits with agreed maturity | 17,506,477 | 25,070,213 |
| Repurchase agreements | 7,607,237 | 7,600,498 |
| Other accounts | 222,586 | 200,370 |
| Valuation adjustments | 4,802 | 10,138 |
| **Total** | **25,820,046** | **33,276,483** |
| **By currency:** | | |
| In euro | 23,601,849 | 30,345,143 |
| In foreign currency | 2,218,197 | 2,931,340 |
| **Total** | **25,820,046** | **33,276,483** |

## Note 18 – Customer deposits

The customer deposits heading on the balance sheets as at 31 December 2019 and 2018 breaks down as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By heading:** | | |
| Financial liabilities measured at amortised cost | 113,059,709 | 106,907,366 |
| **Total** | **113,059,709** | **106,907,366** |
| **By nature:** | | |
| Demand deposits | 87,781,838 | 78,399,866 |
| Deposits with agreed maturity | 22,068,454 | 25,091,936 |
| Fixed term | 19,050,874 | 21,097,149 |
| Non-marketable covered bonds and bonds issued | 1,476,891 | 1,962,867 |
| Rest | 1,540,689 | 2,031,920 |
| Hybrid financial liabilities | 2,126,646 | 1,982,233 |
| Repurchase agreements | 953,405 | 1,322,772 |
| Valuation adjustments | 129,366 | 110,559 |
| **Total** | **113,059,709** | **106,907,366** |
| **By sector:** | | |
| General governments | 6,576,864 | 5,838,423 |
| Other sectors | 106,353,479 | 100,958,384 |
| Other valuation adjustments (interest, fees and commissions, other) | 129,366 | 110,559 |
| **Total** | **113,059,709** | **106,907,366** |
| **By currency:** | | |
| In euro | 105,404,491 | 100,093,659 |
| In foreign currency | 7,655,218 | 6,813,707 |
| **Total** | **113,059,709** | **106,907,366** |

## Note 19 – Debt securities issued

Details of the "*Debt securities issued*" heading by type of issuance and recognised on the balance sheets as at 31 December 2019 and 2018 are as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Straight bonds/debentures | 6,422,112 | 4,012,597 |
| Straight bonds | 6,311,712 | 3,791,097 |
| Structured bonds | 110,400 | 221,500 |
| State guaranteed straight bonds | - | - |
| Commercial paper | 1,905,823 | 5,807,185 |
| Covered bonds | 8,925,100 | 9,525,100 |
| Public-sector covered bonds | - | - |
| Covered bonds (TSB) | - | - |
| Asset-backed bonds | - | - |
| Subordinated marketable debt securities | 2,574,600 | 2,574,600 |
| Subordinated liabilities | 1,424,600 | 1,424,600 |
| Preference shares | 1,150,000 | 1,150,000 |
| Valuation and other adjustments | 36,360 | 11,981 |
| **Total** | **19,863,995** | **21,931,463** |

Schedule V shows details of the outstanding issuances as at 2019 and 2018 year-end.

Two issues of preference shares contingently convertible into the Bank's ordinary shares (Additional Tier 1), offered exclusively to qualified investors, were carried out in 2017. On 18 May 2017, Banco Sabadell carried out its first Additional Tier 1 issuance, amounting to 750,000 thousand euros with a fixed coupon rate of 6.5%. Subsequently, on 23 November 2017, it carried out a second Additional Tier 1 issuance, amounting to 400,000 thousand euros with a fixed coupon rate of 6.125%.

These securities are perpetual, although they may be converted into newly issued Banco Sabadell shares, if Banco Sabadell, or its consolidated Group had a Common Equity Tier 1 (CET1) ratio lower than 5.125%, calculated in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June, on prudential requirements for credit institutions and investment firms.

Expenses relating to the remuneration for preference shares contingently convertible into ordinary shares amount to 73,250 thousand euros as at 31 December 2019 (73,250 thousand euros as at 31 December 2018) and are 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 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By heading:** | | |
| Financial liabilities measured at amortised cost | 3,676,000 | 3,430,157 |
| **Total** | **3,676,000** | **3,430,157** |
| **By nature:** | | |
| Debentures payable | 217,622 | 416,747 |
| Guarantee deposits received | 53,337 | 74,395 |
| Clearing houses | 537,099 | 647,274 |
| Collection accounts | 1,522,405 | 1,721,208 |
| Other financial liabilities (*) | 1,345,536 | 570,533 |
| **Total** | **3,675,999** | **3,430,157** |
| **By currency:** | | |
| In euro | 3,594,868 | 3,331,496 |
| In foreign currency | 81,132 | 98,661 |
| **Total** | **3,676,000** | **3,430,157** |

(*) Includes balances payable to suppliers.As of 31 December 2019, the balance includes a lease liability for an amount of 937,036 thousand euro.

The following table shows information relating to the average payment period to suppliers, as required by Additional Provision Three of Law 15/2010, taking into account the amendments introduced by Law 31/2014 of 3 December, amending the Capital Companies Act in order to improve corporate governance:

Number of days and thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Days** | | |
| Average time taken to pay suppliers | 18.19 | 21.21 |
| Ratio of paid operations | 18.19 | 21.21 |
| Ratio of operations pending payment | - | 146.12 |
| **Amount** | | |
| Total payments made | 1,382,717 | 1,017,911 |
| Total payments pending | - | 1 |

## Note 21 – Provisions and contingent liabilities

Movements during 2019 and 2018 under the heading of "*provisions*" are shown below:

Thousand euro

| | Pensions and other post employment defined benefit obligations | Other long term employee benefits | Pending legal issues and tax litigation | Commitments and guarantees given | Other provisions | Total |
|---|---|---|---|---|---|---|
| **Balance as at 31 December 2017** | **84,843** | **10,291** | **76,059** | **150,415** | **13,475** | **335,083** |
| **Impact of the first application of Circular 4/2017** | **-** | **-** | **-** | **8,468** | **-** | **8,468** |
| **Scope additions / exclusions** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Interest and similar charges - pension commitments** | **1,202** | **114** | **-** | **-** | **-** | **1,316** |
| **Allowances charged to income statement - staff expenses (*)** | **1,771** | **4** | **-** | **-** | **-** | **1,775** |
| **Allowances not charged to income statement** | **-** | **-** | **-** | **14,360** | **-** | **14,360** |
| **Allowances charged to income statement - provisions** | **(896)** | **1,586** | **14,201** | **208,075** | **305** | **223,271** |
| Allocation of provisions | 217 | 1,880 | 16,975 | 302,265 | 7,263 | 328,600 |
| Reversal of provisions | - | - | (2,773) | (94,190) | (6,959) | (103,922) |
| Actuarial losses / (gains) | (1,113) | (294) | - | - | - | (1,407) |
| **Exchange differences** | **-** | **-** | **-** | **(1,081)** | **-** | **(1,081)** |
| **Utilisations:** | **(8,590)** | **(5,361)** | **(32,056)** | **-** | **(88,170)** | **(134,177)** |
| Contributions by the sponsor | 29 | 1 | - | - | - | 30 |
| Pension payments | (8,619) | (5,362) | - | - | - | (13,981) |
| Other | - | - | (32,056) | - | (88,170) | (120,226) |
| **Other movements** | **10,126** | **(72)** | **15** | **3,970** | **200,654** | **214,693** |
| **Balance as at 31 December 2018** | **88,456** | **6,562** | **58,219** | **384,207** | **126,264** | **663,708** |
| **Scope additions / exclusions** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Interest and similar charges - pension commitments** | **1,279** | **68** | **-** | **-** | **-** | **1,347** |
| **Allowances charged to income statement - staff expenses (*)** | **1,630** | **2** | **-** | **-** | **-** | **1,632** |
| **Allowances not charged to income statement** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Allowances charged to income statement - provisions** | **1,990** | **789** | **23,088** | **189,755** | **(2,912)** | **212,710** |
| Allocation of provisions | 840 | 821 | 36,925 | 352,272 | 6,789 | 397,647 |
| Reversal of provisions | - | - | (13,837) | (162,517) | (9,701) | (186,055) |
| Actuarial losses / (gains) | 1,150 | (32) | - | - | - | 1,118 |
| **Exchange differences** | **-** | **-** | **-** | **(393)** | **-** | **(393)** |
| **Utilisations:** | **(8,841)** | **(3,835)** | **(22,911)** | **-** | **(37,143)** | **(72,730)** |
| Net contributions by the sponsor | (136) | 2 | - | - | - | (134) |
| Pension payments | (8,705) | (3,837) | - | - | - | (12,542) |
| Other | - | - | (22,911) | - | (37,143) | (60,054) |
| **Other movements** | **10,542** | **(3)** | **8,486** | **(1,857)** | **10** | **17,178** |
| **Balance as at 31 December 2019** | **95,056** | **3,583** | **66,882** | **571,712** | **86,219** | **823,452** |

(*) See Note 30.

The headings "*Pensions and other post-employment defined benefit obligations*" and "*Other long term employee benefits*" include the amount of provisions for the coverage of post-employment remuneration and commitments undertaken with early retirees and similar commitments.

The heading "*Provisions for commitments and guarantees given*" includes the amount of provisions for the coverage of contingent risks arising from financial guarantees or other types of contract.

During the usual course of business, the Bank is exposed to fiscal, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of third party experts when necessary and, where appropriate, provisions are recognised under the headings "*Pending legal issues and tax litigation*" and "*Other provisions*". As at 31 December 2019 and 2018, these headings mainly include:

- Provisions for tax contingencies which mainly include inspections by the tax authority signed on a contested basis and appealed tax settlements amounting to 4 million euros as at 31 December 2019 (5 million euros as at 31 December 2018 - see Note 35).

- Provisions for legal contingencies amounting to 63 million euros as at 31 December 2019 (60 million euros as at 31 December 2018).

- 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 76.7 million euros as at 31 December 2019. In the unlikely scenario in which all potential existing claims are made through the procedures established by the entity, in accordance with that set forth in Royal Decree, applying the percentages set forth in the current agreement, the maximum contingency would amount to 481.2 million euros.

  With regards to these provisions, the Bank considers its floor clauses to be transparent and clear to customers, and in general, these have not been definitively cancelled with a final ruling. On 12 November 2018, Section 28 of the Civil Division of the Provisional Court of Madrid issued a ruling in which it partially supported the appeal brought forth by Banco de Sabadell against the ruling issued by the Commercial Court no.11 of Madrid on the invalidity of the restrictive interest rate clauses, considering that some of the clauses established by Banco Sabadell are transparent and valid in their entirety. With regards to the rest of the clauses, the Bank considers that it has legal arguments which should be reviewed in the legal appeal which the entity presented to the Supreme Court, with regards to the ruling made by the Provincial Court of Madrid.

The final disbursement amount and the payment schedule are uncertain due to the difficulties inherent in estimating the factors used to determine the provision amount.

## 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

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Obligations arising from pension and similar commitments | 796,260 | 762,853 | 787,671 | 857,006 | 858,548 |
| Fair value of defined benefit plan assets | (697,621) | (667,835) | (692,537) | (749,295) | (744,256) |
| **Net liability recognised on balance sheet** | **98,639** | **95,018** | **95,134** | **107,711** | **114,292** |

The return on the Banco Sabadell pension plan was negative at 2.33% and that of E.P.S.V. was 1.15% in 2019.

The return on the pension plan was negative at 2.57% and that of E.P.S.V. Was also negative at 0.06% in 2018.

Movements during 2019 and 2018 in obligations due to pensions and similar commitments and the fair value of the scheme assets are as follows:

Thousand euro

| | Obligations arising from pension and similar commitments | Fair value of defined benefit plan assets |
|---|---|---|
| **Balance as at 31 December 2017** | **787,671** | **692,537** |
| Interest costs | 11,424 | - |
| Interest income | - | 10,108 |
| Normal cost in year | 1,775 | - |
| Past service cost | 1,880 | - |
| Benefits paid | (51,231) | (37,250) |
| Settlements, curtailments and terminations | 11,761 | 12,874 |
| Net contributions by the institution | - | (215) |
| Actuarial gains or losses from changes in demographic assumptions | - | - |
| Actuarial gains or losses from changes in financial assumptions | - | - |
| Actuarial gains or losses from changes in actuarial assumptions | 7,054 | - |
| Yield on defined benefit plan assets excluding interest income | - | (2,738) |
| Other movements | (7,481) | (7,481) |
| **Balance as at 31 December 2018** | **762,853** | **667,835** |
| Interest costs | 11,092 | - |
| Interest income | - | 9,745 |
| Normal cost in year | 1,632 | - |
| Past service cost | 1,629 | - |
| Benefits paid | (48,578) | (36,035) |
| Settlements, curtailments and terminations | 4,705 | 3,483 |
| Net contributions by the institution | - | (44) |
| Actuarial gains or losses from changes in demographic assumptions | - | - |
| Actuarial gains or losses from changes in financial assumptions | 64,491 | - |
| Actuarial gains or losses from changes in actuarial assumptions | 3,188 | - |
| Yield on defined benefit plan assets excluding interest income | - | 57,389 |
| Other movements | (4,752) | (4,752) |
| **Balance as at 31 December 2019** | **796,260** | **697,621** |

The breakdown of the Bank's pension commitments and similar obligations as at 31 December 2019 and 2018, based on its financing vehicle, coverage and the interest rate applied in its calculation is listed below:

Thousand euro

| | | 2019 | |
|---|---|---|---|
| **Financing vehicle** | **Coverage** | **Amount** | **Interest rate** |
| **Pension plans** | | **415,354** | |
| Insurance policies with related parties | Matched | 35,067 | 0,75,% |
| Insurance policies with unrelated parties | Matched | 380,287 | 0,75,% |
| **Insurance policies** | | **377,386** | |
| Insurance policies with related parties | Matched | 86,958 | 0,75,% |
| Insurance policies with unrelated parties | Matched | 290,428 | 0,75,% |
| **Internal funds** | Without cover | **3,520** | 0,75,% |
| **Total obligations** | | **796,260** | |

Thousand euro

| | | 2018 | |
|---|---|---|---|
| **Financing vehicle** | **Coverage** | **Amount** | **Interest rate** |
| **Pension plans** | | **408,264** | |
| Insurance policies with related parties | Matched | 34,565 | 1.50% |
| Insurance policies with unrelated parties | Matched | 373,699 | 1.50% |
| **Insurance policies** | | **348,127** | |
| Insurance policies with related parties | Matched | 84,865 | 1.50% |
| Insurance policies with unrelated parties | Matched | 263,262 | 1.50% |
| **Internal funds** | Without cover | **6,461** | 1.50% |
| **Total obligations** | | **762,852** | |

The amount of the commitments covered by matched insurance policies as at 31 December 2019 was 792,740 thousand euros (756,391 thousand euros as at 31 December 2018) and therefore in 99.56% of its commitments (99.15% as at 31 December 2018) the Bank has no mortality risk (mortality tables) or profitability risk (interest rate). Therefore, the evolution of interest rates throughout the year has not had an impact on the Bank's financial situation.

The sensitivity analysis for each key actuarial assumption, as at 31 December 2019 and 31 December 2018, shows how the obligation would have been affected, and the cost of the services during the current year, by reasonably likely changes on such date:

%

| | 2019 | 2018 |
|---|---|---|
| **Sensitivity analysis** | **Percentage change** | |
| **Discount rate** | | |
| **Discount rate -50 basis points:** | | |
| Assumption | 0.25% | 1.00% |
| Change in obligation | 6.16% | 5.68% |
| Change of service cost in current year | 10.09% | 8.48% |
| **Discount rate +50 basis points:** | | |
| Assumption | 1.25% | 2.00% |
| Change in obligation | (5.52%) | (5.31%) |
| Change of service cost in current year | (8.87%) | (7.49%) |
| **Rate of salary increase** | | |
| **Rate of salary increase -50 basis points:** | | |
| Assumption | 2.50% | 2.50% |
| Change in obligation | (0.25%) | (0.31%) |
| Change of service cost in current year | (3.29%) | (3.62%) |
| **Rate of salary increase +50 basis points:** | | |
| Assumption | 3.50% | 3.50% |
| Change in obligation | 0.28% | 0.33% |
| Change of service cost in current year | 3.80% | 3.72% |

The estimate of probability-weighted present values, as at 31 December 2019, of benefits payable for the next ten years, is set out below:

Thousand euro

| | Years | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | Total |
| Future benefit payments | 11,054 | 9,367 | 8,332 | 7,905 | 7,628 | 7,330 | 7,025 | 6,726 | 6,421 | 6,112 | **77,900** |

The fair value of assets linked to pensions recognised on the asset side of the Bank's balance sheet amount to 133,960 thousand euros as at 31 December 2019 and 132,299 thousand euros as at 31 December 2018 (see Note 16).

The principal categories of the plan assets as a percentage of total are listed below:

%

| | 2019 | 2018 |
|---|---|---|
| Equity instruments issued by Banco Sabadell | 0.02% | 0.01% |
| Debt securities | 0.21% | 1.39% |
| Mutual funds | 2.03% | 1.53% |
| Deposits and guarantees | 0.10% | 0.05% |
| Derivatives | 0.01% | - |
| Other (non-linked insurance policies) | 97.63% | 97.02% |
| **Total** | **100%** | **100%** |

The following financial instruments issued by the Bank are included in the fair value of the plan assets:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Equity instruments | 105 | 100 |
| Debt securities | - | 1,000 |
| Deposits and guarantees | 397 | 314 |
| **Total** | **502** | **1,414** |

*Contingent commitments*

In its ruling of 22 November 2017, the Supreme Court ruled on the validity of the use of the IRPH (Spanish mortgage market index) as a reference index for the variation of interest rates on mortgage loans as it is not possible to control its transparency since it is an index defined and regulated by a rule of law. The criterion established in this Supreme Court ruling has been followed in practically all national courts and tribunals that have considered that the use of IRPH as a reference index does not imply a lack of transparency for the consumer.

Barcelona's Court no. 38, deviating from the criteria of the Supreme Court and most Courts and Tribunals, has referred a case to the Court of Justice of the European Union (CJEU) for a preliminary ruling on whether or not this index is subject to a transparency control when applied to consumers, requesting that it be determined whether to replace it with another index or simply stop applying it altogether.

Although the Bank considers that the criterion established by the Supreme Court is the correct one, in the event that the CJEU resolves the issue differently from the case law established by the Supreme Court, the impact that this change of criterion could have would depend on multiple factors that the CJEU judgement would have to resolve, such as the applicable interest rate in that case; whether it would have some retroactive effect (issue not raised in the case referred for a preliminary ruling); and in any case, the conditions that the hypothetical lack of transparency would require. As at 31 December 2019, the outstanding balance of mortgage loans to IRPH-indexed consumers was 751 million euros.

## Note 22 – Own funds

The breakdown of the balance of own funds recognised on the balance sheet as at 31 December 2019 and 2018 is the following:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Capital | 703,371 | 703,371 |
| Share premium | 7,899,227 | 7,899,227 |
| Equity instruments issued other than capital | - | - |
| Other equity | 17,077 | 15,054 |
| Retained earnings | 3,481,494 | - |
| Revaluation reserves | - | - |
| Other reserves | (1,776,853) | 1,451,367 |
| (-) Treasury shares | (8,503) | (139,760) |
| Profit or loss attributable to owners of the parent | 1,053,267 | 539,867 |
| (-) Interim dividends | (110,817) | (110,739) |
| **Total** | **11,258,263** | **10,358,387** |

## Capital

The Bank's share capital as at 31 December 2019 and 2018 stood at 703,370,587.63 euros, represented by 5,626,964,701 registered shares with a par value of 0.125 euros each. All shares are fully paid-up and are numbered in sequential order from 1 through 5,626,964,701, inclusive.

The Bank's shares are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and on Spain's continuous securities market managed by Sociedad de Bolsas, S.A.

The other companies included in the consolidated Group are not listed, with the exception of Duncan de Inversiones, S.I.C.A.V., S.A., which is listed on the Mercado Alternativo Bursátil (MAB).

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.

There were no changes in share capital in 2019 and 2018.

## Significant investments in the Bank's capital

As required by Articles 23 and 32 of Royal Decree 1362/2007 of 19 October, implementing the Securities Market Law 24/1988 of 28 July, on transparency requirements relating to information on the issuers whose securities have been admitted to trading on an official secondary market or on any other European Union regulated market, the following table gives details of significant investments in the capital of Banco Sabadell as at 31 December 2019:

| 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 | 5.08% | 0.13% | 5.21% | Blackrock Inc. |
| Fintech Europe S.A.R.L. | 3.49% | - | 3.49% | David Martínez Guzmán |
| Coltrane Master Fund, L.P. | - | 1.07% | 1.07% | - |

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 2019 amounted to 7,899,227 thousand euros, remaining unchanged from the amount as at 31 December 2018.

## Retained earnings and Other reserves

The balance of these headings are broken down as follows on the balance sheet as at 31 December 2019 and 2018:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Restricted reserves:** | **322,094** | **325,020** |
| Statutory reserve | 140,674 | 140,674 |
| Reserves for treasury shares pledged as security | 133,149 | 136,459 |
| Capitalisation reserve Law 27/2014 | 35,985 | 35,985 |
| Canary Island investment reserve | 9,171 | 8,787 |
| Reserve for share capital redenomination in euro | 113 | 113 |
| Capital redemption reserve | 3,002 | 3,002 |
| **Unrestricted reserves** | **1,382,547** | **1,126,347** |
| **Total** | **1,704,641** | **1,451,367** |

## Other equity

Items incorporated under Other equity include share-based remuneration pending settlement which as at 31 December 2019 and 2018 amounted to 17,077 and 15,054 thousand euros, respectively.

## Business on own equity instruments

The movements of the parent company's shares acquired by the Bank are as follows:

| | No. of shares | Nominal value *(in thousand euro)* | Average price *(in euro)* | % Shareholding |
|---|---|---|---|---|
| **Balance as at 31 December 2017** | **48,233,246** | **6,029.16** | **1.82** | **0.86** |
| Purchases | 188,236,870 | 23,529.61 | 1.41 | 3.34 |
| Sales | 147,681,602 | 18,460.20 | 1.46 | 2.62 |
| **Balance as at 31 December 2018** | **88,788,514** | **11,098.57** | **1.57** | **1.58** |
| Purchases | 225,036,359 | 28,129.54 | 0.93 | 4.00 |
| Sales | 307,818,009 | 38,477.25 | 0.98 | 5.47 |
| **Balance as at 31 December 2019** | **6,006,864** | **750.86** | **1.42** | **0.11** |

Net gains and losses arising from transactions in own equity have been included under the heading "*Own funds - Other reserves*" on the balance sheet, and they are shown in the statement of changes in equity, in the row corresponding to the sale or cancellation of treasury shares.

As at 31 December 2019, the number of shares of the Bank pledged as collateral for transactions was 128,027,778 with a nominal value of 16,003 thousand euros (136,390,382 shares with a nominal value of 17,049 thousand euros as at 31 December 2018).

The number of Banco de Sabadell, S.A. equity instruments owned by third parties, yet managed by the different group companies amounts to 21,638,760 and 21,506,506 securities as at 31 December 2019 and 2018, respectively, with a nominal value of 2,705 thousand euros and 2,688 thousand euros, respectively. In both years, 100% of the securities corresponded to Banco Sabadell shares.

## Note 23 – Accumulated other comprehensive income

The composition of this heading of equity as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Items that will not be reclassified to profit or loss | (66,175) | (61,044) |
| Actuarial gains or (-) losses on defined benefit pension plans | (1,754) | (329) |
| 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 | (64,421) | (60,715) |
| 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 | 124,419 | (9,256) |
| Hedge of net investments in foreign operations [effective portion] (*) | (221) | 123 |
| Foreign currency translation | 46,576 | 26,627 |
| Hedging derivatives. Cash flow hedges (effective portion) (**) | 96,461 | 8,009 |
| Amount deriving from outstanding operations | 44,896 | 9,705 |
| Amount deriving from discontinued operations | 51,565 | (1,696) |
| Fair value changes of debt instruments measured at fair value through other comprehensive income | (18,397) | (44,015) |
| Hedging instruments [not designated elements] | - | - |
| Non-current assets and disposal groups classified as held for sale | - | - |
| **Total** | **58,244** | **(70,300)** |

(*) The value of the hedge of net investments in foreign operations is fully obtained from outstanding transactions.

(**) Cash flow hedges mainly mitigate interest rate risk and other risks (see note 11).

The breakdown of corporation tax in respect of items that can reclassified to profit or loss in relation to each heading on the statement of recognised income and expense as at 31 December 2019 and 2018 is shown below:

Thousand euro

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Tax effect | Net | Gross amount | Tax effect | Net |
| Items that will not be reclassified to profit or loss | (15,491) | 10,360 | (5,131) | (144,607) | 43,382 | (101,225) |
| Actuarial gains or (-) losses on defined benefit pension plans | (2,036) | 611 | (1,425) | (10,138) | 3,041 | (7,097) |
| 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 | (13,455) | 9,749 | (3,706) | (134,469) | 40,341 | (94,128) |
| 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 | 181,058 | (47,383) | 133,675 | (210,383) | 71,854 | (138,529) |
| Hedge of net investments in foreign operations [effective portion] | (343) | - | (343) | 123 | - | 123 |
| Foreign currency translation | 19,946 | - | 19,946 | 34,577 | (1,082) | 33,495 |
| Hedging derivatives. Cash flow hedges reserve [effective portion] | 126,362 | (37,909) | 88,453 | 151,485 | (45,445) | 106,040 |
| Fair value changes of debt instruments measured at fair value through other comprehensive income | 35,093 | (9,474) | 25,619 | (396,568) | 118,381 | (278,187) |
| Hedging instruments [not designated elements] | - | - | - | - | - | - |
| Non-current assets and disposal groups classified as held for sale | - | - | - | - | - | - |
| **Total** | **165,567** | **(37,023)** | **128,544** | **(354,990)** | **115,236** | **(239,754)** |

## Note 24 – Off-balance sheet exposures

The composition of off-balance sheet exposures as at 31 December 2019 and 31 December 2018 is as follows:

Thousand euro

| Commitments and guarantees given | Note | 2019 | 2018 |
|---|---|---|---|
| **Loan commitments provided** | | **23,867,895** | **18,589,840** |
| *Of which, amount classified as Stage 2* | | *164,573* | 175,509 |
| *Of which, amount classified as Stage 3* | | *23,538* | *35,104* |
| Can be drawn by third parties | | 23,867,895 | 18,589,840 |
| By credit institutions | | 339,366 | 58,093 |
| By general governments | | 1,206,414 | 631,830 |
| By other resident sectors | | 18,148,459 | 17,031,367 |
| By non-residents | | 4,173,656 | 868,550 |
| Amount recognised within liabilities on the balance sheet | 21 | 507,691 | 320,332 |
| **Financial guarantees provided (*)** | | **2,830,293** | **2,465,904** |
| *Of which, amount classified as Stage 2* | | *90,063* | 125,706 |
| *Of which, amount classified as Stage 3* | | *41,534* | *25,890* |
| Amount recognised within liabilities on the balance sheet (**) | 21 | 21,246 | 23,036 |
| **Other commitments provided** | | **10,362,134** | **8,139,882** |
| *Of which, amount classified as Stage 2* | | *315,842* | 397,847 |
| *Of which, amount classified as Stage 3* | | *156,918* | *55,305* |
| Other guarantees given | | 7,588,252 | 7,407,321 |
| Assets earmarked for third-party obligations | | - | - |
| Irrevocable letter of credit | | 806,313 | 921,301 |
| Additional settlement guarantee | | 20,000 | 20,000 |
| Other guarantees and sureties given | | 6,761,939 | 6,466,020 |
| Other contingent risks | | - | - |
| Other commitments provided | | 2,773,882 | 732,561 |
| Financial asset forward purchase commitments | | 2,468,533 | 557,375 |
| Conventional financial asset purchase contracts | | 159,000 | 1,537 |
| Capital subscribed but not paid up | | 19 | 19 |
| Underwriting and subscription commitments | | - | - |
| Other loan commitments given | | 146,330 | 173,630 |
| Amount recognised within liabilities on the balance sheet | 21 | 42,774 | 40,839 |
| **Total** | | **37,060,322** | **29,195,626** |

(*) Includes 135,624 thousand euros and 137,481 thousand euros as at 31 December 2019 and 2018, respectively, relating to financial guarantees given in relation to construction and real estate development.

(**) Includes 5,225 thousand euros and 6,410 thousand euros as at 31 December 2019 and 2018, respectively, in relation to construction and real estate development.

Total commitments drawable by third parties as at 31 December 2019 included credit commitments secured with a mortgage in the amount of 3,924,788 thousand euros (3,899,939 thousand euros as at 31 December 2018). As regards other commitments, in the majority of cases there are other types of guarantees which are in line with the Group's risk management policy.

Guarantees given classed as stage 3

The movement of the balance of guarantees given classed as stage 3 during 2019 was the following:

| Thousand euro | |
|---|---|
| **Balances as at 31 December 2018** | **81,195** |
| Additions | 125,443 |
| Disposals | (8,186) |
| **Balances as at 31 December 2019** | **198,452** |

The breakdown by geography of the balance of guarantees given classed as stage 3 as at 31 December 2019 and 2018 is as follows:

| Thousand euro | 2019 | 2018 |
|---|---|---|
| Spain | 195,951 | 80,507 |
| United Kingdom | 5 | - |
| Rest of European Union | 437 | 387 |
| Americas | 1,726 | 131 |
| Rest of the world | 333 | 170 |
| **Total** | **198,452** | **81,195** |

Credit risk allowances corresponding to guarantees given as at 31 December 2019 and 2018, broken down by the method used to determine such allowances and the credit risk of off-balance sheet exposures, are as follows:

| Thousand euro | 2019 | 2018 |
|---|---|---|
| **Specific individually measured allowances:** | **38,939** | **36,008** |
| *Stage 2* | 1,403 | 2,663 |
| *Stage 3* | 37,536 | 33,345 |
| **Specific collectively measured allowances:** | **24,872** | **27,868** |
| *Stage 1* | 10,457 | 13,864 |
| *Stage 2* | 4,623 | 5,202 |
| *Stage 3* | 9,284 | 8,389 |
| Allowances for country risk | 508 | 413 |
| **Total** | **63,811** | **63,876** |

The movement of this coverage during the periods 2019 and 2018, 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 2019 and 2018 are shown below:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Managed by the bank:** | **21,849,343** | **21,778,966** |
| Investment firms and funds | 18,666,625 | 18,350,266 |
| Asset management | 3,182,718 | 3,428,700 |
| **Sold by the bank:** | **21,466,934** | **22,135,468** |
| Mutual Funds | 7,669,938 | 8,076,177 |
| Pension funds | 3,366,513 | 3,594,173 |
| Insurance | 10,430,483 | 10,465,118 |
| **Financial instruments deposited by third parties** | **77,367,688** | **73,184,105** |
| **Total** | **120,683,965** | **117,098,539** |

## Note 26 – Interest income and expense

These headings in the income statement include interest accrued during the year on all financial assets and liabilities the yield of which, implicit or explicit, is obtained by applying the effective interest rate approach, irrespective of whether they are measured at fair value or otherwise, and using product adjustments due to accounting hedges. Interest is recorded at its gross value, without subtracting any tax withholdings deducted at source.

The majority of interest income is generated by financial assets measured either at amortised cost or at fair value through other comprehensive income.

The breakdown of net interest income is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Interest income** | | |
| Loans and advances | 2,656,259 | 2,625,736 |
| Central banks | 4,483 | 2,924 |
| Credit institutions | 47,395 | 47,141 |
| Customers | 2,604,381 | 2,575,671 |
| Debt securities (*) | 307,263 | 322,371 |
| Stage 3 assets | 43,527 | 89,659 |
| Correction of income from hedging operations | 324,076 | 260,611 |
| Other interest (**) | 119,906 | 127,069 |
| **Total** | **3,451,031** | **3,425,446** |
| **Interest expense** | | |
| Deposits | (391,734) | (431,365) |
| Central banks | (5,367) | (1,743) |
| Credit institutions | (54,939) | (81,861) |
| Customers | (331,428) | (347,761) |
| Debt securities issued | (228,602) | (174,649) |
| Correction of expenses on hedging operations | (314,839) | (269,517) |
| Other interest (***) | (87,751) | (73,225) |
| **Total** | **(1,022,926)** | **(948,756)** |

(*) Includes 174 thousand euro in 2019 and 2,031 thousand euro in 2018 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 2019 and 2018 of the indicated balance sheet headings is shown below:

| % | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Cash, cash balances at central banks and other demand deposits | 0.75 | 0.74 |
| Debt securities | 1.32 | 1.66 |
| Loans and advances | | |
| Customers | 2.35 | 2.35 |
| **Liabilities** | | |
| Deposits | | |
| Credit institutions | 0.57 | 0.39 |
| Customers | 0.12 | 0.15 |

## Note 27 – Fee and commission income and expenses

Income and expenses arising from fees and commission for financial operations and the provision of services are as follows:

| Thousand euro | 2019 | 2018 |
|---|---|---|
| **Fees from risk transactions** | **247,134** | **225,025** |
| Lending operations | 139,830 | 123,013 |
| Sureties and other guarantees | 107,304 | 102,012 |
| **Service fees** | **668,676** | **635,656** |
| Payment cards | 217,549 | 193,331 |
| Payment orders | 60,409 | 55,520 |
| Securities | 57,936 | 56,815 |
| Sight accounts | 138,554 | 149,602 |
| Rest | 194,228 | 180,388 |
| **Asset management fees** | **250,935** | **253,550** |
| Mutual funds | 73,610 | 81,600 |
| Sale of pension funds and insurance products | 152,865 | 148,422 |
| Asset management | 24,460 | 23,528 |
| **Total** | **1,166,745** | **1,114,231** |
| **Memorandum item** | | |
| Fee and commission income | 1,310,421 | 1,244,963 |
| Fee and commission expenses | (143,676) | (130,732) |
| **Fees and commissions (net)** | **1,166,745** | **1,114,231** |

## Note 28 – Gains or (-) losses on financial assets and liabilities, net

The composition of this item of the income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **By heading:** | | |
| Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net | 124,207 | 183,113 |
| Financial assets at fair value through other comprehensive income | 58,988 | 267,943 |
| Financial assets at amortised cost | 65,282 | (76,821) |
| Financial liabilities measured at amortised cost | (63) | (8,009) |
| Gains or (-) losses on financial assets and liabilities held for trading, net | (65,881) | 73,101 |
| Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net | (3,227) | (14,827) |
| Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net | - | - |
| Gains or (-) losses from hedge accounting, net | (3,651) | (3,932) |
| **Total** | **51,448** | **237,455** |
| **By type of financial instrument:** | | |
| Net gain/(loss) on debt securities | 64,676 | 176,846 |
| Net gain/(loss) other equity instruments | - | - |
| Net gain/(loss) on derivatives | (73,003) | 66,921 |
| Net gain/(loss) on other items (*) | 59,775 | (6,312) |
| **Total** | **51,448** | **237,455** |

(*) Includes mainly the proceeds from securitising consumer loans and from the sale of a number of portfolios during the year.

During the years 2019 and 2018 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 58,988 thousand euros as at 31 December 2019 (267,944 thousand euros as at 31 December 2018).

On 20 September 2019, the Bank securitised consumer loans with a principal amount of 1,000 million euros in the *Sabadell Consumo 1, Fondo de Titulización* securitisation vehicle; all of the asset-backed securities issued by this vehicle were acquired by third parties outside of the Group. In this transaction a substantial portion of the risks and profits from the securitised portfolio were transferred and the Bank proceeded to derecognise the portfolio from the balance sheet, recognising a gain of 87,774 thousand euros 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 2019 income statement.

Likewise, the "*Net gain/(loss) on derivatives*" heading in the table above includes, mainly, the change in the fair value of derivatives used to hedge against the foreign exchange risk of debit and credit balances denominated in foreign currencies. The results obtained from these derivatives are recognised under the heading "*Gains or (-) losses on financial assets and liabilities held for trading, net*" of the income statement, while the exchange differences generated by debit and credit balances denominated in foreign currencies hedged with these derivatives are recognised under the heading "*Exchange differences (gain or (-) loss), net*" of the income statement.

## Note 29 – Other operating expenses

The composition of this item of the income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Contribution to deposit guarantee schemes | (110,673) | (103,317) |
| Contribution to resolution fund | (58,647) | (49,744) |
| Other items | (159,524) | (150,692) |
| Monetisation rates (*) | (48,133) | (44,996) |
| Rest | (111,391) | (105,696) |
| **Total** | **(328,844)** | **(303,753)** |

(*) See Note 35.

The "*Other*" subheading includes expenses corresponding to Tax on Deposits to Credit Institutions, amounting to 31,239 thousand euros in 2019 (30,664 thousand euros in 2018), as well as expenses associated with non-financial activities.

## Note 30 – Administrative expenses

This heading in the income statement includes expenses incurred by the Bank in respect of staff and other general administrative expenses.

### Staff expenses

The staff expenses recognised in the income statement for the years ended 31 December 2019 and 2018 are as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Payrolls and bonuses for active staff | | (805,760) | (787,157) |
| Social Security payments | | (202,820) | (189,583) |
| Contributions to defined benefit pension plans | 21 | (1,632) | (1,775) |
| Contributions to defined contribution pension plans | | (29,869) | (29,031) |
| Other staff expenses | | (52,783) | (72,632) |
| **Total** | | **(1,092,864)** | **(1,080,178)** |

As at 31 December 2019 and 2018, the breakdown of the Bank's average workforce by category and gender is as follows:

Average number of employees

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| Management staff | 371 | 111 | 482 | 344 | 102 | 446 |
| Technical staff | 7,129 | 7,819 | 14,948 | 7,183 | 7,690 | 14,873 |
| Administrative staff | - | - | - | - | - | - |
| **Total** | **7,500** | **7,930** | **15,430** | **7,527** | **7,792** | **15,319** |

The breakdown of the Bank's average workforce by category as at 31 December 2019 and 2018 with a disability of 33% of more is as follows:

| Average number of employees | 2019 | 2018 |
|---|---|---|
| Management staff | 3 | 3 |
| Technical staff | 156 | 152 |
| Administrative staff | - | - |
| **Total** | **159** | **155** |

As at 31 December 2019 and 2018, the breakdown of the Bank's workforce by category and gender is as follows:

| Number of employees | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| Management staff | 369 | 111 | 480 | 340 | 101 | 441 |
| Technical staff | 7,072 | 7,804 | 14,876 | 7,132 | 7,724 | 14,856 |
| Administrative staff | - | - | - | - | - | - |
| **Total** | **7,441** | **7,915** | **15,356** | **7,472** | **7,825** | **15,297** |

Of the total workforce as at 31 December 2019, 162 had some form of recognised disability (151 as at 31 December 2018).

**Long-term share-based complementary incentive scheme**

The Group has various long-term complementary incentive schemes which are described below:

Share-based complementary incentive scheme

At the Annual General Meeting held on 31 March 2016, the shareholders approved an incentive scheme, based on the increase in value of Banco de Sabadell, S.A. Shares, for 3 Executive Directors, 7 members of Senior Management and 472 Group Management Staff (ICLP 2016). During the valid period of this scheme 264,972 stock options were derecognised with settlement by delivery of 91,262 shares. In March 2019 this scheme expired with no settlement since the exercise price (1.494 euros) was above the listed share price.

The Group has two long-term share-based complementary incentive schemes currently in effect, the ICLP 2017, approved on 30 March 2017 and the ICLP 2018, approved on 19 April 2018.

- At the Annual General Meeting held on 30 March 2017, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for 3 Executive Directors, 7 members of Senior Management and 466 Group Management Staff ("ICLP 2017"). It consists of assigning a certain number of rights to the beneficiaries, including the right to receive the increase in value of the same number of Banco de Sabadell, S.A. shares over a period which began on 30 January 2017 and will end on the last day of the twenty trading sessions of March 2020, using as a reference their share price, which shall be made effective by means of the delivery of the Bank's shares. A necessary condition for the rights coming into effect will be that the beneficiary exceed the minimum compliance percentage (i.e. level of achievement) of the individual target called "Professional Effectiveness Appraisal" ('Valoración de Eficacia Profesional') set by the Bank's Remuneration Committee.

- At the Annual General Meeting held on 19 April 2018, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for Executive Directors, Senior Management and other management staff included in the Group's Identified Staff ("ICLP 2018"). As at 31 December 2018, the beneficiaries of the Incentive are 4 Executive Directors, 8 Senior Management staff and 71 other management staff that form part of the Group's Identified Staff. It consists of assigning a specific number of rights to the beneficiaries of the ICLP 2018, which carry the right to receive the increase in value of the same number of shares of Banco de Sabadell, S.A., based on the share's market price, while also being tied to the Bank's attainment of certain multi-year indicators over a given period of time, to be paid 55% in the form of shares of Banco de Sabadell, S.A. and the remaining 45% in cash. The number of rights to be settled may be equal to or less than the number of vested rights in the first quarter of 2019, depending on the level to which Banco de Sabadell, S.A. attains four indicators during the lifetime of the ICLP 2018. The period for evaluating the level of attainment will cover the years 2018, 2019 and 2020, and during this period targets are established for the following indicators and with the following weights: shareholder return (25%), for which the benchmark will be the share's closing price, rounded to the third decimal place, in the first 20 sessions of 2018 and the first 20 sessions of 2021; liquidity coverage ratio (25%); CET1 capital (25%); and the Bank's return on risk-adjusted capital - RoRAC (25%). The last three indicators will be measured at the end of the multi-year period, taking the average of the last three months of the year 2020.

Their main characteristics are shown below:

| Incentives Schemes in effect | End date | Exercise price | Maximum number of rights affected |
|---|---|---|---|
| ICLP 2017 | 30/03/2020 | 1.353 | 35,000,000 |
| ICLP 2018 | 18/04/2022 | 1.841 | 21,000,000 |

The fair value of services is calculated based on the fair value of pledged capital instruments, i.e. bank stock options, as indicated in Note 5, employing the Monte Carlo simulations valuation technique and the Black-Scholes valuation model.

Movements in rights associated with the aforementioned schemes were as follows:

Rights - ICLP 2017

| | |
|---|---|
| **Balance as at 31 December 2017** | **31,229,996** |
| Granted | - |
| Cancelled | (1,158,003) |
| **Balance as at 31 December 2018** | **30,071,993** |
| Granted | - |
| Cancelled | (633,003) |
| **Balance as at 31 December 2019** | **29,438,990** |

Rights - ICLP 2018

| | |
|---|---|
| **Balance at 30 April 2018** | **21,000,000** |
| Granted | - |
| Cancelled | (400,000) |
| **Balance as at 31 December 2018** | **20,600,000** |
| Granted | - |
| Cancelled | (2,247,500) |
| **Balance as at 31 December 2019** | **18,352,500** |

Long-term remuneration schemes

In line with the Group Remuneration Policy, in 2019 Long Term Remuneration was established for the period 2019 to 2021 aimed at Executive Directors, members of Senior Management and other management staff that form part of the Group's Identified Staff who may receive allocated remuneration, with the exception of any management staff assigned to TSB Banking Group plc or its subsidiaries.

The remuneration consists of the allocation of a certain amount to each beneficiary determined as a percentage of his/her fixed remuneration, calculated in two periods:

- In the first period, which ends on 31 December 2019, the initial amount is established according to the attainment of individual annual targets adjusted by a Risk Correction Factor, for capital (CET1) and liquidity (LCR) indicators. The amount obtained will be subject to the conditions of the second period and will be payable in cash (45%) and shares (55%). The number of shares to be granted will be calculated based on the share price of the last 20 trading sessions of 2019.

- In the second period, which ends on 31 December 2021, the final remuneration is established based on the attainment of the Group's multi-year targets related to the following indicators: the total shareholder return (25%); the Group's liquidity coverage ratio (25%); the CET1 capital ratio (25%); and the Group's return on risk-adjusted capital or 'RORAC' (25%). The amount and number of shares to be granted will also be adjusted by the Risk Correction Factor.

In addition to the aforesaid conditions, in order to receive the remuneration, beneficiaries must continue to be a member of the Identified Staff until 31 December 2019 and must have an employment or commercial relationship with the institution.

As regards the staff expenses associated with long-term complementary incentives schemes (see Note 1.3.14), the contra account for such expenses is recognised in equity in the case of rights settled using shares (see statement of equity – share-based payments), while those settled in cash are recognised in the "*Other liabilities*" heading of the balance sheet.

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Settled in Shares | 5,827 | 7,269 |
| Settled in Cash | 675 | 49 |
| **Total** | **6,502** | **7,318** |

## Other general administrative expenses

The composition of this item in the income statement for the years 2019 and 2018 was as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Property, plant and equipment | (47,793) | (137,137) |
| Information technology | (265,135) | (247,785) |
| Communication | (5,357) | (6,206) |
| Publicity | (49,083) | (46,941) |
| Subcontracted administrative services | (115,271) | (137,088) |
| Contributions and taxes | (126,745) | (127,153) |
| Technical reports | (23,168) | (13,302) |
| Security services and fund transfers | (17,429) | (16,531) |
| Entertainment expenses and staff travel expenses | (10,996) | (11,572) |
| Membership fees | (41,954) | (28,323) |
| Other expenses | (38,100) | (32,326) |
| **Total** | **(741,031)** | **(804,364)** |

## Fees with Auditing Companies

The fees received by PricewaterhouseCoopers Auditores, S.L. in 2019 for statutory auditing services and other audit-related services provided in Spain amounted to 1,188 and 671 thousand euros, respectively (1,080 and 486 thousand euros in 2018). Audit services provided by other companies of the PwC network corresponding to foreign branches amounted to 324 thousand euros in 2019 (221 thousand euros in 2018).

The fees received by other auditors and for other audit-related services provided in foreign branches amounted to 18 and 21 thousand euros in 2019 (17 and 21 thousand euros in 2018).

No fees were paid to other auditors for auditing services provided in Spain in 2019 or in 2018.

Fees received by other companies in the PwC network for tax advisory services and other services provided in 2019 amounted to 0 and 95 thousand euros. The amounts recognised for these services in 2018 amounted to 42 and 100 thousand euros, respectively.

## Note 31 – Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and modifications gains or (-) losses, net

The composition of this item of the income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Financial assets at fair value through other comprehensive income | | 3,761 | (2,457) |
| Debt securities | 7 | 3,761 | (2,457) |
| Other equity instruments | | - | - |
| Financial assets at amortised cost (*) | 10 | (396,947) | (711,547) |
| Debt securities | | 58 | 3,318 |
| Loans and advances | | (397,005) | (714,865) |
| **Total** | | **(393,186)** | **(714,004)** |

(*) This figure mainly includes allowances recorded in the income statement allocated to cover credit risk exposures, as shown in the impairment allowances movements of Note 10.

## Note 32 – Impairment or (-) reversal of impairment of non-financial assets

The composition of this item of the income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Property, plant and equipment | 14 | - | 907 |
| Investment properties | 14 | 9,260 | 8,128 |
| Goodwill and other intangible assets | | - | - |
| **Total** | | **9,260** | **9,035** |

Impairment allowances of tangible assets during 2019 and 2018 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 item of the income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Property, plant and equipment | | (2,804) | (3,651) |
| Investment properties | | - | - |
| Intangible assets | | - | - |
| Interests | | 21,948 | (1,324) |
| Other capital instruments | | - | - |
| Other items | | 14,203 | - |
| **Total** | | **33,347** | **(4,975)** |

The sale of tangible assets under finance leases in which the Bank acts as the lessor did not have a material impact on the 2019 income statement.

## Note 34 – Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The composition of this item of the income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

| | Note | 2019 | 2018 |
|---|---|---|---|
| Property, plant and equipment for own use and foreclosed | | (171,582) | (52,774) |
| Gains/losses on sales | | (66,505) | 13,340 |
| Impairment/Reversal | 12 | (105,077) | (66,114) |
| Investment properties | | - | - |
| Intangible assets | | - | - |
| Interests (*) | | 188,535 | 1,941 |
| Other capital instruments | | - | - |
| Other items | | - | - |
| **Total** | | **16,953** | **(50,833)** |

(*) Refers to the profit obtained on the sale of Solvia Servicios Inmobiliarios, S.L.

The impairment of non-current assets available for sale and disposal groups classified as held for sale excludes income from the increase in fair value less sale costs.

Total impairment provisions in 2019 have been allocated on the basis of Level 2 valuations (see Note 5).

## Note 35 – Tax situation (income tax relating to continuing operations)

### Consolidated tax Group

Banco de Sabadell, S.A. is the parent company of a consolidated tax group for corporation tax purposes, comprising all the Spanish entities in which Banco de Sabadell, S.A. holds an interest that meet the requirements of the Spanish Corporation Tax Law (see Schedule I).

### Reconciliation

The reconciliation of the difference between accounting results and income subject to corporation tax is as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Profit/(loss) before tax | 1,309,682 | 747,817 |
| Increases in taxable income | 814,757 | 953,229 |
| From profits | 814,757 | 953,229 |
| From equity | - | - |
| Decreases in taxable income | (1,489,082) | (1,544,583) |
| From profits | (1,415,832) | (908,918) |
| From equity | (73,250) | (635,665) |
| **Taxable income** | **635,357** | **156,463** |
| **Tax payable (30%)** | **190,607** | **46,939** |
| Deductions for double taxation, training and other | (2,046) | (2,180) |
| **Tax payable (less tax credits)** | **188,561** | **44,759** |
| Due to timing differences (net) | 39,285 | 186,724 |
| Other adjustments (net) (*) | 28,569 | (23,533) |
| **Tax expense or (-) income related to profit or loss from continuing operations** | **256,415** | **207,950** |

(*) Includes 28.8 million euros (34.9 million euros in 2018) 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

| | 2019 | 2018 |
|---|---|---|
| Permanent difference | 254,637 | 391,635 |
| Temporary difference arising during the year | 340,629 | 456,929 |
| Temporary difference arising in previous years | 219,491 | 104,665 |
| **Increases** | **814,757** | **953,229** |
| Permanent difference | (798,011) | (360,575) |
| Temporary difference arising during the year | (81,390) | (581,519) |
| Temporary difference arising in previous years | (609,681) | (602,489) |
| **Decreases** | **(1,489,082)** | **(1,544,583)** |

## 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 provision (Royal Decree-Law 14/2013) for tax assets generated by allowances for the impairment of loans and other assets arising from the potential insolvency of debtors not related to the relevant taxable person, as well as those corresponding to contributions or provisions in respect of social welfare systems and, where appropriate, early retirement schemes, to be afforded the status of assets guaranteed by the Spanish State (hereinafter, "monetisable tax assets").

Monetisable tax assets can be converted into credit enforceable against the Spanish Tax Authority in cases where the taxable person incurs accounting losses or the institution is liquidated or legally declared insolvent. Similarly, they can be exchanged for Public Debt securities, once the 18-year term has elapsed, calculated from the last day of the tax period in which these assets were recognised in the accounting records. In order to maintain the guarantee offered by the State, these are subject to an annual contribution of 1.5% of their amount as of 2016 (see Note 29).

The origins of the deferred tax assets / liabilities recognised in the balance sheets at 31 December 2019 and 2018 are as follows:

Thousand euro

| **Deferred tax assets** | **2019** | **2018** |
|---|---|---|
| **Monetisable** | **4,026,182** | **4,007,212** |
| Due to credit impairment | 3,347,399 | 3,452,214 |
| Due to real estate asset impairment | 551,035 | 430,646 |
| Due to pension funds | 127,748 | 124,352 |
| **Non-monetisable** | **702,415** | **741,206** |
| **Tax credits for losses carried forward** | **263,595** | **240,765** |
| **Total** | **4,992,192** | **4,989,183** |

| **Deferred tax liabilities** | **2019** | **2018** |
|---|---|---|
| Property restatements | 79,218 | 65,449 |
| Adjustments to value of wholesale debt issuances arising in business combinations | 29,336 | 43,394 |
| Other financial asset value adjustments | 53,802 | 12,420 |
| Other | 7,588 | 12,103 |
| **Total** | **169,944** | **133,366** |

As indicated in Note 1.3.19, according to the information available as at year-end, and the projections taken from the Group's business plan for the coming years, the Group estimates that it will be able to generate sufficient taxable income to offset tax loss carry-forwards and non-monetisable tax assets when these can be deducted on the basis of current tax regulations, and that it will be able to generate this within a maximum of 9 years.

Monetisable tax assets are guaranteed by the State, therefore their recoverability does not depend on the generation of future tax benefits.

The Bank has no deferred tax assets that have not been recognised in the balance sheet.

### Other information

The Bank obtained income qualifying for the reinvestment deduction governed by Article 42 of the revised Corporation Tax Law, which materialised in the years indicated below:

Thousand euro

| Year in which qualifying income was generated | Amount of income | Year of reinvestment |
|---|---|---|
| 2014 | 4,982 | 2013 |

At the end of 2019, Banco Sabadell Group estimates that it has covered all of its reinvestment commitments originating in sales during previous years.

In compliance with the accounting obligations set out in article 86 of Law 27/2014, of 27 November, on Corporation Tax, with regard to the mergers carried out to date between Banco de Sabadell, S.A. and Solbank SBD, S.A., Banco Herrero, S.A., Banco de Asturias, S.A., BanSabadell Leasing EFC, S.A., Solbank Leasing EFC, S.A., BanAsturias Leasing EFC, S.A., Banco Atlántico, S.A., Banco Urquijo, S.A., Europea de Inversiones y Rentas S.L., Banco CAM, S.A., Banco Guipuzcoano, S.A., BS Profesional, Axel Group, Sabadell Solbank S.A.U. (previously Lloyds Bank) and Banco Gallego, S.A., the requisite information was included in the first annual report of Banco de Sabadell, S.A. approved following each of the aforesaid mergers.

### Reserves for investments in Canary Islands

As set out in Note 2 to these Annual financial statements, the Annual General Meeting held on 28 March 2019 approved an allocation to the reserve for investments in the Canary Islands amounting to 383 thousand euros. This reserve was fully realised in 2018 through investments carried out in that same year in various items of property, plant and equipment classified as fixtures and fittings.

### Impairments of securities representing stakes in the capital or own funds of entities

As from year-end 2013, and as a result of the approval of Law 16/2013, of 29 October, the Bank has not included in its taxable income any amount arising from changes in the underlying book value of stakes in group companies, associates and joint ventures in its taxable income.

In addition, a transitional arrangement was established for the reversal of impairments which had been tax deductible; the arrangement was modified in December 2016, when a minimum reversal amount was established. The amounts pending reversal are indicated hereafter:

Thousand euro

| | Taxable income pending inclusion | *Of which: Adjusted in tax consolidation* |
|---|---|---|
| **Balance as at 31 December 2017** | **931,021** | **483,514** |
| Change over year | (351,557) | (160,603) |
| **Balance as at 31 December 2018** | **579,464** | **322,911** |
| Change over year | (291,651) | (162,517) |
| **Balance as at 31 December 2019** | **287,813** | **160,394** |

### Income/Expenses charged to reserves as a result of the first application of Circular 4/2017

Pursuant to that set forth in Royal Decree 27/2018 of 29 December, any income or expenses directly recognised in reserves as a consequence of the first application of Circular 4/2017 and which give rise to tax effects in accordance with current regulations shall be included within the fiscal group's taxable income for three years (starting in 2018). The amounts pending inclusion in the next year is shown below:

Thousand euro

| | Taxable income pending inclusion |
|---|---|
| **Balance as at 31 December 2018 (*)** | **(106,253)** |
| Taxable income included | 53,127 |
| **Balance as at 31 December 2019** | **(53,126)** |

(*) Amounts after filing the annual tax return.

## Years subject to tax inspections

In July 2016, the Tax Authority notified Banco de Sabadell, S.A. of the beginning of verification and investigation activities relating to the items and periods broken down below, having signed the relevant assessments containing the tax adjustment proposals on 9 January 2019:

| Tax | Period | Assessment status |
|---|---|---|
| Tax withholdings/prepayments from wages and professional | 07/2012 a 12/2014 | Accepted |
| Tax withholdings/prepayments from income from movable | 07/2012 a 12/2014 | Accepted |
| Income tax | 01/2011 a 12/2014 | Disputed |
| Value added tax | 07/2012 a 12/2014 | Accepted and Disputed |

The current situation concerning the corresponding procedures are summarised below:

- The procedures related to withholdings and payments on account are complete following final settlement of the notices of tax assessment approval within the one-month legal period established for that purpose. The total adjustment amount was 385 thousand euros, including the corresponding late payment interest.

- With regard to the procedures related to Corporation Tax, on 5 March 2019 a notice of settlement agreement was issued in which the the arguments raised against the signed notice of disputed tax assessment were fully addressed. The amount to be repaid pursuant to this agreement was 2,772 thousand euros, including the corresponding late payment interest.

- With regard to the procedures related to Value Added Tax (07/2012 to 12/2014), the signed notice of tax assessment approval was settled in full and final settlement within the one-month legal period established for that purpose, bringing the total adjusted amount to 4,823 thousand euros (including the corresponding late payment interest). In relation to the signed notice of disputed tax assessment, which contained an adjustment for 6,938 thousand euros in relation to various sectoral matters, a Tax Appeal was filed with the Central Tax Appeal Board (Tribunal económico-administrativo Central) on 25 March 2019, having submitted the corresponding arguments on 15 October 2019; as of 31 December 2019, the aforesaid body had not yet issued a decision in that regard.

Additionally, the Bank has a tax litigation in progress as at the end of the year corresponding to the appeal for judicial review before the Spanish National Court in relation to the rebuttal of the settlement of the disputed tax assessment for the VAT between 2008-2010 for an amount of tax due of 1,792 thousand euros.

The Bank has, in any event, made suitable provisions for any contingencies that it is considered may arise in relation to these tax settlements.

In relation to other tax periods and items for which the statute of limitations is unexpired, due to potential differences in the interpretation of tax regulations, the results of the tax authority inspections for the years subject to review may give rise to contingent tax liabilities, which it is not possible to quantify objectively. However, the Bank considers that the possibility of such liabilities materialising is remote, and if they did materialise the resulting tax charge would not be such as to have any significant impact on these Annual financial statements.

## Note 36 – Related party transactions

There are no transactions with the company's administrators or directors that could be considered significant. Those that did take place were in the normal course of the company's business or were conducted at market prices or under the terms normally applicable to employees.

The Bank is not aware of any transactions carried out at non-market prices with any persons or entities related to the Bank's administrators or Senior Management staff.

The most significant balances recognised in dealings with related parties, and the effect on the income statement of related party transactions, are shown below:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| **Assets:** | | |
| Loans and advances – Credit institutions | 3,188,082 | 3,675,163 |
| Loans and advances – Customers | 10,529,640 | 10,968,654 |
| **Liabilities:** | | |
| Deposits from credit institutions | 24,946 | 21,600 |
| Customer deposits | 3,725,622 | 2,716,701 |
| Debt securities issued (*) | 931,837 | 2,667,491 |
| **Off-balance sheet exposures:** | | |
| Financial guarantees provided | 805,222 | 508,118 |
| Loan commitments given | 3,297,762 | 2,358,385 |
| Other commitments provided | 121,994 | 119,581 |
| **Income statement:** | | |
| Interest income | 126,709 | 144,954 |
| Interest expense | (86,466) | (64,623) |
| Fees and commissions (net) | 197,397 | 195,857 |
| Other general expenses | (360,676) | (366,526) |

(*) Of which 17,384 thousand euro relate to subordinated bonds as of 31 December 2019 (19,690 thousand euro as of 31 December 2018).

## 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 2019 and 2018, 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 | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| José Oliu Creus (*) | 234 | 234 | 35 | 35 | 269 | 269 |
| José Javier Echenique Landiribar | 205 | 205 | - | - | 205 | 205 |
| Jaime Guardiola Romojaro (*) | 100 | 100 | - | - | 100 | 100 |
| Anthony Frank Elliott Ball (1) | 141 | 127 | - | - | 141 | 127 |
| Aurora Catá Sala | 160 | 160 | - | - | 160 | 160 |
| Pedro Fontana García | 195 | 127 | - | - | 195 | 127 |
| María José García Beato (*) (2) | 100 | 34 | - | - | 100 | 34 |
| Maria Teresa Garcia-Milà Lloveras | 161 | 192 | - | - | 161 | 192 |
| George Donald Johnston | 186 | 137 | - | - | 186 | 137 |
| José Manuel Lara García (3) | - | 47 | - | - | - | 47 |
| David Martínez Guzmán | 100 | 100 | - | - | 100 | 100 |
| José Manuel Martínez Martínez | 185 | 180 | - | - | 185 | 180 |
| José Ramón Martínez Sufrategui | 129 | 120 | - | - | 129 | 120 |
| José Luis Negro Rodríguez (*) | 100 | 100 | 18 | 18 | 118 | 118 |
| Manuel Valls Morató | 160 | 160 | - | - | 160 | 160 |
| David Vegara Figueras (*) (4) | 106 | 170 | - | - | 106 | 170 |
| **Total** | **2,262** | **2,193** | **53** | **53** | **2,315** | **2,246** |

(*) Perform executive functions.

(1) On 28 March 2019, he was appointed Lead Independent Director, succeeding Maria Teresa Garcia-Milà Lloveras.

(2) On 24 May 2018, the Board of Directors agreed to this appointment as a member of the Board of Directors, as an executive director, and the position was accepted on 17 September 2018.

(3) Submitted their withdrawal from the position of Director, effective on 24 May 2018.

(4) Executive director since 15 February 2019.

Aside from the items mentioned above, members of the Board of Directors received 31 thousand euros as fixed remuneration in 2019 (46 thousand euros in 2018) by reason of their membership of boards of directors in Banco Sabadell Group companies or advisory boards (these amounts are included in the annual report on directors' Remuneration).

Contributions for life insurance premiums covering pension commitments in respect of pension rights accruing in 2019 amounted to 1,740 thousand euros (1,516 thousand euros in 2018), of which 53 thousand euros are detailed in the table above and 1,687 thousand euros correspond to directors for the discharge of their executive duties.

Remuneration earned by directors for discharging their executive duties during 2019 amounted to 7,382 thousand euros (4,224 thousand euros in 2018).

Total risk transactions granted by the Bank and consolidated companies to directors of the parent company amounted to 2,284 thousand euros as at 31 December 2019, of which 2,067 thousand euros corresponded to loans and receivables and 217 thousand euros related to loan commitments given (7,722 thousand euros in 2018, consisting of 2,607 thousand euros in loans and receivables and 5,115 thousand euros in loan commitments given). The average interest rate charged was 1.38% (1.16% in 2018). Liabilities amounted to 8,839 thousand euros as at 31 December 2019 (7,609 thousand euros as at 31 December 2018).

Total Senior Management remuneration earned during 2019 amounted to 7,022 thousand euros. Pursuant to applicable regulations, this amount includes the remuneration of the Senior Management members plus the Internal Audit Officer.

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 6,556 thousand euros as at 31 December 2019 (10,028 thousand euros in 2018), comprising 6,020 thousand euros in loans and receivables and 536 thousand euros related to loan commitments given (and in 2018, 7,917 thousand euros relate to loans and receivables and 2,111 thousand euros to loan commitments given). Liabilities amounted to 985 thousand euros as at 31 December 2019 (987 thousand euros as at 31 December 2018).

In addition, stock appreciation rights granted under incentive schemes and the long-term remuneration scheme to members of Senior Management, including Executive Directors (see Note 30) in 2019, gave rise to staff expenses amounting to 2.0 million euros (2.0 million euros in 2018).

Details of existing agreements between the company and members of the Board and management staff with regard to severance pay are set out in the Group's annual Report on Corporate Governance, which forms part of the Directors' Report.

The directors and management staff mentioned above are specified below, indicating the positions they hold in the Bank as at 31 December 2019:

| | |
|---|---|
| **Executive Directors** | |
| José Oliu Creus | Chair |
| Jaime Guardiola Romojaro | Sabadell Group CEO |
| María José García Beato | Director Secretary General |
| José Luis Negro Rodríguez | Director-General Manager |
| David Vegara Figueras | Director-General Manager |
| **Senior Management** | |
| Tomás Varela Muiña | General Manager |
| Miquel Montes Güell | General Manager |
| Carlos Ventura Santamans | General Manager |
| Rafael García Nauffal | Deputy General Manager |
| Ramón de la Riva Reina | Deputy General Manager |
| Enric Rovira Masachs | Deputy General Manager |
| Manuel Tresànchez Montaner | Deputy General Manager |
| José Nieto de la Cierva | Deputy General Manager |
| Jaime Matas Vallverdú | Deputy General Manager |

### Other information relating to the Board

Pursuant to Article 229 of the Capital Companies Act, in accordance with the wording set out in Law 31/2014 of 3 December, amending the Spanish Capital Companies Act in order to improve corporate governance, and in order to strengthen transparency in public limited companies, the directors have notified the company that, during 2019, they or persons related to them, as defined in Article 231 of the Spanish Capital Companies Act:

a. Have not carried out transactions with the company, without taking into account usual operations, performed under standard conditions for customers and whose significance is immaterial, understanding such operations to be those that do not need to be reported to give a true and fair view of the company's equity, financial situation and income.

b. Have not used the name of the company or their position as administrator to unduly influence the performance of personal transactions.

c. Have not made use of corporate assets, including the company's confidential information, for personal purposes.

d. Have not taken undue advantage of the company's business opportunities.

e. Have not obtained advantages or remuneration from third parties other than the company or group in connection with the discharge of their duties, with the exception of acts of mere courtesy.

f. Have not carried out activities on their own behalf or on behalf of a third party that involve competition with the company, whether on an isolated or potential basis, or that might otherwise place them in permanent conflict with the company's interests.

The Bank has entered into a liability insurance policy for 2019 that covers the Bank's administrators and Senior Management staff. The total premium paid was 752 thousand euros (722 thousand euros in 2018).

## Note 38 – Other information

### Transactions with significant shareholders

No major transactions with significant shareholders have been carried out during 2019 and 2018.

### Information relating to the environment

All operations of the Group as a whole are subject to legal requirements on environmental protection and health and safety in the workplace. The Group considers that it substantially complies with these laws and it has procedures in place which have been designed to foster and guarantee such compliance.

The Group has adopted the corresponding measures relating to the protection and improvement of the environment and the minimisation of any environmental impacts of its activities, complying with the regulations in force in this regard. During 2019, the Group has continued to implement a number of Group-wide waste treatment, consumables recycling and energy saving schemes. It has not considered it necessary to recognise any provision for risks or expenses relating to the environment, as there are no contingencies related to the protection and improvement of the environment.

For further details on the policies and activities adopted by the Bank relating to the environment, see the consolidated non-financial disclosures report, which is included as part of the consolidated Directors' Report.

## Relationships with agents

In accordance with the provisions of article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, the Bank has not kept in force any agency contracts with agents who they have authorised to operate routinely with their customers, in the name of or on behalf of the principal, to negotiate or arrange transactions typical of the activity of a credit institution.

## Customer Care Service (SAC)

The Customer Care Service (hereinafter, the SAC) and its head, who is appointed by the Board of Directors, report directly to the Secretary General. Its main function is to handle and resolve complaints and claims brought forward by customers and users of the financial services of Banco de Sabadell, S.A., when these relate to their interests and legally recognised rights arising from contracts, transparency and customer protection regulations or good 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. y Sabadell Consumer Finance, S.A.U.

In addition to its main activity, which is to resolve complaints and claims, the SAC also provides assistance and information to customers and users on matters that do not take the form of complaints or claims, in accordance with Ministry of Economy Order 734/2004 of 11 March, and the Regulations for the Protection of Customers and Users of Financial Services of Banco Sabadell.

In 2019 a total of 34,789 complaints, claims and requests were received, 26.51% less than in 2018, of which 2,035 were complaints (5.85%), 31,662 were claims (91.01%) and 1,092 were requests (3.14%), in addition to a further 1,665 cases that were pending as at 31 December 2018.

Of this overall total, 35,677 cases were processed in 2019, of which a total of 27,315 were accepted for processing and resolved, 8,362 were declined and 777 remained pending as at 31 December 2019.

**Complaints and claims processed by the SAC at first instance**

During 2019, the SAC received 31,794 complaints and claims, of which 25,021 were accepted for processing and resolved, in accordance with the provisions of Finance Ministry Order 734/2004 of 11 March. Of the 1,092 requests received, all were handled at first instance and 891 were accepted for processing and resolved.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 14,266 (57.02%) were resolved in the customer's favour and 10,755 (42.98%) in the institution's favour.

Of the total number of complaints and claims accepted for processing and resolved, 10,878 (43.48%) were processed within a period of 15 working days, 13,129 (52.47%) within a period of less than 1 month and 1,014 (4.05%) within a period in excess of 1 month. All were within the 2-month turnaround specified as the maximum response period Finance Ministry Order 734/2004, of 11 March.

To address the provisions of Royal Decree-Law 19/2018, of 23 November, on payment services and urgent measures on financial matters, which entered into force on 24 February 2019, the period for resolution of claims of this kind related to payment services was reduced from 2 months to 15 working days.

**Complaints and claims managed by the Customer and Stakeholder Ombudsman**

At Banco Sabadell, the role of Customer Ombudsman is assumed by Mr José Luís Gómez-Dégano y Ceballos-Zúniga. The Ombudsman is responsible for resolving the complaints brought forward by the customers and users of Banco de Sabadell, S.A., and of the other aforementioned entities associated with it, both at first and second instance, and for resolving issues that are passed on by the SAC.

In 2019, the Customer Ombudsman received a total of 1,441 complaints and claims, 5.38% fewer than in 2018, of which 941 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 28 (2.98%) cases, and in favour of the institution in 251 (26.67%) cases. Furthermore, the SAC agreed to the claimant's request in 494 (52.50%) cases and in 1 (0,11%) single case the customer withdrew his/her claim. The other 167 complaints and claims (17.74%), remained pending final resolution by the Ombudsman, following dispatch of arguments by the SAC.

**Complaints and claims managed by the Bank of Spain, the Spanish National Securities Market Commission (CNMV) and the Directorate General for Insurance and Pension Plans**

Under current legislation, customers or users who are dissatisfied with the response received from the SAC or from the Customer Ombudsman may submit their claims and complaints to the Market Conduct and Complaints Department of the Bank of Spain, to the CNMV or to the Directorate General for Insurance and Pension Plans, subject to the essential prerequisite of having previously addressed their complaint or claim to the institution.

In 2019, the SAC received a total of 462 claims referred by the Bank of Spain, the CNMV or the Directorate General for Insurance and Pension Plans, 41% fewer than in 2018. During the year 462 claims were accepted for processing and resolved.

## Note 39 – Subsequent events

Since 31 December 2019, there have been no significant events worthy of mention, with the exception of those indicated here below:

On 21 January 2020, Banco Sabadell and Amundi Asset Management (Amundi) entered into a long-term strategic partnership for the distribution of Amundi products through Banco Sabadell's commercial network in Spain. The agreement includes the sale of 100% of the share capital of Sabadell Asset Management, S.A., S.G.I.I.C, Sociedad Unipersonal (SabAM) for 430 million euros. The agreement makes provision for an additional amount of up to 30 million euros payable in 2024 in respect of assets under management pertaining to customers of Banco Sabadell at that time.

As at 2019 year-end, the scope of SabAM's assets under management was approximately 21,800 million euros, excluding third-party funds, and it obtained net profit of 34 million euros (derived from, among other items, 65 million euros of net fees and commissions and 17 million euros of operating and staff expenses). The transfer of SabAM includes its subsidiary, Sabadell Asset Management Luxembourg, S.A., but excludes Sabadell Urquijo Gestión, S.A., S.G.I.I.C. Sociedad Unipersonal, which continues to belong to Banco Sabadell Group.

The closing of the transaction, which is subject to obtaining the relevant authorisations, is expected to take place in the third quarter of 2020. The transaction will generate a capital gain of approximately 369 million euros, net of tax, in the income statement (351 million euros net of tax in the consolidated income statement), which will strengthen the capital position of Banco Sabadell by adding 43 basis points to its fully-loaded Common Equity Tier 1 (CET1) ratio.

Of the aforesaid capital gain, 58 million euros (corresponding to 7 basis points of fully-loaded CET1) are subject to certain guarantees in force throughout the 10-year duration of the distribution agreement and, as such, that amount will be recognised proportionately over the next 10 years. The remaining 312 million euros (293 million euros in the consolidated financial statement) will be recognised upon closing of the transaction.

The strategic partnership entered into between Banco Sabadell and Amundi will enable customers of Banco Sabadell to access new investment opportunities and a more extensive and internationally recognised range of products, thereby building out the current offering of savings and investment products, without involving any change to the institution's existing mutual funds and pension plans. This agreement strengthens Banco Sabadell's commitment to continue leading the customer satisfaction and customer experience rankings, one of Banco Sabadell's commercial priorities for 2020.

# Schedule I – Banco Sabadell Group companies

## Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Arrendamiento De Bienes Inmobiliarios Del Mediterráneo, S.L. | Real estate | Alicante - Spain | 100.00 | - | Yes | 100 | 10,237 | (21) | - | 10,341 | 20,038 | (9,644) | 326 | 12/19 |
| Assegurances Segur Vida, S.A.U. | Other regulated companies | Andorra la Vella - Andorra | - | 50.97 | No | 602 | 419 | 215 | - | 45,786 | 602 | 214 | 110 | 12/19 |
| Aurica Capital Desarrollo, S.G.E.I.C., S.A.Unipersonal | UCITS management company | Barcelona - Spain | 100.00 | - | Yes | 3,601 | (435) | 1,169 | 3,450 | 5,158 | 4,342 | (226) | 1,169 | 12/19 |
| Aurica Coinvestments S.L. | Holding | Barcelona - Spain | - | 61.76 | Yes | 50,594 | (1,475) | 1,910 | 2,083 | 51,032 | 31,247 | (911) | (3,112) | 12/19 |
| Banco Atlantico (Bahamas) Bank & Trust Ltd. | Credit institution | Nassau - Bahamas | 99.99 | 0.01 | No | 1,598 | 849 | (39) | - | 3,134 | 2,439 | (243) | (54) | 09/19 |
| Banco de Sabadell, S.A. | Credit institution | Alicante - Spain | - | - | Yes | 703,371 | 9,559,869 | 1,053,267 | - | 178,398,801 | - | 11,239,253 | 701,793 | 12/19 |
| Banco Sabadell, S.A., Institución De Banca Múltiple | Credit institution | Mexico DF - Mexico | 99.99 | 0.01 | No | 554,267 | (22,998) | 9,744 | - | 3,718,149 | 598,718 | (45,015) | (3,431) | 12/19 |
| Bancsabadell d'Andorra, S.A. | Credit institution | Andorra la Vella - Andorra | 50.97 | - | No | 30,069 | 49,929 | 10,092 | 1,594 | 863,158 | 15,326 | 24,997 | 5,242 | 12/19 |
| Bansabadell Factura, S.L.U. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 100 | (1,264) | 605 | - | 2,229 | 299 | (1,462) | 605 | 12/19 |
| Bansabadell Financiación, E.F.C., S.A. | Credit institution | Sabadell - Spain | 100.00 | - | Yes | 24,040 | 4,895 | 337 | 24,300 | 781,267 | 24,040 | 4,895 | 337 | 12/19 |
| Bansabadell Inversió Desenvolupament, S.A.U | SPE | Barcelona - Spain | 100.00 | - | Yes | 16,975 | 73,457 | 26,585 | 53,000 | 161,805 | 108,828 | 41,004 | 4,412 | 12/19 |
| Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del Grupo Banco Sabadell, S.A. | Other regulated companies | Alicante - Spain | - | 100.00 | Yes | 301 | (3,940) | 6,748 | 8,306 | 48,472 | 524 | (164) | 6,748 | 12/19 |
| Bansabadell Renting, S.L.U. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 2,000 | (5,214) | 7,181 | 57,500 | 693,670 | 3,861 | (7,075) | 7,803 | 12/19 |
| Bitarte, S.A. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 6,506 | 1,464 | (440) | - | 34,660 | 9,272 | (1,187) | (465) | 12/19 |
| Bstartup 10, S.L.U. | SPE | Barcelona - Spain | - | 100.00 | Yes | 1,000 | 702 | 1,268 | - | 7,102 | 1,000 | (1,395) | (289) | 12/19 |
| Business Services For Operational Support, S.A.U. | Services | Sant Cugat del Valles - Spain | 80.00 | - | Yes | 530 | (2,647) | 3,194 | 2,720 | 31,350 | 1,160 | (2,357) | 2,754 | 12/19 |
| Caminsa Urbanismo, S.A.U. | Real estate | Alicante - Spain | - | 100.00 | Yes | 2,000 | (1,712) | (3) | - | 1,304 | 800 | (417) | (4) | 12/19 |
| Compañía De Cogeneración Del Caribe Dominicana, S.A. | Services | Santo Domingo - Dominican Republic | - | 100.00 | No | 5,016 | (4,272) | (330) | - | 431 | - | 18 | (330) | 12/19 |
| Desarrollos Y Participaciones Inmobiliarias 2006, S.L.U. | Real estate | Elche - Spain | - | 100.00 | No | 1,942 | (90,851) | (215) | - | 9 | 1,919 | (79,142) | (215) | 12/19 |
| Duncan 2016 -1 Holdings Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | - | - | 12/19 |
| Duncan de Inversiones SICAV, S.A. | UCITS, funds and similar financial corporations | Sant Cugat del Valles - Spain | 87.35 | - | No | 7,842 | (5,148) | (47) | - | 2,652 | 2,560 | (208) | (41) | 12/19 |
| Duncan Holdings 2015-1 Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | 21 | - | 12/19 |
| Duncan Holdings 2020-1-Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | - | - | - | 12/19 |
| Ederra, S.A. | Real estate | San Sebastián - Spain | 97.85 | - | No | 2,036 | 31,253 | 2,826 | - | 35,198 | 36,062 | (3,240) | 2,508 | 12/19 |
| Sabadell Asset Management Luxembourg, S.A. | Other regulated companies | Luxembourg - Luxembourg | - | 100.00 | No | 125 | 649 | (191) | - | 907 | 437 | 438 | (191) | 12/19 |
| Europea Pall Mall Ltd. | Real estate | London - United Kingdom | 100.00 | - | No | 20,843 | (1,013) | (314) | - | 22,254 | 20,843 | (3,305) | (377) | 12/19 |
| Fonomed Gestión Telefónica Mediterráneo, S.A.U. | Other investees with their own business | Alicante - Spain | 100.00 | - | Yes | 1,232 | 630 | 909 | 2,201 | 5,990 | 2,771 | (632) | 1,186 | 12/19 |
| **Subtotal** | | | | | | | | | **155,154** | | **887,090** | **11,154,217** | **726,484** | |

## Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Fuerza Eólica de San Matias, S de RL de CV | Wind power generation | Nuevo León - Mexico | - | 99.99 | No | 7,115 | (7,089) | (3,429) | - | 60,684 | 6,036 | - | (2,792) | 12/19 |
| Galeban 21 Comercial, S.L.U. | SPE | A Coruña - Spain | 100.00 | - | Yes | 10,000 | (4,289) | (2) | - | 5,709 | 14,477 | (8,766) | (2) | 12/19 |
| Gate Huerta Solar 44, S.L | Other power generation | Vitoria-Gasteiz - Spain | - | 100.00 | No | 87 | 165 | 19 | - | 694 | 205 | - | 83 | 11/19 |
| Gazteluberri, S.L. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 53 | (20,442) | (230) | - | 5,735 | 23,891 | (44,280) | (228) | 12/19 |
| Gest 21 Inmobiliaria, S.L.U | SPE | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 7,810 | 17 | 591 | - | 8,430 | 80,516 | (35,626) | 2,706 | 12/19 |
| Gestión de Proyectos Urbanísticos Del Mediterráneo, S.L. en liquidación | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | No | 33,850 | (31,448) | (13) | - | 10,341 | 32,832 | (17,588) | (13) | 12/19 |
| Gestión Financiera del Mediterráneo, S.A.U. | SPE | Alicante - Spain | 100.00 | - | Yes | 13,000 | 2,604 | 13,715 | - | 29,343 | 78,971 | (58,961) | 5,305 | 12/19 |
| Grecoholdco, S.A.U. | Holding company | Madrid - Spain | 100.00 | - | Yes | 60 | - | - | - | 60 | 60 | - | - | 12/19 |
| Grecopropco 1, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 2, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 3, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 4, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 5, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 6, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 7, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 8, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 9, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 10, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 11, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 12, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 13, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 14, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Grecopropco 15, S.L.U. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 3 | - | - | - | 3 | 3 | - | - | 12/19 |
| Guipuzcoano Promoción Empresarial, S.L. | SPE | San Sebastián - Spain | - | 100.00 | No | 53 | (76,040) | (288) | - | 7,127 | 7,160 | (78,008) | (278) | 12/19 |
| Guipuzcoano Valores, S.A. | Real estate | Sant Cugat del Valles - Spain | 99.99 | 0.01 | Yes | 4,514 | 2,946 | (6) | - | 7,518 | 10,833 | (3,376) | 12 | 12/19 |
| Hotel Management 6 Holdco, S.L.U. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 29,074 | (29,204) | 4,034 | - | 60,569 | 27,611 | (17,984) | 977 | 12/19 |
| Hobalear, S.A.U. | Real estate | Barcelona - Spain | - | 100.00 | Yes | 60 | 46 | 5 | 650 | 111 | 414 | 46 | 5 | 12/19 |
| Hondarriberri, S.L. | SPE | San Sebastián - Spain | 99.99 | 0.01 | No | 41 | (11,553) | (1,748) | - | 64,709 | 120,669 | 122,491 | 225 | 12/19 |
| Hotel Management 6 Gestión Activa, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 135,730 | 31,977 | (1,081) | - | 166,756 | 136,335 | 54,847 | 3,319 | 12/19 |
| Hotel Value Added Primera, S.L.U. | Real estate development | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 3 | 20,823 | 3,555 | - | 25,810 | 27,527 | (6,701) | 3,540 | 12/19 |
| Interstate Property Holdings, Llc. | SPE | Miami - United States | 100.00 | - | No | 7,293 | (2,938) | 64 | - | 6,364 | 3,804 | 6,289 | 64 | 12/19 |
| Inverán Gestión, S.L. | Real estate | Sant Cugat del Valles - Spain | 44.83 | 55.17 | Yes | 90 | (11,894) | (162) | - | 22,670 | 45,090 | (56,894) | (168) | 12/19 |
| Inversiones Cotizadas del Mediterráneo, S.L. | SPE | Alicante - Spain | 100.00 | - | Yes | 308,000 | 194,349 | 1,719 | - | 505,243 | 589,523 | (88,586) | 1,719 | 12/19 |
| Inversiones en Resorts Mediterráneos, S.L. en liquidación | Real estate | Torre Pacheco - Murcia | - | 55.06 | No | 299,089 | (301,160) | (1,206) | - | 68 | 175,124 | - | - | 12/19 |
| Inversiones Samiac 14, S.L. | Wind power generation | Vitoria-Gasteiz - Spain | - | 100.00 | No | - | - | - | - | - | 178 | 16 | (37) | 11/19 |
| LSP Finance, S.L. | Provision of technology services | Barcelona - Spain | - | 100.00 | Yes | 252 | (555) | (569) | - | 1,955 | 6,484 | (565) | (572) | 12/19 |
| Manston Invest, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 33,357 | (12,760) | (49) | - | 20,513 | 33,357 | (15,430) | 3,412 | 12/19 |
| Mariñamendi, S.L. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 62 | (51,299) | (1,389) | - | 39,106 | 55,013 | (106,225) | (1,389) | 12/19 |
| Mediterráneo Sabadell, S.L. | SPE | Alicante - Spain | 50.00 | 50.00 | Yes | 85,000 | 17,028 | 106 | 120 | 102,201 | 510,882 | (408,882) | 106 | 12/19 |
| **Subtotal** | | | | | | | | | **770** | | **1,987,037** | **(764,183)** | **15,994** | |

## Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Mercurio Alicante Sociedad de Arrendamientos 1, S.L. | Real estate | Alicante - Spain | 100.00 | - | Yes | 795 | (3,048) | 48 | - | 5,162 | 986 | (3,239) | 48 | 12/19 |
| Orión Energía 1, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (136) | 5 | - | 94 | 36 | (72) | 4 | 12/19 |
| Orión Energía 10, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 8 | - | 95 | 36 | (79) | 7 | 12/19 |
| Orión Energía 11, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 99 | 36 | (80) | 4 | 12/19 |
| Orión Energía 12, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 4 | - | 98 | 36 | (79) | 3 | 12/19 |
| Orión Energía 13, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (145) | 5 | - | 97 | 36 | (82) | 4 | 12/19 |
| Orión Energía 14, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (141) | 5 | - | 96 | 36 | (78) | 4 | 12/19 |
| Orión Energía 15, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 96 | 36 | (79) | 4 | 12/19 |
| Orión Energía 16, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (145) | 5 | - | 97 | 36 | (81) | 4 | 12/19 |
| Orión Energía 17, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 97 | 36 | (79) | 4 | 12/19 |
| Orión Energía 18, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 97 | 36 | (79) | 4 | 12/19 |
| Orión Energía 19, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 96 | 36 | (79) | 4 | 12/19 |
| Orión Energía 2, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (138) | 5 | - | 94 | 36 | (75) | 4 | 12/19 |
| Orión Energía 20, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 97 | 36 | (79) | 4 | 12/19 |
| Orión Energía 21, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 98 | 36 | (80) | 4 | 12/19 |
| Orión Energía 22, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 97 | 36 | (79) | 4 | 12/19 |
| Orión Energía 23, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 100 | 36 | (80) | 5 | 12/19 |
| Orión Energía 24, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 97 | 36 | (79) | 5 | 12/19 |
| Orión Energía 25, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 97 | 36 | (80) | 4 | 12/19 |
| Orión Energía 26, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (139) | 2 | - | 97 | 36 | (76) | 1 | 12/19 |
| Orión Energía 27, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (139) | 2 | - | 99 | 36 | (76) | 1 | 12/19 |
| Orión Energía 28, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (141) | 2 | - | 103 | 36 | (77) | 1 | 12/19 |
| Orión Energía 29, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (139) | 1 | - | 97 | 36 | (76) | 1 | 12/19 |
| Orión Energía 3, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (143) | 5 | - | 89 | 36 | (80) | 4 | 12/19 |
| Orión Energía 30, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (141) | 2 | - | 99 | 36 | (78) | 1 | 12/19 |
| Orión Energía 4, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 95 | 36 | (79) | 4 | 12/19 |
| Orión Energía 5, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 4 | - | 97 | 36 | (79) | 3 | 12/19 |
| Orión Energía 6, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 99 | 36 | (79) | 4 | 12/19 |
| Orión Energía 7, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 95 | 36 | (79) | 4 | 12/19 |
| Orión Energía 8, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (144) | 4 | - | 94 | 36 | (81) | 3 | 12/19 |
| Orión Energía 9, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 98 | (142) | 5 | - | 97 | 36 | (79) | 5 | 12/19 |
| Parque Eólico Jaufil, S.L.U. | Wind power generation | Barcelona - Spain | 100.00 | - | Yes | 163 | (2,717) | 125 | - | 5,183 | 163 | (2,699) | 107 | 12/19 |
| Parque Eólico Las Lomas De Lecrín, S.L.U. | Wind power generation | Barcelona - Spain | 100.00 | - | Yes | 83 | (1,241) | 136 | - | 2,497 | 83 | (1,236) | 131 | 12/19 |
| Parque Eólico Lecrín, S.L.U. | Wind power generation | Barcelona - Spain | 100.00 | - | Yes | 4,003 | (8,466) | 397 | - | 14,498 | 4,003 | (8,430) | 361 | 12/19 |
| Parque Eólico Lomas De Manteca, S.L.U. | Wind power generation | Barcelona - Spain | 100.00 | - | Yes | 163 | (2,160) | 194 | - | 5,363 | 163 | (2,152) | 186 | 12/19 |
| Parque Eólico Tahuna, S.L.U. | Wind power generation | Barcelona - Spain | 100.00 | - | Yes | 3 | (10,371) | 285 | - | 12,240 | - | (10,151) | 68 | 12/19 |
| Parque Eólico Zorreras, S.L.U. | Wind power generation | Barcelona - Spain | 100.00 | - | Yes | 3 | (9,290) | 306 | - | 10,646 | - | (9,089) | 108 | 12/19 |
| PayTPV On Line Entidad de Pago, S.L. | Other financial services | Bilbao - Spain | - | 100.00 | No | 150 | 5 | (1) | - | 2,436 | 7,500 | - | (75) | 12/19 |
| **Subtotal** | | | | | | | | | - | | **13,978** | **(39,354)** | **1,042** | |

## Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Plataforma de Innovación Sabadell, S.L.U. | Hosting, data processing and related activities | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 3 | - | (1) | - | 3 | 3 | - | (1) | 12/19 |
| Ripollet Gestión, S.L.U. | Other financial services | Barcelona - Spain | 100.00 | - | Yes | 20 | (2) | (285) | - | 194,457 | 20 | (2) | (285) | 12/19 |
| Rubí Gestión, S.L.U. | Other financial services | Barcelona - Spain | 100.00 | - | Yes | 3 | (11) | (3) | - | 556,255 | 3 | (11) | (3) | 12/19 |
| Sabadell Asset Management, S.A., S.G.I.I.C | Other regulated companies | Madrid - Spain | 100.00 | - | Yes | 601 | (17,509) | 36,027 | 135,000 | 96,149 | 607 | 14,485 | 35,113 | 12/19 |
| Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg) | Other investees | Luxembourg - Luxembourg | 100.00 | - | No | 12,316 | (80) | - | - | 12,386 | 4,926 | - | (124) | 10/19 |
| Sabadell Brasil Trade Services - Assessoria Comercial Ltda. | Credit institution | São Paulo - Brazil | 99.99 | 0.01 | No | 905 | (821) | - | - | 106 | 250 | 393 | - | 12/19 |
| Sabcapital, S.A de C.V., SOFOM, E.R. | Credit institution | Mexico DF - Mexico | 49.00 | 51.00 | No | 154,915 | 4,271 | 24,153 | 13,595 | 1,076,508 | 144,158 | 25,880 | 24,437 | 12/19 |
| Sabadell Consumer Finance, S.A.U | Credit institution | Sabadell - Spain | 100.00 | - | Yes | 35,720 | 29,902 | 16,095 | 63,000 | 1,586,516 | 72,232 | 13,022 | 15,386 | 12/19 |
| Sabadell Corporate Finance, S.L. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 70 | 2,062 | 2,209 | - | 6,131 | 9,373 | 567 | 2,259 | 12/19 |
| Sabadell d'Andorra Inversions Sgoic, S.A.U. | Other regulated companies | Andorra la Vella - Andorra | - | 50.97 | No | 300 | 1,090 | 132 | 100 | 2,131 | 300 | 607 | 67 | 12/19 |
| Sabadell Information Systems Limited | Provision of technology services | London - United Kingdom | 100.00 | - | No | 12,036 | 22,072 | 558 | - | 78,564 | 41,296 | (8,342) | 558 | 12/19 |
| Sabadell Information Systems , S,A. | Other investees with their own business | Sabadell - Spain | 100.00 | - | Yes | 40,243 | 50,475 | (4,013) | - | 1,614,303 | 143,695 | 43,567 | (143,971) | 12/19 |
| Sabadell Innovation Capital, S.L.U. | Holding | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 1,000 | 6,977 | (681) | - | 41,455 | 1,000 | (382) | (681) | 12/19 |
| Sabadell Innovation Cells, S.L.U. | Other business management consulting activities | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 3 | (1,852) | (1,857) | - | 2,184 | 3 | (2,123) | (1,586) | 12/19 |
| Sabadell Patrimonio Inmobiliario, S.A.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 30,116 | 825,897 | (6,788) | - | 924,793 | 863,895 | 5,914 | (20,584) | 12/19 |
| Sabadell Real Estate Activos, S.A.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 100,060 | 234,750 | (1,907) | - | 333,298 | 500,622 | (161,120) | (1,706) | 12/19 |
| Sabadell Real Estate Development, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 15,807 | (2,234,020) | (102,884) | - | 2,528,948 | 2,147,442 | (3,996,919) | (98,215) | 12/19 |
| Sabadell Real Estate Housing, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 2,073 | 1,084 | (531) | - | 29,547 | 14,292 | (11,135) | (531) | 12/19 |
| Sabadell Securities Usa, Inc. | Other investees with their own business | Miami - United States | 100.00 | - | No | 551 | 3,488 | 849 | - | 5,104 | 551 | 3,096 | 849 | 12/19 |
| Sabadell Strategic Consulting, S.L.U. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 3 | 7 | 133 | 650 | 737 | 3 | 7 | 133 | 12/19 |
| Sabadell Venture Capital, S. L.U. | Holding | Barcelona - Spain | - | 100.00 | Yes | 3 | 7,490 | (929) | - | 45,499 | 3 | (623) | 336 | 12/19 |
| Sinia Capital S.A. De C.V. | Holding | Mexico DF - Mexico | - | 100.00 | No | 20,830 | (3,257) | (294) | - | 60,933 | 19,795 | 1,869 | 3,825 | 12/19 |
| Sinia Renovables, S.A.U. | Other regulated companies | Barcelona - Spain | 100.00 | - | Yes | 15,000 | (9,279) | (403) | - | 33,765 | 15,000 | (8,488) | (804) | 12/19 |
| Sdin Residencial S.L.U.(3) | Real estate development | Madrid - Spain | 100.00 | - | Yes | 25 | 1,798 | 791 | - | 10,317 | 15 | 1,809 | 8,303 | 12/19 |
| Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.(2) | Real estate | Alicante - Spain | 100.00 | - | Yes | 3 | 7,968 | 1,713 | - | 13,502 | 7,980 | 7,968 | 1,713 | 12/19 |
| Puerto Pacific Vallarta, S.A. de C.V.(1) | Real estate | Mexico DF - Mexico | - | 100.00 | No | 28,947 | (15,551) | (11) | - | 13,384 | 29,164 | (11,502) | (11) | 12/19 |
| Promontoria Challenger Industrial Assets, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 4 | - | - | - | 4 | 4 | - | - | 12/19 |
| Promontoria Challenger Land, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 4 | - | - | - | 4 | 4 | - | - | 12/19 |
| **Subtotal** | | | | | | | | | **212,345** | | **4,016,636** | **(4,081,463)** | **(175,523)** | |

## Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Promontoria Challenger Real Estate, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 4 | - | - | - | 4 | 4 | - | - | 12/19 |
| Promontoria Challenger Residential S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 4 | - | - | - | 4 | 4 | - | - | 12/19 |
| Stonington Spain, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 60,729 | (9,726) | (744) | - | 50,269 | 60,729 | (15,370) | 7,654 | 12/19 |
| Tasaciones de Bienes Mediterráneo, S.A. (En Liquidación) | Other investees with their own business | Alicante - Spain | 99.88 | 0.12 | Yes | 1,000 | 1,388 | - | - | 2,394 | 5,266 | (2,879) | 1 | 12/19 |
| Tenedora de Inversiones Y Participaciones, S.L. | SPE | Alicante - Spain | 100.00 | - | Yes | 296,092 | (515,434) | (7,120) | - | 629,958 | 2,564,914 | (2,605,545) | (6,330) | 12/19 |
| Tierras Vega Alta Del Segura, S.L. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 4,550 | (13,949) | (52) | - | 6,099 | 16,823 | (26,222) | (53) | 12/19 |
| TSB Bank Plc | Credit institution | Edinburgh - United Kingdom | - | 100.00 | No | 90,710 | 2,115,492 | 75,173 | - | 45,979,210 | 1,814,636 | 208,655 | 158,340 | 12/19 |
| TSB Banking Group Plc | Holding | London - United Kingdom | 100.00 | - | No | 7,028 | 1,844,280 | 368 | - | 2,326,053 | 2,231,817 | (107,401) | (39,385) | 12/19 |
| TSB Banking Group plc Employee Share Trust | Other regulated companies | Jesrsey - United Kingdom | - | 100.00 | No | 1 | (9,904) | (1) | - | 3,070 | - | (9,089) | - | 12/19 |
| TSB Coverd Bonds Holdings Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | - | - | 12/19 |
| TSB Covered Bonds (LM) Limited | Other regulated companies | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | - | - | 12/19 |
| TSB Covered Bonds LLP | Other regulated companies | London - United Kingdom | - | 100.00 | No | 1 | 7 | 3 | - | 46 | 1 | 7 | 3 | 12/19 |
| Urquijo Gestión, S.A.U., S.G.I.I.C. | Other regulated companies | Madrid - Spain | - | 100.00 | Yes | 3,606 | 3,022 | 3,309 | 2,000 | 16,654 | 3,084 | 3,544 | 1,538 | 12/19 |
| Urumea Gestión, S.L. (en liquidación) | Other investees with their own business | San Sebastián - Spain | - | 100.00 | No | 9 | (9) | (2) | - | 1 | 9 | (9) | (2) | 12/19 |
| VeA Rental Homes , S.A | Letting of own property | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 5,000 | (10,031) | (8,647) | - | 50,500 | 5,000 | (10,030) | (8,647) | 12/19 |
| Verum Inmobiliaria Urbanismo Y Promocion, S.A. | Real estate | Sant Cugat del Valles - Spain | - | 97.20 | Yes | 12,000 | (44,302) | (193) | - | 14,782 | 11,664 | (43,966) | (211) | 12/19 |
| Vitigudina Fv, S.L. | Engineering | Barcelona - Spain | - | 100.00 | Yes | 1,629 | (977) | 17 | - | 17,300 | - | 1,549 | 194 | 12/19 |
| Xunqueira Eolica, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 3 | (5,180) | 2 | - | 11,373 | 400 | (5,442) | (133) | 12/19 |
| **Subtotal** | | | | | | | | | **2,000** | | **6,714,353** | **(2,612,198)** | **112,969** | |
| **Total** | | | | | | | | | **370,269** | | **13,619,094** | **3,657,019** | **680,966** | |

(1) formerly Solvia Pacific S.A de CV

(2) formerly Solvia Gestora de Vivienda Social S.L.U.

(3) formerly Solvia Desarrollos Inmobiliarios S.L.

## Banco Sabadell Group companies as at 31 December 2019 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) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Aurica III, Fondo De Capital Riesgo | Other regulated companies | Barcelona - Spain | - | 48.15 | 48,855 | (3,037) | 387 | - | 46,211 | 23,525 | (1,463) | 186 | 12/19 |
| Aurica IIIB, Soc. De Capital Riesgo, S.A | Other regulated companies | Barcelona - Spain | - | 43.43 | 33,020 | (2,076) | 255 | - | 31,206 | 14,354 | (914) | 111 | 12/19 |
| Atrian Bakers, S.L. | Other associates | Castellgali - Spain | - | 22.41 | 26,249 | (6,243) | (1,030) | - | 38,734 | 2,000 | 140 | 85 | 09/19 |
| Bansabadell Pensiones, E.G.F.P., S.A. | Other regulated companies | Madrid - Spain | 50.00 | - | 7,813 | 35,200 | 597 | - | 49,105 | 40,378 | (18,883) | 298 | 12/19 |
| Sociedad de Cartera del Vallés, S.I.C.A.V., S.A. | Other associates | Sabadell - Spain | 48.46 | - | 4,818 | (535) | 273 | - | 4,586 | 397 | 1,679 | 132 | 12/19 |
| Bansabadell Seguros Generales, S.A. De Seguros Y Reaseguros | Other regulated companies | Madrid - Spain | 50.00 | - | 10,000 | 61,706 | 17,587 | - | 258,002 | 34,000 | 1,375 | 8,793 | 12/19 |
| Bansabadell Vida, S.A. De Seguros Y Reaseguros | Other regulated companies | Madrid - Spain | 50.00 | - | 43,858 | 548,242 | 78,732 | 48,500 | 11,202,448 | 27,106 | 231,844 | 46,207 | 12/19 |
| Energia Renovables Terra Ferma, S.L. | Engineering | Barcelona - Spain | - | 50.00 | 6 | - | - | - | - | 3 | - | - | 11/19 |
| Esus Energía Renovable, S.L. | Services | Vigo - Spain | - | 45.00 | 50 | (678) | (22) | - | 2,625 | 23 | (23) | - | 12/19 |
| Financiera Iberoamericana, S.A. | Credit institution | Havana - Cuba | 50.00 | - | 38,288 | 13,862 | 2,987 | - | 84,368 | 19,144 | 4,162 | 1,493 | 12/19 |
| Flex Equipos De Descanso, S.A. | Manufacturing | Getafe - Spain | - | 19.16 | 66,071 | 22,396 | 9,166 | - | 252,946 | 50,930 | 3,756 | 8,127 | 11/19 |
| Gate Solar Gestión, S.L. | Services | Vitoria-Gasteiz - Spain | 50.00 | - | 300 | 2,612 | (9) | - | 3,684 | 1,860 | (626) | (7) | 09/19 |
| Gestora De Aparcamientos Del Mediterráneo, S.L. | Services | Alicante - Spain | - | 40.00 | 1,000 | (9,600) | (472) | - | 2,457 | 7,675 | (7,486) | (189) | 12/19 |
| Hydrophytic, S.L. | Real estate | Vitoria-Gasteiz - Spain | - | 50.00 | 186 | 142 | 21 | - | 451 | 93 | 71 | 10 | 09/19 |
| Murcia Emprende, S.C.R. De R.S., S.A. | Other regulated companies | Murcia - Spain | 28.70 | - | 5,399 | (1,351) | (892) | - | 3,202 | 2,026 | (1,566) | (63) | 09/19 |
| Nueva Pescanova, S.L. | Wholesale trade | Redondela - Spain | 24.53 | - | 147,614 | (32,743) | (33,689) | - | 962,481 | 1,641 | 210 | (1,851) | 09/19 |
| Plaxic Estelar, S.L. | Real estate | Barcelona - Spain | - | 45.01 | 3 | (15,266) | (4) | - | 31,986 | 2,951 | (2,951) | - | 11/19 |
| Promontoria Challenger I, S.A. | Holding company | Madrid - Spain | 20.00 | - | 60 | 869,142 | (17,784) | - | 2,496,996 | 161,958 | - | - | 12/19 |
| Redes 2 Promotoro Unica S.L. | Holding | Madrid - Spain | - | 20.00 | 8,481 | 96,602 | (1,175) | - | 110,098 | 21,091 | (74) | (235) | 12/19 |
| Sabadell Asabys Health Innovation Investment, S.A. | Holding | Barcelona - Spain | - | 37.39 | 9,370 | (172) | (1,155) | - | 8,237 | 3,500 | (61) | (432) | 09/19 |
| Sbd Creixent, S.A. | Real estate | Sabadell - Spain | 23.05 | - | 5,965 | 411 | (1,707) | - | 5,299 | 3,524 | (2,054) | (393) | 11/19 |
| Solvia Servicios Inmobiliarios, S.L.U. | Real estate | Alicante - Spain | 20.00 | - | 660 | 173,726 | (22,270) | - | 196,175 | 16,517 | 16,839 | 24,583 | 10/19 |
| Termosolar Borges S.L. | Engineering | Barcelona - Spain | 47.50 | - | 14,700 | (37,021) | 3,213 | - | 144,113 | 11,800 | - | - | 09/19 |
| Villoldo Solar S.L. | Engineering | Barcelona - Spain | 50.00 | - | 3 | 44 | 38 | - | 207 | - | - | - | 09/19 |
| **Total** | | | | | | | | **48,500** | | **446,496** | **223,975** | **86,855** | |

"Balance sheet date" lists the date of the latest available figures.

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.

(a) Figures for foreign companies were translated to euro at the historical exchange rate, and amounts in the consolidated income statement were translated at the average exchange rate.

(b) Results pending approval at Annual General Meeting.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method and individually considered to be non-material amounted to 1,368,317 thousand euros as at 31 December 2019. The liabilities balance as at the end of 2019 totalled 3,181,583 thousand euros. See the key figures as at 2019 year-end for BanSabadell Vida in Note 13.

## Changes in the scope of consolidation in 2019

### Additions to the scope of consolidation:

Thousand euro

| Name of entity (or line of business) acquired or merged | Category | Effective date of the transaction | Cost of combination: Cost of acquisition | Cost of combination: Fair value of equity instruments issued for the acquisition | % Voting rights acquired | % Total voting rights | Type of shareholding | Method | Reason |
|---|---|---|---|---|---|---|---|---|---|
| Duncan Holdings 2020-1 Limited | Subsidiary | 08/04/2019 | - | - | 100.00% | 100.00% | Indirect | Full consolidation | a |
| Solvia Servicios Inmobiliarios, S.L.U. | Associate | 23/04/2019 | 57,930 | - | 20.00% | 20.00% | Direct | Equity method | d |
| Plataforma de Innovación Sabadell, S.L.U. | Subsidiary | 26/02/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Challenger Industrial Assets, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Challenger Land, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Challenger Real Estate, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Challenger Residential, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Coliseum Real Estate, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Coliseum Industrial Assets, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Coliseum Land, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Promontoria Coliseum Residential, S.L.U. | Subsidiary | 30/07/2019 | 4 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Gate Huerta Solar 44, S.L | Subsidiary | 30/07/2019 | 205 | - | 100.00% | 100.00% | Indirect | Full consolidation | b |
| Inversiones Samiac 14, S.L. | Subsidiary | 31/10/2019 | 178 | - | 100.00% | 100.00% | Indirect | Full consolidation | b |
| Promontoria Challenger I, S.A. | Associate | 20/12/2019 | 161,958 | - | 20.00% | 20.00% | Direct | Equity method | b |
| Energíes Renovables Terra Ferma, S.L. | Associate | 11/11/2019 | 3 | - | 50.00% | 50.00% | Indirect | Equity method | c |
| Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg) | Subsidiary | 29/11/2019 | 4,926 | - | 55.44% | 55.44% | Direct | Full consolidation | d |
| Grecoholdco, S.A.U. | Subsidiary | 19/12/2019 | 60 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 1, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 2, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 3, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 4, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 5, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 6, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 7, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 8, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 9, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 10, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 11, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 12, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 13, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 14, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| Grecopropco 15, S.L.U. | Subsidiary | 19/12/2019 | 3 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| **Total newly consolidated subsidiaries** | | | **5,449** | | | | | | |
| **Total newly consolidated associates** | | | **219,891** | | | | | | |

(a) Incorporation of subsidiaries.

(b) Acquisition of subsidiaries.

(c) Acquisition or incorporation of associates

(d) Change in consolidation method.

## Exclusions from the scope of consolidation:

Thousand euro

| Name of entity (or line of business) sold, spun off or otherwise disposed of | Category | Effective date of the transaction | % Voting rights disposed of | % Total voting rights following disposal | Profit/(loss) generated | Type of shareholding | Method | Reason |
|---|---|---|---|---|---|---|---|---|
| CAM Global Finance, S.A. en liquidación | Subsidiary | 14/01/2019 | 100.00% | - | - | Direct | Full consolidation | b |
| Grupo Luxiona, S.L. | Associate | 29/03/2019 | 20.00% | - | (141) | Indirect | Equity method | a |
| Malbrouck, S.I.C.A.V | Subsidiary | 13/06/2019 | 100.00% | - | (10) | Direct | Full consolidation | b |
| Placements Immobiliers France, S.A.S. | Subsidiary | 01/01/2019 | 100.00% | - | 811 | Indirect | Full consolidation | b |
| Societat d'Inversió dels Enginyers, S.L. | Associate | 27/05/2019 | 47.00% | - | 766 | Indirect | Equity method | b |
| Ac Dos Lerida, S.L.U. en liquidación | Subsidiary | 27/06/2019 | 100.00% | - | (142) | Indirect | Full consolidation | b |
| Hotel Calle de los Molinos 10, S.L.U. en liquidación | Subsidiary | 27/06/2019 | 100.00% | - | 19 | Indirect | Full consolidation | b |
| Hotel Calle Mayor 34, S.L.U. en liquidación | Subsidiary | 27/06/2019 | 100.00% | - | 43 | Indirect | Full consolidation | b |
| Hotel Mirador del Valle, S.L.U. en liquidación | Subsidiary | 27/06/2019 | 100.00% | - | 25 | Indirect | Full consolidation | b |
| Ribera Salud, S.A. | Associate | 28/06/2019 | 40.00% | 10.00% | 5,255 | Indirect | Equity method | a |
| Tratamientos y Aplicaciones, S.L.U. en liquidación | Subsidiary | 27/05/2019 | 100.00% | - | (22) | Direct | Full consolidation | b |
| Solvia Servicios Inmobiliarios, S.L.U. | Subsidiary | 23/04/2019 | 80.00% | 20.00% | 132,776 | Direct | Full consolidation | a |
| Emte Renovables, S.L. | Associate | 05/08/2019 | 62.11% | - | (9) | Indirect | Equity method | b |
| Bansabadell Securities Services, S.L.U | Subsidiary | 21/11/2019 | 100.00% | - | (47) | Direct | Full consolidation | b |
| Aurica XXI, S.C.R. de R.S., S.A.U. | Subsidiary | 20/11/2019 | 100.00% | - | (1,218) | Direct | Full consolidation | b |
| Promontoria Coliseum Real Estate, S.L.U. | Subsidiary | 20/12/2019 | 100.00% | - | - | Direct | Full consolidation | a |
| Promontoria Coliseum Industrial Assets, S.L.U. | Subsidiary | 20/12/2019 | 100.00% | - | - | Direct | Full consolidation | a |
| Promontoria Coliseum Land, S.L.U. | Subsidiary | 20/12/2019 | 100.00% | - | - | Direct | Full consolidation | a |
| Promontoria Coliseum Residential, S.L.U. | Subsidiary | 20/12/2019 | 100.00% | - | - | Direct | Full consolidation | a |
| Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg) | Associate | 29/11/2019 | 44.56% | - | - | Direct | Equity method | c |
| Other | | | | | 11,585 | | | |
| **Total** | | | | | **149,691** | | | |

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Derecognised due to reclassification to dependent companies.

## Banco Sabadell Group companies as at 31 December 2018 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| AC Dos Lérida, S.L.U. | Real estate development | Barcelona - Spain | - | 100.00 | Yes | 2,793 | 486 | 4 | - | 3,284 | 2,408 | 874 | 4 | 12/18 |
| Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L. | Real estate | Alicante - Spain | 100.00 | - | Yes | 100 | 10,146 | 96 | - | 10,410 | 20,038 | (9,487) | (156) | 12/18 |
| Assegurances Segur Vida, S.A.U. | Other regulated companies | Andorra la Vella - Andorra | - | 50.97 | No | 602 | 230 | 189 | - | 39,534 | 602 | 199 | 96 | 12/18 |
| Aurica Capital Desarrollo, S.G.E.I.C., S.A.Unipersonal | UCITS management company | Barcelona - Spain | 100.00 | - | Yes | 3,601 | 1,577 | 1,438 | - | 7,623 | 4,445 | 732 | 1,438 | 12/18 |
| Aurica Coinvestments S.L. | Holding | Barcelona - Spain | - | 61.76 | Yes | 50,594 | (11) | 1,909 | - | 52,494 | 31,247 | (7) | (2,496) | 12/18 |
| Aurica Xxi, S.C.R. De R.S., S.A.U. | Other regulated companies | Barcelona - Spain | 100.00 | - | Yes | 14,200 | 21,055 | 1,292 | - | 36,668 | 17,492 | 29,801 | 1,218 | 12/18 |
| Banco Atlantico (Bahamas) Bank & Trust Ltd. | Credit institution | Nassau - Bahamas | 99.99 | 0.01 | No | 1,598 | 852 | (34) | - | 3,127 | 2,439 | (204) | (40) | 12/18 |
| Banco de Sabadell, S.A. | Credit institution | Alicante - Spain | - | - | Yes | 703,371 | 9,295,348 | 539,867 | - | 178,987,816 | - | 10,367,453 | 739,733 | 12/18 |
| Banco Sabadell, S.A., Institución de Banca Múltiple | Credit institution | Mexico DF - Mexico | 99.99 | 0.01 | No | 554,267 | (38,016) | (14,551) | - | 2,416,644 | 568,446 | (35,923) | (16,526) | 12/18 |
| Bancsabadell d'Andorra, S.A. | Credit institution | Andorra la Vella - Andorra | 50.97 | - | No | 30,069 | 41,972 | 9,953 | 1,594 | 753,867 | 15,326 | 22,232 | 4,040 | 12/18 |
| Bansabadell Factura, S.L.U. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 100 | (1,951) | 687 | - | 2,678 | 299 | (2,150) | 687 | 12/18 |
| Bansabadell Financiación, E.F.C., S.A. | Credit institution | Sabadell - Spain | 100.00 | - | Yes | 24,040 | 29,190 | 5 | - | 739,561 | 24,040 | 29,190 | 5 | 12/18 |
| Bansabadell Inversió Desenvolupament, S.A.U. | SPE | Barcelona - Spain | 100.00 | - | Yes | 16,975 | 122,317 | 2,441 | - | 184,716 | 108,828 | 39,200 | 1,237 | 12/18 |
| Bansabadell Mediación, Operador de Banca-Seguros Vinculado del Grupo Banco Sabadell, S.A. | Other regulated companies | Alicante - Spain | - | 100.00 | Yes | 301 | 60 | 4,306 | 44,437 | 47,307 | 524 | (164) | 4,306 | 12/18 |
| Bansabadell Renting, S.L.U. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 2,000 | 42,140 | 10,146 | - | 606,530 | 3,861 | 40,279 | 10,146 | 12/18 |
| Bansabadell Securities Services, S.L.U. | Other investees with their own business | Barcelona - Spain | 100.00 | - | Yes | 2,500 | 40,031 | 5,362 | - | 50,863 | 2,500 | 39,483 | 5,910 | 12/18 |
| Bitarte, S.A. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 6,506 | 2,742 | (1,252) | - | 31,879 | 9,272 | 250 | (1,437) | 12/18 |
| Bstartup 10, S.L.U. | SPE | Barcelona - Spain | - | 100.00 | Yes | 1,000 | (184) | (29) | - | 5,357 | 1,000 | (1,370) | (25) | 12/18 |
| Business Services For Operational Support, S.A.U. | Services | Sant Cugat del Valles - Spain | 80.00 | - | Yes | 530 | (1,872) | 2,625 | - | 34,316 | 3,259 | (3,949) | 2,213 | 12/18 |
| Cam Global Finance, S.A. en liquidación (1) | Other regulated companies | Alicante - Spain | 100.00 | - | No | - | - | - | 154 | 16 | - | - | (16) | 12/18 |
| Caminsa Urbanismo, S.A.U. | Real estate | Alicante - Spain | - | 100.00 | Yes | 2,000 | (1,657) | (55) | - | 1,315 | 800 | (435) | 18 | 12/18 |
| Compañía de Cogeneración del Caribe Dominicana, S.A. | Services | Santo Domingo - Dominican Republic | - | 100.00 | No | 5,016 | (4,288) | - | - | 745 | - | 18 | - | 12/18 |
| Desarrollos y Participaciones Inmobiliarias 2006, S.L.U. | Real estate | Elche - Spain | - | 100.00 | No | 1,942 | (90,357) | (493) | - | 10 | 1,919 | (78,648) | (493) | 12/18 |
| Duncan 2016 -1 Holdings Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | 1 | - | 12/18 |
| Duncan de Inversiones SICAV, S.A. | UCITS, funds and similar financial corporations | Sant Cugat del Valles - Spain | 87.35 | - | No | 7,842 | 1,084 | (46) | - | 2,701 | 2,560 | (167) | (40) | 12/18 |
| Duncan Holdings 2015-1 Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | 1 | - | 12/18 |
| Ederra, S.A. | Real estate | San Sebastián - Spain | 97.85 | - | No | 2,036 | 30,590 | 928 | - | 33,823 | 36,062 | (4,121) | 891 | 12/18 |
| Sabadell Asset Management Luxembourg, S.A. | Other regulated companies | Luxembourg - Luxembourg | 22.00 | 78.00 | No | 125 | 563 | 86 | - | 951 | 51 | 352 | 86 | 12/18 |
| **Subtotal** | | | | | | | | | **46,185** | | **857,420** | **10,433,440** | **750,799** | |

## Banco Sabadell Group companies as at 31 December 2018 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Europea Pall Mall Ltd. | Real estate | London - United Kingdom | 100.00 | - | No | 20,843 | (1,519) | (2,765) | - | 19,003 | 20,843 | (2,346) | (852) | 12/18 |
| Fonomed Gestión Telefónica Mediterráneo, S.A. | Other investees with their own business | Alicante - Spain | 100.00 | - | Yes | 1,232 | 2,075 | 855 | - | 6,601 | 2,870 | 437 | 1,132 | 12/18 |
| Fuerza Eólica de San Matías, S de RL de CV | Wind energy | Nuevo León - Mexico | - | 99.99 | No | 4,617 | - | (1,153) | - | 7,627 | - | - | - | 11/18 |
| Galeban 21 Comercial, S.L.U. | SPE | A Coruña - Spain | 100.00 | - | Yes | 10,000 | (4,289) | (1) | - | 5,711 | 14,477 | (8,765) | (1) | 12/18 |
| Gazteluberri S.L. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 53 | (20,423) | (19) | - | 6,413 | 23,890 | (44,261) | (19) | 12/18 |
| Gest 21 Inmobiliaria, S.L.U | SPE | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 7,810 | 9 | 8 | - | 7,835 | 80,516 | (63,293) | 27,734 | 12/18 |
| Gestión de Proyectos Urbanísticos Del Mediterráneo, S.L. en liquidación (2) | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | No | 33,850 | (31,370) | (79) | - | 10,342 | 32,832 | (17,509) | (79) | 12/18 |
| Gestión Financiera del Mediterráneo, S.A.U. | SPE | Alicante - Spain | 100.00 | - | Yes | 13,000 | 2,628 | 93,002 | 33,273 | 60,233 | 123,492 | (63,533) | 162 | 12/18 |
| Guipuzcoano Promoción Empresarial, S.L. | SPE | San Sebastián - Spain | - | 100.00 | No | 53 | (75,349) | (691) | - | 7,450 | 7,160 | (77,671) | (337) | 12/18 |
| Guipuzcoano Valores, S.A. | Real estate | Sant Cugat del Valles - Spain | 99.99 | 0.01 | Yes | 4,514 | 2,754 | 189 | - | 7,721 | 10,833 | (3,566) | 189 | 12/18 |
| Hotel Management 6 Holdco, S.L.U.(3) | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 29,074 | (24,190) | (4,922) | - | 56,856 | 27,611 | (10,188) | (650) | 12/18 |
| Hobalear, S.A.U. | Real estate | Barcelona - Spain | - | 100.00 | Yes | 60 | 690 | 6 | - | 757 | 414 | 690 | 6 | 12/18 |
| Hondarriberri, S.L. | SPE | San Sebastián - Spain | 99.99 | 0.01 | No | 41 | (6,991) | (4,562) | - | 65,025 | 120,655 | 122,355 | 136 | 12/18 |
| Hotel Calle de Los Molinos 10, S.L.U | Real estate development | Barcelona - Spain | - | 100.00 | No | 2,077 | (1,798) | (176) | - | 132 | 2,837 | (1,946) | (195) | 12/18 |
| Hotel Calle Mayor 34, S.L.U | Real estate development | Barcelona - Spain | - | 100.00 | No | 2,124 | (1,300) | (157) | - | 673 | 2,499 | (1,214) | (209) | 12/18 |
| Hotel Management 6 Gestión Activa, S.L.U.(4) | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 135,730 | 22,529 | 9,107 | - | 174,219 | 136,335 | 35,550 | 3,608 | 12/18 |
| Hotel Mirador del Valle, S.L.U. | Real estate | Barcelona - Spain | - | 100.00 | No | 4,482 | (3,571) | (198) | - | 733 | 5,418 | (2,648) | (971) | 12/18 |
| Hotel Value Added Primera, S.L.U. | Real estate development | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 3 | 21,411 | (588) | - | 20,858 | 27,527 | (6,113) | (588) | 12/18 |
| Interstate Property Holdings, Llc. | SPE | Miami - United States | 100.00 | - | No | 7,293 | (3,053) | 33 | - | 6,160 | 3,804 | 6,256 | 33 | 12/18 |
| Inverán Gestión, S.L. | Real estate | Sant Cugat del Valles - Spain | 44.83 | 55.17 | Yes | 90 | (11,747) | (147) | - | 23,584 | 20,214 | (56,747) | (147) | 12/18 |
| Inversiones Cotizadas del Mediterráneo, S.L. | SPE | Alicante - Spain | 100.00 | - | Yes | 308,000 | 189,884 | 2,693 | - | 501,716 | 589,523 | (91,279) | 2,693 | 12/18 |
| Inversiones en Resorts Mediterráneos, S.L. en liquidación | Real estate | Torre Pacheco - Murcia | - | 55.06 | No | 299,090 | (300,569) | - | - | 94 | 175,124 | - | - | 12/18 |
| LSP Finance, S.L. | Provision of technology services | Barcelona - Spain | - | 100.00 | No | 252 | 12 | (565) | - | 1,165 | 6,150 | - | (565) | 12/18 |
| Malbrouck, S.I.C.A.V. | UCITS, funds and similar financial corporations | Madrid - Spain | 99.94 | - | No | 14,554 | 2,405 | (126) | - | 16,703 | - | - | - | 12/18 |
| Manston Invest, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 33,357 | (12,843) | 83 | - | 20,808 | 33,357 | (14,593) | (837) | 12/18 |
| Mariñamendi, S.L. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 62 | (48,026) | (3,248) | - | 49,383 | 55,013 | (102,977) | (3,248) | 12/18 |
| Mediterráneo Sabadell, S.L. | SPE | Alicante - Spain | 50.00 | 50.00 | Yes | 85,000 | 17,052 | 241 | 48,638 | 102,422 | 506,342 | (449,864) | 241 | 12/18 |
| Mercurio Alicante Sociedad de Arrendamientos 1, S.L. | Real estate | Alicante - Spain | 100.00 | - | Yes | 795 | (2,971) | (78) | - | 5,203 | 986 | (4,143) | 904 | 12/18 |
| Orión Energía 1, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (151) | 16 | - | 84 | 36 | (89) | 16 | 12/18 |
| Orión Energía 10, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (157) | 17 | - | 84 | 36 | (95) | 17 | 12/18 |
| Orión Energía 11, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 88 | 36 | (96) | 16 | 12/18 |
| Orión Energía 12, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 17 | - | 87 | 36 | (95) | 17 | 12/18 |
| Orión Energía 13, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (160) | 17 | - | 88 | 36 | (98) | 17 | 12/18 |
| Orión Energía 14, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (157) | 17 | - | 86 | 36 | (95) | 17 | 12/18 |
| Orión Energía 15, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 87 | 36 | (96) | 16 | 12/18 |
| Orión Energía 16, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (159) | 15 | - | 86 | 36 | (97) | 15 | 12/18 |
| Orión Energía 17, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 17 | - | 87 | 36 | (95) | 17 | 12/18 |
| Orión Energía 18, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 86 | 36 | (96) | 16 | 12/18 |
| Orión Energía 19, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (157) | 16 | - | 85 | 36 | (95) | 16 | 12/18 |
| **Subtotal** | | | | | | | | | **81,911** | | **2,031,118** | **(858,415)** | **28,320** | |

## Banco Sabadell Group companies as at 31 December 2018 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding Direct | % Shareholding Indirect | Consolidated taxation | Company data (a) Capital | Company data (a) Other equity | Company data (a) Profit/(loss) (b) | Company data (a) Dividends paid (c) | Company data (a) Total assets | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Orión Energía 2, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (154) | 17 | - | 84 | 36 | (92) | 17 | 12/18 |
| Orión Energía 20, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 87 | 36 | (96) | 16 | 12/18 |
| Orión Energía 21, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 88 | 36 | (96) | 16 | 12/18 |
| Orión Energía 22, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 87 | 36 | (96) | 16 | 12/18 |
| Orión Energía 23, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 93 | 36 | (96) | 16 | 12/18 |
| Orión Energía 24, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 88 | 36 | (95) | 16 | 12/18 |
| Orión Energía 25, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 86 | 36 | (96) | 16 | 12/18 |
| Orión Energía 26, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 20 | - | 92 | 36 | (95) | 20 | 12/18 |
| Orión Energía 27, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 20 | - | 92 | 36 | (96) | 20 | 12/18 |
| Orión Energía 28, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (159) | 19 | - | 95 | 36 | (97) | 19 | 12/18 |
| Orión Energía 29, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 20 | - | 93 | 36 | (96) | 20 | 12/18 |
| Orión Energía 3, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 17 | - | 86 | 36 | (96) | 17 | 12/18 |
| Orión Energía 30, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (159) | 19 | - | 95 | 36 | (97) | 19 | 12/18 |
| Orión Energía 4, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (157) | 16 | - | 87 | 36 | (95) | 16 | 12/18 |
| Orión Energía 5, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 87 | 36 | (95) | 16 | 12/18 |
| Orión Energía 6, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 17 | - | 89 | 36 | (95) | 17 | 12/18 |
| Orión Energía 7, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 85 | 36 | (95) | 16 | 12/18 |
| Orión Energía 8, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 14 | - | 86 | 36 | (95) | 14 | 12/18 |
| Orión Energía 9, S.L. | Photovoltaic solar energy | Barcelona - Spain | - | 100.00 | Yes | 98 | (158) | 16 | - | 87 | 36 | (96) | 16 | 12/18 |
| Parque Eólico Jaufil, S.L.U. | Wind energy | Barcelona - Spain | 100.00 | - | Yes | 163 | (2,835) | 136 | - | 5,604 | 163 | (2,901) | 202 | 12/18 |
| Parque Eólico Las Lomas De Lecrín, S.L.U. | Wind energy | Barcelona - Spain | 100.00 | - | Yes | 83 | (1,340) | 104 | - | 2,671 | 83 | (1,330) | 94 | 12/18 |
| Parque Eólico Lecrín, S.L.U. | Wind energy | Barcelona - Spain | 100.00 | - | Yes | 4,003 | (9,171) | 740 | - | 15,069 | 4,003 | (9,079) | 648 | 12/18 |
| Parque Eólico Lomas De Manteca, S.L.U. | Wind energy | Barcelona - Spain | 100.00 | - | Yes | 163 | (2,371) | 219 | - | 5,658 | 163 | (2,360) | 208 | 12/18 |
| Parque Eólico Tahuna, S.L.U. | Wind energy | Barcelona - Spain | 100.00 | - | Yes | 3 | (10,447) | 273 | - | 13,790 | - | (8,737) | (1,414) | 12/18 |
| Parque Eólico Zorreras, S.L.U. | Wind energy | Barcelona - Spain | 100.00 | - | Yes | 3 | (9,545) | 433 | - | 12,242 | - | (8,405) | (684) | 12/18 |
| PayTPV On Line Entidad de Pago, S.L. | Other financial services | Bilbao - Spain | - | 100.00 | No | 150 | 57 | - | - | 663 | 36 | - | - | 12/18 |
| Placements Immobiliers France, S.A.S. | Real estate | Paris - France | - | 100.00 | No | 30,002 | 1,183 | (13) | - | 31,181 | 42,887 | (11,694) | (21) | 12/18 |
| Ripollet Gestión, S.L.U. | Other financial services | Barcelona - Spain | 100.00 | - | Yes | 20 | (2) | - | - | 18 | 20 | (2) | - | 12/18 |
| Rubí Gestión, S.L.U. | Other financial services | Barcelona - Spain | 100.00 | - | Yes | 3 | (6) | (4) | - | 329,005 | 3 | (6) | (4) | 12/18 |
| Sabadell Asset Management, S.A., S.G.I.I.C | Other regulated companies | Madrid - Spain | 100.00 | - | Yes | 601 | 71,563 | 45,927 | 40,000 | 201,326 | 607 | 79,960 | 37,524 | 12/18 |
| Sabadell Brasil Trade Services - Assessoria Comercial Ltda. | Credit institution | São Paulo - Brazil | 99.99 | 0.01 | No | 905 | (820) | - | - | 106 | 250 | 393 | - | 12/18 |
| Sabcapital, S.A de C.V., SOFOM, E.R. | Credit institution | Mexico DF - Mexico | 49.00 | 51.00 | No | 257,208 | (43,138) | 28,609 | 40,480 | 1,707,828 | 138,272 | 10,691 | 28,784 | 12/18 |
| Sabadell Consumer Finance, S.A.U. | Credit institution | Sabadell - Spain | 100.00 | - | Yes | 35,720 | 79,674 | 13,938 | - | 1,319,058 | 72,232 | 48,084 | 13,938 | 12/18 |
| Sabadell Corporate Finance, S.L. | Other investees with their own business | Madrid - Spain | 100.00 | - | Yes | 70 | 1,201 | 811 | - | 3,165 | 9,373 | (243) | 811 | 12/18 |
| Sabadell d'Andorra Inversions Sgoic, S.A.U. | Other regulated companies | Andorra la Vella - Andorra | - | 50.97 | No | 300 | 999 | 191 | - | 2,065 | 300 | 596 | 98 | 12/18 |
| Sabadell Information Systems Limited | Provision of technology services | London - United Kingdom | 100.00 | - | No | 12,036 | 26,508 | (6,138) | - | 124,340 | 41,296 | (2,204) | (6,138) | 12/18 |
| Sabadell Information Systems, S.A. | Other investees with their own business | Sabadell - Spain | 100.00 | - | Yes | 40,243 | 186,186 | (131,537) | - | 1,596,846 | 143,695 | 79,617 | (36,051) | 12/18 |
| Sabadell Innovation Capital, S.L.U. | Holding | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 1,000 | (17) | (365) | - | 26,175 | 1,000 | (18) | (364) | 12/18 |
| **Subtotal** | | | | | | | | | **80,480** | | **455,067** | **170,547** | **37,954** | |

## Banco Sabadell Group companies as at 31 December 2018 consolidated by the full consolidation method

Thousand euro

| Company name | Line of business | Registered office | % Shareholding | | Consolidated taxation | Company data (a) | | | | | Group investment | Contribution to reserves or losses in consolidated companies | Contribution to Group consolidated profit/(loss) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Sabadell Innovation Cells, S.L.U. | Other business management consulting activities | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 3 | (269) | (1,854) | - | 3,366 | 3 | (269) | (1,854) | 12/18 |
| Sabadell Patrimonio Inmobiliario, S.A.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 30,116 | 802,096 | 25,465 | - | 938,616 | 863,895 | (19,489) | 37,119 | 12/18 |
| Sabadell Real Estate Activos, S.A.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 100,060 | 235,312 | (562) | - | 336,982 | 500,622 | (156,688) | (4,432) | 12/18 |
| Sabadell Real Estate Development, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 15,807 | (1,882,623) | (351,397) | - | 3,465,424 | 2,147,442 | (3,711,160) | (279,826) | 12/18 |
| Sabadell Real Estate Housing, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 2,073 | (61) | 1,145 | - | 30,672 | 14,292 | (12,280) | 1,145 | 12/18 |
| Sabadell Securities Usa, Inc. | Other investees with their own business | Miami - United States | 100.00 | - | No | 551 | 3,170 | 247 | - | 4,112 | 551 | 2,844 | 252 | 12/18 |
| Sabadell Strategic Consulting, S.L.U. | Other investees with their own business | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 3 | 504 | 153 | - | 1,316 | 3 | 504 | 153 | 12/18 |
| Sabadell Venture Capital, S. L.U. | Holding | Barcelona - Spain | - | 100.00 | Yes | 3 | 1,535 | 774 | - | 24,700 | 3 | 159 | 465 | 12/18 |
| Sinia Capital S.A. de C.V. | Holding | Mexico DF - Mexico | - | 100.00 | No | 20,830 | (1,309) | 3,686 | - | 42,019 | 18,675 | 1,118 | 751 | 12/18 |
| Sinia Renovables, S.A.U. | Other regulated companies | Barcelona - Spain | 100.00 | - | Yes | 15,000 | (14,825) | 5,569 | - | 22,393 | 15,000 | (8,956) | 4,032 | 12/18 |
| Solvia Desarrollos Inmobiliarios S.L. | Real estate development | Madrid - Spain | 100.00 | - | Yes | 25 | 772 | 1,026 | - | 4,020 | 15 | 783 | 1,026 | 12/18 |
| Solvia Gestora de Vivienda Social, S.L.U. | Real estate | Alicante - Spain | 100.00 | - | Yes | 3 | 4,766 | 3,201 | - | 10,228 | 7,980 | 4,766 | 3,201 | 12/18 |
| Solvia Pacific, S.A. De C.V. | Real estate | Mexico DF - Mexico | - | 100.00 | No | 28,947 | (16,633) | 325 | - | 12,642 | 29,164 | (11,827) | 325 | 12/18 |
| Solvia Servicios Inmobiliarios, S.L.U. | Real estate | Alicante - Spain | 100.00 | - | Yes | 660 | 92,100 | 21,398 | - | 125,678 | 14,008 | 84,208 | 13,424 | 12/18 |
| Stonington Spain, S.L.U. | Real estate | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 60,729 | (9,880) | 167 | - | 51,319 | 60,729 | (15,619) | 249 | 12/18 |
| Tasaciones de Bienes Mediterráneo, S.A. (en Liquidación) | Other investees with their own business | Alicante - Spain | 99.88 | 0.12 | Yes | 1,000 | 1,387 | - | - | 2,393 | 5,266 | (2,879) | - | 12/18 |
| Tenedora de Inversiones y Participaciones, S.L. | SPE | Alicante - Spain | 100.00 | - | Yes | 296,092 | (391,121) | (124,845) | - | 1,788,476 | 2,564,914 | (2,516,082) | (89,462) | 12/18 |
| Tierras Vega Alta Del Segura, S.L. | Real estate | Sant Cugat del Valles - Spain | - | 100.00 | Yes | 4,550 | (13,136) | (813) | - | 6,121 | 3,250 | (25,296) | (926) | 12/18 |
| Tratamientos y Aplicaciones, S.L.U. en Liquidación | Services | Alicante - Spain | 100.00 | - | Yes | 3,003 | (353) | - | - | 2,655 | 4,654 | (2,004) | - | 12/18 |
| TSB Bank Plc | Credit institution | Edinburgh - United Kingdom | - | 100.00 | No | 90,710 | 2,077,450 | (73,254) | - | 45,489,008 | 1,814,636 | 385,789 | (180,183) | 12/18 |
| TSB Banking Group Plc | Holding | London - United Kingdom | 100.00 | - | No | 7,028 | 1,755,605 | (1,840) | - | 2,211,972 | 2,168,320 | (66,114) | (41,287) | 12/18 |
| TSB Banking Group plc Employee Share Trust | Other regulated companies | Jesrsey - United Kingdom | - | 100.00 | No | 1 | (5,902) | (2,624) | - | 1,247 | - | (6,136) | (1,659) | 12/18 |
| TSB Coverd Bonds Holdings Limited | Holding | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | - | - | 12/18 |
| TSB Covered Bonds (LM Limited) | Other regulated companies | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | - | - | 12/18 |
| TSB Covered Bonds LLP | Other regulated companies | London - United Kingdom | - | 100.00 | No | 1 | - | - | - | 1 | 1 | 3 | - | 12/18 |
| Urquijo Gestión, S.A.U., S.G.I.I.C. | Other regulated companies | Madrid - Spain | - | 100.00 | Yes | 3,606 | 3,022 | 2,000 | 4,500 | 15,823 | 3,084 | 3,916 | 1,628 | 12/18 |
| Urumea Gestión, S.L. (en liquidación) | Other investees with their own business | San Sebastián - Spain | - | 100.00 | No | 9 | (7) | (2) | - | 1 | 9 | (7) | (2) | 12/18 |
| VeA Rental Homes , S.A (5) | Letting of own property | Sant Cugat del Valles - Spain | 100.00 | - | Yes | 5,000 | (2,169) | (7,862) | - | 66,540 | 5,000 | (2,158) | (7,872) | 12/18 |
| Verum Inmobiliaria Urbanismo y Promoción, S.A. | Real estate | Sant Cugat del Valles - Spain | - | 97.20 | Yes | 12,000 | (43,502) | (800) | - | 16,536 | 11,664 | (43,149) | (817) | 12/18 |
| Vitigudina FV, S.L. | Engineering | Barcelona - Spain | - | 100.00 | Yes | - | 1,629 | (880) | (275) | - | 18,032 | 1,777 | (228) | 12/18 |
| Xunqueira Eólica, S.L. | Other power generation | Barcelona - Spain | - | 100.00 | Yes | 3 | (5,179) | 134 | - | 11,751 | 400 | (4,540) | (903) | 12/18 |
| **Subtotal** | | | | | | | | | 212,801 | | 13,615,219 | 3,626,786 | 271,392 | |

(1) Formerly, Cam Global Finance S.A.U.
(2) Formerly, Gestión de Proyectos Urbanísticos del Mediterráneo, S.L.
(3) Formerly, HI Partners Holdco Gestión Activa, S.L.
(4) Formerly, Hotel Investment Partners, S.L.
(5) Formerly, VeA Rental Homes SOCIMI, S.A

## Banco Sabadell Group companies as at 31 December 2018 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) | Balance sheet date |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | Capital | Other equity | Profit/(loss) (b) | Dividends paid (c) | Total assets | | | | |
| Aurica III, Fondo De Capital Riesgo | Other regulated companies | Barcelona - Spain | - | 48.15 | 48,855 | (1,951) | (1,086) | - | 46,101 | 1,272 | (940) | (523) | 12/18 |
| Aurica IIIB, Soc. De Capital Riesgo, S.A | Other regulated companies | Barcelona - Spain | - | 43.43 | 33,020 | (853) | (1,222) | - | 31,135 | 776 | (383) | (531) | 12/18 |
| Atrian Bakers, S.L. | Other associates | Castellgali - Spain | - | 22.41 | 26,249 | (6,966) | 622 | - | 35,633 | 2,000 | - | 140 | 09/18 |
| Bansabadell Pensiones, E.G.F.P., S.A. | Other regulated companies | Madrid - Spain | 50.00 | - | 7,813 | 35,402 | (225) | - | 48,733 | 40,378 | (18,771) | (113) | 12/18 |
| Bansabadell Seguros Generales, S.A. De Seguros Y Reaseguros | Other regulated companies | Madrid - Spain | 50.00 | - | 10,000 | 54,649 | 16,101 | 12,293 | 238,897 | 45,000 | (12,676) | 8,050 | 12/18 |
| Bansabadell Vida, S.A. De Seguros Y Reaseguros | Other regulated companies | Madrid - Spain | 50.00 | - | 43,858 | 540,903 | 68,591 | 68,500 | 10,072,813 | 27,106 | 244,745 | 35,599 | 12/18 |
| Emte Renovables, S.L. | SPE | Barcelona - Spain | - | 62.11 | 7,050 | (7,050) | 161 | - | 347 | 4,379 | (4,379) | 215 | 10/18 |
| Esus Energía Renovable, S.L. | Services | Vigo - Spain | - | 45.00 | 50 | (539) | (134) | - | 2,133 | 23 | (23) | - | 11/18 |
| Financiera Iberoamericana, S.A. | Credit institution | Havana - Cuba | 50.00 | - | 38,288 | 5,040 | 3,288 | 984 | 89,308 | 19,144 | 2,518 | 1,644 | 12/18 |
| Flex Equipos De Descanso, S.A. | Manufacturing | Getafe - Spain | - | 19.16 | 66,071 | 14,096 | 22,357 | 1,915 | 228,709 | 50,930 | - | 6,515 | 10/18 |
| Gate Solar Gestión, S.L. | Services | Vitoria-Gasteiz - Spain | 50.00 | - | 300 | 3,096 | (3) | - | 3,490 | 1,860 | (629) | 3 | 09/18 |
| Gestora De Aparcamientos Del Mediterráneo, S.L. | Services | Alicante - Spain | - | 40.00 | 1,000 | (9,600) | - | - | 2,823 | 7,675 | (7,675) | - | 11/18 |
| Grupo Luxiona, S.L. | Other investees | Barcelona - Spain | - | 20.00 | 2,561 | 4,732 | (1,976) | - | 60,312 | 10,835 | (10,835) | - | 09/18 |
| Hydrophytic, S.L. | Real estate | Vitoria-Gasteiz - Spain | - | 50.00 | 186 | 124 | 18 | - | 469 | 93 | 62 | 9 | 09/18 |
| Murcia Emprende, S.C.R. De R.S., S.A. | Other regulated companies | Murcia - Spain | 28.70 | - | 6,800 | (2,651) | (101) | - | 4,079 | 2,026 | (1,527) | (39) | 09/18 |
| Nueva Pescanova, S.L. | Wholesale trade | Redondela - Spain | 24.06 | - | 147,614 | (38,191) | 5,448 | - | 974,487 | 420 | - | 891 | 12/18 |
| Plaxic Estelar, S.L. | Real estate | Barcelona - Spain | - | 45.01 | 3 | (15,255) | (3) | - | 31,991 | 2,898 | (2,898) | - | 10/18 |
| Redes 2 Promotoro Unica S.L. | Holding | Madrid - Spain | - | 20.00 | 10,328 | 90,874 | (620) | - | 106,572 | 20,191 | 50 | (124) | 12/18 |
| Ribera Salud, S.A. | Services | Valencia - Spain | - | 50.00 | 9,518 | 113,473 | 20,093 | - | 407,535 | 30,203 | 16,843 | 4,704 | 12/18 |
| Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg) | Other investees | Luxembourg - Luxembourg | 44.64 | - | 12,900 | (55) | (25) | - | 12,931 | 4,926 | 3,052 | - | 10/18 |
| Sabadell Asabys Health Innovation Investment, S.A. | Holding | Barcelona - Spain | - | 49.92 | 4,587 | - | (175) | - | 4,412 | 2,260 | 30 | (87) | 11/18 |
| Sbd Creixent, S.A. | Real estate | Sabadell - Spain | 23.05 | - | 5,965 | (208) | 619 | - | 6,520 | 3,524 | (2,197) | 143 | 10/18 |
| Sociedad De Cartera Del Vallés, S.I.C.A.V., S.A. | Other associates | Sabadell - Spain | 48.43 | - | 4,818 | 170 | (523) | 80 | 4,494 | 422 | 1,994 | (253) | 12/18 |
| Societat D'Inversió Dels Enginyers, S.L. | SPE | Barcelona - Spain | - | 35.78 | 2,555 | (590) | (218) | - | 1,756 | 915 | (212) | (78) | 09/18 |
| Termosolar Borges S.L. | Engineering | Barcelona - Spain | 47.50 | - | 14,700 | (34,853) | 609 | - | 133,841 | 11,800 | - | - | 10/18 |
| Villoldo Solar S.L. | Engineering | Barcelona - Spain | 50.00 | - | 3 | 49 | (5) | - | 98 | - | - | - | 10/18 |
| Other | | | | | | | | | | | | 545 | |
| **Total** | | | | | | | | **83,772** | | **291,056** | **206,149** | **56,710** | |

Balance sheet date includes last available date.

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.

(a) Companies outside Spain have been translated to euros applying historical exchange rate and the average exchange rate for profit/(loss) during the year.

(b) Results pending approval at Annual General Meeting.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method amounted to 1,807,552 thousand euros as at 31 December 2018. The liabilities balance of associates as at the end of 2018 totalled 1,779,922 thousand euros.

## Changes in the scope of consolidation in 2018

### Additions to the scope of consolidation:

Thousand euro

| Name of entity (or line of business) acquired or merged | Category | Effective date of the transaction | Cost of combination: Cost of acquisition | Cost of combination: Fair value of equity instruments issued for the acquisition | % Voting rights acquired | % Total voting rights | Type of shareholding | Method | Reason |
|---|---|---|---|---|---|---|---|---|---|
| Solvia Desarrollos Inmobiliarios, S.L. | Subsidiary | 13/04/2018 | 15 | - | 100.00% | 100.00% | Direct | Full consolidation | a |
| LSP Finance , S.L. | Subsidiary | 14/06/2018 | 6,150 | - | 100.00% | 100.00% | Indirect | Full consolidation | b |
| Termosolar Borges. S.L. | Associate | 28/06/2018 | 11,800 | - | 47.50% | 47.50% | Direct | Equity method | c |
| Villoldo Solar, S.L. | Associate | 28/06/2018 | - | - | 50.00% | 50.00% | Direct | Equity method | c |
| Redes 2 Promotora Única, S.L. | Associate | 03/07/2018 | 20,191 | - | 20.00% | 20.00% | Indirect | Equity method | c |
| PayTPV On Line Entidad de Pago, S.L. | Subsidiary | 26/07/2018 | 7,500 | - | 100.00% | 100.00% | Indirect | Full consolidation | b |
| Sabadell Asabys Health Innovation Investments S.A. | Associate | 14/11/2018 | 2,260 | - | 49.92% | 49.92% | Indirect | Equity method | c |
| Fuerza Eólica de San Matías, S de RL de CV | Subsidiary | 15/11/2018 | 2,597 | - | 99.99% | 99.99% | Indirect | Full consolidation | b |
| **Total newly consolidated subsidiaries** | | | **16,262** | | | | | | |
| **Total newly consolidated associates** | | | **34,251** | | | | | | |

(a) Incorporation of subsidiaries.

(b) Acquisition of subsidiaries.

(c) Acquisition or incorporation of associates

## 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 |
|---|---|---|---|---|---|---|---|---|
| Cape Funding No.1 PLC | Subsidiary | 30/04/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Cape Holdings No.1 Limited | Subsidiary | 30/04/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| TSB Scotland (Investment) Nominees Limited | Subsidiary | 30/04/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| TSB Scotland Nominees Limited | Subsidiary | 30/04/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Parque Eólico Los Ausines, S.L | Associate | 30/06/2018 | 50.00% | - | 5,574 | Indirect | Equity method | a |
| HI Partners Starwood Capital Holdco Value Added, S.L.U. | Associate | 31/01/2018 | 30.00% | - | - | Indirect | Equity method | b |
| Sabadell Solbank Sociedad de Gestión de Activos Adjudicados, S.A.U. | Subsidiary | 31/01/2018 | 100.00% | - | 13 | Direct | Full consolidation | b |
| CAM International Issues, S.A.U. | Subsidiary | 27/09/2018 | 100.00% | - | 8 | Direct | Full consolidation | b |
| HIP Francia 184, S.L.U. en liquidación | Subsidiary | 28/12/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Hotel María Tarrida 6, S.L.U. en liquidación | Subsidiary | 28/12/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Hotel Autovía del Mediterráneo 165, S.L.U. en liquidación | Subsidiary | 28/12/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Hotel Carretera de Taull, S.L.U. en liquidación | Subsidiary | 28/12/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Hotel Cavall de Mar 25, S.L.U. en liquidación | Subsidiary | 28/12/2018 | 100.00% | - | - | Indirect | Full consolidation | b |
| Gala Domus, S.A. (en concurso de acreedores) | Subsidiary | 17/10/2018 | 100.00% | - | (23) | Indirect | Full consolidation | b |
| Other | | | - | - | 60 | | | |
| **Subtotal** | | | | | **5,632** | | | |

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

## Schedule II – Structured entities - Securitisation funds

Thousand euro

| Year | Securitisation funds fully retained on the balance sheet | Entity | Total securitised assets as at 31/12/2019 |
|---|---|---|---|
| 2004 | GC SABADELL 1, F.T.H | Banc Sabadell | 94,043 |
| 2005 | TDA 23, F.T.A | Banco Guipuzcoano | 26,653 |
| 2005 | TDA CAM 4 F.T.A | Banco CAM | 224,827 |
| 2005 | TDA CAM 5 F.T.A | Banco CAM | 423,315 |
| 2006 | TDA 26-MIXTO, F.T.A | Banco Guipuzcoano | 74,554 |
| 2006 | TDA CAM 6 F.T.A | Banco CAM | 297,038 |
| 2006 | FTPYME TDA CAM 4 F.T.A | Banco CAM | 107,522 |
| 2006 | TDA CAM 7 F.T.A | Banco CAM | 451,853 |
| 2006 | CAIXA PENEDES 1 TDA, FTA | BMN- Penedés | 193,393 |
| 2007 | TDA 29, F.T.A | Banco Guipuzcoano | 94,931 |
| 2007 | TDA CAM 8 F.T.A | Banco CAM | 433,643 |
| 2007 | TDA CAM 9 F.T.A | Banco CAM | 423,251 |
| 2007 | CAIXA PENEDES PYMES 1 TDA, FTA | BMN- Penedés | 41,854 |
| 2007 | CAIXA PENEDES 2 TDA, FTA | BMN- Penedés | 152,921 |
| 2008 | CAIXA PENEDES FTGENCAT 1 TDA, FTA | BMN- Penedés | 62,348 |
| 2009 | GAT-ICO-FTVPO 1, F.T.H (CP) | BMN- Penedés | 6,210 |
| 2016 | IM SABADELL PYME 10 | Banc Sabadell | 427,291 |
| 2017 | TDA SABADELL RMBS 4, FT | Banc Sabadell | 5,061,084 |
| 2017 | IM SABADELL PYME 11, FT | Banc Sabadell | 796,262 |
| **Total** | | | 9,392,993 |

Thousand euro

| Year | Securitisation funds fully derecognised from the balance sheet | Entity | Total securitised assets as at 31/12/2019 |
|---|---|---|---|
| 2001 | TDA 14-MIXTO, F.T.A | Banco Guipuzcoano | 1,918 |
| 2001 | TDA 14-MIXTO, F.T.A | BMN- Penedés | 10,761 |
| 2002 | TDA 15-MIXTO, F.T.A | Banco Guipuzcoano | 6,031 |
| 2006 | TDA 25, FTA (*) | Banco Gallego | 4,832 |
| 2010 | FTPYMES 1 LIMITED | Banco CAM | 157,289 |
| 2019 | SABADELL CONSUMO 1, FT | Banc Sabadell | 880,762 |
| **Total** | | | 1,061,593 |

(*) Securitisation fund in process of early liquidation.

## Schedule III –Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register

Information concerning the data kept in the special accounting register of the issuer Banco Sabadell referred to in Article 21 of Royal Decree 716/2009, as required by Bank of Spain Circular 5/2011 is as follows, without taking account of the guarantee provided by the DGF.

### A) Asset-side transactions

Details of the aggregate nominal values of mortgage loans and credit as at 31 December 2019 and 2018 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) | | |
|---|---|---|
| | 2019 | 2018 |
| **Total mortgage loan and credit portfolio** | **51,704,089** | **53,708,998** |
| **Participation mortgages issued** | **2,333,714** | **2,737,340** |
| *Of which: Loans held on balance sheet* | *2,267,172* | *2,652,901* |
| **Mortgage transfer certificates** | **6,505,016** | **7,126,535** |
| *Of which: Loans held on balance sheet* | *6,405,988* | *7,024,075* |
| **Mortgage loans pledged as security for financing received** | - | - |
| **Loans backing issues of mortgage bonds and covered bonds** | **42,865,358** | **43,845,123** |
| Ineligible loans | 11,478,524 | 13,712,492 |
| Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009 | 10,838,235 | 12,694,995 |
| Rest | 640,289 | 1,017,497 |
| Eligible loans | 31,386,834 | 30,132,631 |
| Non-qualifying portions | 68,264 | 80,012 |
| Qualifying portions | 31,318,570 | 30,052,619 |
| Loans covering mortgage bond issues | - | - |
| Loans eligible as coverage for covered bond issues | 31,318,570 | 30,052,619 |
| **Substitution assets for covered bond issues** | - | - |

A breakdown of these nominal values according to different classifications is given below:

Thousand euro

**Analysis of total mortgage loan and credit portfolio backing mortgage market issues**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Total | *Of which: Eligible loans* | Total | *Of which: Eligible loans* |
| **Total mortgage loan and credit portfolio** | **42,865,358** | ***31,386,834*** | **43,845,123** | ***30,132,631*** |
| **Origin of operations** | **42,865,358** | ***31,386,834*** | **43,845,123** | ***30,132,631*** |
| Originated by the institution | 42,270,777 | *30,974,128* | 43,165,526 | *29,696,214* |
| Subrogated from other entities | 278,494 | *233,425* | 312,754 | *257,131* |
| Rest | 316,087 | *179,281* | 366,843 | *179,286* |
| **Currency** | **42,865,358** | ***31,386,834*** | **43,845,123** | ***30,132,631*** |
| Euro | 42,797,267 | *31,349,794* | 43,758,869 | *30,083,348* |
| Other currencies | 68,091 | *37,040* | 86,254 | *49,283* |
| **Payment status** | **42,865,358** | ***31,386,834*** | **43,845,123** | ***30,132,631*** |
| Satisfactory payment | 37,958,995 | *28,923,510* | 39,344,180 | *28,875,322* |
| Other situations | 4,906,363 | *2,463,324* | 4,500,943 | *1,257,309* |
| **Average residual maturity** | **42,865,358** | ***31,386,834*** | **43,845,123** | ***30,132,631*** |
| Up to 10 years | 10,530,752 | *8,364,734* | 11,749,774 | *8,416,923* |
| 10 to 20 years | 16,913,750 | *13,114,430* | 17,276,398 | *12,762,148* |
| 20 to 30 years | 13,554,446 | *9,372,057* | 12,633,196 | *8,286,463* |
| More than 30 years | 1,866,410 | *535,613* | 2,185,755 | *667,097* |
| **Interest rate** | **42,865,358** | ***31,386,834*** | **43,845,123** | ***30,132,631*** |
| Fixed | 15,649,048 | *12,302,334* | 12,871,219 | *9,796,935* |
| Variable | 27,216,310 | *19,084,500* | 30,973,904 | *20,335,696* |
| Mixed | - | - | - | - |
| **Borrowers** | **42,865,358** | ***31,386,834*** | **43,845,123** | ***30,132,631*** |
| Legal entities and individual entrepreneurs | 13,064,592 | *8,615,114* | 14,750,289 | *8,641,999* |
| *Of which: Real estate developments* | *2,592,657* | *1,168,147* | *3,602,883* | *1,393,704* |
| Other individuals and NPISHs | 29,800,766 | *22,771,720* | 29,094,834 | *21,490,632* |
| **Type of guarantee** | **42,865,358** | ***31,386,834*** | **43,845,123** | ***30,132,631*** |
| Assets /finished buildings | 41,648,120 | *30,766,388* | 41,816,188 | *29,375,324* |
| *Residential* | *33,886,692* | *25,263,855* | *33,588,699* | *23,944,284* |
| *Of which: Subsidised housing* | *1,595,969* | *1,253,735* | *1,670,994* | *1,306,243* |
| *Commercial* | *7,544,133* | *5,341,589* | *8,038,216* | *5,298,139* |
| *Other* | *217,295* | *160,944* | *189,273* | *132,901* |
| Assets/ buildings under construction | 197,324 | *165,674* | 254,599 | *180,336* |
| *Residential* | *154,640* | *127,281* | *216,051* | *146,706* |
| *Of which: Subsidised housing* | *173* | *173* | *180* | *180* |
| *Commercial* | *41,050* | *36,759* | *37,945* | *33,027* |
| *Other* | *1,634* | *1,634* | *603* | *603* |
| Land | 1,019,914 | *454,772* | 1,774,336 | *576,971* |
| *Developed* | *322,786* | *69,652* | *738,779* | *121,329* |
| *Rest* | *697,128* | *385,120* | *1,035,557* | *455,642* |

The nominal values of available funds (i.e. undrawn commitments) within the total mortgage loans and credit portfolio were as follows:

Thousand euro

| Undrawn balances (nominal value). Total mortgage loans and credit backing the issue of mortgage bonds and covered bonds | | |
|---|---|---|
| | 2019 | 2018 |
| Potentially eligible | 1,099,810 | 1,083,230 |
| Ineligible | 2,824,979 | 2,816,709 |

The breakdown of nominal values based on the loan-to-value (LTV) ratio measuring the risk based on the last available valuation of the mortgage loans and credit portfolio eligible for the issuance of mortgage bonds and covered bonds is given hereafter:

Thousand euro

| LTV ratio by type of security. Eligible loans for the issue of mortgage bonds and covered bonds | | |
|---|---|---|
| | 2019 | 2018 |
| **Secured on residential property** | **25,411,025** | **24,114,006** |
| *Of which LTV <= 40%* | *7,362,006* | *7,235,411* |
| *Of which LTV 40%-60%* | *9,237,433* | *8,690,528* |
| *Of which LTV 60%-80%* | *8,811,586* | *8,188,067* |
| *Of which LTV > 80%* | - | - |
| | | - |
| **Secured on other property** | **5,975,809** | **6,018,625** |
| *Of which LTV <= 40%* | *3,510,121* | *3,568,263* |
| *Of which LTV 40%-60%* | *2,465,688* | *2,450,362* |
| *Of which LTV > 60%* | - | - |

Changes during 2019 and 2018 in the nominal values of mortgage loans that secure issues of mortgage bonds and covered bonds (eligible and non-eligible) are as follows:

Thousand euro

| Changes in nominal values of mortgage loans | | |
|---|---|---|
| | **Eligible** | **Ineligible** |
| **Balance as at 31 December 2017** | **28,781,826** | **15,943,345** |
| **Derecognised during the year** | **(5,853,849)** | **(5,414,693)** |
| Terminations at maturity | (2,137,409) | (354,755) |
| Early terminations | (1,197,883) | (627,906) |
| Subrogations by other entities | (26,166) | (8,384) |
| Derecognised due to securitisations | - | - |
| Rest | (2,492,391) | (4,423,648) |
| **Additions during the year** | **7,204,654** | **3,183,840** |
| Originated by the institution | 3,977,513 | 1,453,187 |
| Subrogations by other entities | 96,087 | 10,726 |
| Rest | 3,131,054 | 1,719,927 |
| **Balance as at 31 December 2018** | **30,132,631** | **13,712,492** |
| **Derecognised during the year** | **(4,405,522)** | **(3,913,259)** |
| Terminations at maturity | (2,433,595) | (283,965) |
| Early terminations | (1,032,207) | (285,039) |
| Subrogations by other entities | (11,474) | (2,836) |
| Derecognised due to securitisations | (928,246) | (3,341,419) |
| Rest | - | - |
| **Additions during the year** | **5,659,725** | **1,679,291** |
| Originated by the institution | 4,243,046 | 1,370,201 |
| Subrogations by other entities | 13,999 | 6,849 |
| Rest | 1,402,680 | 302,241 |
| **Balance as at 31 December 2019** | **31,386,834** | **11,478,524** |

## 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 | 2019 | 2018 |
|---|---|---|
| **Covered bonds issued** | **21,429,687** | **22,353,833** |
| *Of which: Not reflected under liabilities on the balance sheet* | *10,927,900* | *10,727,900* |
| **Debt securities. Issued through public offering** | **6,200,000** | **6,200,000** |
| Time to maturity up to one year | 1,750,000 | - |
| Time to maturity from one to two years | 1,350,000 | 1,750,000 |
| Time to maturity from two to three years | - | 1,350,000 |
| Time to maturity from three to five years | 2,000,000 | 1,000,000 |
| Time to maturity from five to ten years | 1,100,000 | 2,100,000 |
| Time to maturity more than ten years | - | - |
| **Debt securities. Other issues** | **13,653,000** | **14,053,000** |
| Time to maturity up to one year | 5,380,000 | 3,150,000 |
| Time to maturity from one to two years | 3,000,000 | 5,380,000 |
| Time to maturity from two to three years | 1,695,000 | 3,000,000 |
| Time to maturity from three to five years | 1,938,000 | 783,000 |
| Time to maturity from five to ten years | 1,640,000 | 1,740,000 |
| Time to maturity more than ten years | - | - |
| **Deposits** | **1,576,687** | **2,100,833** |
| Time to maturity up to one year | 145,833 | 524,146 |
| Time to maturity from one to two years | 300,000 | 145,833 |
| Time to maturity from two to three years | 694,444 | 300,000 |
| Time to maturity from three to five years | 100,000 | 794,444 |
| Time to maturity from five to ten years | 336,410 | 336,410 |
| Time to maturity more than ten years | - | - |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Nominal value (thousand euro) | Average residual maturity (years) | Nominal value (thousand euro) | Average residual maturity (years) |
| **Mortgage transfer certificates** | **6,505,016** | **22** | **7,126,535** | **23** |
| Issued through public offering | - | - | - | - |
| Other issues | 6,505,016 | 22 | 7,126,535 | 23 |
| | | | - | - |
| **Participation mortgages** | **2,333,714** | **12** | **2,737,340** | **13** |
| Issued through public offering | - | - | - | - |
| Other issues | 2,333,714 | 12 | 2,737,340 | 13 |

Banco de Sabadell, S.A.'s overcollateralisation ratio (the nominal value of the full mortgage lending portfolio backing the issuance of covered bonds, divided by the nominal value of issued covered bonds) stood at 200% as at 31 December 2019 (196% as at 31 December 2018).

As required by Royal Decree 716/2009, implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market and other matters relating to mortgage lending, the Board of Directors represents that it is responsible for ensuring that the institution has a set of policies and procedures in place to assure compliance with mortgage market regulations.

In line with these policies and procedures related to the Group's mortgage market activities, the Board of Directors is responsible for ensuring compliance with mortgage market regulations and for implementing the Group's risk management and control procedures (see Note 3.3 "General Principles of Risk Management"). In terms of credit risk, in particular, the Board of Directors confers powers and discretions to the Delegated Committee, which then sub-delegates authority to the various decision-making levels. The internal procedures set up to handle the origination and monitoring of assets that make up the Group's lending and particularly those secured by mortgages, which back the Group's covered bond issues, are described in detail below for each type of loan applicant.

Retail customers

Loans to retail customers are approved and decided on using the credit scoring tools described in Note 3.4.2.2 "Risk management models". Where necessary, these tools are complemented with the work of a risk analyst, who carries out more in-depth studies of supplementary materials and reports. Furthermore, a series of other information and parameters are considered, such as the consistency of customers' applications and how well their requested products match their repayment possibilities; customers' ability to pay based on their current and future circumstances; the value of the property provided as security for the loan (as determined by an appraisal carried out by a valuation firm authorised by Bank of Spain and which the institution's own internal approval processes will, additionally, have shown to be free of any association with the Group); the availability of any additional guarantees; examinations of internal and external databases of defaulters, etc.

One aspect of the decision-making process involves establishing the maximum amount of the loan, based on the appraisal value of the assets pledged as guarantees as well as the purchase value, if that is the purpose of the loan. As a general rule, under internal Group policies, the maximum amount of the loan relative to the appraisal value or the purchase value, whichever is lower, is applicable to purchases by individuals of properties for use as their primary residence and is fixed at 80%. This provides an upper limit below which a range of other maximum ratios of less than 80% are set, having regard to the purpose of the loan.

A further step that must be taken before an application can be decided upon is to review all charges and liens associated with the property on which the loan is to be secured and also any insurance taken out to cover the security. Once a loan application has been approved, the mortgage must be registered with the Property Registry as part of the formalities for arranging the loan.

Concerning approval discretions, the credit scoring tools are the main reference for determining the feasibility of the transaction. Where the loan being sought is above a certain amount, or where factors are present that are not readily captured by a credit scoring procedure, a risk analyst will be involved. The limit for each discretion is based on credit scores and the amount of the transaction/risk of the customer, with additional conditions being specified at each level to determine when special intervention is required. A list of exceptions has been drawn up, based on the particular circumstances of the borrower and the transaction, and these exceptions are covered in the Group's internal rules and procedures.

As mentioned in Note 3.4.2.2 "Risk management models", the Group has a comprehensive monitoring system in place which uses early warning tools that enable the early detection of borrowers that could be predisposed to compliance issues. A key part of this process consists of well-established procedures to review and validate the guarantees given.

**Corporates unrelated to construction and/or real estate development**

Analyses and decisions concerning the approval of risks (lending and guarantees) are based on rating tools and "basic risk management teams", formed by one person from the business side and one from the risks side at different decision-making levels, both described in Note 3.4.2.2 “Risk management models”. A range of other data and parameters are also taken into account, such as the consistency of the application, ability to pay and the nature of the security provided (as determined by an appraisal carried out by a Bank of Spain-authorised valuation firm which Banco Sabadell's own approval processes will, additionally, have shown to be free of any association with the Group) and considering any supplementary guarantees, the "fit" between the company's working capital and its total sales; the appropriateness of the total amount borrowed from the Group based on the business's capital strength, examinations of internal and external databases of defaulters, etc.

Reviews of charges and liens associated with the security provided and the registration of mortgages with the Property Registry are also applicable in this case.

Discretion figures are assigned based on the expected loss on the transaction/customer/risk group and the total risk of the customer or risk group. There are several levels in the approval process. In each such level there is a “basic management team", one member of which will be on the business side and one on the risk management side. All loan approvals must be the result of a joint decision. As with retail customers, a set of exceptional circumstances has been specified for borrowers and sectors, and these are provided for in the Group's internal procedures.

As in the case of retail customers, transactions are monitored using early warning tools. There are also procedures to ensure that the securities and guarantees provided are constantly being reviewed and validated.

**Corporates engaging in construction and/or real estate development**

The Bank’s management of real estate assets is covered by the Strategy and Risk Management Division and management of real estate developer loans are the remit of the Real Estate Development Financing Division. These divisions are organisationally structured to focus on the specialised management of assets of this type 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 Bank’s Assets and Investees Risk Division, part of the Risk Management Division.

Risk assessments are carried out by teams of specialised analysts who operate in conjunction with the Real Estate Development Financing Divisions to ensure that a risk management perspective is combined with a view based on direct contact with customers.

Factors influencing the decision include an assessment of both the developer and the project together with a series of other supplementary considerations such as the financial position and net worth of the developer, revenue and cash flow projections, any business plans relating to the project and, most particularly, an in-depth analysis of the current risk situation, which may cover the finished development, plots or land or other developments.

There is a scale of maximum LTV ratios defined internally by the Group based on the purpose of the financing, quality of the developer and an internal appraisal of the development.

Decision-making powers and discretions are assigned according to the specific types of portfolios handled within this business segment, which may be related to new projects, sales, purchases or action plans. All these different circumstances are provided for in internal rules and procedures.

Loans are subject to the kind of continuous monitoring that asset management necessarily implies. For completed developments, monitoring will focus on sales or rental figures; for developments under construction, the progress of the work. A system of continuous control is established to check that commitments are being adhered to and, as with non-real estate businesses, procedures are in place for the continuous review and validation of the guarantees provided.

### Other matters

Banco Sabadell Group is an active participant in capital markets and has a number of funding programmes in operation (see section on "Funding strategy and evolution of liquidity in 2019" in note 3). As one element of the Group's funding strategy, Banco de Sabadell, S.A. is an issuer of covered bonds. Covered bond issues are backed by the Bank's portfolio of mortgage loans granted by the issuer that meet the eligibility criteria defined in Royal Decree 716/2009 regulating the mortgage market and other standards of the financial mortgages system in Spain. The Group has control procedures in place to monitor its entire portfolio of mortgage loans and credit (one of which involves keeping special accounting records of all mortgage loans and credit – and any assets that replace them – used to back issues of covered bonds and mortgage bonds, as well as records of any associated financial derivatives). There are also procedures in place to verify that all loans meet the eligibility criteria for use as collateral in issues of covered bonds, and to ensure that bond issues are kept within their maximum limits at all times. These procedures are all regulated by current mortgage market regulations.

## Schedule IV – Information on issuers of public sector covered bonds and on the special accounting register of public sector covered bonds

Details of the data from the special accounting register of public sector covered bonds of the issuing entity Banco Sabadell, referred to in the sole additional provision of Royal Decree 579/2014, required by Bank of Spain Circular 4/2015, are given below:

### A) Asset-side transactions

Details of the aggregate nominal values of loans and credit with general governments as at 31 December 2019 which are used as collateral for issuances, their eligibility and the extent to which they qualify as eligible collateral for public sector covered bonds are presented in the following table:

Thousand euro

| | 2019 | | |
|---|---|---|---|
| | Total | Residents in Spain | Residents in other countries of the Economic Area |
| Central governments | 217,896 | 217,896 | - |
| Regional governments or governments in autonomous communities | 2,396,736 | 2,396,736 | - |
| Local governments | 1,120,276 | 1,120,276 | - |
| Social Security Trust Funds | - | - | - |
| **Total loans and credit portfolio** | **3,734,908** | **3,734,908** | **-** |

Thousand euro

| | 2018 | | |
|---|---|---|---|
| | Total | Residents in Spain | Residents in other countries of the Economic Area |
| Central governments | 142,683 | 142,683 | - |
| Regional governments or governments in autonomous communities | 1,436,589 | 1,436,589 | - |
| Local governments | 1,036,998 | 1,036,998 | - |
| Social Security Trust Funds | - | - | - |
| **Total loans and credit portfolio** | **2,616,270** | **2,616,270** | **-** |

B) Liability-side transactions

Information on issuances carried out and collateralised using the Bank's portfolio of loans and credit with general governments is provided in the following table, disclosed by residual maturity and according to whether the sale was by public offering or otherwise:

Thousand euro

| Nominal value | 2019 | 2018 |
|---|---|---|
| **Public sector covered bonds issued** | **1,600,000** | **1,200,000** |
| *Of which: Not reflected under liabilities on the balance sheet* | - | - |
| **Issued through public offering** | **-** | **-** |
| Time to maturity up to one year | - | - |
| Time to maturity from one to two years | - | - |
| Time to maturity from two to three years | - | - |
| Time to maturity from three to five years | - | - |
| Time to maturity from five to ten years | - | - |
| Time to maturity more than ten years | - | - |
| **Other issues** | **1,600,000** | **1,200,000** |
| Time to maturity up to one year | - | 400,000 |
| Time to maturity from one to two years | - | - |
| Time to maturity from two to three years | 400,000 | - |
| Time to maturity from three to five years | 800,000 | - |
| Time to maturity from five to ten years | 400,000 | 800,000 |
| Time to maturity more than ten years | - | - |

The overcollateralisation ratio (the aggregate nominal value of the portfolio of loans and credit to general governments backing the issue of public sector covered bonds divided by the nominal value of issued public sector covered bonds) for Banco de Sabadell, S.A. stood at 233% as at 31 December 2019 (218% as at 31 December 2018).

As required by Royal Decree 579/2014, the Board of Directors represents that it is responsible for ensuring that the institution has a set of policies and procedures in place relating to the activities for the financing of public entities to assure compliance with regulations governing the issuance of these securities (see Note 3 "Risk management").

In terms of credit risk, in particular, the Board of Directors confers powers and discretions to the Delegated Committee, which then sub-delegates authority to the various decision-making levels. Internal procedures are in place to handle the origination and monitoring of the assets that make up the Group's loans and receivables and particularly assets with public entities, which back the Group's issues of public sector covered bonds.

# Schedule V – Details of outstanding issues and subordinate liabilities of the Group

## Debt securities issued

The breakdown of the Bank's issues as at 31 December 2019 and 2018 is as follows:

Thousand euro

| Issuer | Date of issue | Amount 31/12/2019 | Amount 31/12/2018 | Interest rate ruling as at 31/12/2019 | Maturity/call date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|
| Banco Gallego, S.A. (*) | 28/10/2013 | - | 186 | 2.00% | 29/12/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 10/03/2014 | 324 | 1,049 | EURIBOR 6M + 3,50 | 10/03/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/03/2014 | - | 5,000 | EURIBOR 3M + 1,35 | 18/03/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/03/2014 | - | 11,500 | EURIBOR 3M + 1,65 | 18/03,2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/05/2014 | 461 | 1,354 | 4.42% | 10/05/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/05/2014 | 609 | 1,828 | EURIBOR 6M + 3,50 | 10/05/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 13/05/2014 | - | 20,000 | EURIBOR 3M + 0,90 | 13/05/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/06/2014 | 261 | 871 | EURIBOR 6M + 2,75 | 10/06/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/06/2014 | 284 | 940 | EURIBOR 6M + 3,00 | 10/06/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 27/06/2014 | - | 20,000 | EURIBOR 3M + 0,85 | 27/06/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/07/2014 | 401 | 802 | EURIBOR 6M + 2,75 | 10/07/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/08/2014 | 766 | 1,572 | EURIBOR 6M + 2,75 | 10/08/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/10/2014 | 462 | 924 | EURIBOR 6M + 2,35 | 10/10/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/11/2014 | 842 | 1,684 | EURIBOR 6M + 2,35 | 10/11/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/12/2014 | 789 | 1,940 | EURIBOR 6M + 2,35 | 10/12/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 05/12/2016 | 500,000 | 500,000 | 0.65% | 05/03/2020 | Euros | Retail |
| Banco de Sabadell, S.A. | 12/12/2016 | - | 15,000 | MAX(EURIBOR 3M; 0,5%) | 12/12/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 07/03/2017 | - | 591,066 | 0.40% | 07/03/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 24/04/2017 | - | 342,017 | 0.40% | 24/04/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 21/06/2017 | - | 464,764 | 0.40% | 21/06/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 03/07/2017 | 10,000 | 10,000 | MAX(EURIBOR 3M + 0,30; 0,3%) | 04/07/2022 | Euros | Retail |
| Banco de Sabadell, S.A. | 28/07/2017 | 26,800 | 26,800 | MAX(EURIBOR 3M; 0,60%) | 28/07/2022 | Euros | Retail |
| Banco de Sabadell, S.A. | 28/09/2017 | 10,000 | 10,000 | MAX(EURIBOR 3M + 0,30; 0,3%) | 28/09/2022 | Euros | Retail |
| Banco de Sabadell, S.A. | 05/12/2017 | 1,000,000 | 1,000,000 | 0.88% | 05/03/2023 | Euros | Institutional |
| Banco de Sabadell, S.A. | 26/02/2018 | 4,000 | 4,000 | MAX(EURIBOR 3M; 0,4%) | 27/02/2023 | Euros | Retail |
| Banco de Sabadell, S.A. | 16/03/2018 | 6,000 | 6,000 | MAX(EURIBOR 3M; 0,67%) | 17/03/2025 | Euros | Retail |
| Banco de Sabadell, S.A. | 03/04/2018 | 6,000 | 6,000 | MAX(EURIBOR 3M; 0,4%) | 03/04/2023 | Euros | Retail |
| Banco de Sabadell, S.A. | 31/05/2018 | 3,000 | 3,000 | MAX(EURIBOR 3M; 0,3%) | 31/05/2023 | Euros | Retail |
| Banco de Sabadell, S.A. | 07/09/2018 | 750,000 | 750,000 | 1.63% | 07/03/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 14/11/2018 | 1,000 | 1,000 | MAX(EURIBOR 3M; 1,1%) | 14/11/2023 | Euros | Retail |
| Banco de Sabadell, S.A. | 14/11/2018 | 2,500 | 2,500 | MAX(EURIBOR 3M; 1,5%) | 14/11/2025 | Euros | Retail |
| Banco de Sabadell, S.A. | 28/03/2019 | 601,415 | - | 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 | - | 1.75% | 10/05/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 22/07/2019 | 1,000,000 | - | 0.88% | 22/07/2025 | Euros | Institutional |
| Banco de Sabadell, S.A. | 27/09/2019 | 500,000 | - | 1.13% | 27/03/2025 | Euros | Institutional |
| Banco de Sabadell, S.A. (**) | 07/11/2019 | 500,000 | - | 0.63% | 07/11/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 15/11/2019 | 120,000 | - | MAX(0%; EURIBOR 3M+0,6%) | 15/05/2024 | Euros | Institutional |
| Subscribed by Group companies | | (34,202) | (10,700) | | | | |
| **Total straight bonds** | | **6,311,712** | **3,791,097** | | | | |

(*) Company merged with Banco Sabadell.

(**) "Maturity/call date" refers to the first call date.

Thousand euro

| Issuer | Date of issue | Amount 31/12/2019 | Amount 31/12/2018 | Interest rate ruling as at 31/12/2019 | 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. | 20/12/2012 | - | 3,000 | ref . underlying assets | 20/12/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 27/05/2014 | - | 5,000 | ref . underlying assets | 27/05/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 14/07/2014 | 10,000 | 10,000 | ref . underlying assets | 15/07/2024 | Euros | Retail |
| Banco de Sabadell, S.A. | 14/07/2014 | 3,000 | 3,000 | ref . underlying assets | 14/07/2021 | Euros | Retail |
| Banco de Sabadell, S.A. | 16/07/2014 | - | 5,000 | ref . underlying assets | 16/07/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 24/07/2014 | - | 4,000 | ref . underlying assets | 24/07/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 15/04/2015 | 4,000 | 4,000 | ref . underlying assets | 15/04/2020 | Euros | Retail |
| Banco de Sabadell, S.A. | 06/07/2015 | 1,300 | 1,800 | ref . underlying assets | 06/07/2020 | Euros | Retail |
| Banco de Sabadell, S.A. | 01/06/2016 | - | 6,000 | ref . underlying assets | 03/06/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 17/06/2016 | - | 75,000 | ref . underlying assets | 17/06/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 21/06/2016 | - | 8,500 | ref . underlying assets | 21/06/2019 | Euros | Retail |
| Banco de Sabadell, S.A. | 30/11/2016 | 45,000 | 45,000 | ref . underlying assets | 30/11/2021 | Euros | Retail |
| Banco de Sabadell, S.A. | 05/11/2018 | 10,000 | 10,000 | ref . underlying assets | 01/04/2025 | Euros | Retail |
| Banco de Sabadell, S.A. | 12/11/2018 | 3,200 | 13,200 | ref . underlying assets | 01/04/2025 | Euros | Retail |
| Banco de Sabadell, S.A. | 18/02/2019 | 3,000 | - | ref . underlying assets | 18/02/2022 | Euros | Retail |
| Banco de Sabadell, S.A. | 04/04/2019 | 3,000 | - | ref . underlying assets | 04/10/2022 | Euros | Retail |
| Subscribed by Group companies | | (100) | - | | | | |
| **Total structured bonds** | | **110,400** | **221,500** | | | | |

(*) Company merged with Banco Sabadell.

Thousand euro

| Issuer | Date of issue | Amount 31/12/2019 | Amount 31/12/2018 | Average interest rate 31/12/2019 | Average interest rate 31/12/2018 | Maturity date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|---|
| Banco de Sabadell, S.A. (London office) (*) | 18/12/2015 | 293,333 | 695,373 | -0.16% | -0.07% | Multiple dates | Euros | Institutional |
| Banco de Sabadell, S.A. (**) | 15/03/2018 | 1,612,490 | 5,111,812 | -0.10% | 0.04% | Multiple dates | Euros | Institutional |
| Subscribed by Group companies | | - | - | | | | | |
| **Total commercial paper** | | **1,905,823** | **5,807,185** | | | | | |

(*) Commercial paper (ECP).

(**) Prospectus for 7,000,000 thousand euros, eligible for extension up to 9,000,000 thousand euros, filed with the National Securities Market Commission (CNMV).

Thousand euro

| Issuer | Date of issue | Amount | | Interest rate ruling as at 31/12/2019 | Maturity date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|
| | | 31/12/2019 | 31/12/2018 | | | | |
| Banco de Sabadell, S.A. | 08/05/2009 | 100,000 | 100,000 | EURIBOR 3M + 1 | 08/05/2021 | Euros | Institutional |
| Banco CAM, S.A. (*) | 27/04/2010 | 30,000 | 30,000 | 4.60% | 31/07/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/12/2010 | 150,000 | 150,000 | EURIBOR 3M + 2,35 | 10/12/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 11/01/2011 | - | 100,000 | EURIBOR 3M + 2,60 | 11/01/2019 | Euros | Institutional |
| Banco Guipuzcoano, S.A. (*) | 19/01/2011 | - | 100,000 | EURIBOR 3M + 2,75 | 19/01/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 07/06/2011 | - | 200,000 | EURIBOR 3M + 2,25 | 07/06/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 13/07/2011 | 50,000 | 50,000 | EURIBOR 3M + 2,60 | 13/07/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 12/12/2011 | 150,000 | 150,000 | EURIBOR 3M + 3,10 | 12/12/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 05/10/2012 | 95,000 | 95,000 | EURIBOR 3M + 4,80 | 05/10/2022 | Euros | Institutional |
| Banco de Sabadell, S.A. | 28/12/2012 | 200,000 | 200,000 | EURIBOR 3M + 4,15 | 28/12/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 09/12/2013 | 200,000 | 200,000 | EURIBOR 3M+ 1,60 | 09/12/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 26/09/2014 | 250,000 | 250,000 | EURIBOR 3M + 0,70 | 26/09/2022 | Euros | Institutional |
| Banco de Sabadell, S.A. | 03/10/2014 | 38,000 | 38,000 | EURIBOR 3M + 0,68 | 03/10/2023 | Euros | Institutional |
| Banco de Sabadell, S.A. | 12/11/2014 | 1,350,000 | 1,350,000 | 0.88% | 12/11/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 05/12/2014 | 100,000 | 100,000 | EURIBOR 3 M + 0,40 | 05/12/2022 | Euros | Institutional |
| Banco de Sabadell, S.A. | 29/01/2015 | - | 1,250,000 | EURIBOR 12 M + 0,232 | 29/01/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 23/04/2015 | - | 1,500,000 | EURIBOR 12 M + 0,08 | 23/04/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 04/05/2015 | 250,000 | 250,000 | EURIBOR 3 M + 0,13 | 04/05/2023 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/06/2015 | 750,000 | 750,000 | 0.38% | 10/06/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/06/2015 | 1,500,000 | 1,500,000 | EURIBOR 12 M + 0,05 | 18/06/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 03/07/2015 | 50,000 | 50,000 | EURIBOR 3 M + 0,20 | 03/07/2023 | Euros | Institutional |
| Banco de Sabadell, S.A. | 20/07/2015 | 1,500,000 | 1,500,000 | EURIBOR 12 M + 0,05 | 20/07/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 16/09/2015 | 1,000,000 | 1,000,000 | EURIBOR 12 M + 0,07 | 16/09/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 03/11/2015 | 1,000,000 | 1,000,000 | 0.63% | 03/11/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 26/01/2016 | 550,000 | 550,000 | EURIBOR 3M + 0,80 | 26/01/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 24/05/2016 | 50,000 | 50,000 | EURIBOR 3M + 0,535 | 24/05/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 10/06/2016 | 1,000,000 | 1,000,000 | 0.63% | 10/06/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 20/10/2016 | 1,000,000 | 1,000,000 | 0.13% | 20/10/2023 | Euros | Institutional |
| Banco de Sabadell, S.A. | 21/12/2016 | 500,000 | 500,000 | EURIBOR 12M + 0,27 | 21/12/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 29/12/2016 | 250,000 | 250,000 | 0.97% | 27/12/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 26/04/2017 | 1,100,000 | 1,100,000 | 1.00% | 26/04/2027 | Euros | Institutional |
| Banco de Sabadell, S.A. | 21/07/2017 | 500,000 | 500,000 | 0.89% | 21/07/2025 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/12/2018 | 1,000,000 | 1,000,000 | EURIBOR 12M + 0,027 | 18/09/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/12/2018 | 1,000,000 | 1,000,000 | EURIBOR 12M + 0,085 | 18/06/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/12/2018 | 1,000,000 | 1,000,000 | EURIBOR 12M + 0,086 | 18/07/2021 | Euros | Institutional |
| Banco de Sabadell, S.A. | 21/12/2018 | 390,000 | 390,000 | 1.09% | 21/12/2026 | Euros | Institutional |
| Banco de Sabadell, S.A. | 30/01/2019 | 1,250,000 | - | EURIBOR 12M + 0,130 | 30/01/2022 | Euros | Institutional |
| Banco de Sabadell, S.A. | 20/12/2019 | 750,000 | - | EURIBOR 12M + 0,074 | 20/12/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 20/12/2019 | 750,000 | - | EURIBOR 12M + 0,104 | 22/12/2025 | Euros | Institutional |
| Subscribed by Group companies | | (10,927,900) | (10,727,900) | | | | |
| **Total covered bonds** | | **8,925,100** | **9,525,100** | | | | |

(*) Companies merged with Banco Sabadell.

Thousand euro

| Issuer | Date of issue | Amount 31/12/2019 | Amount 31/12/2018 | Interest rate ruling as at 31/12/2019 | Maturity date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|
| Banco de Sabadell, S.A. | 16/12/2015 | - | 400,000 | EURIBOR 12M + 0,33 | 16/12/2019 | Euros | Institutional |
| Banco de Sabadell, S.A. | 18/12/2018 | 800,000 | 800,000 | EURIBOR 12M + 0,242 | 18/12/2024 | Euros | Institutional |
| Banco de Sabadell, S.A. | 16/12/2019 | 400,000 | - | 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) | (1,200,000) | | | | |
| **Total public sector covered bonds** | | - | - | | | | |

## Subordinated liabilities

Subordinated liabilities issued by the Bank as at 31 December 2019 and 2018 are as follows:

Thousand euro

| Issuer | Date of issue | Amount 31/12/2019 | Amount 31/12/2018 | Interest rate ruling as at 31/12/2019 | Maturity/call date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|
| Banco de Sabadell, S.A. | 26/04/2010 | 424,600 | 424,600 | 6.250% | 26/04/2020 | Euros | Institutional |
| Banco de Sabadell, S.A. | 06/05/2016 | 500,000 | 500,000 | 5.625% | 06/05/2026 | Euros | Institutional |
| Banco de Sabadell, S.A. (*) | 12/12/2018 | 500,000 | 500,000 | 5.375% | 12/12/2023 | Euros | Institutional |
| **Total subordinated bonds** | | **1,424,600** | **1,424,600** | | | | |

(*) Subordinated 10-year issue. "Maturity/call date" refers to the first call date.

Thousand euro

| Issuer | Date of issue | Amount 31/12/2019 | Amount 31/12/2018 | Interest rate ruling as at 31/12/2019 | Maturity/call date | Issue currency | Target of offering |
|---|---|---|---|---|---|---|---|
| Banco de Sabadell, S.A. (*) | 18/05/2017 | 750,000 | 750,000 | 6.500% | 5/18/2022 | Euros | Institutional |
| Banco de Sabadell, S.A. (*) | 23/11/2017 | 400,000 | 400,000 | 6.125% | 11/23/2022 | Euros | Institutional |
| **Total preference shares** | | **1,150,000** | **1,150,000** | | | | |

(*) Perpetual issue. "Maturity/call date" refers to the first call date.

## Schedule VI – Other risk information

### Credit risk exposure

#### Loans and advances to customers broken down by activity and type of guarantee

The breakdown of the heading "*Loans and advances – Customers*" by activity and guarantee, excluding advances not classed as loans, as at 31 December 2019 and 2018, respectively, is as follows:

Thousand euro

| | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Collateralised loans. Carrying amount based on last available valuation. Loan to value | | | | |
| | TOTAL | Of which: secured with real estate | Of which: secured with other collateral | Less than or equal to 40% | Over 40% and less than or equal to 60% | Over 60% and less than or equal to 80% | Over 80% and less than or equal to 100% | Over 100% |
| **General governments** | **10,506,959** | **44,388** | **6,425** | **14,233** | **22,478** | **2,709** | **2,078** | **9,315** |
| **Other financial corporations and individual entrepreneurs (financial business activity)** | **3,664,564** | **344,807** | **78,294** | **108,691** | **229,186** | **43,595** | **38,885** | **2,744** |
| **Non-financial corporations and individual entrepreneurs (non-financial business activity)** | **57,697,277** | **14,025,651** | **6,483,102** | **5,893,052** | **5,818,632** | **3,349,505** | **2,611,993** | **2,835,571** |
| Construction and real estate development (including | 5,824,878 | 2,179,030 | 488,858 | 644,585 | 948,304 | 501,271 | 218,030 | 355,698 |
| Civil engineering construction | 802,154 | 40,038 | 62,699 | 21,440 | 24,486 | 10,919 | 7,419 | 38,473 |
| Other purposes | **51,070,245** | **11,806,583** | **5,931,545** | **5,227,027** | **4,845,842** | **2,837,315** | **2,386,544** | **2,441,400** |
| Large enterprises | 22,718,957 | 1,051,555 | 1,325,857 | 442,348 | 569,925 | 447,028 | 527,682 | 390,429 |
| SMES and individual entrepreneurs | 28,351,288 | 10,755,028 | 4,605,688 | 4,784,679 | 4,275,917 | 2,390,287 | 1,858,862 | 2,050,971 |
| **Rest of households** | **39,307,733** | **35,148,531** | **400,652** | **6,986,195** | **9,040,235** | **10,474,969** | **4,623,554** | **4,424,230** |
| Home loans | 34,337,672 | 33,788,899 | 38,639 | 6,486,329 | 8,621,543 | 10,129,656 | 4,429,255 | 4,160,755 |
| For consumption | 1,957,424 | 69,021 | 237,199 | 49,663 | 47,006 | 60,144 | 48,829 | 100,578 |
| Other purposes | 3,012,637 | 1,290,611 | 124,814 | 450,203 | 371,686 | 285,169 | 145,470 | 162,897 |
| **TOTAL** | **111,176,533** | **49,563,377** | **6,968,473** | **13,002,171** | **15,110,531** | **13,870,778** | **7,276,510** | **7,271,860** |
| **MEMORANDUM ITEM Forbearance (refinanced and restructured loans)** | 3,222,089 | 2,012,663 | 334,952 | 413,740 | 427,617 | 456,565 | 363,070 | 686,623 |

Thousand euro

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | 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** | **10,885,926** | **44,363** | **17,374** | **12,359** | **19,416** | **8,266** | **6,974** | **14,722** |
| **Other financial corporations and individual entrepreneurs (financial business activity)** | **4,514,450** | **238,664** | **35,255** | **77,154** | **149,924** | **20,534** | **3,324** | **22,983** |
| **Non-financial corporations and individual entrepreneurs (non-financial business activity)** | **58,272,779** | **14,629,743** | **5,256,802** | **5,592,133** | **5,532,755** | **3,664,224** | **1,795,977** | **3,301,456** |
| Construction and real estate development (including | 6,767,648 | 2,365,582 | 625,018 | 703,728 | 976,500 | 493,501 | 329,450 | 487,421 |
| Civil engineering construction | 849,482 | 47,165 | 62,442 | 24,425 | 20,619 | 16,757 | 10,909 | 36,897 |
| Other purposes | 50,655,649 | 12,216,996 | 4,569,342 | 4,863,980 | 4,535,636 | 3,153,966 | 1,455,618 | 2,777,138 |
| Large enterprises | 23,344,167 | 1,177,631 | 1,010,788 | 494,926 | 417,643 | 314,856 | 233,190 | 727,804 |
| SMES and individual entrepreneurs | 27,311,482 | 11,039,365 | 3,558,554 | 4,369,054 | 4,117,993 | 2,839,110 | 1,222,428 | 2,049,334 |
| **Rest of households** | **39,455,810** | **34,560,299** | **438,062** | **6,825,753** | **8,712,439** | **9,649,229** | **4,728,325** | **5,082,615** |
| Home loans | 33,750,760 | 33,174,392 | 44,107 | 6,322,059 | 8,280,785 | 9,318,350 | 4,532,574 | 4,764,731 |
| For consumption | 2,616,372 | 75,302 | 248,775 | 45,414 | 42,355 | 49,834 | 62,439 | 124,035 |
| Other purposes | 3,088,678 | 1,310,605 | 145,180 | 458,280 | 389,299 | 281,045 | 133,312 | 193,849 |
| **TOTAL** | **113,128,965** | **49,473,069** | **5,747,493** | **12,507,399** | **14,414,534** | **13,342,253** | **6,534,600** | **8,421,776** |
| **MEMORANDUM ITEM Forbearance (refinanced and restructured loans)** | 3,820,979 | 2,429,170 | 387,204 | 453,285 | 478,979 | 524,743 | 434,526 | 924,842 |

In terms of risks with LTV >80%, these mainly correspond to transactions from acquired institutions or business operations in which, as a supplement to the valuation of the operation, a mortgage guarantee is available to cover that operation. Similarly, there are other additional reasons for approval, which mainly correspond to solvent borrowers with a proven payment capacity, as well as customers with a good profile who contribute guarantees (personal guarantees and/or pledges) which are additional to the mortgage guarantees already considered in the LTV ratio.

The outstanding balance of forborne and restructured loans as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Credit institutions** | **General governments** | **Other financial corporations and individual entrepreneurs (financial business activity)** | **Non-financial corporations and individual entrepreneurs (non-financial business activity)** | ***Of which: lending for construction and real estate development (including land)*** | **Rest of households** | **Total** | **Additional information: lending included under non-current assets and disposal groups classified as held for sale** |
| **TOTAL** | | | | | | | | |
| **Not secured with collateral** | | | | | | | | |
| Number of transactions | - | 12 | 148 | 17,697 | *432* | 28,123 | **45,980** | - |
| Gross carrying amount | - | 9,468 | 7,405 | 1,232,016 | *126,152* | 311,190 | **1,560,079** | - |
| **Secured with collateral** | | | | | | | | |
| Number of transactions | - | 3 | 20 | 8,567 | *609* | 11,687 | **20,277** | - |
| Gross carrying amount | - | 914 | 21,732 | 1,419,407 | *235,982* | 1,212,694 | **2,654,747** | - |
| **Impairment allowances** | - | 1,306 | 10,407 | 732,821 | *118,765* | 248,203 | **992,737** | - |
| ***Of which, non-performing loans*** | | | | | | | | |
| **Not secured with collateral** | | | | | | | | |
| Number of transactions | - | 12 | 40 | 10,650 | *321* | 14,028 | **24,730** | - |
| Gross carrying amount | - | 9,468 | 761 | 835,345 | *118,037* | 178,000 | **1,023,574** | - |
| **Secured with collateral** | | | | | | | | |
| Number of transactions | - | 3 | 15 | 6,104 | *452* | 7,939 | **14,061** | - |
| Gross carrying amount | - | 914 | 13,821 | 871,909 | *135,262* | 822,923 | **1,709,567** | - |
| **Impairment allowances** | - | 1,306 | 10,335 | 645,764 | *113,549* | 226,364 | **883,769** | - |
| **TOTAL** | | | | | | | | |
| Number of transactions | - | 15 | 168 | 26,264 | *1,041* | 39,810 | **66,257** | - |
| Gross amount | - | 10,382 | 29,137 | 2,651,423 | *362,134* | 1,523,884 | **4,214,826** | - |
| Impairment allowances | - | 1,306 | 10,407 | 732,821 | *118,765* | 248,203 | **992,737** | - |

Thousand euro

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | - | 15 | 160 | 16,299 | *494* | 27,630 | **44,104** | - |
| Gross carrying amount | - | 10,731 | 30,899 | 1,461,199 | *208,101* | 297,512 | **1,800,341** | - |
| **Secured with collateral** | | - | - | - | - | - | **-** | |
| Number of transactions | - | 4 | 22 | 11,064 | *1,125* | 15,308 | **26,398** | - |
| Gross carrying amount | - | 9,670 | 23,371 | 1,633,150 | *343,669* | 1,479,090 | **3,145,281** | - |
| **Impairment allowances** | - | 5,179 | 10,921 | 827,628 | *190,497* | 280,913 | **1,124,642** | - |
| ***Of which, non-performing loans*** | | - | - | - | - | - | **-** | - |
| **Not secured with collateral** | | - | - | - | - | - | **-** | |
| Number of transactions | - | 14 | 35 | 8,374 | *354* | 12,008 | **20,431** | - |
| Gross carrying amount | - | 10,634 | 853 | 841,599 | *167,335* | 164,690 | **1,017,776** | - |
| **Secured with collateral** | | - | - | - | - | - | **-** | |
| Number of transactions | - | 4 | 13 | 6,450 | *798* | 7,742 | **14,209** | - |
| Gross carrying amount | - | 9,670 | 14,234 | 984,252 | *237,189* | 807,651 | **1,815,807** | - |
| **Impairment allowances** | - | 5,179 | 10,843 | 693,989 | *182,027* | 251,024 | **961,035** | - |
| | | - | - | - | - | - | | |
| **TOTAL** | | | | | | | | |
| Number of transactions | - | 19 | 182 | 27,363 | *1,619* | 42,938 | **70,502** | - |
| Gross amount | - | 20,401 | 54,270 | 3,094,349 | 551,770 | 1,776,602 | **4,945,622** | - |
| Impairment allowances | - | 5,179 | 10,921 | 827,628 | *190,497* | 280,913 | **1,124,642** | - |

The values of the guarantees received to ensure collection associated with forborne transactions, broken down into collateral and other guarantees, as at 31 December 2019 and 2018, are as follows:

Thousand euro

| Guarantees received | 2019 | 2018 |
|---|---|---|
| Value of collateral | 2,254,070 | 2,660,184 |
| *Of which: securing Stage 3 loans* | *1,360,675* | *1,396,908* |
| Value of other guarantees | 439,979 | 473,670 |
| *Of which: securing Stage 3 loans* | *225,382* | *223,047* |
| **Total value of guarantees received** | **2,694,049** | **3,133,854** |

Detailed movements of the balance of forborne and restructured loans during 2019 and 2018 are as follows:

Thousand euro

| | 2019 | 2018 |
|---|---|---|
| Opening balance | 4,945,622 | 6,455,003 |
| (+) Forbearance (refinancing and restructuring) in the period | 917,744 | 1,078,757 |
| *Memorandum item: impact recognised on the income statement for the period* | *105,176* | *161,998* |
| (-) Debt amortisations | (821,830) | (1,204,717) |
| (-) Foreclosures | (76,111) | (149,948) |
| (-) Derecognised from the balance sheet (reclassified as write-offs) | (141,439) | (308,534) |
| (+)/(-) Other changes (*) | (609,160) | (924,939) |
| **Year-end balance** | **4,214,826** | **4,945,622** |

(*) Includes transactions no longer classified as forborne (refinanced or restructured) loans, as they meet the requirements for their reclassification as performing (Stage 1) as they have completed the cure period.

The table below shows the value of transactions which, after forbearance or restructuring, have been classified as stage 3 exposures during 2019 and 2018:

Thousand euro

| | 2019 (*) | 2018 |
|---|---|---|
| **General governments** | - | - |
| **Other legal entities and individual entrepreneurs** | **139,292** | **173,419** |
| *Of which: Lending for construction and real estate development* | 8,777 | *12,367* |
| **Other natural persons** | **162,700** | **85,517** |
| **Total** | **301,992** | **258,936** |

(*) Includes the impact of the application of Bank of Spain Circular 2/2018, of 21 December, amending item 102 of Circular 4/2017, which establishes a minimum cure period of 1 year for refinancing, refinanced or restructured transactions with amounts over thirty days past due.

The average probability of default on current forborne and restructured loans broken down by activity as at 31 December 2019 and 2018 is as follows:

%

| | 2019 | 2018 |
|---|---|---|
| **General governments (*)** | - | - |
| **Other legal entities and individual entrepreneurs** | 8 | 8 |
| *Of which: Lending for construction and real estate development* | *7* | *7* |
| **Other natural persons** | 9 | 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 September 2019.

The probability of default (PD) of forborne exposures is the same as it was as at 31 December 2018.

## Concentration risk

### Geographical exposure

*Global*

The breakdown of risk concentration by activity and at global level as at 31 December 2019 and 2018 is as follows:

Thousand euro

| | 2019 | | | | |
|---|---|---|---|---|---|
| | TOTAL | Spain | Rest of European Union | Americas | Rest of the world |
| **Central banks and Credit institutions** | **26,774,951** | **10,846,665** | **2,793,176** | **12,919,959** | **215,151** |
| **General governments** | **33,487,341** | **24,184,450** | **895,550** | **8,336,970** | **70,371** |
| Central governments | 27,555,123 | 18,252,315 | 895,550 | 8,336,891 | 70,367 |
| Rest | 5,932,218 | 5,932,135 | - | 79 | 4 |
| **Other financial corporations and individual entrepreneurs** | **8,440,519** | **3,699,800** | **1,599,437** | **3,127,380** | **13,902** |
| **Non-financial corporations and individual entrepreneurs** | **63,366,962** | **52,804,405** | **4,860,151** | **5,201,757** | **500,649** |
| Construction and real estate development | 5,961,862 | 5,951,075 | 5,403 | 5,208 | 176 |
| Civil engineering construction | 901,209 | 864,327 | 9,157 | 27,025 | 700 |
| Other purposes | 56,503,891 | 45,989,003 | 4,845,591 | 5,169,524 | 499,773 |
| Large enterprises | 27,485,574 | 18,582,036 | 4,467,572 | 4,099,027 | 336,939 |
| SMEs and individual entrepreneurs | 29,018,317 | 27,406,967 | 378,019 | 1,070,497 | 162,834 |
| **Rest of households** | **39,457,447** | **36,141,747** | **513,656** | **1,915,400** | **886,644** |
| Home loans | 34,337,672 | 31,432,481 | 184,669 | 1,852,355 | 868,167 |
| For consumption | 1,957,424 | 1,923,700 | 5,534 | 23,158 | 5,032 |
| Other purposes | 3,162,351 | 2,785,566 | 323,453 | 39,887 | 13,445 |
| **TOTAL** | **171,527,220** | **127,677,067** | **10,661,970** | **31,501,466** | **1,686,717** |

Thousand euro

| | 2018 | | | | |
|---|---|---|---|---|---|
| | TOTAL | Spain | Rest of European Union | Americas | Rest of the world |
| **Central banks and Credit institutions** | **25,701,600** | **16,476,692** | **6,777,135** | **2,192,603** | **255,170** |
| | - | - | - | - | - |
| **General governments** | **32,271,664** | **23,235,860** | **7,968,821** | **1,016,000** | **50,983** |
| Central governments | 26,780,070 | 17,749,338 | 7,968,813 | 1,010,936 | 50,983 |
| Rest | 5,491,594 | 5,486,522 | 8 | 5,064 | - |
| | | - | - | - | - |
| **Other financial corporations and individual entrepreneurs** | **9,276,119** | **4,011,644** | **3,302,309** | **1,935,428** | **26,738** |
| **Non-financial corporations and individual entrepreneurs** | **63,296,218** | **54,110,503** | **4,151,372** | **4,617,550** | **416,793** |
| Construction and real estate | 6,910,227 | 6,902,857 | 1,852 | 5,096 | 422 |
| Civil engineering construction | 984,732 | 938,861 | 35,338 | 8,221 | 2,312 |
| Other purposes | 55,401,259 | 46,268,785 | 4,114,182 | 4,604,233 | 414,059 |
| Large enterprises | 27,446,284 | 19,474,395 | 3,524,375 | 4,158,003 | 289,511 |
| SMEs and individual entrepreneurs | 27,954,975 | 26,794,390 | 589,807 | 446,230 | 124,548 |
| **Rest of households** | **39,712,924** | **36,513,444** | **1,877,175** | **514,318** | **807,987** |
| Home loans | 33,750,760 | 30,971,875 | 1,830,481 | 159,959 | 788,445 |
| For consumption | 2,616,372 | 2,580,657 | 26,431 | 4,012 | 5,272 |
| Other purposes | 3,345,792 | 2,960,912 | 20,263 | 350,347 | 14,270 |
| **TOTAL** | **170,258,525** | **134,348,143** | **24,076,812** | **10,275,899** | **1,557,671** |

*By autonomous communities*

The risk concentration broken down by activity and at the level of Spanish autonomous communities as at 31 December 2019 and 2018, respectively, is as follows:

Thousand euro

| | 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | AUTONOMOUS COMMUNITIES | | | | | | | | |
| | **TOTAL** | **Andalusia** | **Aragón** | **Asturias** | **Balearic Islands** | **Canary Islands** | **Cantabria** | **Castilla-La Mancha** | **Castilla y León** | **Catalonia** |
| **Central banks and Credit institutions** | **10,846,665** | **7,867** | **1** | **37** | **23** | **3** | **583,924** | **2** | **35** | **1,992,879** |
| **General governments** | **24,184,450** | **132,854** | **25,109** | **250,550** | **250,242** | **32,135** | **34,779** | **74,523** | **501,109** | **1,167,624** |
| Central governments | 18,252,315 | - | - | - | - | - | - | - | - | - |
| Rest | 5,932,135 | 132,854 | 25,109 | 250,550 | 250,242 | 32,135 | 34,779 | 74,523 | 501,109 | 1,167,624 |
| **Other financial corporations and individual entrepreneurs** | **3,699,800** | **3,787** | **2,355** | **2,421** | **1,428** | **637** | **341** | **440** | **11,940** | **1,061,275** |
| **Non-financial corporations and individual entrepreneurs** | **52,804,405** | **2,331,893** | **931,227** | **1,373,448** | **2,100,640** | **1,355,936** | **239,798** | **596,381** | **1,091,154** | **20,263,663** |
| Construction and real estate | 5,951,075 | 171,660 | 48,722 | 75,378 | 108,053 | 34,809 | 10,878 | 23,736 | 26,938 | 3,722,312 |
| Civil engineering construction | 864,327 | 27,954 | 27,086 | 20,447 | 4,646 | 3,605 | 2,961 | 3,822 | 15,623 | 120,549 |
| Other purposes | 45,989,003 | 2,132,279 | 855,419 | 1,277,623 | 1,987,941 | 1,317,522 | 225,959 | 568,823 | 1,048,593 | 16,420,802 |
| Large enterprises | 18,582,036 | 604,054 | 260,131 | 273,764 | 878,190 | 319,493 | 101,668 | 160,061 | 285,894 | 8,275,759 |
| SMEs and individual entrepreneurs | 27,406,967 | 1,528,225 | 595,288 | 1,003,859 | 1,109,751 | 998,029 | 124,291 | 408,762 | 762,699 | 8,145,043 |
| **Rest of households** | **36,141,747** | **2,401,567** | **467,731** | **1,143,237** | **1,337,628** | **458,748** | **101,100** | **471,042** | **701,640** | **13,768,860** |
| Home loans | 31,432,481 | 2,138,918 | 408,029 | 910,906 | 1,209,170 | 408,467 | 88,012 | 414,746 | 590,642 | 11,911,275 |
| For consumption | 1,923,700 | 108,272 | 23,365 | 83,011 | 51,897 | 26,681 | 3,730 | 21,505 | 37,821 | 758,373 |
| Other purposes | 2,785,566 | 154,377 | 36,337 | 149,320 | 76,561 | 23,600 | 9,358 | 34,791 | 73,177 | 1,099,212 |
| **TOTAL** | **127,677,067** | **4,877,968** | **1,426,423** | **2,769,693** | **3,689,961** | **1,847,459** | **959,942** | **1,142,388** | **2,305,878** | **38,254,301** |

Thousand euro

| | 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | AUTONOMOUS COMMUNITIES | | | | | | | | |
| | **Extremadura** | **Galicia** | **Madrid** | **Murcia** | **Navarra** | **Valencia** | **Basque Country** | **La Rioja** | **Ceuta and Melilla** |
| **Central banks and Credit institutions** | **-** | **3,968** | **7,595,631** | **16** | **180** | **147,804** | **514,295** | **-** | **-** |
| **General governments** | **69,491** | **200,394** | **1,471,969** | **40,956** | **241,551** | **658,006** | **664,432** | **78,261** | **38,150** |
| Central governments | - | - | - | - | - | - | - | - | - |
| Rest | 69,491 | 200,394 | 1,471,969 | 40,956 | 241,551 | 658,006 | 664,432 | 78,261 | 38,150 |
| **Other financial corporations and individual entrepreneurs** | **99** | **5,140** | **2,441,874** | **2,960** | **392** | **146,623** | **18,005** | **83** | **-** |
| **Non-financial corporations and individual entrepreneurs** | **131,737** | **1,982,346** | **10,762,823** | **1,083,501** | **446,937** | **5,632,528** | **2,278,091** | **185,991** | **16,311** |
| Construction and real estate | 2,291 | 59,926 | 1,288,659 | 50,249 | 19,957 | 199,447 | 98,668 | 8,889 | 503 |
| Civil engineering construction | 2,917 | 59,799 | 415,277 | 6,887 | 4,580 | 35,871 | 111,784 | 519 | - |
| Other purposes | 126,529 | 1,862,621 | 9,058,887 | 1,026,365 | 422,400 | 5,397,210 | 2,067,639 | 176,583 | 15,808 |
| Large enterprises | 33,783 | 582,626 | 3,841,865 | 190,226 | 131,421 | 1,665,924 | 926,718 | 50,190 | 269 |
| SMEs and individual entrepreneurs | 92,746 | 1,279,995 | 5,217,022 | 836,139 | 290,979 | 3,731,286 | 1,140,921 | 126,393 | 15,539 |
| **Rest of households** | **113,412** | **704,369** | **4,617,786** | **2,045,833** | **151,428** | **6,399,271** | **1,114,092** | **76,396** | **67,607** |
| Home loans | 99,010 | 567,777 | 4,057,700 | 1,795,629 | 124,869 | 5,600,083 | 987,011 | 56,269 | 63,968 |
| For consumption | 7,320 | 52,513 | 262,783 | 101,978 | 11,199 | 314,554 | 45,004 | 11,811 | 1,883 |
| Other purposes | 7,082 | 84,079 | 297,303 | 148,226 | 15,360 | 484,634 | 82,077 | 8,316 | 1,756 |
| **TOTAL** | **314,739** | **2,896,217** | **26,890,083** | **3,173,266** | **840,488** | **12,984,232** | **4,588,915** | **340,731** | **122,068** |

Thousand euro

| | 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | AUTONOMOUS COMMUNITIES | | | | | | | | |
| | **TOTAL** | **Andalusia** | **Aragón** | **Asturias** | **Balearic Islands** | **Canary Islands** | **Cantabria** | **Castilla-La Mancha** | **Castilla y León** | **Catalonia** |
| **Central banks and Credit institutions** | **16,476,692** | **5,900** | **-** | **-** | **-** | **-** | **442,128** | **-** | **34** | **1,358,147** |
| **General governments** | **23,235,860** | **207,779** | **73,123** | **183,956** | **103,607** | **34,280** | **31,596** | **44,012** | **410,961** | **1,158,369** |
| Central governments | 17,749,338 | - | - | - | - | - | - | - | - | - |
| Rest | 5,486,522 | 207,779 | 73,123 | 183,956 | 103,607 | 34,280 | 31,596 | 44,012 | 410,961 | 1,158,369 |
| **Other financial corporations and individual entrepreneurs** | **4,011,644** | **3,854** | **1,339** | **2,058** | **1,193** | **780** | **315** | **647** | **13,412** | **1,256,105** |
| **Non-financial corporations and individual entrepreneurs** | **54,110,503** | **2,362,132** | **826,119** | **1,278,913** | **1,736,423** | **1,178,540** | **261,756** | **535,999** | **1,146,678** | **20,770,432** |
| Construction and real estate | 6,902,857 | 233,267 | 60,335 | 82,045 | 94,592 | 39,799 | 12,185 | 15,590 | 28,671 | 4,665,782 |
| Civil engineering construction | 938,861 | 27,868 | 28,332 | 14,996 | 5,241 | 2,580 | 3,431 | 4,412 | 14,769 | 192,402 |
| Other purposes | 46,268,785 | 2,100,997 | 737,452 | 1,181,872 | 1,636,590 | 1,136,161 | 246,140 | 515,997 | 1,103,238 | 15,912,248 |
| Large enterprises | 19,474,395 | 570,135 | 205,531 | 258,410 | 540,641 | 325,627 | 109,888 | 99,164 | 315,884 | 7,273,062 |
| SMEs and individual entrepreneurs | 26,794,390 | 1,530,862 | 531,921 | 923,462 | 1,095,949 | 810,534 | 136,252 | 416,833 | 787,354 | 8,639,186 |
| **Rest of households** | **36,513,444** | **2,413,999** | **465,934** | **1,188,309** | **1,351,676** | **473,293** | **105,084** | **493,278** | **704,574** | **13,697,023** |
| Home loans | 30,971,875 | 2,094,015 | 393,388 | 914,162 | 1,202,478 | 410,749 | 88,466 | 426,405 | 570,733 | 11,517,328 |
| For consumption | 2,580,657 | 157,799 | 33,842 | 121,983 | 71,469 | 37,962 | 6,913 | 31,568 | 52,419 | 989,524 |
| Other purposes | 2,960,912 | 162,185 | 38,704 | 152,164 | 77,729 | 24,582 | 9,705 | 35,305 | 81,422 | 1,190,171 |
| **TOTAL** | **134,348,143** | **4,993,664** | **1,366,515** | **2,653,236** | **3,192,899** | **1,686,893** | **840,879** | **1,073,936** | **2,275,659** | **38,240,076** |

Thousand euro

| | 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | AUTONOMOUS COMMUNITIES | | | | | | | | |
| | **Extremadura** | **Galicia** | **Madrid** | **Murcia** | **Navarra** | **Valencia** | **Basque Country** | **La Rioja** | **Ceuta and Melilla** |
| **Central banks and Credit institutions** | **-** | **19,922** | **13,994,215** | **-** | **228** | **134,690** | **521,428** | **-** | **-** |
| **General governments** | **50,837** | **120,846** | **1,255,207** | **41,874** | **202,534** | **808,364** | **654,072** | **79,055** | **26,050** |
| Rest | 50,837 | 120,846 | 1,255,207 | 41,874 | 202,534 | 808,364 | 654,072 | 79,055 | 26,050 |
| **Other financial corporations and individual entrepreneurs** | **94** | **5,904** | **2,490,369** | **3,453** | **399** | **201,451** | **30,139** | **132** | **-** |
| **Non-financial corporations and individual entrepreneurs** | **135,319** | **1,908,436** | **10,610,398** | **1,162,197** | **454,751** | **6,644,032** | **2,902,721** | **177,342** | **18,315** |
| Construction and real estate | 1,885 | 54,928 | 1,169,283 | 69,852 | 21,976 | 245,311 | 99,826 | 7,268 | 262 |
| Civil engineering construction | 2,286 | 49,594 | 438,540 | 6,776 | 5,208 | 27,911 | 114,070 | 445 | - |
| Other purposes | 131,148 | 1,803,914 | 9,002,575 | 1,085,569 | 427,567 | 6,370,810 | 2,688,825 | 169,629 | 18,053 |
| Large enterprises | 30,103 | 579,405 | 4,110,008 | 211,834 | 146,909 | 3,285,604 | 1,372,153 | 40,007 | 30 |
| SMEs and individual entrepreneurs | 101,045 | 1,224,509 | 4,892,567 | 873,735 | 280,658 | 3,085,206 | 1,316,672 | 129,622 | 18,023 |
| **Rest of households** | **110,161** | **711,830** | **4,483,487** | **2,143,517** | **155,077** | **6,776,024** | **1,097,087** | **78,987** | **64,104** |
| Home loans | 96,423 | 548,842 | 3,864,570 | 1,835,850 | 125,121 | 5,822,091 | 947,121 | 55,006 | 59,127 |
| For consumption | 7,000 | 70,953 | 313,693 | 147,871 | 13,810 | 444,978 | 61,476 | 14,222 | 3,175 |
| Other purposes | 6,738 | 92,035 | 305,224 | 159,796 | 16,146 | 508,955 | 88,490 | 9,759 | 1,802 |
| **TOTAL** | **296,411** | **2,766,938** | **32,833,676** | **3,351,041** | **812,989** | **14,564,561** | **5,205,447** | **335,516** | **108,469** |

## Sovereign risk exposure

The breakdown of exposure to sovereign risk, as at 31 December 2019 and 2018, is as follows:

Thousand euro

| | 2019 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sovereign debt securities | | | | | | Derivatives | | | | |
| Sovereign risk exposure by country (*) | Financial assets held for trading | Financial liabilities held for trading - Short positions | Mandatorily at fair value through profit or loss | Measured at fair value through other comprehensive income | Financial assets at amortised cost | Loans and advances to customers (**) | With positive fair value | With negative fair value | Total | Other off-balance sheet exposures (***) | % |
| Spain | 339,969 | (788,822) | - | 2,908,132 | 10,411,250 | 11,880,452 | 19,679 | (54) | 24,770,607 | - | 72.8% |
| Italy | 20,150 | (54,598) | - | - | 5,712,700 | - | - | - | 5,678,253 | - | 16.7% |
| United States | - | - | - | 465,155 | 218,095 | 1 | - | - | 683,251 | - | 2.0% |
| United Kingdom | - | - | - | - | - | 3 | - | - | 3 | - | 0.0% |
| Portugal | - | - | - | 616,724 | 1,621,113 | - | - | - | 2,237,836 | - | 6.6% |
| Mexico | - | - | - | 179,339 | - | - | - | - | 179,339 | - | 0.5% |
| Rest of the world | 11,397 | - | - | 388,418 | - | 69,802 | - | - | 469,617 | - | 1.4% |
| **Total** | **371,516** | **(843,419)** | **-** | **4,557,767** | **17,963,157** | **11,950,258** | **19,679** | **(54)** | **34,018,905** | **-** | **100.0%** |

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks.

(***) Relates to commitments for cash purchases and sales of financial assets.

Thousand euro

| | 2018 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 153,473 | (32,639) | - | 6,285,958 | 5,893,580 | 11,531,751 | 13,587 | (113) | 23,845,597 | 557,375 | 73.0% |
| Italy | 12,455 | - | - | - | 5,823,441 | - | - | - | 5,835,896 | - | 17.5% |
| United States | - | - | - | 337,528 | - | 1 | - | - | 337,529 | - | 1.0% |
| United Kingdom | 23 | - | - | - | - | 3 | - | - | 26 | - | 0.0% |
| Portugal | - | - | - | 1,268,579 | 753,943 | - | - | - | 2,022,522 | - | 6.0% |
| Mexico | - | - | - | 535,032 | - | - | - | - | 535,032 | - | 1.6% |
| Rest of the world | - | - | - | 250,030 | - | 54,913 | - | - | 304,943 | - | 0.9% |
| **Total** | **165,951** | **(32,639)** | **-** | **8,677,127** | **12,470,964** | **11,586,668** | **13,587** | **(113)** | **32,881,545** | **557,375** | **100.0%** |

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (655 million euros as at 31 December 2018).

(***) Relates to commitments for cash purchases and sales of financial assets.

### Exposure to construction and real estate development sector

Details of lending for construction and real estate development and the relevant allowances are as follows: The loans and credits shown have been classified in terms of their intended purpose, and not by the debtor's statistical classification of economic activities in the European Community (NACE). This implies, for example, that if a debtor is: (a) a real estate company, but uses the financing for a purpose other than construction or real estate development, it is not included in this table; or (b) a company whose primary activity is not construction or real estate, but where the loan is used for the financing of properties intended for real estate development, it is included in the table:

Million euro

| | 2019 | | |
|---|---|---|---|
| | Gross carrying amount | Excess value of the collateral | Adjustments due to impairment (*) |
| **Lending for construction and real estate development (including land) (business in Spain)** | **3,105** | **747** | **221** |
| *Of which: non-performing* | *437* | *161* | *197* |

Million euro

| | 2018 | | |
|---|---|---|---|
| | Gross carrying amount | Excess value of the collateral | Adjustments due to impairment (*) |
| **Lending for construction and real estate development (including land) (business in Spain)** | **3,493** | **898** | **380** |
| *Of which: non-performing* | *719* | *291* | *354* |

(*) 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 | 2019 | 2018 |
| Write-offs (*) | 145 | 251 |

Million euro

| | Amount | Amount |
|---|---|---|
| Memorandum item | 2019 | 2018 |
| Loans to customers, excluding General Governments (business in Spain) (carrying amount) | 92,838 | 94,507 |
| Total assets (total business) (carrying amount) | 178,399 | 178,988 |
| Allowances and provisions for exposures classed as Stage 2 or Stage 1 (total operations) | 2,453 | 2,554 |

(*) 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 2019 | Gross carrying amount 2018 |
|---|---|---|
| **Not secured with real estate** | **519** | **645** |
| **Secured with real estate** | **2,585** | **2,848** |
| Buildings and other finished constructions | 1,176 | 1,467 |
| Housing | 815 | 942 |
| Rest | 361 | 524 |
| Buildings and other construction in progress | 1,003 | 988 |
| Housing | 950 | 877 |
| Rest | 52 | 111 |
| Land | 407 | 393 |
| Consolidated urban land | 361 | 373 |
| Other land | 46 | 20 |
| **Total** | **3,105** | **3,493** |

The figures shown do not show the total value of guarantees received, but rather the net carrying value of the associated exposure.

Guarantees received associated with lending for construction and real estate development are shown hereafter, for both periods:

Million euro

| **Guarantees received** | **2019** | **2018** |
|---|---|---|
| Value of collateral | 2,415 | 2,584 |
| *Of which: securing Stage 3 loans* | *204* | *307* |
| Value of other guarantees | 202 | 208 |
| *Of which: securing Stage 3 loans* | *22* | *22* |
| **Total value of guarantees received** | **2,617** | **2,792** |

The breakdown of lending to households for house purchase for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

| | 2019 | |
|---|---|---|
| | Gross carrying amount | *Of which: securing Stage 3 loans* |
| **Lending for house purchase** | **33,261** | **1,303** |
| Not secured with real estate | 531 | *102* |
| Secured with real estate | 32,730 | *1,201* |

Million euro

| | 2018 | |
|---|---|---|
| | Gross carrying amount | *Of which: securing Stage 3 loans* |
| **Lending for house purchase** | **32,751** | **1,388** |
| Not secured with real estate | 596 | *115* |
| Secured with real estate | 32,155 | *1,273* |

The tables below show mortgage-secured lending to households for house purchase broken down by the loan to value of transactions recorded by credit institutions (business in Spain):

Million euro

| | 2019 | |
|---|---|---|
| | Gross amount | *Of which: non-performing* |
| **LTV ranges** | **32,730** | ***1,201*** |
| LTV <= 40% | 5,917 | *120* |
| 40% < LTV <= 60% | 8,272 | *169* |
| 60% < LTV <= 80% | 9,948 | *244* |
| 80% < LTV <= 100% | 4,425 | *231* |
| LTV > 100% | 4,168 | *437* |

Million euro

| | 2018 | |
|---|---|---|
| | Gross amount | *Of which: non-performing* |
| **LTV ranges** | **32,155** | **1,273** |
| LTV <= 40% | 5,690 | *112* |
| 40% < LTV <= 60% | 7,841 | *166* |
| 60% < LTV <= 80% | 9,057 | *238* |
| 80% < LTV <= 100% | 4,553 | *259* |
| LTV > 100% | 5,014 | *498* |

Lastly, the table below gives details of assets foreclosed in favour of the Bank for transactions recorded by credit institutions in Spain:

Million euro

| | 2019 | |
|---|---|---|
| | Gross carrying amount | Allowances |
| **Real estate assets acquired through lending for construction and real estate development** | **368** | **65** |
| Finished buildings | 264 | 30 |
| Housing | 179 | 19 |
| Rest | 85 | 11 |
| Buildings under construction | 11 | 3 |
| Housing | 10 | 3 |
| Rest | 1 | - |
| Land | 93 | 32 |
| Building land | 25 | 7 |
| Other land | 68 | 25 |
| **Real estate assets acquired through mortgage lending to households for house purchase** | **436** | **84** |
| **Rest of real estate assets foreclosed or received in lieu of debt** | **-** | **-** |
| **Capital instruments foreclosed or received in lieu of debt** | **25** | **9** |
| **Capital instruments of institutions holding assets foreclosed or received in lieu of debt** | **5,710** | **5,142** |
| **Financing to institutions holding assets foreclosed or received in lieu of debt** | **5,768** | **2,127** |
| **TOTAL** | **12,307** | **7,427** |

Million euro

| | 2018 | |
|---|---|---|
| | Gross carrying amount | Allowances |
| **Real estate assets acquired through lending for construction and real estate development** | **1,670** | **394** |
| Finished buildings | 1,223 | 186 |
| Housing | 707 | 56 |
| Rest | 516 | 130 |
| Buildings under construction | 133 | 53 |
| Housing | 117 | 42 |
| Rest | 16 | 11 |
| Land | 314 | 155 |
| Building land | 79 | 38 |
| Other land | 235 | 117 |
| **Real estate assets acquired through mortgage lending to households for house purchase** | **1,917** | **333** |
| **Rest of real estate assets foreclosed or received in lieu of debt** | **-** | **-** |
| **Capital instruments foreclosed or received in lieu of debt** | **24** | **9** |
| **Capital instruments of institutions holding assets foreclosed or received in lieu of debt** | **5,548** | **5,138** |
| **Financing to institutions holding assets foreclosed or received in lieu of debt** | **7,724** | **2,194** |
| **TOTAL** | **16,883** | **8,068** |

According to the information included in section IV.7 of the Report by the special committee for the fostering of transparency and security in markets and listed companies, dated 8 January 2003, José Oliu Creus, Chairman of the Board of Directors, Jaime Guardiola Romojaro, CEO, and Tomás Varela Muiña, Chief Financial Officer – General Manager, hereby vouch for the accuracy and integrity of the Annual financial statements submitted on the date hereof to be presented to the Board of Directors.

The financial statements hereby certified are printed on class 8 series State paper, on the 224 pages preceding this annual banking report.

José Oliu Creus
Chairman of the Board of Directors

Jaime Guardiola Romojaro
CEO for Banco Sabadell

Tomás Varela Muiña
Chief Financial Officer
General Manager

## DIRECTORS' REPORT 2019

This Directors' report was drafted in accordance with the recommendations of the *Guide for the preparation of management reports of listed companies* published by the Spanish National Securities Market Commission in July 2013.

CONTENTS

# 1- BANCO SABADELL GROUP

## 1.1 Organisational structure

Banco de Sabadell, S.A. ("Banco Sabadell" or the "Bank" or the "company") with registered office at Avenida Óscar Esplá, 37, in Alicante, has as its object to engage in banking and it is subject to the standards and regulations governing banking institutions operating in Spain. It has been subject to prudential supervision on a consolidated basis by the European Central Bank (ECB) since November 2014.

The Bank is the parent company of a group of institutions which it controls directly or indirectly and which, with it, comprise Banco Sabadell Group. Banco Sabadell offers a full range of financial services through its financial institutions, brands, subsidiaries and affiliates, operating basically in Spain, the United Kingdom and Mexico.

During the year, it was reorganised into Banking Business Spain and Other Geographies. The Real Estate Asset Transformation business was integrated into Banking Spain after the property assets on the balance sheet had been normalised. Additionally, the international branches and representative offices fall under Banking Spain within the scope of Corporate Banking since their main customers are Spanish.

The Group was organised into the following businesses in 2019:

- Banking Spain groups the following customer-facing business units:

    - Commercial Banking: the Group's largest single line of business, focused on offering financial products and services to large and medium enterprises, SMEs, shops and self-employed workers, private individuals and professionals, as well as providing consumer finance, asset management and bancassurance. Private Banking offers value-added products and services to its customers.

      Sabadell is the main brand used in most of the Spanish market. The Group also operates under the following brands:

        - SabadellHerrero, in Asturias and León.
        - SabadellGuipuzcoano, in the Basque Country, Navarra and La Rioja.
        - SabadellGallego, in Galicia.
        - SabadellSolbank, in the Canary Islands, the Balearic Islands and in the southern and eastern coastal areas of mainland Spain.
        - ActivoBank serves customers who prefer to do their banking exclusively by telephone or online.

    - Corporate banking: offers specialised financing services together with a broad range of solutions, from transactional banking services to very complex custom solutions, in finance, treasury, and import/export, among others.

    - Asset Transformation engages in horizontal management of non-performing and real estate exposures. It implements the asset transformation strategy and adopts a comprehensive vision of the Group's property portfolio with a view to maximising its value.

- Banking UK: The TSB franchise covers retail banking in the United Kingdom (current and savings accounts, personal loans, cards and mortgages).

- Banking Mexico: offers the full range of banking and financial services via Corporate Banking and Commercial Banking.

Banco Sabadell is the parent company of a group which, at 31 December 2019, comprised 174 companies, of which, apart from the parent company, 149 were classified as Group companies and 24 as associated companies (162 at 31 December 2018, of which 135 were Group companies and 26 were associated companies).

**Corporate governance structure**

Banco Sabadell has a sound corporate governance structure that guarantees effective, prudent management. The Board of Directors updated the internal governance framework at a meeting in January 2019, covering such aspects as the ownership structure, governing bodies, Group structure, composition and operation of the governing bodies, internal control functions, key governance matters, the risk management framework and the Group's policies.

**General Meeting of Shareholders**

The Bank's main governing body is the General Meeting of Shareholders, in which the shareholders decide on matters attributed to the Meeting by law, the Articles of Association (*Available on the corporate website under "Corporate governance and remuneration policy - Articles of Association"*) and its own Regulation, and those business decisions that the Board of Directors considers to be of transcendental importance for the bank's future and for the company's interests.

The General Meeting of Shareholders has adopted its own Regulation, which sets out the principles and basic rules of action (*Available on the corporate website under "Shareholder and Investor information – GM Regulations"*) and safeguards shareholders' rights and transparency.

In the Shareholders' Meeting, shareholders may vote in direct proportion to their share in the company's capital.

The Policy on communication and contacts with shareholders, institutional investors and proxy advisors approved by the Board of Directors 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.

**Board of Directors**

With the exception of matters reserved for the General Meeting of Shareholders, the Board of Directors is the highest decision-making body in the company and its consolidated group, as it is responsible, under the law and the Articles of Association, for the management and representation of the bank. The Board of Directors acts mainly as an instrument of supervision and oversight, and delegates the management of ordinary business matters to the CEO and the management team.

The Board of Directors is subject to well-defined, transparent rules of governance, particularly the Articles of Association and its own terms of reference (*available on the corporate website under "Corporate governance and remuneration policy - Regulations of the Board of Directors"*), and it conforms to best practices in the area of corporate governance.

The members of the Board of Directors at 31 December 2019 were as follows:

Board composition

| | Position |
|---|---|
| José Oliu Creus | Chairman |
| José Javier Echenique Landiribar | Vice Chairman |
| Jaime Guardiola Romojaro | CEO |
| Anthony Frank Elliott Ball | Director |
| Aurora Catá Sala | Director |
| Pedro Fontana García | Director |
| María José García Beato | Director Secretary General |
| Maria Teresa Garcia-Milà Lloveras | Director |
| George Donald Johnston | Director |
| David Martínez Guzmán | Director |
| José Manuel Martínez Martínez | Director |
| José Ramón Martínez Sufrategui | Director |
| José Luis Negro Rodríguez | Director – General Manager |
| Manuel Valls Morató | Director |
| David Vegara Figueras | Director – General Manager |
| Miquel Roca i Junyent | Non – Director Secretary |

The members of the Board of Directors at 31 December 2019 were as follows: five executive directors and ten non-executive directors (eight of them independent, one proprietary and one in the category of other external). The composition of the Board of Directors has an appropriate balance between the various categories of director.

The composition of the Board of Directors is diverse and efficient. It is of the appropriate size to perform its functions effectively by drawing on a depth and diversity of opinions, enabling it to operate with a level of quality and efficacy and in a participatory way. It combines a suitable diversity in terms of competency, professional background, origin and gender, as its members have extensive experience in banking, finance, insurance, risk and auditing, regulatory affairs and the law, as well as the academy, human resources and consulting, business and the international arena. The Board's Matrix of Competencies can be consulted on the website under *"Corporate governance and remuneration policy – Internal Governance Framework"*.

There are three female directors: one executive, one independent and one other external. In 2019, the General Meeting of Shareholders ratified the appointment of the female executive director and re-appointed the female independent director. The Director Candidate Selection Policy, which was approved by the Board of Directors in 2016, seeks to ensure that the process facilitates the selection of women candidates and, more generally, is free of inherent bias that might entail discrimination.

The Board has a Lead Independent Director, who is empowered, under the Articles of Association, to give notice of meetings of the Board of Directors, add items to the meeting agenda, coordinate and meet with the non-executive directors, reflect the opinion of the external directors, and direct the regular assessment of the Chairman of the Board of Directors. The Lead Independent Director also coordinates the Succession Plan for the Chairman and CEO and, in practice, chairs any meetings with investors or proxy advisors. In 2019, the incumbent Lead Independent Director stepped down from that role after three years and the Board appointed Mr. Anthony Frank Elliott Ball as replacement.

To ensure better and more diligent performance of its general supervisory duties, the Board undertakes to directly discharge the responsibilities provided by law, including:

a) approving the Company's general strategies;

b) appointing and, as necessary, removing directors of the Company's subsidiaries;

c) identifying the Company's main risks and implementing and monitoring suitable internal control and reporting systems;

d) setting policy on the reporting and disclosure of information to shareholders, the markets and the general public;

e) setting policy on treasury stock in accordance with any guidelines laid down by the Shareholders' Meeting;

f) approving the Annual Corporate Governance Report;

g) authorising transactions between the Company and directors or significant shareholders which may lead to conflicts of interest; and

h) generally deciding on business or financial transactions that are of particular importance for the company.

## Committees of the Board of Directors

In accordance with the Articles of Association, the Board of Directors has established the following committees:

- Delegated Committee.
- Audit and Control Committee.
- Appointments Committee.
- Remuneration Committee.
- Board Risk Committee.

The organisation and structure of the Board committees is set out in the Articles of Association and in their respective terms of reference, which give the rules governing their composition, operation and responsibilities. In 2019, the Board approved the Regulations of the Delegated Committee, the Remuneration Committee, the Appointments Committee and the Board Risk Committee, in addition to the pre-existing Regulation of the Audit Committee (*Available on the website under "Corporate Governance and Remuneration Policy - Regulations of the Board of Directors"*), to elaborate upon and complete the rules for operation and basic functions set out in the Articles of Association and the Board of Directors Regulation.

The Committees support the Board of Directors in specific areas and facilitate the development and application of a sound internal governance framework. Their function is to provide information and advice, apart from specific cases where they are assigned decision-making powers by a resolution of the Board or a policy approved by the latter. They have sufficient resources to perform their functions, and 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 the committees at 31 December 2019 is shown in the table below:

Committee composition

| Position | Delegated | Audit and Control | Appointments | Remuneration | Risk |
|---|---|---|---|---|---|
| Chairman | José Oliu Creus | Manuel Valls Morató | Aurora Catá Sala | Aurora Catá Sala | George Donald Johnston |
| Director | José Javier Echenique Landiribar | Pedro Fontana García | Anthony Frank Elliott Ball | Anthony Frank Elliott Ball | Maria Teresa Garcia-Milà Lloveras |
| Director | Jaime Guardiola Romojaro | Maria Teresa Garcia-Milà Lloveras | Maria Teresa Garcia-Milà Lloveras | George Donald Johnston | Manuel Valls Morató |
| Director | Pedro Fontana García | José Ramón Martínez Sufrategui | José Manuel Martínez Martínez | José Ramón Martínez Sufrategui | - |
| Director | José Manuel Martínez Martínez | - | - | - | - |
| Secretary (not a member) | María José García Beato | Miquel Roca i Junyent | Miquel Roca i Junyent | María José García Beato | María José García Beato |
| Number of meetings in 2019 | 36 | 11 | 11 | 11 | 10 |

## Delegated Committee

The Delegated Committee, which was renamed by the General Meeting in 2019 (it was formerly the Executive Committee), is composed of five directors and is chaired by the Chairman of the Board; in terms of director categories, its composition is similar to that of the Board, and it has all the functions and powers of the Board except those whose delegation is forbidden by law or the Articles of Association. It is responsible for overseeing the Bank's ordinary activities; it must report all decisions adopted at its meetings to the Board of Directors, without prejudice to any other functions assigned to it under the Articles of Association, the Board of Directors Regulation or its own terms of reference.

## Audit and Control Committee

The Audit and Control Committee comprises three independent directors and one other external director, and it is chaired by an independent director who 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 financial statements, liaise with the external auditor, and ensure that suitable measures are taken to address any conduct or methods that could be inappropriate. It also ensures that the measures, policies and strategies defined by the Board are duly implemented.

### Appointments Committee

The main functions of the Appointments Committee, which comprises three independent directors and one other external director, are to ensure that the qualitative composition of the Board of Directors fulfils the requirements, assess whether directors meet the suitability, competency and experience requirements for the position, make proposals as to the appointment of independent directors and advise on the appointment of other directors. It must also set a representation target for the gender less well represented on the Board of Directors and draw up guidelines on how the target should be achieved; it advises on proposals for the appointment and removal of senior executives and identified staff, as well as on the basic contractual conditions for executive directors and senior executives.

### Remuneration Committee

The main functions of the Remuneration Committee, which comprises four independent directors, are to make recommendations to the Board of Directors on policy for the remuneration of directors and general managers and on remuneration and other contractual conditions for individual executive directors, and to ensure compliance with existing policies. It also advises on the Annual Report on Director Remuneration and reviews the general principles governing remuneration and the arrangements for the remuneration of all employees, ensuring that transparency is maintained.

### Board Risk Committee

The Board Risk Committee is made up of two independent directors and one other external director. Its functions are to supervise and exercise oversight to ensure that all the risks of the Bank and its consolidated group are accepted, controlled and managed appropriately, and to report to the Board on the performance of its duties, in accordance with the law, the Articles of Association and the Board of Directors Regulation and the Committee's own terms of reference.

### Bank Chairman

In accordance with article 54 of the Articles of Association, the Chairman is the Bank's chief representative and, in performing his functions, he is the person with primary responsibility for the effectiveness of the Board of Directors, representing the Bank in any event, and signing on behalf of the company; he convenes and chairs meetings of the Board of Directors, setting the agenda, directing the debates and deliberations within the Board of Directors, and, in the event, the General Meeting, and is responsible for executing the decisions adopted by the Board of Directors and the General Meeting of Shareholders without the need for this to be expressly mentioned. He also holds any powers delegated to him by the Board of Directors.

### Chief Executive Officer

Under article 54 of the Articles of Association, the CEO is the person with primary responsibility for managing and directing the business, and for representing the Bank in the Chairman's absence. The Board may attribute to the CEO any powers that it sees fit from among those that it is allowed by law to delegate.

### Control units

The Internal Audit Division and the Risk Division have access and report to the Board of Directors and its committees — the Audit and Control Committee and Board Risk Committee, respectively.

The Bank publishes an Annual Report on Corporate Governance, which contains detailed information on corporate governance, and the Non-Financial Disclosures Report, both of which are part of the 2019 financial statements, together with an Annual Report on Director Remuneration, all of which are available on the on the CNMV and Banco Sabadell websites.

## 1.2 Business model, main objectives achieved and actions implemented

The Bank's development objectives are focused on profitable growth and the generation of shareholder value through a strategy of business diversification based on high returns, efficiency 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.

It has a business model that fosters long-term customer relationships 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.

However, the current situation of negative rates will drive a review of the business model to enable us to adapt to the new environment, while continuing to pursue profitable growth and long-term customer loyalty.

Spain's banking sector has been engaged in an unprecedented consolidation process since the financial crisis began. Higher levels of capital, stricter provisioning requirements, the economic recession and pressure from the capital markets are some of the factors that have driven Spanish banks to merge and gain in scale, maximise efficiency and strengthen their balance sheets.

During the last ten years, Banco Sabadell has expanded its geographic footprint and increased its market share in Spain through several acquisitions, the largest of which was Banco CAM in 2012, which enabled it to enlarge its balance sheet significantly. Banco Sabadell was able to engage in additional M&A in 2013 in appropriate economic conditions within the framework of the restructuring of the banking industry. Following the acquisition of the Penedès branch network, Banco Gallego and Lloyds España in 2015, Banco Sabadell is well-positioned to grow organically and benefit from growth in the Spanish economy, and to adapt to the new interest rate environment.

The acquisitions and organic growth in recent years have enabled Banco Sabadell to reinforce its position in some of Spain's most prosperous regions (e.g. Catalonia, Valencia and the Balearic Islands) and to increase market share in other key areas. According to the most recent information (September 2019), Banco Sabadell has a market share of 8.0% in lending and 7.6% in deposits at national level. Banco Sabadell also has a strong position in other products: 9.9% in commercial credit (October 2019); 11.3% in lending to companies (September 2019); 5.9% in mutual funds (December 2019); 9.9% in securities trading (December 2019); and 17.2% in POS turnover (September 2019).

Banco Sabadell also maintains its quality differential with respect to the rest of the industry and ranks first in terms of customer experience (Net Promoter Score) for SMEs.

Banco Sabadell has always been a trailblazer on the international front. This continued to be the case in 2019, as Sabadell retained its position in the leading financial hubs and supported businesses in their international activities, having achieved a 14.8% share of Swift transfers in November 2019. In recent years, Banco Sabadell has expanded its international footprint, including notably: the acquisition of UK bank TSB and the move into Mexico after obtaining a commercial banking charter. As a result, in December 2019, 33% of the Group's lending was in other countries (25% in the United Kingdom and 9% in the Americas and elsewhere).

Once TSB had resolved the incidents produced during the IT platform migration and after the appointment of a new executive team, efforts have focused on developing a new business plan based on volume growth, better positioning and cost-cutting.

Banco Sabadell Group sold 80% of Solvia Servicios Inmobiliarias in 2019, booking a gross capital gain of 133 million euros. Additionally, it disposed of 100% of SDIN Residencial, S.L.U. and a portfolio of real estate, mostly land for development. On 19 December, the Board was informed of the first closure, planned for 20 December, of the sale of a number of portfolios after obtaining authorisation from Spain's Deposit Guarantee Fund (DGF) and the Ministry of the Economy.

Banco Sabadell does business in an ethical and responsible way and shows its commitment to society by ensuring that its actions have a positive impact on people and the environment. Each and every person in the organisation has a part to play in observing and applying the principles and policies that underlie corporate social responsibility, as well as in assuring quality and transparency in customer service.

In the area of compliance, in addition to observing the law, Banco Sabadell has put in place a set of policies, procedures and codes of conduct to provide a guarantee of ethical and responsible conduct at all levels of the organisation and in all Group operations.

## 1.3 Plan 2020

Banco Sabadell adopts strategic plans in which it sets targets for the coming years in accordance with the macroeconomic, business and regulatory context.

In 2018, Banco Sabadell presented a new three-year Business Plan in which it laid the strategic groundwork for the next economic cycle. The plan's ambitions are coherent with the values and objectives that have characterised the Bank since its foundation. The plan pursues profitability, sustainability and value creation.

The year 2020 will be shaped by the current negative interest rate situation and the possibility of a global economic slowdown. Given this situation, Banco Sabadell will focus on profitability. Profitability means continuing to expand in the main markets where Banco Sabadell operates, while focusing particularly on efficiency and accelerating balance sheet normalisation. Banco Sabadell will also continue to develop the technological capabilities that are required to offer a value proposition, as well as attracting versatile talent to undertake the commercial and digital transformation of the institution and adapt it to the current changing environment. The Banco Sabadell Business Plan pursues value creation for all its stakeholders, while offering a wide range of products and excellent quality of service to its customers and developing its human capital, attending to its employees' concerns and professional expectations, motivating them and recognising their achievements. All this while maintaining Banco Sabadell's commitment to society and the environment in all the territories where it operates, through ethical and responsible development of its business.

In order to achieve these objectives, Banco Sabadell relies on its strong brand image and customer experience as differentiating elements, as well as its extensive technological capabilities, which enable it to evolve its value proposition. All this underpinned by an agile, versatile organisation comprising talented, committed people.

The goal of Banco Sabadell for 2020 is to maximise the value of its franchise in the three main markets in which it operates (Spain, the United Kingdom and Mexico), and to grow organically by means of a clear, differentiated strategy in each geography.

Accordingly, Banco Sabadell's ambitions in Spain focus on strengthening the value proposition in the core segments and boosting spreads, while continuing to safeguard our solid risk profile. This is to be accompanied by measures to enhance the business's sustainability by transforming the distribution and digitalisation model to offer a broad range of distinctive products and services to each customer while retaining the lead in quality of service.

In the United Kingdom, a new strategic plan for 2022 was launched in November 2019 after the appointment of a new management team at the UK subsidiary, TSB. This plan aims to improve business efficiency while increasing volumes and revenues organically, in mortgages and consumer loans to individuals, in order to enhance profitability. To this end, TSB has a new technology platform, which is key to an agile business model and that lends it a competitive advantage in the UK market, since it enables the Bank to adapt more quickly and efficiently to customers' emerging needs.

The strategy defined for the Mexican business is fundamentally focused on continuing to strengthen the Business and Corporate Banking segment, focusing on customers and on products that enable us to maximise profitability while developing a model of banking for individuals based on an innovative all-digital approach.

## 1.4 Share performance and share ownership

During 2019, market attention was focused on trade tensions between the United States and China, uncertainty about Brexit, concern in this context over the weakness of global growth, and the response offered by central banks, all of which drove banks' share performance.

However, in the final months of the year, the waning possibility of a hard Brexit, lower litigation risk in connection with IRPH-linked mortgages following the conclusions of the European Union's Advocate General, and the rebound by interbank rates favoured Spanish bank equities.

The main factors impacting Sabadell's share performance in 2019 were the improvement in its capital position during the year, the announcement of TSB's business plan, and the steady improvement in asset quality through institutional sales of non-performing portfolios.

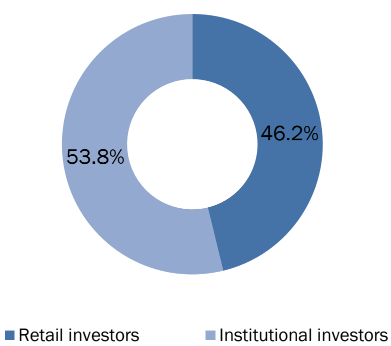
In parallel, at the end of 2019, more than 89% of analysts covering Banco Sabadell had a buy or hold recommendation on the stock.

The percentage of Banco Sabadell's capital owned by institutional investors increased slightly, from 53.0% at 2018 year-end to 53.8% at the end of 2019.

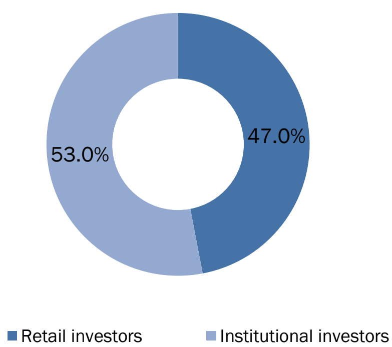
Banco Sabadell's market capitalisation stood at 5,760 million euros at year-end, with a price-to-book ratio of 0.44.

The next diagram shows the share's performance.


Ownership structure in 2019




Ownership structure in 2018



| Analysis of shareholdings at 31 December 2019 | | | |
|---|---|---|---|
| No. of shares | Shareholders | Shares in tranche | % of capital |
| 1 to 12,000 | 189,863 | 563,139,756 | 10.01% |
| 12,001 to 120,000 | 42,426 | 1,284,276,683 | 22.82% |
| 120,001 to 240,000 | 1,620 | 264,631,530 | 4.70% |
| 240,001 to 1,200,000 | 921 | 393,813,970 | 7.00% |
| 1,200,001 to 15,000,000 | 167 | 465,296,435 | 8.27% |
| More than 15,000,000 | 37 | 2,655,806,327 | 47.20% |
| TOTAL | 235,034 | 5,626,964,701 | 100.00% |

| Analysis of shareholdings at 31 December 2018 | | | |
|---|---|---|---|
| No. of shares | Shareholders | Shares in tranche | % of capital |
| 1 to 12,000 | 190,297 | 578,124,117 | 10.27% |
| 12,001 to 120,000 | 42,519 | 1,288,813,941 | 22.90% |
| 120,001 to 240,000 | 1,605 | 260,418,978 | 4.63% |
| 240,001 to 1,200,000 | 914 | 390,814,906 | 6.95% |
| 1,200,001 to 15,000,000 | 151 | 414,351,420 | 7.36% |
| More than 15,000,000 | 37 | 2,694,441,339 | 47.88% |
| TOTAL | 235,523 | 5,626,964,701 | 100% |

| | million | million euros | euros | million | euros |
|---|---|---|---|---|---|
| | Average number of shares | Attributed income | Attributed income per share | Own funds | Book value per share |
| 2016 | 5,616 | 710 | 0.126 | 12,926 | 2.30 |
| 2017 | 5,570 | 802 | 0.142 | 13,426 | 2.41 |
| 2018 | 5,565 | 328 | 0.050 | 12,545 | 2.25 |
| 2019 | 5,538 | 768 | 0.125 | 13,172 | 2.38 |

## Share performance

Below are a number of indicators of the bank's share performance:

| | 2019 | 2018 | Change (%) year-on-year |
|---|---|---|---|
| **Shareholders and trading** | | | |
| Number of shareholders | 235,034 | 235,523 | (0.2) |
| Average number of shares (million) | 5,538 | 5,565 | (0.5) |
| Average daily trading volume (million shares) | 30 | 27 | 11.2 |
| **Share price (euros)** | | | |
| Beginning of the period | 1.001 | 1.656 | - |
| High | 1.130 | 1.945 | - |
| Low | 0.714 | 0.950 | - |
| End of the period | 1.040 | 1.001 | - |
| Market capitalisation (million euro) | 5,760 | 5,568 | - |
| **Stock market multiples** | | | |
| Earnings per share (EPS) (euro) | 0.13 | 0.05 | - |
| Book value per share (euro) | 2.38 | 2.25 | - |
| Price/Book value | 0.44 | 0.44 | - |
| Price/earnings ratio (P/E) | 8.29 | 20.11 | - |

## 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.

In 2018, the Bank paid shareholders 0.03 euro per share entirely in cash. This distribution consisted of an interim dividend of 0.02 euro per share and a supplementary dividend of 0.01 euro per share. That represented a 3.0% return on the year-end closing price of the share.

On 24 October 2019, the Board of Directors declared an interim dividend of 0.02 euro, gross per shares (net of 0.0162 euro per share of tax withholdings), which was paid in the form of own shares amounting to 89,635 thousand euros, 126 thousand euros in cash, and 21,055 thousand euros in withholding tax, on 24 December 2019.

Additionally, the Board of Directors will propose that the General Meeting of Shareholders approve the distribution of a gross dividend out of 2019 earnings in the amount of 0.04 euro per share.

Banco Sabadell plans to continue to pay cash dividends in the coming years.

## Credit rating

The rating agencies that assessed Banco Sabadell’s credit quality in 2019 were S&P Global Ratings, Moody’s, DBRS and Fitch Ratings. Below are details of the current ratings and the last date on which they were affirmed.

| | Long term | Short term | Outlook | Last review |
|---|---|---|---|---|
| DBRS | A (low) | R-1 (low) | Stable | 25.06.2019 |
| S&P Global Ratings | BBB | A-2 | Stable | 13.12.2019 |
| Moody's Investors Service (*) | Baa3 / Baa2 | P-3 / P-2 | Stable/Stable | 12.12.2019 |
| Fitch Ratings | BBB | F2 | Stable | 20.12.2019 |

(*) Senior debt and deposits, respectively.

On 6 April 2018, S&P Global Ratings upgraded Banco Sabadell's long-term credit rating to BBB (from BBB-) and its short-term rating to A-2 (from A-3). The outlook is stable. This upgrade was based on Banco Sabadell's improved credit quality in the context of lower industry risk in the Spanish banking system, fundamentally due to deleveraging, and on higher investor confidence.

On 13 December 2019, S&P Global Ratings affirmed Banco Sabadell's BBB long-term rating, its A-2 short-term rating, and the stable outlook.

On 19 September 2018, Moody's confirmed the Baa2 long-term deposit rating and the Baa3 senior debt rating, as well as the P-2 short-term deposit rating and the P-3 senior debt rating of Banco Sabadell, and changed the outlook to stable, from positive. The agency took account of the improvement in the Bank's asset risk profile after the sale of most of its portfolio of foreclosed real estate assets and the decrease in stage 3 assets, as well as the adequate liquidity position and the fact that the Group's capital and profitability indicators had been weakened by extraordinary items booked in 2018 in connection with losses at subsidiary TSB and provisions for the sale of non-performing assets.

On 12 December, Moody's confirmed Banco Sabadell's credit rating with a stable outlook.

On 4 June 2019, DBRS Ratings GmbH announced an upgrade of Banco Sabadell's long-term rating to A (Low), from BBB (High), with a stable outlook, to reflect the fact that sales of NPAs had significantly reduced exposure in this area, as well as progress in overcoming the incidents in TSB's IT migration and the steady improvement in core revenues. The short-term rating was maintained at R-1 (Low).

On 25 June 2019, DBRS Ratings GmbH confirmed Banco Sabadell's credit rating with a stable outlook.

On 29 March 2019, Fitch Ratings assigned Banco Sabadell a long-term BBB rating and short-term F3 rating, with a stable outlook. This reflects Banco Sabadell's strength as Spain's fourth-largest bank in terms of assets, with extensive experience in SME banking and geographic diversification due to its operations in the United Kingdom and Mexico. Fitch also noted that Sabadell's capital met the requirements of European regulatory bodies, and highlighted its liquidity profile and the reduction of non-performing assets. The rating also takes into account the challenges the Bank faces in expanding its UK business after the problems that arose in migrating the UK subsidiary's computer systems and the uncertain operating environment there due to Brexit. Fitch believes that Banco Sabadell has a solid franchise in Spain as a result of its acquisition strategy over the last decade, which provides solid earnings generation capacity and prospects for improving profitability.

On 20 December 2019, Fitch Ratings upgraded Banco Sabadell's short-term rating to F2 (from F3) to reflect the steady improvement in the funding profile and the ample liquidity position. The long-term rating was kept at BBB, with a stable outlook.

## 1.5 The customer

### Brand and customer experience

*"At Banco Sabadell we want to help people and companies bring their projects to life, anticipating their needs and taking care to ensure that they make the best economic decisions. We do this with conscientious, environmentally and socially responsible management practices.*

*Our values: Commitment, Non-conformism, Professionalism, Effectiveness, Empathy and Openness.*

That is the promise of the Banco Sabadell brand, the bank we want to be. The brand is committed to our customers, employees and society because "*we are distinguished not only by what we do, but also by how we do it".*

At Banco Sabadell, we are undergoing a transformation to continue building long-term relationships of trust with our customers through the Brand and the Customer Experience.

Banco Sabadell sees Customer Experience as the way in which we deliver our brand's promise to customers. The Bank aspires to be the leader in customer experience and to align the entire organisation in pursuit of this goal; incentives for all employees with variable remuneration are linked to customer experience KPIs.

The Customer Management Division is entrusted with ensuring that the customer vision is propagated to the entire organisation and it is supported not only by head office but also by the branch network and by employees tasked with driving this model through training, workshops and specific action plans.

Banco Sabadell employees have access to specific training on customer experience. This training is very varied and is implemented through challenges based on customer demands, enabling account managers to probe and interiorise the importance of a customer-centric strategy. They also gain insights into how customers should experience certain critical processes ("moments of truth") and receive capacities and skills to enable them to manage these situations optimally.

**Enhancing the customer experience**

The world is evolving at a rapid pace and our customers' habits are changing. In this context, Banco Sabadell is undergoing a transformation to offer the best possible experience to an increasingly informed and demanding customer base, which requires greater customisation, immediacy and a multi-channel approach.

Competitive strategy: Superior relationship model

To continue delivering the Sabadell experience — our way of banking — we are evolving towards a superior relationship model. A model totally focused on the customer and driven tightly by business intelligence, digitalisation, the distribution model and people.

- We are improving relations with customers who have more sophisticated needs by offering them a personalised model and greater specialisation.

- We are simplifying processes, improving efficiency and facilitating the basic transactional relationship with all our customers by leveraging the power of new technologies and new interaction channels, particularly mobile devices.

New technologies such as Big Data, IoT and artificial intelligence are essential components of the new customer relationship model. Greater knowledge about customers enables the bank to offer a distinctive experience and service with a much more personalised offer to meet their specific needs.

New technologies enhance customer management, as customers are empowered to choose the most convenient channel for interacting with the bank, when, how and where they want.

The transformation is already achieving tangible results:

- Banco Sabadell is a bank for business, a leader in terms of recommendations and quality of service.
- The vision of the relationship model has made it possible to accelerate commercial activity and generate more sales in retail banking. In business banking, the Planning Visit has expanded the Bank's ability to make proposals, an outcome that customers value highly.
- As for digitalisation, over 55% of customers are digital (active use of digital channels in the last three months).
- More digital sales (39%), with a growth rate above our European peers.

Business Hub

One of the initiatives that reaffirm the Bank's commitment to companies is the Business Hub, an innovative space for customers and non-customers which offers expert advice to companies and organises training workshops, networking events and technology showrooms.

Moments of Truth

At Banco Sabadell, we know that there are watershed moments in life. These are moments of interaction with the bank to which customers bring a high level of expectation and where the impressions they gain will shape their future perception of, and relationship with, the bank.

For this reason, the bank conducts in-depth customer surveys in connection with these moments in order to gain insights into how customers experience these events. The customer journey, focus groups and customer surveys are among the tools used by a multidisciplinary team to identify ten Moments of Truth for private customers and business customers.

This research has made it possible to transform and improve these processes by making them much more customer-centric so as to ensure that customers' experience is much more satisfactory.

BSIdea: an engine for transforming Banco Sabadell

BSIdea is a co-creation platform enabling Banco Sabadell employees to make suggestions for improvement in any area of the organisation. A committee composed of bank executives grants awards to the ideas that are most in line with the Bank's strategy, enhancing the customer experience and the transformation process. It is also an excellent channel for co-creation and communication between teams, enabling them to share opinions and experiences.



| | | |
|---|---|---|
| 30077 | 18 | 6269 |
| Ideas shared | Challenges | Innovators |

**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 methodologies.

Qualitative research

A range of qualitative research approaches are used in order to gain a better understanding of the environment and customers. The goals of this process include:

1. Understanding consumers' concerns, worries and attitudes and their current and future needs.
2. Identifying the most emotional and least explicit part of consumer decision-making.
3. Listening in depth, actively and constantly to the customer's voice, which enables us to ascertain how they experience their relationship with the bank at a range of touch points.

The methodologies we use range from conventional in-depth interviews and focus groups to more innovative approaches based on neuroscience and emotion detection.

Quantitative research

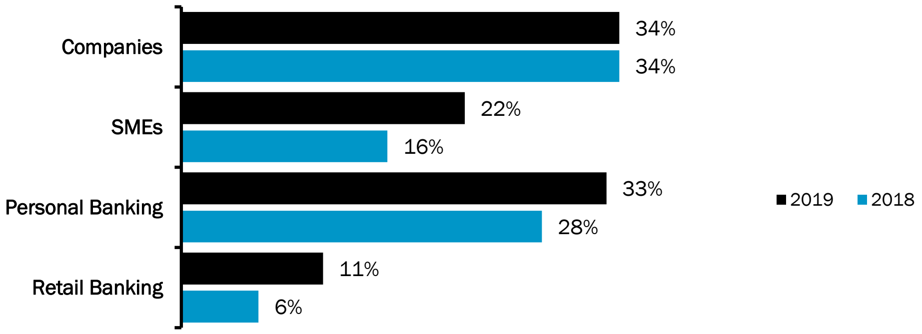
Banco Sabadell also analyses the customer experience by quantitative methods. Some address the traditional concept of satisfaction, while others deal with more emotional aspects:

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.

Banco Sabadell's current NPS scores rank it first in its peer group among SME customers, and second among personal banking customers.

**Customer NPS levels, by Banco Sabadell segment**




Note: The NPS is based on the question "On a scale of 0 to 10, where 0 is 'not at all likely' and 10 is 'I would definitely recommend it', how likely would you be to recommend Banco Sabadell to a relative or friend?"

The NPS is the percentage of customers who answered 9 or 10, after eliminating those who answered between 0 and 6." Includes institutions that are comparable to the Group. Data for the most recent available month.

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 channels.

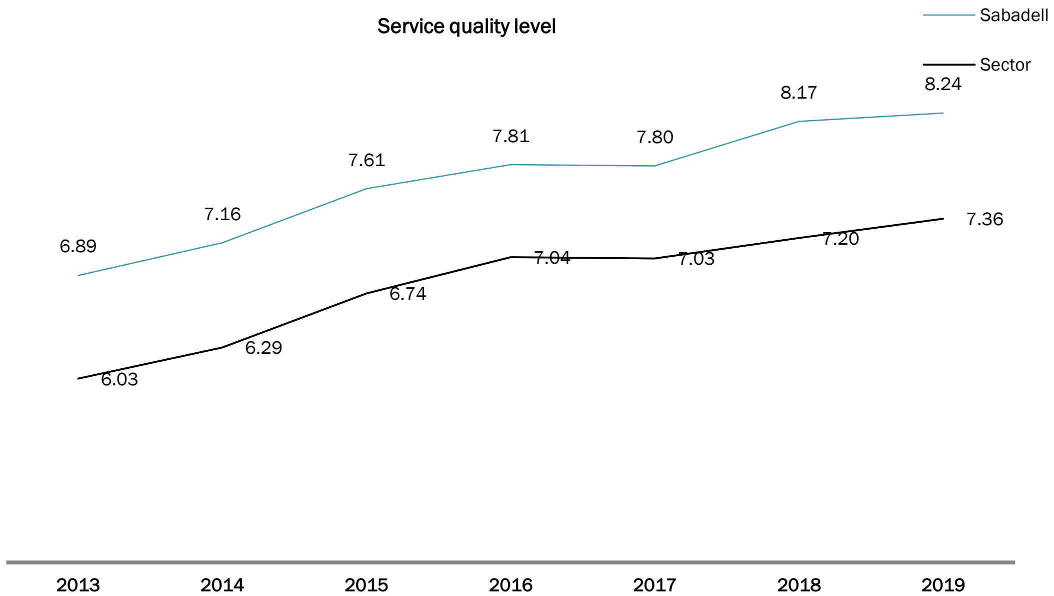
Customers give a very high score to the bank's relationship model, which represents a more personalised and specialised approach that enables the Bank to add value and to anticipate and address customers' needs.

Additionally, Banco Sabadell designed an action plan entitled "*Close the Loop*" to address unsatisfied customers identified on the basis of the quantitative customer experience surveys. The outcome has proved very satisfactory as actions taken under the plan have reverted the situation in 80% of cases.

3. Branch quality surveys

In addition to analysing customer perceptions, Banco Sabadell also carries out objective studies using techniques such as the mystery shopper, under which an independent consultant performs a pseudo-purchase to gauge the quality of service and the commercial approach applied by the sales team. Quality of service is one of the Bank's strategic objectives, so the way in which account managers serve customers is factored into the sales team's incentives.

EQUOS RCB (Stiga), the benchmark survey of bank service quality, is conducted using the mystery shopper technique. Banco Sabadell achieved one of the top scores in 2019, exceeding the industry average (+0.88), and it ranked first among Spain's big banks in terms of sales performance, which is the key feature of the survey.

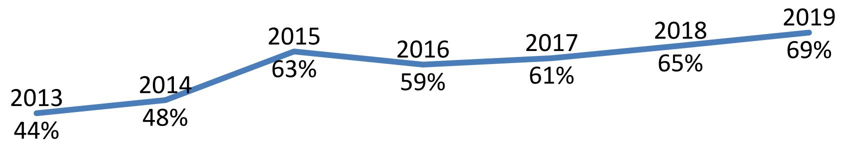


4. Internal customer survey

The internal customer survey enables us to listen to the concerns of our sales teams. Its objective is to obtain quantitative feedback from branch staff on the products, services, tools and support that are provided by the corporate centres.

The survey identifies aspects that need improvement and is used to design actions to remedy any unsatisfactory aspects. Employee participation is high, and overall scores have improved as a result of the commitment to the internal customer.

Participation by the branch network in the internal customer survey



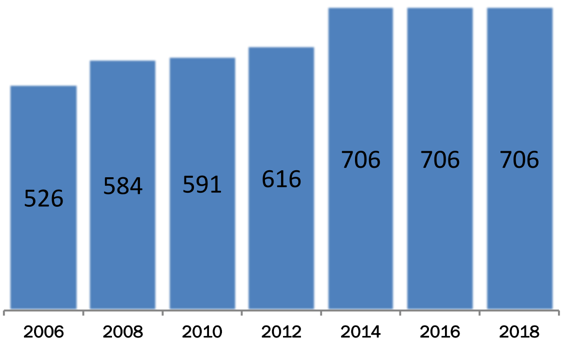

**Accolades**

Banco Sabadell stands out in Spain for its strong track record in management quality and excellence.

It is the only Spanish credit institution with 100% of its financial operations certified to the ISO 9001 standard, evidencing its customer-centric philosophy and the rigour with which it addresses its risks and processes.

It was 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), which confirms the robustness and excellence of its management model.

Banco Sabadell performance in EFQM assessments




Banco Sabadell also holds the title of Ambassador of European Excellence, to which was attached a special mention in 2019 because it is one of just three Spanish organizations with more than 700 EFQM points.

On a regional basis, the Bank has held the "Madrid Excelente" distinction since 2009, in recognition of its performance. This award accredits fulfilment of the quality and excellence standards established by the "Madrid Excelente" quality assurance programme.

Banco Sabadell also believes it is vital to recognise excellence inside the organisation. More than 15 years ago, it created awards to recognise excellence at branches (customer satisfaction surveys), corporate centres and projects to serve as an inspiration for the rest of the institution.

### Customer Care Service (SAC)

The Group's customers and users may contact the Customer Care Service with any complaints or issues that have not been resolved satisfactorily by their local branch. The Customer Care Service is independent from the business and operational side of the Group and is governed by the Banco Sabadell Group's own rules and procedures on the protection of customers and users of financial services. Customers and users may also appeal to the Customer Ombudsman, an independent unit that has the authority to resolve any issues referred to it, both in the first and second instances. Decisions by the Customer Care Service or the Ombudsman are binding on all the bank's units.

In 2019, a total of 34,789 complaints, claims and requests were received, 26.51% less than in 2018, in addition to the issues that remained unresolved at 31 December 2018. A total of 35,677 cases were processed in 2019.

The Customer Care Service also provides assistance and information to customers and users with regard to other issues. In 2019, the SAC accepted and resolved 891 requests for assistance.

For more details, see note 42 to the consolidated financial statements for 2019.

### Multi-channel strategy

Banco Sabadell has developed new propensity models with which to anticipate customers' needs, either through their relationship with the branch network or through the other channels that the bank places at their disposal.

This drive was accompanied by new digital capabilities that simplify customers' interactions with the Bank. In 2019, 55% of customers were digital, a 3-point increase on the previous year, in addition to visits and transactions in online banking, particularly using the mobile app. BSMóvil and BSWallet maintained double-digit growth without impairing web usage figures.

<u>Branch network</u>

Banco Sabadell ended 2019 with a network of 2,402 branches (540 TSB branches), i.e. a net reduction of 55 branches with respect to 31 December 2018 (45 branches excluding TSB).

Of the total Banco Sabadell and Group branch network, 1,364 branches operate under the Sabadell brand (including 28 business banking branches and 2 corporate banking branches); 107 as Sabadell Gallego (including 3 business branches); 133 under the Banco Herrero brand in Asturias and León (3 business branches); 108 as Sabadell Guipuzcoano (5 business banking branches); 10 as SabadellUrquijo; 100 branches under the Solbank brand; and 580 offices that make up the international network, of which 7 are in BancSabadell d'Andorra, 540 in TSB and 15 in Mexico.

| Region | Branches | Region | Branches |
|---|---|---|---|
| Andalusia | 129 | Valencia | 312 |
| Aragón | 31 | Extremadura | 6 |
| Asturias | 103 | Galicia | 107 |
| Balearic Islands | 56 | La Rioja | 8 |
| Canary Islands | 31 | Madrid | 178 |
| Cantabria | 5 | Murcia | 126 |
| Castilla-la Mancha | 22 | Navarra | 15 |
| Castilla y León | 58 | Basque Country | 88 |
| Catalonia | 545 | Ceuta and Melilla | 2 |

| Country | Branches | Representative offices | Subsidiaries and affiliates |
|---|---|---|---|
| **Europe** | | | |
| Andorra | | | • |
| France | • | | |
| Poland | | • | |
| Portugal | • | | |
| United Kingdom | • | | • |
| Turkey | | • | |
| **America** | | | |
| Brazil | | • | |
| Colombia | | • | |
| USA | • | • | |
| Mexico | | | • |
| Peru | | • | |
| Dominican Republic | | • | |
| **Asia** | | | |
| China | | • | |
| UAE | | • | |
| India | | • | |
| Singapore | | • | |
| **Africa** | | | |
| Algeria | | • | |
| Morocco | • | | |

ATM network

At the end of 2019, the Group's network of self-service machines in Spain totalled 2,982 ATMs and 339 passbook updating machines. Those figures are similar to the numbers at 2018 year-end (2,924 ATMs and 345 passbook updaters in December 2018).

The number of transactions fell slightly in 2019, by 2%, to 113,210,579 in total, as certain transactions types fell by around 20%: passbook updates, mobile phone top-ups and cheque deposits.

Online deposits increased by 33%, and there was a sharp increase in other transaction categories: bill payments rose 39%, Instant Money transactions by 69% (these are ATM withdrawals by Sabadell customers or third parties that do not require a card), and transfers by 9%.

The *Instant Money on Behalf* service became operational at all the Bank's branches and ATMs at the end of the first quarter of 2019. *Instant Money on Behalf* is a new solution that enables customers to withdraw cash from an ATM at a branch using an activator code generated by the branch itself; this solution met with a very good response and 36,000 transactions were performed in 2019.

In 2019, the Bank started to replace 596 ATMs in Spain, as well as adding 103 in-branch ATMs and installing online cash deposit machines at over 96% of branches; this project is due to conclude in the first quarter of 2020. The goal is to enhance service in order to increase customer satisfaction.

BSOnline and Sabadell Móvil

By 2019 year-end, over 55% of our customers were digital, a 3-point increase year-on-year, including online banking visits and transactions, particularly using the mobile app. BSM and BSWallet maintained double-digit growth figures, while the web channel continued to grow.

*BSOnline*

Despite all the figures on the growth and use of mobile data, BSOnline visit and usage figures did not decline with respect to 2018. Traffic and usage frequency numbers remain high, and transactional usage is particularly prevalent in the company segment.

The number of transactions performed via BSOnline continues to grow: servicing transactions for corporate customers increased by 7% with respect to the previous year.

During 2019, a number of projects were launched to reduce friction and increase the value for customers in transaction types used frequently by business customers, by improving processes in such areas as transfers, reverse factoring and tax payments.

*Sabadell Móvil*

The number of users of Sabadell Móvil (BSM) continued to rise, from 2.4 million to 2.7 million. The app is the sole digital relationship channel with the Bank for almost 40% of digital customers.

In addition to rising statistics for downloads and preferences, the frequency of use is stable at an average of 22 times per month.

The channel's usage and servicing statistics continue to rise, particularly in recurring operations and consumer finance transactions.

The process of applying for consumer finance and for accepting and drawing on pre-approved loans has been automated and optimised. As a result, the app is now involved in over 80% of digital loans, an increase of over 50% year-on-year.

Continuing with the goal of enabling customers to pay for purchases in instalments, the way in which the instalment option is displayed on till receipts was improved, and the option of paying in instalments is now displayed directly, which has increased awareness and use of this service.

In 2019, the Bank rolled out Blink, an online service for arranging insurance that is 100% digital, from simulating premium costs to signing policies.

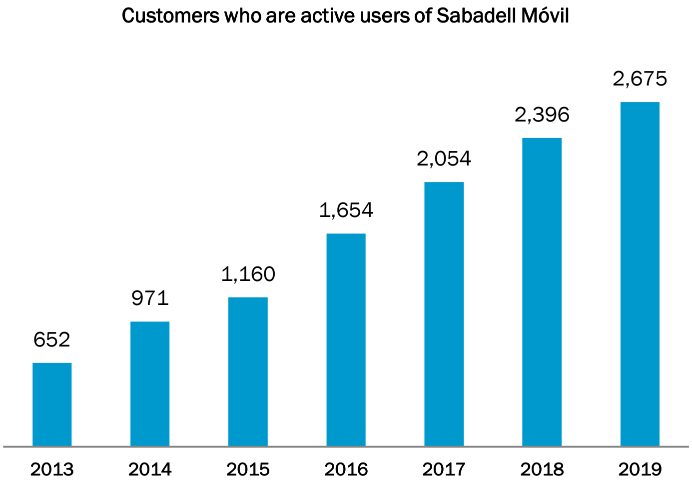
The Bizum service for sending money between mobile devices tripled transaction numbers with respect to 2018; more features were added as well as the option of repeating the most frequent transaction, and it was incorporated into the transfer section of BSM.

The Sabadell Wallet app continues to improve the enrolment process and usability, and is logging overall growth in the rates of adoption, use and repeat use by customers.

Our customers are increasingly turning to mobile payment options, including notably the rapid uptake and widespread use of ApplePay.

This year, we integrated a customer feedback option into the app.

Additionally, work continued to enhance the app's home screen by making the finance, saving and card balances more visible and highlighting transactions pending signature.



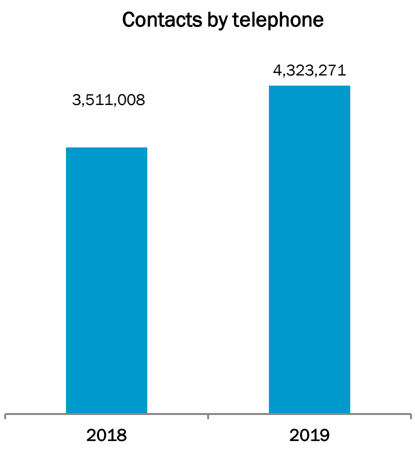

Direct Branch

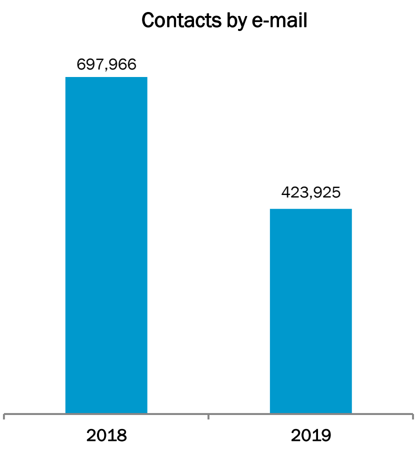
Contacts with Direct Branch increased by over 14% in 2019 with respect to 2018, to 5.2 million.

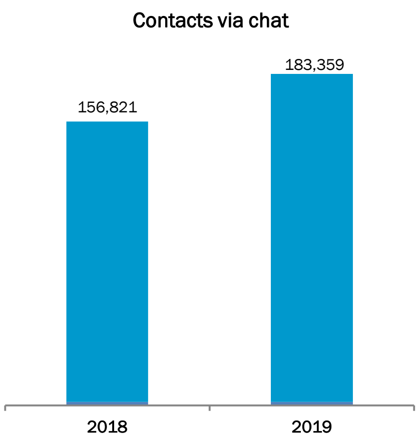
The contact channels that experienced fastest growth in 2019 were telephone and social media.

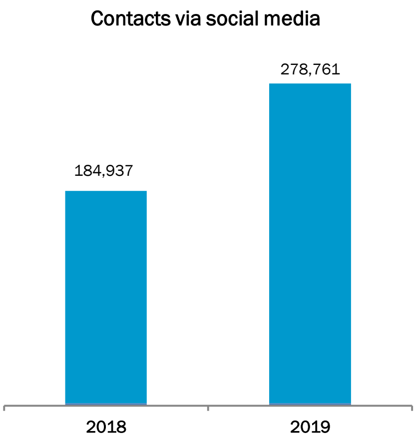
The SLA (Service Level Agreement) ratio for telephone enquiries exceeded 90.60%, followed by chat (92.52%) and e-mail (82.54%). There were more than 330,000 mentions on social media, and the number of interactions exceeded 278,000, with an SLA of 93.81%.

The growth was driven by the Payment Services Directive (PSD2) and the roll-out of Strong Customer Authentication (SCA) in distance banking.



Social media

Banco Sabadell first began participating in social media 13 years ago. The objective was to get to know digital clients 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 17 different profiles, and it has one of the best digital profiles in the industry.

Social media are among the main channels for engaging with our customers, both for handling queries and for broadcasting institutional 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 in 2011.

Banco Sabadell currently has over 500,000 followers. Nearly 278,000 mentions of the brand were monitored or dealt with in 2019.

A key success factor is continuous tracking of interactions with followers and customers. One of principal KPIs in social media positioning is the response rate, in which Banco Sabadell has a high score. Additionally, social media serve as an important channel for conveying corporate and institutional content and as a channel for opinion-makers, both internal and external. Social media are used to announce and webcast many sponsored events and other initiatives in which we play an active role. They include results presentations, the General Meeting of Shareholders, the Barcelona Open Banc Sabadell - Conde de Godó tennis tournament, the Alejandro Sanz Tour, the 4YFN startups summit at the Mobile World Congress, the South Summit, the Banco Sabadell Foundation Research Awards, and the World Summit on Climate Change, where the bank's commitment to sustainability was patent.

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 ratings of our branch offices in GoogleMaps.

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 (InnoCells)**

InnoCells is Banco Sabadell's hub for innovation and strategic investments. It operates on the basis of a flexible innovation model that has evolved in line with the Bank's needs.

The purpose of InnoCells is to expand the value chain by identifying new lines of business, innovating in digital products and developing new value propositions in order to anticipate customers' needs and address them through a complete offer with an end-to-end vision.

Banco Sabadell and InnoCells also have a joint strategy to attract digital talent and develop its positioning in innovation by executing projects, partnerships and investments.

InnoCells combines four capabilities to address challenges and projects, with reflection and execution, which ensure maximum impact for the Banco Sabadell Group and enhance the customer experience.

*Business design - Strategic design*

Strategic design is based on evolving the financial services value proposition towards the delivery of user-centric digital experiences.

InnoCells helps identify leading market practices and integrate the customer-centric vision. Business Design addresses the challenges holistically and incorporates customers' voices throughout the process: it understands users and their problems, proposes new products and services or modifies current processes, and validates solutions with users.

Strategic design addresses projects from a different point of view: it empathises with people, and understands not only their financial and non-financial needs (and their emotions, aspirations and limitations) but also the circumstances and context.

InnoCells works iteratively, based on market inputs, to reduce uncertainties and minimise the risk of failure. Its objective is to design and deploy services and solutions designed from the customer's perspective to improve people's financial well-being.

*Digital strategy*

InnoCells leads the Group's strategic reflection on digital matters and acts as a know-how hub. This innovation vehicle provides a strategic vision from the ecosystem on key business issues. It also helps identify leading practices in the market and integrate the customer's viewpoint. This brings it closer to project execution.

*Strategic Investments*

The hub scouts priority areas and verticals in connection with Banco Sabadell's core activities. In this way, it provides access and know-how about innovations and trends in the ecosystem and builds a comprehensive fintech portfolio.

To date, InnoCells has made twelve investments in startups and funds and has acquired two companies — Instant Credit and PAYCOMET — whose services have been added to Banco Sabadell's means of payment offer in six countries.

*Partnerships*

InnoCells also acts as a service layer to facilitate commercial agreements between Banco Sabadell and the startup ecosystem, as well as to drive product innovation and the adoption of new technologies with a positive impact for customers. Below are some examples:

- Signing contracts by voice using the novel digital voice signature developed by Biometric Vox, a startup in which InnoCells invested in February 2018, making Banco Sabadell the first bank in Spain to offer this service to its customers.

- The alliance with fintech Nemuru to provide customers with access to financing for home refurbishment work.

*Business design projects*

InnoCells has contributed to Banco Sabadell's digital offer and to improving the customer experience both by developing projects from scratch and by adapting existing processes or exploring new environments.

Below are two examples of differentiated evolution (the first was added to Banco Sabadell's offer to self-employed workers, and the second was launched on the market as an independent company) and good positioning:

- Nomo: a digital platform providing an app with a range of tools for freelance and self-employed workers to assist with managing their business, accounts and tax, as well as offering financial services.

- Mitto: a prepaid card for young people aged 14 and upwards that can be used to make payments both online and offline up to the balance on the card. The app enables parents to link to a bank card and send money instantly to their children.

## 2 – ECONOMIC AND FINANCIAL BACKGROUND

### Economic and financial background

The global economy weakened on the back of trade tensions, Brexit uncertainty and China's economic slowdown. Against this backdrop, the leading economies' central banks resumed monetary stimulus policies.

The US-China trade war was one of the main focuses of attention and uncertainty. Over the course of the year, several attempts to bring the two countries' positions closer proved unsuccessful, and were followed by tariff increases. Moreover, the conflict continues to affect not only trade but other spheres, such as technology (sanctions on Huawei and other Chinese tech companies) and the currency markets (the United States officially designated China a currency manipulator). Nevertheless, 2019 ended with news of a trade deal between the two superpowers, which included concessions from China in return for a reduction in tariffs.

The trade tensions generated by the Trump Administration also affected the EU, albeit to a lesser extent. The main event was the decision to impose 7.5 billion dollars in tariffs on EU goods in response to illegal subsidies to Airbus, after the World Trade Organization (WTO) ruled in the US's favour. However, the US eventually opted not to impose tariffs on the European automotive industry, a threat that loomed large for most of the year.

With regard to Mexico, over the summer the Trump Administration unleashed further shock waves of uncertainty after threatening to hit all Mexican imports with tariffs unless the country took steps to curb migrant flows. Days later, the authorities of the two countries reached a deal on migration that ruled out those tariffs. Meanwhile, despite some progress in the US regarding Congressional approval of the new trade deal that will replace NAFTA, its final approval remains pending.

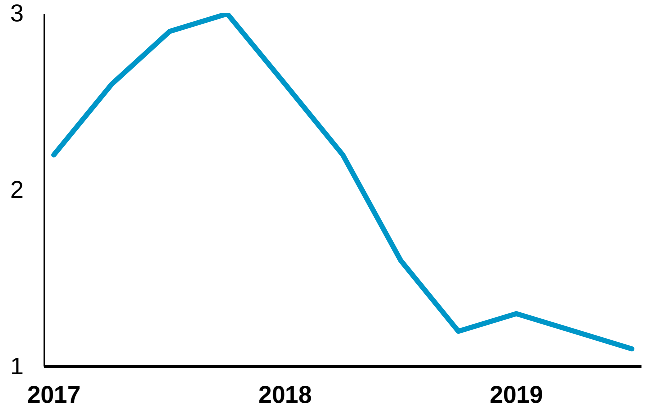
Brexit and the successive postponements of Britain's exit from the EU shaped the UK economy and politics in the year. Theresa May's failure to persuade the House of Commons to approve her withdrawal agreement with the EU culminated in her resignation, and Boris Johnson's rise to power. Johnson managed to renegotiate the agreement with the EU and, with Parliament deadlocked, he called an election in December with a view to getting his deal through. Johnson's landslide election victory paved the way for the UK to leave the EU on 31 January 2020. That marked the beginning of a transition period and talks to shape the UK's future relationship with the European Union.

Also on the political front, the US House of Representatives voted to impeach Donald Trump. The Democrats' case stems from a phone call in which Trump asked the president of Ukraine to dig up information concerning the business dealings of Joe Biden's son (Biden is one of the front-runners in the Democratic primaries) in exchange for authorising military aid to the country. For the process to end in the president's removal, a two-thirds majority is required in the Senate, which is controlled by the Republicans. In Europe, in the wake of the parliamentary elections, the new President of the European Council established as the priorities of his mandate ensuring EU sovereignty (including in the industrial and digital spheres), leading the fight against climate change and upholding European values. In Italy, the Five-Star Movement and the Democratic Party formed a coalition government that is more pro-European than its predecessor.

With regard to economic activity, in 2019 global GDP logged its slowest growth since the financial crisis. The manufacturing sector, business investment and international trade were the worst hit by the trade war, while services proved more resilient. Meanwhile, positive labour market dynamics were maintained, supporting consumer spending.

In the developed economies, the Eurozone showed vulnerability to the global context (trade tensions and Brexit) and continued to decelerate, hampered by export performance. The European economy was also weighed down by the conjunction of certain idiosyncratic elements, such as the new environmental regulations in the automotive sector. In the UK, economic growth was constrained by Brexit uncertainty and global trade tensions. UK companies replaced investment with labour, keeping the unemployment rate close to record lows. In the United States, economic growth gradually eased, but remained at reasonable levels in the year as a whole. Consumer spending was the mainstay of the economy, buoyed by a strong labour market. In Japan, growth in activity was constrained by the decline in the foreign sector.

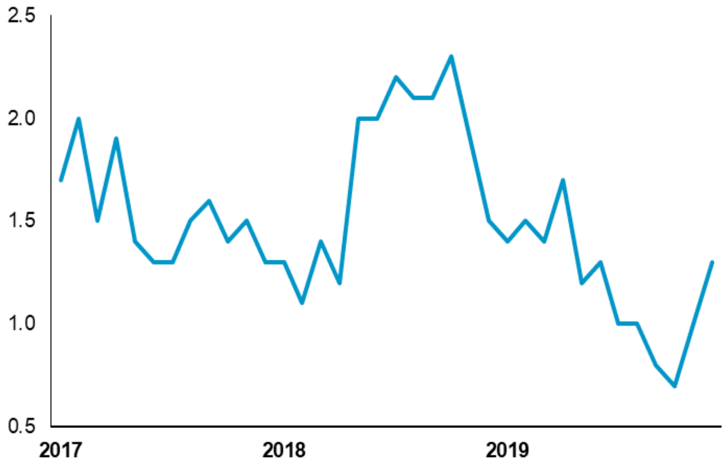
Eurozone GDP (year-on-year change, %)




As for emerging economies, Chinese growth was hampered by the trade war with the US, which forced the authorities to adopt measures to mitigate the impact. In any event, these measures were restrained and aimed at shoring up consumer spending, SMEs, the private sector and, to a lesser extent, infrastructure investment. It is notable that, excluding China and India, economic growth in emerging economies still barely exceeds that of developed countries. In Mexico, the economy stagnated, impacted by uncertainty on domestic policies and sluggish expenditure by Andrés Manuel López Obrador's government. Moreover, the government's shift towards a more interventionist energy policy triggered downgrades in the sovereign rating and the rating of state-owned oil company Pemex. With regard to Brazil, Jair Bolsonaro's new government managed to approve a pension reform needed to ensure fiscal sustainability. In Argentina, Peronist leader Alberto Fernández won the presidential election at the end of October, and appointed former president Cristina Kirchner his vice-president. The result was not welcomed by financial markets, given their interventionist, anti-IMF stance. The government's precarious financial situation led it to postpone Treasury bill repayments. The government also commenced the process to perform a general restructuring of government debt. In Turkey, some imbalances were redressed and the economy improved somewhat. However, the recovery remains closely linked to stimulus policies, while external leverage and dollarisation levels of the Turkish economy remain high. Erdogan's foreign policy has also remained in the spotlight after he acquired Russian missiles and ordered a military incursion into Syria, sparking tensions with the US government.

Inflation remained contained in the main developed economies and is below central banks' targets, especially in the Eurozone.

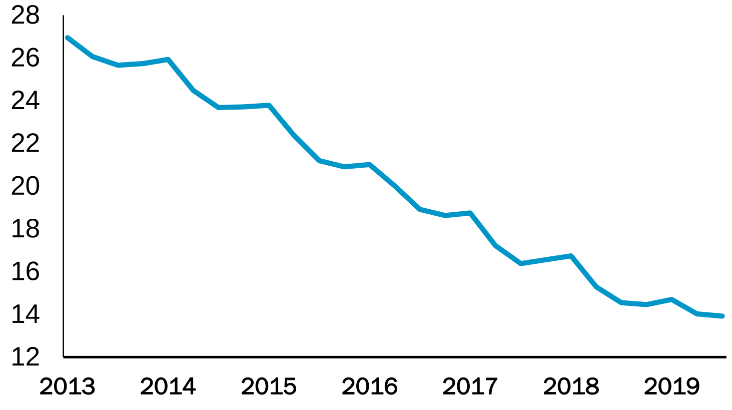
Eurozone HICP (year-on-year change, %)




Oil prices fluctuated to the tune of developments in the trade war and geopolitical tensions. The accommodative shift by central banks, the decision by OPEC and other oil producers to extend the production cuts, and disruptions in the supply of oil from countries like Venezuela and Iran were significant factors shoring up Brent crude prices, which ended the year about 20% higher. The increase in crude oil supply in the United States and the reduction in demand projections curbed the rise of crude oil prices.

The Spanish economy logged growth in line with that of the previous year, of around 2% year-on-year. As in the rest of Europe, the manufacturing sector was hampered by global trade tensions, Brexit and the introduction of new environmental regulations in the automotive sector. On the labour market front, the trend was less positive than in the previous year, although unemployment continued to fall. As for real estate, house prices remained very dynamic despite flagging sale transactions, which were impacted, among other things, by new legislation. On the external front, the current account balance registered a surplus for the eighth consecutive year, despite global trade tensions, trade partners' more sluggish economic growth and the absence of growth in foreign tourist arrivals. Several rating agencies took positive steps regarding Spain's sovereign rating, and the country held two general elections (in April and November) resulting in an especially fragmented parliament and an agreement between the Socialist Party (PSOE) and Unidas Podemos on a programme for government.

Unemployment rate in Spain (% of labour force)

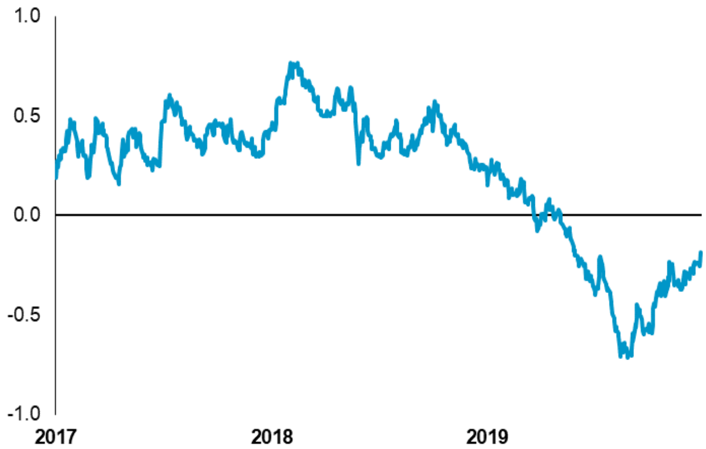



The leading economies' central banks resumed a clearly accommodative stance, in a context of economic deceleration without inflationary pressures. In September, the ECB approved a 10bp cut in the deposit facility rate to -0.50%, the first cut since 2016, to a level never previously seen. The ECB also resumed its asset purchase programme without establishing a date for its conclusion, and improved the previously established conditions for short-term liquidity operations (TLTRO III). It also introduced a new tiering system for remunerating banks' surplus liquidity reserves. In the US, the Fed cut interest rates for the first time in a decade, with three consecutive cuts since the summer, to the 1.50%-1.75% range, as insurance against global risks. Towards the end of the year, the Fed opted to wait and see how developed economies would perform. The Fed also completed its balance sheet normalisation process ahead of schedule, and, in light of the tightening of the money market in dollars, it then began to expand its balance sheet by means of liquidity auctions in the repo market and the purchase of Treasury bills. During the year, Trump repeatedly criticised the Fed in a bid to pressure the bank to adopt a laxer monetary policy. The Bank of Japan extended the period in which it will keep interest rates low.

Global financial markets were buoyed by the shift at developed countries' central banks towards a more accommodative monetary policy. Risk assets such as equities and corporate debt performed very strongly and showed less volatility than in the previous year. This was the case despite ongoing trade tensions and deepening liquidity problems in some markets, such as the US repo market. Overall, funding conditions remained lax for most of the year, which led to a sharp increase in funding via capital markets. International institutions have warned that the growing importance of funding via capital markets is one of the main risks to financial stability.

Yields on German and US long-term government debt declined over the course of the year, ending at -0.19% and 1.92%, respectively. The yield on the German 10-year bond moved back into negative territory for the first time since 2016, and reached record lows. The yield on the US 10-year bond hit its lowest since 2016. The decline in the yields of both bonds were influenced by uncertainty regarding trade talks between the US and China and in connection with Brexit, the global economic slowdown, the absence of inflationary pressures, the reversal of market inflation expectations in the Eurozone and the new, more accommodative measures by central banks. At the end of the year, the easing of trade tensions between the US and China exerted upward pressure on both economies' sovereign debt yields.

German government bond yield (%)




Sovereign risk premiums in non-core Europe tightened due to the ECB's latest accommodative measures, the election of a more pro-European government in Italy and positive rating actions by the rating agencies with respect to Spain and Portugal. The improved market mood was also evidenced in Greece, where the Treasury issued the country's first long-term bond since exiting the international bailout.

With regard to currencies, the euro depreciated against the dollar. Sluggish macroeconomic performance in the Eurozone was among the key factors in this trend. Trade talks between the US and China generated volatility in the exchange rate, and this may have been a factor underpinning the dollar. Sterling remained exposed to Brexit developments and, in particular, the fluctuating risk of a no-deal exit from the EU. The repeated rejection by MPs of a no-deal Brexit and the change of tone by Boris Johnson, who eventually worked to ensure a deal, helped shore up sterling against the euro. The yen remained at similar levels to the previous year, although it did experience volatility against the dollar, impacted by the uncertainty linked to trade tensions.

Equities logged a very strong performance, bolstered by the accommodative tone of central banks. Developments in connection with the trade war had only a temporary effect on share prices.

The shift by developed economies' central banks towards a laxer stance supported emerging countries' financial markets and enabled some emerging countries to cut benchmark interest rates. In any event, trade tensions triggered volatility spikes over the course of the year. Once again, the countries with the greatest idiosyncratic vulnerabilities, such as Argentina and Turkey, suffered the most.

### Banking sector

Europe's banking system maintained its strong capital position in 2019, and continued to reduce non-performing exposures. Accordingly, the average fully loaded CET1 ratio stood at 14.4% in September 2019, compared with 14.5% in September 2018. Meanwhile, the average loan loss ratio at EU banks continued to decrease, reaching 2.9% in June 2019 (vs 3.4% a year previously), the lowest level since the definition of non-performing loan was harmonised in Europe. This decrease was underpinned by enhanced management of this kind of assets, as well as by the favourable economic context and low interest rates. However, the prolonged period of low interest rates continued to burden profitability, which averaged 6.6% in September 2019, 0.6 points less than a year previously and still below the average cost of capital.

The liquidity stress test in the Eurozone banking system revealed a robust liquidity position, although global and systemic banks, more dependent on wholesale funding, would be worst hit in an adverse scenario.

According to various European authorities, the main risks to financial stability in the EU are: (i) tight asset valuations that could lead to sharp market corrections; (ii) challenges posed to financial entities' profitability; (iii) growing acceptance of risk by non-bank financial institutions; and (iv) in the longer term, the sustainability of business models in the transition towards a sustainable economy.

In Spain, the banking industry's profitability decreased year-on-year, to 7.3% in September 2019, although it remained clearly higher than the European average. Wholesale sales of stage 3 asset portfolios by some banks pushed the loan loss ratio down to 3.4% in September 2019, 0.7 points lower than a year earlier. As for capital, the CET1 ratio (11.6% in September 2019) is clearly above regulatory minimum requirements, but still below the European average.

### Regulatory environment

#### Banking Union

Over the course of 2019 there was little progress on completion of the Banking Union due to the electoral calendar in the EU. The main milestone was approval of the single rulebook through which the penultimate changes to Basel III are enshrined in European legislation. All of this was instrumented by amending the Capital Requirement Regulation (CRR) and the Capital Requirements and Bank Recovery and Resolution Directives (CRD IV and BRRD). Most of these new rules come into force in mid-2021. On an institutional level, no agreement was reached to establish a European Deposit Insurance Scheme, although a high-level working group was created to make headway in political negotiations and a German proposal made at the end of the year will serve as the basis for subsequent discussions.

With regard to the resolution framework, it was agreed that the European Stability Mechanism (ESM) would act as a backstop for the Single Resolution Fund (SRF). Accordingly, in situations in which the SRF is stretched for resources to tackle a resolution event, the ESM will grant it a credit facility to cover any deficit. The ESM will commence its new functions in 2024, although there is scope to bring that date forward.

#### Capital Markets Union

Concrete progress in connection with the Capital Markets Union (CMU) was limited, due to the European elections in May.

On the one hand, negotiations are ongoing to devise regulations governing crowdfunding platforms in the EU. Some headway was also made in the creation of a pan-European voluntary individual pension product and measures were established to remove obstacles to the cross-border distribution of mutual funds. There were discussions concerning the possibility of resuming work on the project to create a risk-free asset for the Eurozone, which met with reluctance from various countries. The new Commission, for which the CMU is one of its priorities, created a high-level experts forum to strengthen the project with new strategic measures.

There was more progress with regard to sustainable finances, since the work focused on rolling out the Action Plan on Financing Sustainable Growth unveiled in 2018. Entry into force of the common classification of environmentally sustainable activities will be complete at the end of 2021 for two of the six categories defined, while the other four must be implemented one year later.

Macroprudential framework

Countries have intensified their use of macroprudential policies in 2019, due to the accumulation of financial vulnerabilities in a context of accommodative monetary policy in the last few years. All this is aimed at preventing and mitigating cyclical systemic risks that can be caused by excessive growth in aggregate lending.

Discussions concerning macroprudential policies focused on quantitative models underestimating financial risks, the need to complete macroprudential policy for the non-banking sector and to incorporate the macroprudential angle in stress tests in the banking sector.

Several economies, like Germany, activated or announced activation of the countercyclical capital buffer (CCyB). Others, like France and the United Kingdom, decided to increase it due to persistent vulnerabilities. For its part, the Bank of Spain expressed a willingness to activate this instrument if its macroeconomic forecasts are confirmed. All of this in a context in which the ECB has been calling for greater use of the CCyB.

Moreover, the European authorities warned of significant growth in non-bank financial intermediation. Regulation of this part of the financial sector is less developed than that of the banking sector, enabling the non-banking sector to assume greater risks. All of this makes it necessary to develop a specific macroprudential framework for the non-bank sector, strengthen the identification and monitoring of its risks and properly quantify the relationship between the banking and non-banking sectors.

Regulatory and supervisory framework

In 2019, the authorities continued to work on reforms already underway. Europe agreed to reform the European System of Financial Supervision (ESFS), comprising the EBA (banks), EIOPA (insurers and pension funds), ESMA (markets) and ESRB (macroprudential). The reform will aim to increase supervisory efficiency, coherency and transparency. The EBA is now the supervisor of activities relating to money-laundering throughout the financial sector.

Work continued in several regions to reform benchmark indices. In Europe, the ECB began publishing the replacement for Eonia, the Euro Short Term Rate (€STR). Although the two indices will coexist until the end of 2021, Eonia is now calculated as a fixed premium over €STR, set by the ECB. Moreover, the competent authorities confirmed that the reform of Euribor towards a hybrid methodology is compliant with the European Benchmarks Regulation (BMR), so it may be used in new and existing contracts and instruments. In the United Kingdom the first financial products linked to the index replacing Sonia were launched.

As for climate change, its impact on the banking sector captured growing attention from central banks and supervisors, who are working on supervisory expectations and the incorporation of climate risks into stress tests. With regard to Brexit, European and British authorities took contingency measures to avoid disruption in financial markets in the event of a no-deal exit. These measures, which focus on derivative transactions, will remain in place for part of the transition period. The future relationship between the UK and EU in connection with financial services will be based on existing regulatory equivalence rules.

### Outlook for 2020

In the absence of additional escalations in trade tensions, the global economy should gain some traction as 2020 progresses.

Nevertheless, growth is likely to stay modest in light of the persistent sources of uncertainty: geopolitical environment, Brexit ramifications, US presidential election, etc.

To combat this uncertainty, monetary policy will likely seek to maintain lax funding conditions, while fiscal policy may be somewhat less focused on austerity.

Countries with more dynamic domestic demand and less reliance on the foreign sector look set to have some advantage over the rest.

### Headlines

- The trade war and Brexit continued to shape the global economic and financial context.
- The global economy posted the slowest growth since the financial crisis and inflation was contained.
- The leading economies' central banks resumed monetary stimulus measures.
- Spain logged growth in line with that of the previous year, of around 2% year-on-year.
- Eurozone banks strengthened their capital position and asset quality. Profitability is still under pressure in a context of low interest rates.
- The impact of climate change on the banking sector increasingly captured the attention of central banks and supervisors.

### Executive summary

- Political and geopolitical matters shaped the international economic and financial context once again.
- The trade war between the United States and China led to an increase in tariffs. Tensions also surfaced in technology.
- Brexit did not happen in 2019. Boris Johnson's landslide election victory paved the way for the UK to leave the EU on 31 January 2020.
- The global economy weakened in this context of uncertainty, posting the slowest growth since the financial crisis.
- The manufacturing sector and business investment were the worst hit by the trade war, while services have proven more resilient.
- Spain logged growth in line with that of the previous year, of around 2% year-on-year.
- Economic growth in the UK was constrained by Brexit uncertainty.
- In Mexico, the economy stagnated, impacted by uncertainty on domestic policies and slow execution of government expenditure.

- Risk assets performed well, buoyed by the shift at developed economies' central banks towards a more accommodative monetary policy.
- In September, the ECB approved a packet of stimulus measures (it cut the deposit facility rate, resumed the asset purchase programme, etc.).
- The Fed cut interest rates as insurance against global risks, auctioned liquidity, and commenced a programme to purchase Treasury bills as a means of combating money market tensions.
- The yield on German long-term debt moved back into negative territory for the first time since 2016, impacted by the context of uncertainty and by the ECB's policy.
- Sovereign risk premiums in non-core Europe have tightened, influenced by the ECB's latest accommodative measures and the change of government in Italy.
- The euro depreciated against the US dollar due to economic weakness in the Eurozone and trade tensions.
- Sterling remained sensitive to Brexit and appreciated against the euro when the UK parliament blocked a no-deal exit and Boris Johnson sought a new deal.
- The shift by developed economies' central banks towards a laxer stance lent support to emerging countries' financial markets.
- Europe’s banking system maintained its strong capital position and continued to reduce non-performing exposures.
- There was little progress on the Banking Union and Capital Markets Union due to the electoral calendar in the EU. The main milestones were the approval of the reformed single rulebook, the agreement on the resolution framework and the rollout of the Action Plan on Sustainable Finance.
- Countries intensified their use of macroprudential policies in light of the accumulation of financial vulnerabilities in a context of accommodative monetary policy.
- In the regulatory and supervisory frameworks, work was done to reform benchmark indices and central banks and supervisors focused increasingly on the impact of climate change on the banking sector.

## 3 – FINANCIAL INFORMATION

### 3.1 Key figures in 2019

The key figures for the Group, including financial and non-financial data of critical importance for the management of the Group, are set out below:

| | | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|---|
| **Income statement (million euros)** | (a) | | | |
| Net interest income | | 3,622 | 3,675 | (1.4) |
| Gross income | | 4,932 | 5,010 | (1.6) |
| Pre-provisions income | | 1,719 | 1,737 | (1.0) |
| Profit attributable to the Group | | 768 | 328 | 134.0 |
| **Balance sheet (million euros)** | (B) | | | |
| Total assets | | 223,754 | 222,322 | 0.6 |
| Outstanding gross loans and advances | | 144,572 | 139,366 | 3.7 |
| Loans and advances to customers, gross | | 150,749 | 146,420 | 3.0 |
| On-balance sheet customer funds | | 146,309 | 137,343 | 6.5 |
| Off-balance sheet funds | | 43,163 | 44,034 | (2.0) |
| Total customer funds | | 189,472 | 181,377 | 4.5 |
| Equity | | 12,974 | 12,117 | 7.1 |
| Shareholders' equity | | 13,172 | 12,545 | 5.0 |
| **Ratios (%)** | (c) | | | |
| ROA | | 0.35 | 0.15 | |
| RoRWA | | 0.95 | 0.41 | |
| ROE | | 5.94 | 2.60 | |
| ROTE | | 7.36 | 3.18 | |
| Cost-to-income | | 55.63 | 58.29 | |
| **Risk management** | (D) | | | |
| Stage 3 exposures (million euros) | | 6,141 | 6,554 | |
| Total NPAs (million euros) | | 7,326 | 8,279 | |
| NPL ratio (%) | | 3.83 | 4.22 | |
| NPL coverage ratio (excl. floor clauses) | | 49.6 | 54.1 | |
| NPA coverage ratio (%) (excl. floor clauses) | | 46.9 | 52.1 | |
| **Capital management** | (E) | | | |
| Risk-weighted assets (RWA) (million euro) | | 81,231 | 80,335 | |
| Common Equity Tier 1 (phase-in) (%) | (1) | 12.4 | 12.0 | |
| Tier 1 (phase-in) (%) | (2) | 13.9 | 13.4 | |
| Total capital ratio (phase-in) (%) | (3) | 15.7 | 14.7 | |
| Leverage ratio (phase-in) (%) | | 5.01 | 4.86 | |
| **Liquidity management** | (F) | | | |
| Loan-to-deposit ratio (%) | | 98.6 | 101.6 | |
| **Shareholders and shares (as at reporting date)** | (G) | | | |
| Number of shareholders | | 235,034 | 235,523 | |
| Average number of shares (million) | | 5,538 | 5,565 | |
| Share price (euros) | | 1.040 | 1.001 | |
| Market capitalisation (million euros) | | 5,760 | 5,568 | |
| Earnings per share (EPS) (euros) | | 0.13 | 0.05 | |
| Book value per share (euros) | | 2.38 | 2.25 | |
| Price/Book value | | 0.44 | 0.44 | |
| Price/earnings ratio (P/E) | | 8.29 | 20.11 | |
| **Other information** | | | | |
| Branches | | 2,402 | 2,457 | |
| Employees | | 24,454 | 26,181 | |

(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 data related to loans and advances and customer funds.

(C) The ratios in this section of the table have been included to give a meaningful picture of profitability and the cost-to-income ratio in the last two years.

(D) This section gives some key balances and ratios related to the Group's risk management.

(E) The ratios in this section of the table have been included to give a meaningful picture of the capital position in the last two years.

(F) This section gives a meaningful picture of liquidity performance in the last two years.

(G) This section provides data on the share price and other stock market ratios and indicators.

(1) Core capital / risk-weighted assets (RWA)

(2) Tier 1 capital / risk-weighted assets (RWA)

(3) Total capital / risk-weighted assets (RWA)

## 3.2 Earnings performance

Million euro

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| Interest and similar income | 4,985 | 4,862 | 2.5 |
| Interest and similar charges | (1,362) | (1,187) | 14.8 |
| **Net interest income** | **3,622** | **3,675** | **(1.4)** |
| Fees and commissions (net) | 1,439 | 1,335 | 7.7 |
| **Net banking revenues** | **5,061** | **5,010** | **1.0** |
| Net trading income and exchange differences | 126 | 225 | (44.0) |
| Equity-accounted affiliates and dividends | 61 | 65 | (5.9) |
| Other operating income/expense | (317) | (290) | 9.0 |
| **Gross income** | **4,932** | **5,010** | **(1.6)** |
| Operating expenses | (2,743) | (2,920) | (6.1) |
| Staff expenses | (1,649) | (1,591) | 3.7 |
| Other general administrative expenses | (1,095) | (1,330) | (17.7) |
| Depreciation and amortisation | (470) | (353) | 33.0 |
| Total costs | (3,213) | (3,273) | (1.8) |
| *Memorandum item:* | | | |
| Recurring expenses | (3,109) | (3,027) | 2.7 |
| Non-recurring expenses | (105) | (246) | (57.5) |
| **Pre-provisions income** | **1,719** | **1,737** | **(1.0)** |
| Provisions for loan losses | (672) | (751) | (10.5) |
| Provisions for other financial assets | (22) | (166) | (86.9) |
| Other provisions and impairments | (244) | (404) | (39.5) |
| Capital gains on asset sales and other revenue | 170 | 2 | -- |
| **Profit/(loss) before tax** | **951** | **419** | **127.1** |
| Corporation tax | (174) | (84) | 108.3 |
| Profit or loss attributed to minority interests | 9 | 7 | 27.0 |
| **Profit attributable to the Group** | **768** | **328** | **134.0** |
| Memorandum item: | | | |
| Average total assets | 223,470 | 217,168 | 2.9 |
| Earnings per share (euros) | 0.13 | 0.05 | |

The average exchange rate used for TSB's income statement is 0.8844. The accumulated exchange rate in December 2018 was 0.8851.

## Net interest income

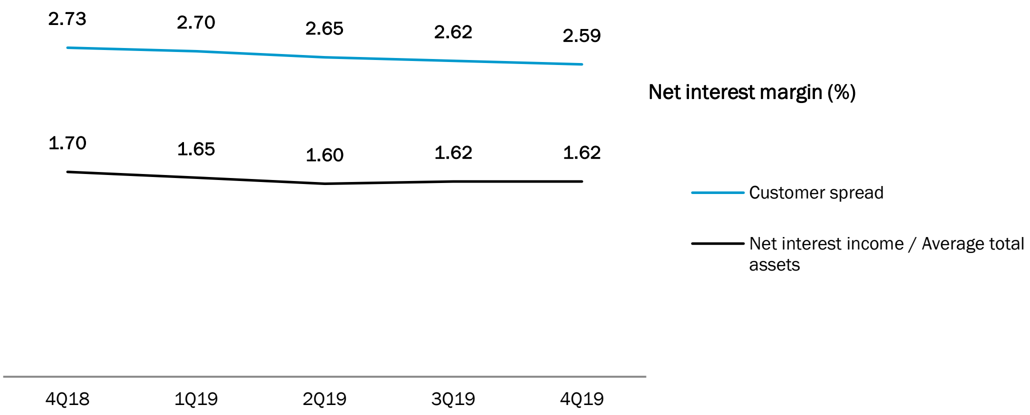
Net interest income amounted to 3,622 million euros in 2019, 1.4% less than in 2018, mainly as a result of the impact of IFRS 16, lower interest rates and the effect of securitising consumer loans in 2019.

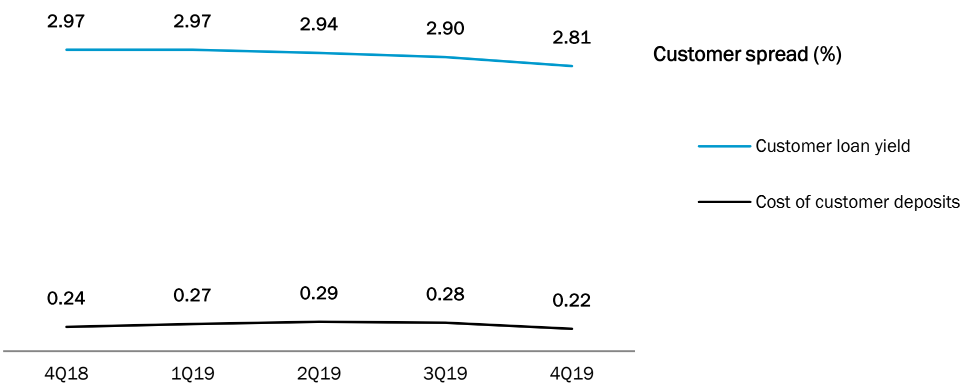
As a result, the return on average total assets was 1.62% in 2019 (1.69% in 2018).

Thousand euro

| | 2019 | | | 2018 | | | Change | | Effect | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Average balance | Profit/(loss) | Rate % | verage balance | Profit/(loss) | Rate % | Average balance | Profit/(loss) | Rate % | Volume | Days |
| Cash, central banks and credit i | 29,674,435 | 63,482 | 0.21 | 28,583,832 | 23,299 | 0.08 | 1,090,603 | 40,183 | 46,455 | (6,272) | - |
| Loans and advances to custome | 139,674,387 | 4,058,039 | 2.91 | 135,903,483 | 4,016,686 | 2.96 | 3,770,904 | 41,353 | (61,856) | 103,209 | - |
| Fixed-income portfolio | 26,937,403 | 342,243 | 1.27 | 25,950,163 | 352,466 | 1.36 | 987,240 | (10,223) | (16,899) | 6,676 | - |
| **Subtotal** | **196,286,225** | **4,463,764** | **2.27** | **190,437,478** | **4,392,451** | **2.31** | **5,848,747** | **71,313** | **(32,300)** | **103,613** | **-** |
| Equity portfolio | 879,843 | - | - | 933,848 | - | - | (54,005) | - | - | - | - |
| Property, plant and equipment a | 5,398,789 | - | - | 4,084,833 | - | - | 1,313,956 | - | - | - | - |
| Other assets | 20,905,143 | 340,451 | 1.63 | 21,712,189 | 274,307 | 1.26 | (807,046) | 66,144 | - | 66,144 | - |
| **Total capital employed** | **223,470,000** | **4,804,215** | **2.15** | **217,168,348** | **4,666,758** | **2.15** | **6,301,652** | **137,457** | **(32,300)** | **169,757** | **-** |
| Credit institutions | 28,634,214 | (43,933) | (0.15) | 32,033,556 | (35,690) | (0.11) | (3,399,342) | (8,243) | 10,207 | (18,450) | - |
| Customer deposits | 147,550,925 | (391,969) | (0.27) | 141,060,307 | (309,436) | (0.22) | 6,490,618 | (82,533) | (59,247) | (23,286) | - |
| Capital markets | 24,738,681 | (357,263) | (1.44) | 24,614,108 | (323,015) | (1.31) | 124,573 | (34,248) | (36,147) | 1,899 | - |
| **Subtotal** | **200,923,820** | **(793,165)** | **(0.39)** | **197,707,971** | **(668,141)** | **(0.34)** | **3,215,849** | **(125,024)** | **(85,187)** | **(39,837)** | **-** |
| Other liabilities | 9,816,263 | (388,655) | (3.96) | 7,134,507 | (323,433) | (4.53) | 2,681,756 | (65,222) | - | (65,222) | - |
| Own funds | 12,729,917 | - | - | 12,325,870 | - | - | 404,047 | - | - | - | - |
| **Total funds** | **223,470,000** | **(1,181,820)** | **(0.53)** | **217,168,348** | **(991,574)** | **(0.46)** | **6,301,652** | **(190,246)** | **(85,187)** | **(105,059)** | **-** |
| **Average total assets** | **223,470,000** | **3,622,395** | **1.62** | **217,168,348** | **3,675,184** | **1.69** | **6,301,652** | **(52,789)** | **(117,487)** | **64,698** | **-** |

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 revenues.




### Gross income

Dividends received and equity-accounted profits amounted to 61 million euros, compared with 65 million euros in 2018. Those revenues are due mainly to the insurance and pension fund business.

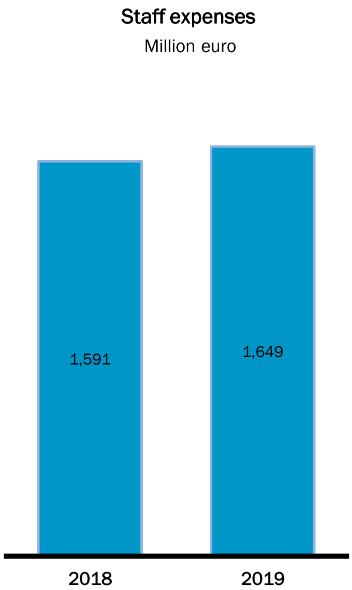
Net fees and commissions amounted to 1,439 million euros, a 7.7% increase year-on-year. This growth was attributable to good performance in all segments, notably service fees.

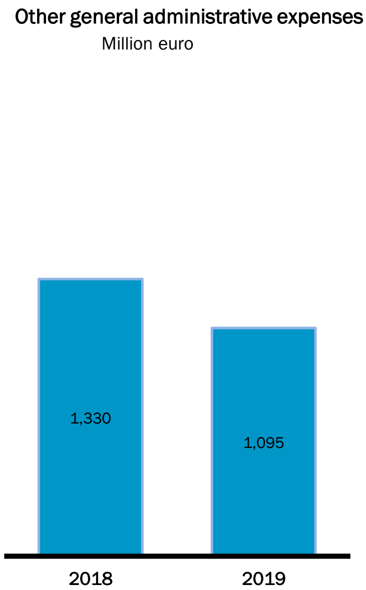
Trading income and exchange differences totalled 126 million euros, including the negative impact of remeasuring the subordinated debt of the holding in SAREB in the second quarter, and the positive impact of the capital gain on securitising consumer loans in the third quarter. The 2018 figure, 225 million euros, was due to the sale of fixed-income instruments.

Other operating revenues and expenses amounted to -317 million euros, compared with -290 million euros in 2018. Notable components of this item include the -121 million euros contribution to the Spanish Deposit Guarantee Fund (-106 million euros in 2018), the -59 million euros contribution to the Single Resolution Fund (-50 million euros the previous year), -48 million euros of the levy on conversion of deferred tax assets into debt claims against the Spanish tax authorities (-45 million euros in 2018), and the -31 million euros tax on deposits at credit institutions (IDEC) (-31 million euros in 2018).

**Pre-provisions income**

Expenses amounted to -3,213 million euros in 2019, of which -105 million euros were non-recurring. Expenses in 2018 amounted to -3,273 million euros, including -246 million of non-recurring items. The year-on-year reduction is due mainly to the extraordinary migration and post-migration costs at TSB in 2018.




The cost-to-income ratio improved in 2019 to 55.63%, from 58.29% in 2018.

As a result, pre-provisions income amounted to 1,719 million euros in 2019, a -1.0% decline with respect to the 1,737 million euros registered in 2018, mainly as a result of lower trading income and exchange differences and the increase in other operating income/expense, partly offset by higher banking revenues and lower expenses.

Provisions and impairments totalled 938 million euros, compared with 1,320 million euros in 2018. The reduction was due mainly to the lower amount of recurring provisions and the impact in 2018 of provisions for indemnities to TSB customers and higher provisions for the institutional sale of NPA portfolios.

Capital gains on assets sales amounted to 170 million euros, mainly from the disposal of Solvia Servicios Inmobiliarios and from booking the earnout on the insurance business; the 2018 figure was 2 million euros.

**Group net profit**

After deducting corporation tax and the share of profit attributed to minority interests, net profit attributable to the Group for 2019 was 768 million euros, a 134.0% increase compared with the previous year, mainly as a result of improvements in core banking revenue, lower provisions, the capital gain on the sale of Solvia Servicios Inmobiliarios, and the extraordinary expenses at TSB the previous year.

## 3.3 Balance sheet

Million euro

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| Cash, cash balances at central banks and other demand deposits | 15,169 | 23,494 | (35.4) |
| Financial assets held for trading | 2,441 | 2,045 | 19.4 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 171 | 141 | 21.0 |
| Financial assets designated at fair value through profit or loss | - | - | -- |
| Financial assets at fair value through other comprehensive income | 7,802 | 13,247 | (41.1) |
| Financial assets at amortised cost | 181,423 | 164,416 | 10.3 |
| Debt securities | 19,219 | 13,132 | 46.4 |
| Loans and advances | 162,204 | 151,284 | 7.2 |
| Investments in joint ventures and associates | 734 | 575 | 27.7 |
| Tangible assets | 3,462 | 2,498 | 38.6 |
| Intangible assets | 2,565 | 2,461 | 4.2 |
| Other assets | 9,987 | 13,445 | (25.7) |
| **Total assets** | **223,754** | **222,322** | **0.6** |
| Financial liabilities held for trading | 2,714 | 1,738 | 56.1 |
| Financial liabilities designated at fair value through profit or loss | - | - | -- |
| Financial liabilities measured at amortised cost | 205,636 | 206,077 | (0.2) |
| Deposits | 178,898 | 179,878 | (0.5) |
| Central banks | 20,065 | 28,799 | (30.3) |
| Credit institutions | 11,471 | 12,000 | (4.4) |
| Customers | 147,362 | 139,079 | 6.0 |
| Debt securities issued | 22,570 | 22,599 | (0.1) |
| Other financial liabilities | 4,168 | 3,601 | 15.8 |
| Provisions | 430 | 466 | (7.7) |
| Other liabilities | 1,998 | 1,924 | 3.9 |
| **Total liabilities** | **210,779** | **210,205** | **0.3** |
| Shareholders' equity | 13,172 | 12,545 | 5.0 |
| Accumulated other comprehensive income | (267) | (491) | (45.7) |
| Non-controlling interests | 69 | 64 | 9.1 |
| **Equity** | **12,974** | **12,117** | **7.1** |
| **Total equity and total liabilities** | **223,754** | **222,322** | **0.6** |
| Loan commitments provided | 27,564 | 22,646 | 21.7 |
| Financial guarantees provided | 2,107 | 2,041 | 3.3 |
| Other commitments provided | 10,399 | 8,233 | 26.3 |
| **Total memorandum accounts** | **40,070** | **32,920** | **21.7** |

The EUR/GBP exchange rate used for the balance sheet is 0.8508 at 31 December 2019.

At the end of 2019, assets at Banco Sabadell and its Group totalled 223,754 million euros, compared with 222,322 million euros at the end of 2018.

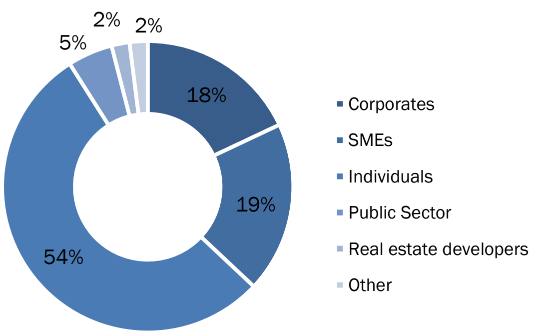
Outstanding gross loans and advances amounted to 144,572 million euros at 2019 year-end, a 3.7% year-on-year increase. The largest component of gross loans and receivables was mortgage loans, which amounted to 83,720 million euros at 31 December 2019 and accounted for 58% of total outstanding gross loans and advances.

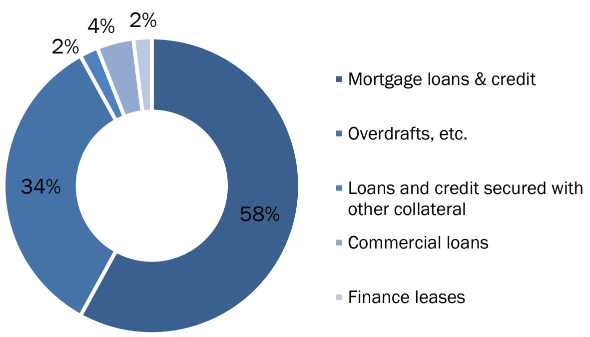
Million euro

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| Mortgage loans & credit | 83,720 | 80,872 | 3.5 |
| Loans and credit secured with other collateral | 3,330 | 2,767 | 20.3 |
| Commercial loans | 6,443 | 6,186 | 4.2 |
| Finance leases | 2,558 | 2,565 | (0.2) |
| Overdrafts, etc. | 48,521 | 46,976 | 3.3 |
| **Outstanding gross loans and advances** | **144,572** | **139,366** | **3.7** |
| Assets classified as stage 3 (customers) | 5,923 | 6,472 | (8.5) |
| Accruals | 18 | (13) | -- |
| **Loans and advances to customers, gross** | **150,513** | **145,824** | **3.2** |
| Repos | 236 | 596 | (60.4) |
| **Loans and advances to customers, gross, excluding repos** | **150,749** | **146,420** | **3.0** |
| NPL and country-risk provisions | (2,933) | (3,433) | (14.6) |
| **Loans and advances to customers** | **147,816** | **142,987** | **3.4** |

The EUR/GBP exchange rate used for the balance sheet is 0.8508 at 31 December 2019

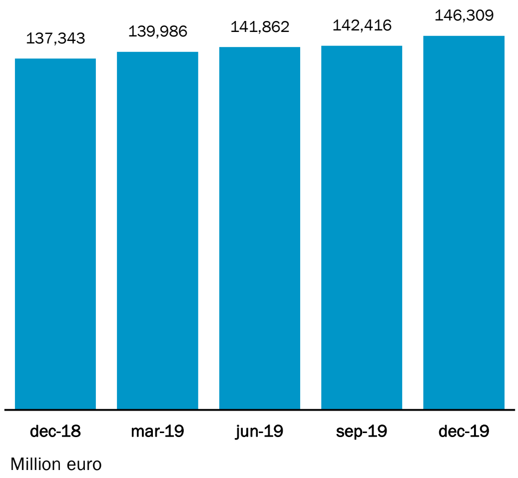
The breakdown of customer loans and advances by customer profile and product type, excluding stage 3 assets and accrual adjustments, is shown in the following graphics:



At 2019 year-end, customer funds on the balance sheet amounted to 146,309 million euros, a 6.5% increase on the figure of 137,343 million euros registered at the end of 2018.

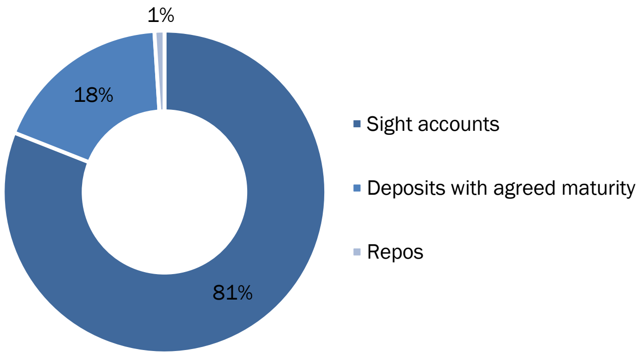
**On-balance sheet customer funds**




Off-balance sheet customer funds amounted to 43,163 million euros, a decline of -2.0% year-on-year. Within this item, the balance of assets in collective investment institutions declined to 26,003 million euros at 31 December 2019, a reduction of -1.4% in year-on-year terms.

The balance of demand accounts amounted to 118,868 million euros, 10.4% higher than the previous year.

The breakdown of customer deposits at 2019 year-end is as follows:




(*) Excluding accrual adjustments and hedging derivatives.

Total funds under management amounted to 213,095 million euros at 31 December 2019, an increase of 3.6% with respect to the balance of 205,711 million euros at 2018 year-end.

Million euro

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **On-balance sheet customer funds (*)** | **146,309** | **137,343** | **6.5** |
| Customer deposits | 147,362 | 139,079 | 6.0 |
| Current and savings accounts | 118,868 | 107,665 | 10.4 |
| Deposits with agreed maturity | 27,339 | 28,709 | (4.8) |
| Repos | 951 | 2,533 | (62.4) |
| Accrual adjustments and hedging derivatives | 204 | 172 | 18.6 |
| Bonds and other marketable securities | 19,514 | 19,568 | (0.3) |
| Subordinated liabilities (**) | 3,056 | 3,031 | 0.8 |
| **On-balance sheet funds** | **169,932** | **161,678** | **5.1** |
| Mutual funds | 26,003 | 26,379 | (1.4) |
| Equity funds | 1,606 | 1,681 | (4.4) |
| Balanced funds | 6,823 | 6,469 | 5.5 |
| Fixed-income funds | 5,037 | 4,027 | 25.1 |
| Guaranteed return funds | 3,008 | 4,074 | (26.2) |
| Real estate funds | 76 | 115 | (33.7) |
| Venture capital funds | 101 | 46 | 119.4 |
| Investment companies | 1,667 | 1,886 | (11.6) |
| UCITS sold but not managed | 7,685 | 8,081 | (4.9) |
| Asset management | 3,363 | 3,595 | (6.5) |
| Pension funds | 3,367 | 3,594 | (6.3) |
| Personal schemes | 2,216 | 2,168 | 2.2 |
| Workplace schemes | 1,140 | 1,416 | (19.5) |
| Collective schemes | 11 | 11 | 0.3 |
| Insurance products sold | 10,430 | 10,465 | (0.3) |
| **Off-balance sheet funds** | **43,163** | **44,034** | **(2.0)** |
| **Funds under management** | **213,095** | **205,711** | **3.6** |

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: non-convertible bonds issued by Banco Sabadell, commercial paper and others.

(**) Subordinated liabilities in connection with outstanding debt securities.

The EUR/GBP exchange rate used for the balance sheet is 0.8508 at 31 December 2019

The trend in non-performing assets improved in 2019. The quarter-on-quarter performance of these assets, excluding TSB, is shown below:

Million euro

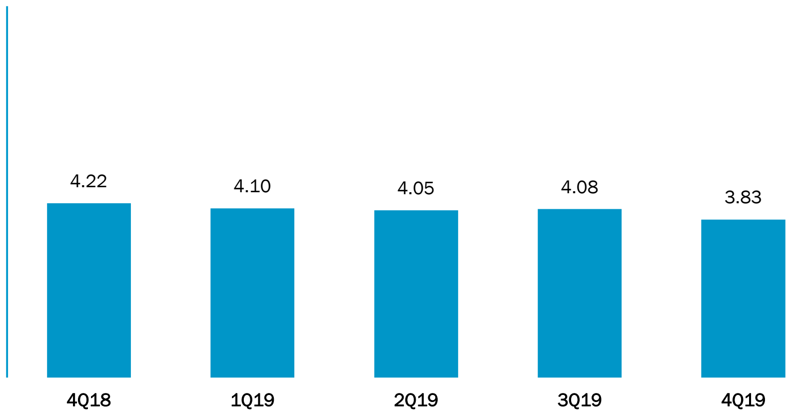
| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q |
| Net ordinary increase in balance of stage 3 assets | (12) | 86 | 80 | (81) | (58) | (243) | (14) | (699) |
| Change in real estate assets | 77 | 70 | (841) | 152 | 23 | (244) | (136) | (5,497) |
| **Ordinary net increase in NPAs + real estate** | **65** | **156** | **(761)** | **71** | **(35)** | **(487)** | **(150)** | **(6,196)** |
| Write-offs | 182 | 76 | 70 | 161 | 216 | 268 | 187 | 106 |
| **Ordinary quarter-on-quarter change in balance of stage 3 assets and real estate** | **(117)** | **80** | **(831)** | **(90)** | **(251)** | **(755)** | **(337)** | **(6,302)** |

Net variation, including as a non-performing exposure the 20% of exposure retained under the asset protection scheme (APS) and not transferred to the FGD.

Because of the reduction in stage 3 assets, the NPL ratio reached 3.83% at 2019 year-end, down from 4.22% a year earlier (a 39 basis point decline). The stage 3 asset coverage ratio was 49.6% at 31 December 2019, compared with 54.1% a year earlier, and the coverage ratio of foreclosed assets stood at 33.3% at 2019 year-end.

At 31 December 2019, the balance of Banco Sabadell Group's exposures classified as stage 3 amounted to 6,141 million euros, having decreased by 413 million euros during the year.

**NPL ratio (*) (%)**




* Includes contingent exposures. In 4Q18, institutional portfolios were reclassified as non-current assets available for sale; accordingly, those assets are excluded from the data.

The trend in the Group's coverage ratios is shown in the next table:

**Group coverage ratios**

Million euro

| | 2018 | | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q 20% APS | 4Q 100% APS | 1Q | 2Q | 3Q | 4Q |
| Exposures classified as stage 3 | 7,898 | 7,386 | 7,036 | 6,236 | 6,554 | 6,383 | 6,380 | 6,391 | 6,141 |
| Provisions | 4,467 | 4,209 | 4,036 | 3,419 | 3,544 | 3,360 | 3,301 | 3,263 | 3,045 |
| **Stage 3 coverage ratio** | **56.6** | **57.0** | **57.4** | **54.8** | **54.1** | **52.6** | **51.7** | **51.1** | **49.6** |
| Real estate assets | 7,416 | 7,171 | 7,036 | 1,539 | 1,726 | 1,803 | 1,873 | 1,032 | 1,185 |
| Provisions | 3,979 | 3,991 | 3,932 | 691 | 767 | 790 | 831 | 380 | 394 |
| **Real estate coverage ratio (%)** | **53.7** | **55.7** | **55.9** | **44.9** | **44.5** | **43.8** | **44.4** | **36.8** | **33.3** |
| Total non-performing assets | 15,314 | 14,557 | 14,072 | 7,775 | 8,279 | 8,186 | 8,253 | 7,424 | 7,326 |
| Provisions | 8,446 | 8,200 | 7,968 | 4,111 | 4,311 | 4,150 | 4,132 | 3,643 | 3,439 |
| **Non-performing assets coverage ratio (%)** | **55.2** | **56.3** | **56.6** | **52.9** | **52.1** | **50.7** | **50.1** | **49.1** | **46.9** |

Note: Includes contingent exposures. In 4Q18, institutional portfolios were reclassified as non-current assets available for sale; accordingly, those assets are excluded from the data.

## 3.4 Liquidity management

Key features of the Group's liquidity performance during the year were:

- Despite the positive trend in the funding gap in 2019, which enabled the Bank to partly refinance maturities in the capital markets, the degree of funding in capital markets increased because of the need to fulfil the MREL (Minimum Requirement for Own Funds and Eligible Liabilities), which, because of the Bank's credit rating, focused on products with lower cost for a given term. The Group's loan-to-deposit (LTD) ratio ended 2019 at 98.6%.

- The institution continued to access the capital markets in normal conditions and took advantage of a number of issuance windows. 1,176 million euros in capital market funding matured in 2019. Banco Sabadell issued 1,027 million euros under the existing fixed-income shelf registration. Specifically, three issues of senior preferred debt maturing in 2 and 4.5 years for a total of 1,021 million euros, and two issues of structured bonds totalling 6 million euros. Banco Sabadell also made four issues, totalling 3,000 million euros, under its EMTN programme. Two of those issues were senior preferred: the first in July 2019 for 1,000 million euros at a term of 6 years, and the second for 500 million euros at a term of 6 years, callable in the fifth year. The other two issues were senior non-preferred, the first time that Banco Sabadell had issued this category of product. One was for 1,000 euros at a term of 5 years, and the other for 500 million euros at 5.5 years.

- In the third quarter, Banco Sabadell sold all tranches of the Sabadell Consumo 1 asset-backed trust to the market, including the excess spread. This was the first time that Banco Sabadell had securitised consumer loans in an amount exceeding 1,000 million euros. The transaction was arranged as a means of managing capital and liquidity.

- The positive rating trend was maintained in 2019. On 29 March 2019, Fitch Ratings initiated coverage of Banco Sabadell with a long-term BBB rating (stable outlook), and short-term F3 rating. On 20 December 2019, the agency upgraded the company's short-term rating from F3 to F2. On 4 June 2019, DBRS Ratings upgraded Banco Sabadell's long-term rating to A (low) from BBB (high). Meanwhile, S&P Global Ratings and Moody's affirmed the Bank's long-term ratings at BBB and Baa2, respectively. Additionally, both Moody's and DBRS Ratings affirmed the rating of the mortgage covered bonds (*cédulas*) at Aa1 and AAA, respectively.

- The institution maintained a liquidity buffer in the form of liquid assets to meet any liquidity needs.

- Since 1 January 2018, the minimum Liquidity Coverage Ratio (LCR) required by the regulator is 100%. All the Group's liquidity management units (UGLs for their acronym in Spanish) amply exceed that requirement. At Group level, the LCR remained well above 100% on a stable basis at all times during the year. At 31 December 2019, the LCR was 184% excluding TSB and 231% at TSB. As for the Net Stable Funding Ratio (NSFR), which is due to come into force in June 2021, the institution has maintained a stable ratio in excess of 100%.

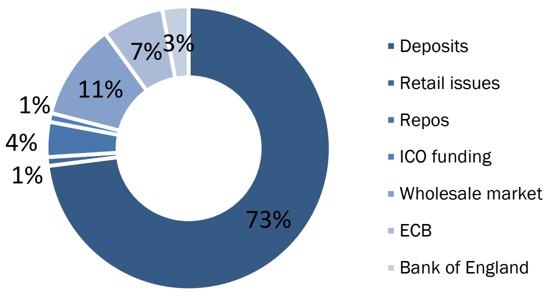
Key figures and basic liquidity ratios at 2019 year-end

Million euro

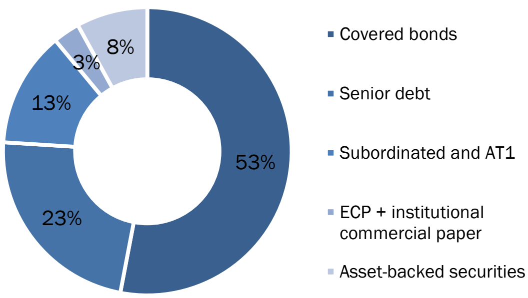
| | 2019 | 2018 |
|---|---|---|
| Loans and advances to customers, gross, excluding repos | 150,513 | 145,824 |
| NPL provisions | (2,933) | (3,433) |
| Brokered loans (ICO) | (3,334) | (2,808) |
| **Adjusted net loans and advances** | **144,246** | **139,583** |
| On-balance sheet customer funds | 146,309 | 137,343 |
| **Loan-to-deposit ratio (%)** | **98.6** | **101.6** |

The EUR/GBP exchange rate used for the balance sheet is 0.8858 at 31.12.19 and 0.8945 at 31.12.18.

The breakdown of the main sources of funding by instrument and counterparty at 2019 year-end is as follows (%):




(*) Excluding accrual adjustments and hedging derivatives.




(*) Excluding accrual adjustments and hedging derivatives.

For further details of the Group's liquidity management, liquidity strategy and liquidity performance during the year, see note 4 to the consolidated annual financial statements for 2019.

## 3.5 Capital management

### Key capital figures and ratios

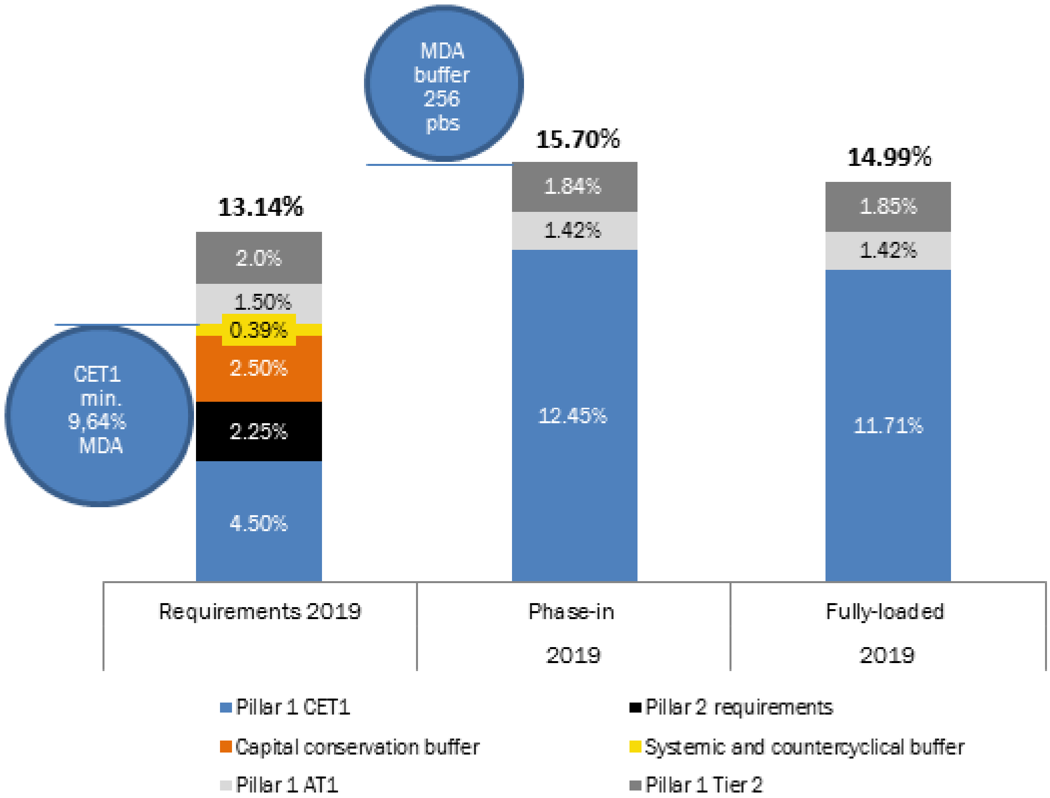
Thousand euro

| | Fully-loaded | | Phase-in | |
|---|---|---|---|---|
| | 31/12/2019 | 12/31/2018 | 31/12/2019 | 12/31/2018 |
| Common Equity Tier 1 (CET1) capital | 9,524,757 | 8,959,127 | 10,109,953 | 9,628,818 |
| Tier 1 (T1) capital | 10,677,852 | 10,112,275 | 11,263,048 | 10,781,965 |
| Tier 2 (T2) capital | 1,506,808 | 1,265,884 | 1,492,440 | 1,052,303 |
| Total Tier (Tier 1 + Tier 2) capital | 12,184,660 | 11,378,159 | 12,755,488 | 11,834,268 |
| Risk-weighted assets | 81,310,988 | 80,193,793 | 81,230,838 | 80,335,078 |
| CET1 (%) | 11.71% | 11.17% | 12.45% | 11.99% |
| Tier 1 (%) | 13.13% | 12.61% | 13.87% | 13.42% |
| Tier 2 (%) | 1.85% | 1.58% | 1.84% | 1.31% |
| Total capital ratio (%) | 14.99% | 14.19% | 15.70% | 14.73% |
| Leverage ratio | 4.75% | 4.55% | 5.01% | 4.86% |

As of 31 December 2019, 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.

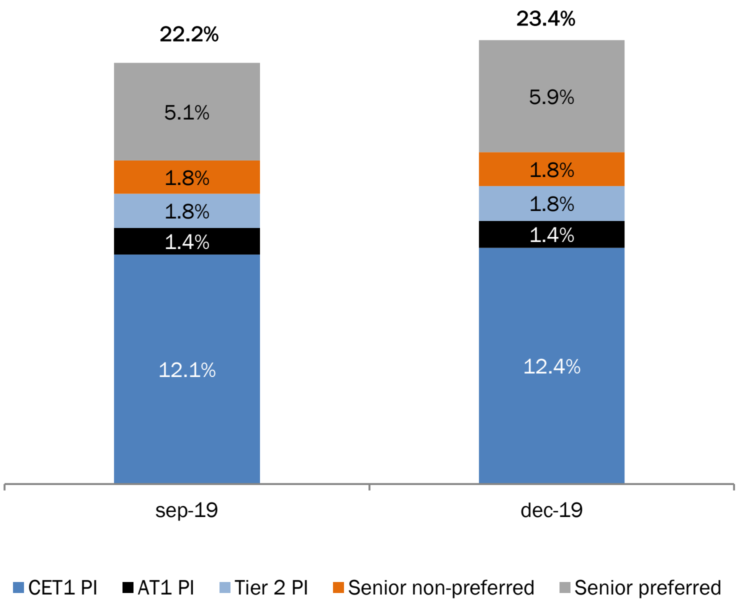
During 2019, the Group increased its fully-loaded capital by over 566 million euros organically. Additionally, it issued 500 million euros of subordinated debt in 2018 which the European Central Bank authorised it to classify as Tier 2 capital in February 2019. Risk-weighted assets also reflect the impact of disposing of portfolios of non-performing assets during the year and the asset-backed securities issued in the third quarter. All the foregoing offset the 1,117 million euros increase in risk-weighted assets as a result of changes in accounting standards, regulatory effects such as the entry into force of IFRS 16, and the results of the TRIM (Targeted Review of Internal Models). As a result, the fully-loaded Common Equity Tier 1 (CET1) ratio was 11.71% at year-end.

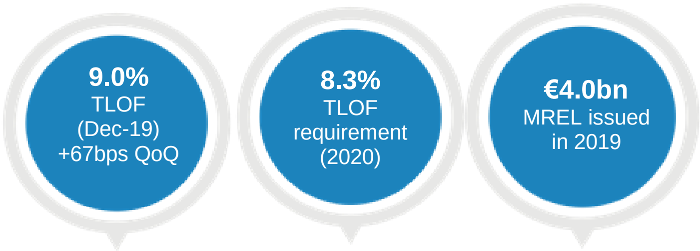
At 31 December 2019, the Group had a CET1 ratio of 12.45%, i.e. a comfortable 256 bp above the requirements established in the Supervisory Review and Evaluation Process (SREP), which are expressed in phase-in terms.

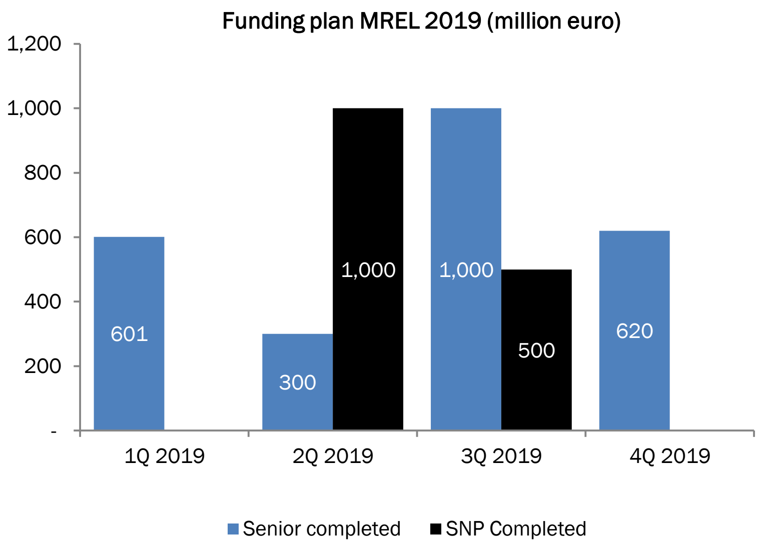



The Group continued with its programme to fulfil the MREL and, during 2019, it successfully issued approximately 4,000 million euros of MREL-eligible securities, of which 1,500 million euros are senior non-preferred debt.

**Group MREL**




9.0%
TLOF
(Dec-19)
+67bps QoQ
8.3%
TLOF
requirement
(2020)
€4.0bn
MREL issued
in 2019


Funding plan MREL 2019 (million euro)
1,200
1,000
800
600
400
200
-
601
300
1,000
1,000
500
620
1Q 2019
2Q 2019
3Q 2019
4Q 2019
Senior completed
SNP Completed

## 4 – BUSINESSES

Below are the key figures associated with the Group's main business units, in accordance with the segment disclosures contained in note 38 to the 2019 consolidated annual financial statements.

### 4.1 Banking business Spain

#### Key figures

Net profit amounted to 794 million euros in 2019, a 41.7% increase year-on-year, mainly as a result of lower provisions and impairments, the capital gain on the Solvia sale, and the earn-out on the insurance business.

Net interest income amounted to 2,527 million euros, down -2.2% with respect to 2018, principally due to the impact of applying IFRS 16, securitising consumer loans, and the lower interest rates. Adjusting for the securitisation, the decline would have been just -1.5%.

Net fees and commissions totalled 1,304 million euros, i.e. 5.2% higher than in the previous year, driven by sound performance in all segments.

Income from financial transactions and exchange differences amounted to 110 million euros, affected by the 88 million euros capital gain on securitising consumer loans and by booking -47 million euros in impairment on subordinated debt in the SAREB holding, and was lower than last year due to lower sales of fixed-income securities.

Administrative expenses and depreciation and amortisation charges totalled -2,070 million euros, 1% higher year-on-year due to higher staff expenses.

Provisions and impairments amounted to -850 million euros, i.e. lower than the previous year due to the lower amount of recurring provisions in the year and the fact that higher extraordinary provisions had been booked in 2018 on the institutional sale of non-performing assets.

Capital gains from the sale of assets and other income totalled 174 million euros in 2019, including 133 million euros from the sale of Solvia Servicios Inmobiliarios and 37 million euros from the earn-out of the insurance business.

Million euros

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **Net interest income** | **2,527** | **2,585** | **(2.2)** |
| Fees and commissions (net) | 1,304 | 1,239 | 5.2 |
| **Net banking revenues** | **3,830** | **3,824** | **0.2** |
| Net trading income and exchange differences | 110 | 207 | (46.7) |
| Equity-accounted affiliates and dividends | 61 | 64 | (4.6) |
| Other operating income/expense | (288) | (224) | 28.6 |
| **Gross income** | **3,714** | **3,870** | **(4.1)** |
| Operating expenses and depreciation and amortisation | (2,070) | (2,049) | 1.0 |
| **Pre-provisions income** | **1,644** | **1,821** | **(9.8)** |
| Provisions and impairments | (850) | (1,066) | (20.3) |
| Capital gains on asset sales and other revenue | 174 | 1 | 13,905.4 |
| **Profit/(loss) before tax** | **968** | **757** | **28.0** |
| Corporation tax | (165) | (189) | (12.7) |
| Profit or loss attributed to minority interests | 9 | 7 | 27.0 |
| **Profit attributable to the Group** | **794** | **561** | **41.7** |
| **Cumulative ratios** | | | |
| ROE (profit / average shareholders' equity) | 7.3% | 5.2% | |
| Cost-to-income (general administrative expenses / gross income) | 47.0% | 46.0% | |
| NPL ratio | 4.7% | 5.2% | |
| Stage 3 coverage ratio | 50.5% | 53.9% | |

Outstanding loans and advances amounted to 104,436 million euros, a 1.8% increase year-on-year, with growth particularly in the large corporates and SME segments. Isolating the impact of the APS and non-recurring effects(1), growth would have been 2.7%.

Customer funds on the balance sheet rose by 5.1% year-on-year, with a significant increase in demand accounts. Off-balance sheet funds decreased by -2.0% due to the decline in mutual funds and pension plans.

Million euros

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **Assets** | **172,610** | **172,246** | **0.2** |
| Outstanding gross loans and advances | 104,436 | 102,550 | 1.8 |
| Non-performing real estate assets (net) | 791 | 959 | - |
| **Liabilities** | **161,695** | **162,167** | **(0.3)** |
| On-balance sheet customer funds | 108,890 | 103,613 | 5.1 |
| Wholesale funding in the capital markets | 19,912 | 19,833 | 0.4 |
| **Allocated capital** | **10,915** | **10,080** | **8.3** |
| **Off-balance sheet customer funds** | **43,163** | **44,034** | **(2.0)** |
| **Other indicators** | | | |
| Employees | 16,610 | 17,373 | (4.4) |
| Branches | 1,847 | 1,892 | (2.4) |

The performance and key figures for the main businesses within the banking business in Spain are described below.

### 4.1.1 Commercial Banking

Business overview

In early 2019, Commercial Banking took over the management and activities of SabadellUrquijo Banca Privada and Asset Management, adapting its internal organisation chart accordingly. This action combined the range of financial products and services for large and medium-sized companies, SMEs, shops, self-employed persons, professional groups, entrepreneurs and other private individuals with a level of specialisation that enables the division to provide a personalised and quality service to meet the specific needs of all its customers, through specialist staff working in its extensive multibrand branch network or through digital channels. This ensures good working relations and operating standards regardless of which channel customers choose. It also includes the Bancassurance and Sabadell Consumer Finance businesses.

Management Priorities in 2019

In 2019, we focused our efforts on commercially integrating SabadellUrquijo Banca Privada, enhancing customer experience, strengthening the brand and maximising revenues against a backdrop of low interest rates.

We continued our work to increase customer loyalty, digitalisation and new insurance production. Transforming the business, strengthening the brand and consolidating leadership in customer experience are the main axes on which the business management goals are based, under the umbrella of the customer relationship models defined for each segment (retail, personal banking, businesses, SMEs and corporates).

Key figures

Net profit amounted to 862 million euros in 2019, a decline with respect to the previous year.

Gross income amounted to 3,147 million euros, less than in the previous year, and net banking revenues amounted to 3,325 million euros, a 0.3% increase.

Net interest income amounted to 2,201 million euros, down -0.7% on 2018 due to securitisation of consumer loans and to lower interest rates.

Equity-accounted profit and dividends amounted to 55 million euros, up 27% year-on-year due to good performance in Insurance and Pensions.

Net fees and commissions totalled 1,124 million euros, 2.3% more than in the previous year. This was attributable to good performance in all product segments: services, risk transactions and asset management.

Net trading income and exchange differences in 2019 was affected by the sale of non-performing loans.

Operating expenses and depreciation and amortisation charges to -1,586 million euros, a 1.81% increase on the previous year due to higher staff and commercial transformation expenses.

Provisions and impairments amounted to -463 million euros, a year-on-year increase due to the extraordinary provisions booked in the previous year.

Million euros

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **Net interest income** | **2,201** | **2,217** | **(0.7)** |
| Fees and commissions (net) | 1,124 | 1,098 | 2.4 |
| **Net banking revenues** | **3,325** | **3,315** | **0.3** |
| Net trading income and exchange differences | (20) | 8 | (350.0) |
| Equity-accounted affiliates and dividends | 55 | 44 | 25.0 |
| Other operating income/expense | (213) | (183) | 16.4 |
| **Gross income** | **3,147** | **3,184** | **(1.2)** |
| Operating expenses and depreciation and amortisation | (1,586) | (1,558) | 1.8 |
| **Pre-provisions income** | **1,561** | **1,626** | **(4.0)** |
| Provisions and impairments | (463) | (389) | 19.0 |
| Capital gains on asset sales and other revenue | - | - | - |
| **Profit/(loss) before tax** | **1,098** | **1,237** | **(11.2)** |
| Corporation tax | (236) | (358) | (34.1) |
| Profit or loss attributed to minority interests | - | - | |
| **Profit attributable to the Group** | **862** | **879** | **(1.9)** |
| **Cumulative ratios** | | | |
| ROE (profit / average shareholders' equity) | 13.4% | 13.8% | |
| Cost-to-income (general administrative expenses / gross income) | 49.5% | 48.1% | |
| NPL ratio | 5.4% | 5.5% | |
| NPL coverage ratio | 46.7% | 48.6% | |

Gross loans and advances increased by 1.5%, while on on-balance sheet customer funds rose by 3.8% and off-balance sheet customer funds fell by 0.9%, mainly as a result of mutual fund performance.

Million euros

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **Assets** | **188,838** | **178,850** | **5.6** |
| Outstanding gross loans and advances | 80,032 | 78,849 | 1.5 |
| **Liabilities** | **182,096** | **172,775** | **5.4** |
| On-balance sheet customer funds | 98,691 | 95,115 | 3.8 |
| **Allocated capital** | **6,742** | **6,076** | **11.0** |
| **Off-balance sheet customer funds** | **40,196** | **40,546** | **(0.9)** |
| **Other indicators** | | | |
| Employees | 11,642 | 11,795 | - |
| Branches | 1,822 | 1,865 | - |

There follows an overview of the various businesses encompassed within Commercial Banking.

**Customer segments**

Large corporates

Banco Sabadell offers specialist services to major corporations via a network of 39 corporate banking branches distributed throughout Spain, leading the way through growth in outstanding loans and working with corporations as they expand.

The customer relationship model, which this year continued to evolve towards an advisory model, continues to set us apart from our competitors. A “360º view” of customers by means of specially tailored proposals has positioned Banco Sabadell as a strategic advisor at the top end of the segment.

We further developed an industrialised approach to producing value propositions for customers and for preparing account managers' annual planning visit, aimed at both corporates and businesses, and it is expected to launch formally in January 2020. The value proposition has thus been expanded, significantly boosting our capacity to offer customers proactive solutions, such as providing overall funding facilities that enable companies to plan their annual investments in the certainty that they will always have access to the necessary credit.

In-depth knowledge of customers and strict application of the pricing policy positioned Banco Sabadell as a leading lender: it arranged over 6,757 million euros in credit in 2019 while expanding customer numbers by 4.5% and achieving a penetration rate of 68.34%.

SMEs

In its ongoing commitment to supporting companies in their growth and consolidation processes, Banco Sabadell continued to ensure that SMEs can obtain credit in 2019.

In this business segment, the Bank's ambition is materialised through general financing lines, enabling SMEs to plan their annual investments in the knowledge that they will have access to the necessary funding at all times. Loan production to SMEs by Banco Sabadell increased by 4.9% in 2019 compared with the previous year.

Banco Sabadell's positioning as a lender to companies has always been grounded in the "know your customer" principle and rigorously applying the Group's risk policy at all times; as a result, the Bank has been able to lend more while reducing its loan loss ratios at the same time.

Businesses

Once again, the Bank continued to grow in terms of customer attraction and loyalty and retained its lead in terms of customer experience. In a new development, Banco Sabadell launched "*Soluciones Negocios*" (Business Solutions), another step in our commitment to being closer to our customers in the self-employed, shops and SME segments, whatever their business. In this context, we developed new commercial offerings that provide integrated solutions to the specific needs of up to 25 different sectors of activity. We also set up a new section aimed at Businesses in www.estardondeestes.com, which offers articles and useful tips to help make the best decisions regarding financial matters that are relevant to business.

In order to attract retailers, in 2019 the Bank continued the "Creemos" (We believe) campaigns in 28 towns and cities all over Spain. The aim of the campaign is to encourage people to visit shops in their town, spend some money and give a boost to business in the area, while encouraging account managers to make out-of-branch visits. In each local area the campaign was supported by press, radio and billboard advertisements, giving it widespread distribution and a resounding media impact.

Retail Banking

In 2019, the Bank developed the retail banking business to secure an improvement in efficiency, productivity and customer experience. With this goal in mind, the levers of the model were deployed throughout the branch. network, consisting of an omnichannel view of customers, centralisation of operating processes, and a focused multichannel range of products and services. At the same time, all remote customer management capabilities were broadened.

Accordingly, the Bank's more than 4 million retail customers are served through the various relationship channels, so that each customer always has an exclusive commercial proposal that is convenient and fully tailored to their needs as soon as that need is detected. To facilitate personalisation of the service and make customer management more agile, all tasks that do not contribute commercial value have been automated and roboticised, substantially increasing the time available for interacting with customers while also achieving a sizeable reduction in costs. More than 350 operating processes have been automated, 40% of which have been roboticised or fully automated at operating centres.

So far, the results have exceeded expectations and point to considerable scope for ongoing improvement. The interest spread on retail customers increased by more than 6% while direct costs were cut by 10%, and customer experience resulted in an NPS score of over 11%, ranking third in the peer group.

Personal Banking

Personal Banking is an area where Banco Sabadell has long-standing expertise; over the years, it has distinguished itself by offering top quality expert financial management advice to customers in this segment.

The value proposition is driven mainly by fully trained and qualified Personal Advisors, an advisory approach that pursues maximum transparency and customer protection, instrumented by means of the "Comprehensive Customer Interview", which allows the Bank to obtain a 360º view of its customers' needs and to offer an exclusive range of products and services, all consistent with the "Comprehensive Personal Banking Commitment".

In 2019, the range of exclusive savings and investment products was expanded to create new investment alternatives for our customers, including services such as portfolio advice.

The Personal Banking segment represents 7.5% of all individual customers, contributing 21% of the total income from individual customers and accounting for a customer share of 10%, with 40,360 million euros in assets and 8,147 million euros in liabilities.

Banking for Expatriates

Banco Sabadell retains its lead among Spanish banks in serving expatriate customers. Its leading position is attributable to a specialist network of 210 branches (13% of the total), half of which operate under the Sabadell Solbank brand, with a value proposition based on specialised advisors with language skills, a distinctive offering focused on residential tourism and expatriates, all based on remote platforms enabling 24x7 service to customers in their own language.

Foreign customers account for 12% of all Banco Sabadell customers, and account for 13.4% of income from individual customers and 22% of mortgage production. The main customer nationalities are British, German and French, but other nationalities are also starting to gain prominence, including customers from Nordic countries and Belgium, for whom Spain is an ideal location for investing or as their second country of residence.

With a view to continuing to set the benchmark in serving foreign customers, the value proposition continued to evolve in 2019, offering our customers the “Welcome Service”, a digital platform that showcases our financial and non-financial services, providing information and a network of partners that can assist customers when they arrive in Spain, helping with tax residency, housing, schooling and other matters.

Our foreign customers recognise the excellent quality of Banco Sabadell, having granted it a score of 9.1 in terms of Overall Branch Satisfaction.

Private Banking

SabadellUrquijo Banca Privada is Banco Sabadell's private banking division, aimed at providing comprehensive solutions to customers who need customised service and attention because of their specific needs.

The division comprises 162 private bankers certified by the European Financial Planning Association, distributed over 32 branches / customer care centres to meet the needs of customers throughout Spain who have assets in excess of 500 thousand euros.

As a result of the implementation of MiFID II, in 2019 this division strengthened all areas in order to enhance service quality as well as stepping up customer protection and offering full transparency in terms of information and pricing. The annual cost report epitomises this transparency.

Along with portfolio advisory services, the focus remained on discretionary portfolio management, providing almost all customers with at least one of the two services.

The unit continued its efforts to design and deliver the best range of products to customers. Mutual funds and discretionary portfolio management remain popular in the current context of low interest rates. Alternative investments are gaining ground due to the need to lengthen the time frame and accept greater illiquidity in order to continue to obtain the returns achieved in the past, against a backdrop of negative interest rates and flat curves.

However, the highlight of the year was undoubtedly the integration of SabadellUrquijo Banca Privada's teams into the structure of SabadellEspaña with a view to achieving greater alignment with the branch network and tapping its capillarity and commercial strength.

Business volume amounted to 29,556 million euros in 2019. Discretionary portfolio management exceeded 1,800 million euros, corresponding to some 3,800 contracts. Assets held in mutual funds amounted to 7,346 million euros and SICAVs numbered 157, representing 1,566 million euros. Funds in alternative investments increased by 148 million euros to 334 million euros.

Sabadell Colaboradores

Sabadell Colaboradores is a lever for acquiring customers and business for the branch network via cooperation agreements with referrers. More than 52,130 new customers were acquired through this channel in 2019, and volumes exceeded 12,470 million euros, mainly mortgages. In 2019, 7,880 new mortgages were acquired through the Sabadell Colaboradores channel, representing 26.64% of transactions in the branch network.

**Corporate segment specialists**

Institutional Businesses

The Institutional Businesses unit was created to enhance and develop business related to public and private institutions, so as to position Banco Sabadell as a key player in this segment.

To achieve this, it is necessary to have a specialised range of products and services in order to become a leading provider to public institutions, financial institutions, insurers and religious and other bodies.

The relationship with professional and business associations and trade guilds gives the Bank access to professionals, self-employed workers, businesses and SMEs so as to be able to offer them the best range of products and services adapted to each group's specific needs. Through agreements with European, domestic and regional bodies, we increased the range of financing and guarantee facilities for our customers. This Division plays a fundamental role by creating synergies and coordinating with numerous areas of the Bank to offer the best value proposition for each segment and generate business for the branches.

*Public Institutions*

The economic performance of public administrations, particularly local and regional governments, was affected by the elections in April and November 2019, which reduced the volume of public tenders for capital expenditure. Activity was particularly subdued between February and September 2019.

During that period, some of Spain's regions received authorisations to refinance transactions that they had arranged with various mechanisms, such as the Regional Liquidity Fund (*Fondo de Liquidez Autonómico* — FLA) and the Central Government Financing Facility Fund (*Fondo de Facilidad Financiera Estatal*). This was aimed at bringing the cost of these transactions into line with current market conditions and applying criteria of financial prudence. As a result, Spain's autonomous regions refinanced at lower rates and shifted their borrowings from the central government to financial institutions.

Market shares in lending and deposits were 10.38% and 8.49%, respectively (figures at end of October 2019). Of the public administrations loan book, 80% is to customers with the highest credit rating and the remainder is to customers with a satisfactory rating.

The Public Sector unit provides services to Spanish state agencies and state-owned enterprises and to other large institutions. The division takes a comprehensive approach to their business, from lending to deposits, consistent with the established liquidity and lending policies. The Bank offers distinctive added value to meet these customers' needs with the support of its own teams, including the financial institutions and insurers, capital markets and treasury areas.

*Financial Institutions and Insurers*

The value proposition to these institutions was further strengthened in 2019 through treasury, capital markets, custody and depository products, research, equities and alternative investment services so as to strengthen the commercial relationship through a specialised management approach that meet customers' needs in the short and long term. The Bank also focused on the insurer business, becoming more specialised in this area to optimise the relationship with these customers and improve their experience. In a context of negative interest rates, deposit taking decreased sharply, giving way to a broader range of value products over the course of 2019.

*Religious Institutions*

In 2019, this segment of the Bank established itself as a market leader due both to the range of products and services—tailored to the needs of these customers—and to value-added projects.

The “Done” donation stand equipped with contactless payment systems was deployed as planned and new applications were added, putting the Bank in the lead in the digital transformation of religious bodies and the third sector in Spain.

A training plan was rolled out for employees and customers, bringing added value that underpins the Bank's range of value services to complement financial management.

*Professional Associations, Partnership Agreements and Associate Banking*

Banco Sabadell 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.

Professional Associations and Associate Banking focuses primarily on winning new business with individuals, retailers, SMEs and professional practices. In 2019, 3,488 partnership agreements were signed with professional associations and occupational groups, covering a total of more than 3,172,000 individual members, of whom 787,700 are already customers of the Bank. The business generated in this area amounted to more than 25,500 million euros.

The Agreements Division's mission is to manage agreements that provide solutions to customers' financing needs, with a particular focus on companies.

Opportunities in the area of Official Agreements are managed through arrangements with institutions, both national and supranational. In particular, funding programmes were arranged with the European Investment Bank (EIB) and guarantee programmes with the European Investment Fund (EIF), as well as with national and regional bodies such as Spain's Official Credit Institute (ICO), *Institut Català de Finances* and others to provide funding or guarantees to our customers.

<u>Tourism</u>

Banco Sabadell is the first financial institution to receive the “Q” seal of tourism quality, consolidating its position as a leader in the sector, where it offers expert advice coupled with the highest levels of quality.

Business in this segment focuses mainly on offering specialised financial solutions to a diverse and fragmented group of customers, in three main areas: expert advice, a catalogue of specialised products and rapid response.

The value proposition is aimed at financing for the hotel acquisition, international expansion by chains, refurbishment projects, rebranding and energy efficiency.

In 2019, Banco Sabadell's Tourism Business Division increased its presence in Spain through a team of 12 territorial managers focused on this area.

The Tourism Business Division also took part in events such as the ITH conferences (refurbishment and energy efficiency), the 5th edition of Spain's ICTE Tourism Quality Congress, the ITH Innovation Summit and FITUR (the flagship international trade fair in the tourism sector, in which Banco Sabadell took part for the fourth consecutive year).

The Tourism Business Division also received institutional recognition from leading entities such as Spain's Tourism Council (*Consejo Español de Turismo* – Conestur), the Tourism Commission of the Spanish Confederation of Employers' Organisations (CEOE) and the Tourism Commission of the Spanish Chamber of Commerce.

The Division has agreements with the leading institutions in the sector (the Hotel Technology Institute – ITH, the Spanish Confederation of Travel Agencies – CEAV, the Federation of Campsites – FEEC, the National Spa Association – ANBAL, etc.).

The Division had a portfolio of 13,925 customers, over 4,051 million euros in business volume, i.e. 13.5% more than in 2018, and it managed transactions amounting to 1,410 million euros, a 2.5% year-on-year increase.

Agriculture

Banco Sabadell, which has around 500 branches and more than 700 managers specialised in agriculture (encompassing farming, livestock, fishing and forestry), expanded its customer base and rounded out the range of products tailored to these customers' requirements.

The Bank's strong commitment to, and support for, this sector resulted in a 5.5% increase in business volume compared with 2018, and the Bank has 47,000 customers in this area, up 4% on the previous year.

In 2019, Banco Sabadell's Agriculture segment took part in 15 agro-food industry fairs and sponsored 49 seminars throughout Spain.

Employer Providential Schemes

From its Providential Schemes Division, Banco Sabadell Group offers solutions and responses to our customers to better implement, manage and develop their providential schemes through pension plans, group insurance policies and Voluntary Social Welfare Entities (EPSV, in Spanish). These systems expanded in 2019 and the Bank enhanced management in this area using a life-cycle approach. This investment management model makes it possible to adjust the investment profile — and, with it, the expected risk and return — to each stage of a person's life, seeking higher returns in the early stages and greater protection as retirement approaches.

During the year, many customers switched their plans to obtain greater added value, through life-cycle models and customised solutions, not only in pension plans and group insurance but also in savings solutions as part of flexible remuneration.

Real Estate

The Real Estate area focuses on residential developers, capturing and managing them via the six territories into which Spain is divided.

After years of sustained growth, in 2019 our specialised model attained maturity.

Banco Sabadell's commitment to this sector enabled more than 1,900 million euros in loans to be approved in 2019, mainly in developer mortgages, guarantees and reverse factoring, increasing the margin by 15.5% compared with 2018, and bringing business volume to 4,307 million euros.

The main strategy is to maintain our leadership in the sector and to consolidate our market share, prioritising the best business opportunities by pinpointing the most notable projects and most solid customers, which minimises risk and maximises profit for Banco Sabadell.

BStartup

In the six years since its launch, BStartup has consolidated its position as the leading banking service in Spain for newly created innovative and technological enterprises. Hence, BStartup is fulfilling its dual purpose: on the one hand, positioning the Bank as the institution that most supports this kind of company and, on the other hand, strengthening the banking business by means of an enhanced relationship model, based on concentration and specialisation, that increases productivity and margins. The margin in this customer category is 3 times higher than the overall average of business customers (self-employed workers, businesses, SMEs and large companies). It also scores much higher according to other yardsticks, including internationalisation (48.6%, vs 14.6%) and customer loyalty (an average of 10.73 products, vs 6.98).

The bank takes an integrated approach to this customer category with a proposal that takes into account everything a startup might need from a bank (and vice-versa):

- Specialised bank products and services for startups. A new distribution model was implemented in 2019, involving the creation of the role of BStartup SME Manager in cities with a high concentration of this kind of customer (Barcelona, Madrid and Valencia, at present). There are a total of 8 SME managers who focus solely on startups; in Catalonia, all startup transactions are concentrated in a single risk analyst.

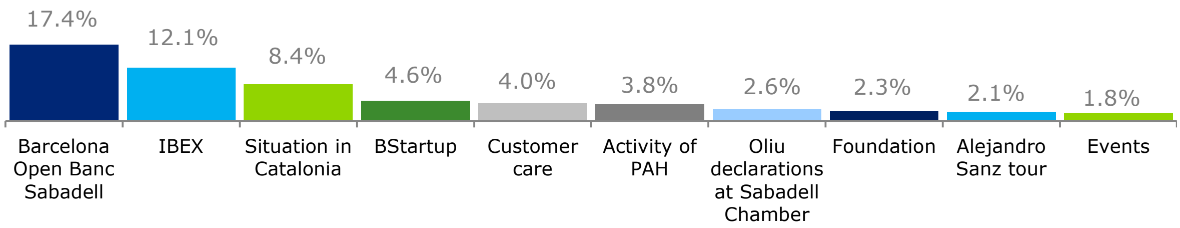
- Investment in equity. BStartup10, the programme's investment vehicle, investing seed capital in 10 startups every year, currently has 46 investees in its portfolio. Moreover, this year BStartup held a second round of the BStartup Health programme and picked three healthcare startups in which to invest, out of a total of 100 candidates.

- Open Innovation. BStartup is an innovation radar due to its privileged position, with a presence in business innovation forums in Spain, and agreements with numerous players in the Spanish entrepreneurial ecosystem. BStartup filters and refers potential opportunities to other divisions. Three Banco Sabadell investees were particularly notable in 2019: Cobee, which is already offering its services to the Bank's customers at branches in Barcelona and Madrid; Broomx, which implemented a pilot project with the Recovery Division; and Playfilm, which created an interactive video with the Training Division. In this connection, for the second year running, the Bank was acknowledged by Startup Europe Partnership as one of Europe's Corporate Startup Stars of 2019 at an official ceremony in the Madrid Stock Exchange that was attended by the EU's representative in Spain.

In 2019, BStartup organised or was actively involved in 180 entrepreneurship events in 19 cities throughout Spain.

As a result, BStartup strengthened its impact in the media, both conventional (1,260 mentions in print and online press) and social (11,865 Twitter followers), in 2019 and it was among the trending topics in the Bank's social media most months, always with positive coverage.

Most popular Banco Sabadell topics on Twitter:




*Source Deloitte: Annual report on BStartup in social media 2019.*

Direct business amounted to 545.3 million euros (137.5 million euros in assets and 407.8 million euros in liabilities), with a profit of 13.3 million euros (a 7% increase year-on-year), with a total of 3,222 customers.

Companies Hub

Companies Hub is Banco Sabadell's new Enterprise Growth Centre. The Valencia Companies Hub opened in May. This Banco Sabadell project is aimed at contributing to positioning Sabadell in the companies segment as the bank that best understands the growth and transformation challenges facing companies and as the bank best equipped to accompany them on that journey. With a different design from the conventional bank branch, the Hub offers spaces for business growth.

Companies Hub offers a value proposition to all kinds of companies through its range of services:

- Expert advice in areas such as digital transformation or industry-specific analysis, in addition to specialities already in place at the Bank and at the Companies Hub (financing, internationalisation, startups).

- Programme of training sessions and activities aimed at professionals, executives, self-employed workers, businesspeople and entrepreneurs wishing to keep pace with the latest business trends or acquire know-how in specific areas to grow their enterprises.

- Workspaces available to business customers; technologically equipped space in downtown Valencia: meeting rooms, individual workspaces, flexible workspaces for organising sessions with employees or customers, lounge and coffee corner.

Between its opening on 22 May and the end of 2019, Companies Hub Valencia hosted 76 activities involving a total of 2,806 participants. In addition to the activities organised by Banco Sabadell and Companies Hub, 12 external companies have used space at the Forum to organise events of their own, attended by 610 users. Since it opened, 162 companies received advisory services and meeting rooms were booked by business customers 145 times.

In addition to the parties that used the services, a total of 1,677 users contacted or visited the Companies Hub (visitors to the space and facilities, persons using individual workspaces and meeting rooms, persons attending the signature of agreements with partners, etc.).

In short, in the six months that the Companies Hub was in operation in 2019, a total of 5,474 persons visited the space, meeting the project's initial expectations.

Commercial Products

Financial services

In 2019, Banco Sabadell remained the standard-bearer in managing receipts and payments. In order to simplify customers' day-to-day business, e-banking tools for managing receipts and payments have continued to be improved to enhance usability and customer experience.

*Digital Services*

In the current market context, companies are increasingly aware of the need to digitalise their processes in order to optimise resources and offer their customers the best possible services, which generates a positive experience that sets them apart from their competitors.

To accompany our customers in this digitalisation process, in 2018 the role of Companies Digitalisation Manager was introduced, to increase customers' digital transactionality through training via the branch network and support visits to customers.

In 2019, this new manager role stepped up training via the branch network in areas with a significant impact on customers' digital transactions, such as implementation of the European payment services directive (PSD2) and the rollout of new functionalities in the Bank's digital channels. These actions aimed at the branch network were implemented in parallel to a process of personalised support for companies, including those whose transactions with the Bank are more complex and also new customers.

*Payment*

Banco Sabadell remains firmly committed to the EFTPOS business, as evidenced by its acquisition of Pay Comet. The aim of this acquisition was to ensure that the Bank continues to be a benchmark for our customers thanks to our capacity to offer them better services and greater flexibility.

The EFTPOS business showed another substantial increase on the previous year. Turnover increased by 16%. The Bank maintained its market-leading position in handling payments, especially for online sales, with e-commerce turnover growing by 25%.

The means of payment business continued to achieve excellent growth. The number of debit and credit cards in use totals 5.5 million, and credit card turnover rose by 14%.

Purchases via mobile devices quadrupled in the year, evidencing the importance of the digitalisation process in payments. As part of its firm commitment to digitalisation of payments, in 2019 Banco Sabadell launched the Bizum service for e-commerce purchases, enabling any of its customers to make payments using just their mobile phone number at online retailers that support this option.

*Cash Management Service*

In a context in which mobile payments are growing swiftly, the optimisation and digitalisation of cash management pose a significant challenge for retailers, companies and public administrations that must deal with cash transactions as well as providing their own services.

Banco Sabadell offers a set of solutions adapted to each kind of establishment by means of specialist partners, with whom it builds a joint solution to meet customers' needs in terms of cash flows, transaction volume and the availability of change. These solutions help our customers to be more productive due to increased transaction speed, thereby enhancing the user experience.

The Bank effectively offers the best solution for each establishment, which may include integrating customer management systems and the Bank's payment systems, cash collection services when necessary, and financing the entire solution.

Savings and Investment

In 2019, the focus was on consolidating and enhancing the comprehensive advisory model for all segments and in all products, and Banco Sabadell addressed the new regulatory context, new digital competitors and the prevailing low interest rates.

This year of consolidation centred on the improvement and fine-tuning of critical operating processes to ensure smooth operation of the technology solutions developed within the framework of integrated advisory services to customers (Sabadell Inversor). Advisory services were enhanced as the basis for commercialising savings and investment products, differentiating Banco Sabadell from its competitors.

To strengthen advisory services, the Bank provided extra support to account managers and customers. More than 130 sessions were held, including in-person meetings and conference calls, and videos outlining investment strategies were published monthly. A total of 11 training road shows were held in connection with the commercial advisory system. Support for managers involved supervising a total of 22,281 orders pending MiFID certification, for which training is being given. With a view to offering oversight and guidance in investment decisions, 67 mailings were sent out containing personalised information on markets, corporate transactions and products. Notes were also issued to coincide with extraordinary market events, such as Brexit.

With regard to information for customers, BSMóvil ‘Mi Ahorro e Inversión’ was launched to enable customers to consult their savings and investment positions and returns at any time.

The financial market environment, with negative official interest rates, requires a more sophisticated product range with market exposure to enable customers to obtain the returns they expect. Accordingly, the Bank maintained a continuous range of products, such as structured deposits, pension plans and mutual funds, to be sure to meet customers' needs in each investment. At 2019 year-end, a total of 463 new savings and investment products had been approved in the product workflow.

The catalogue of mutual funds remains focused on balanced mutual funds, i.e. funds that invest in multiple asset categories, enabling active management in line with the customer's risk profile. This includes the range of profiled funds and InverSabadell. The low interest rate environment offers little scope for guaranteed funds and the trend is now towards target-return funds. Furthermore, a fund was developed that pays investors an income.

The range of pension plans continues to centre on Sabadell Planes Futuro life cycle schemes. These plans tap into the expected higher returns on equities in the long term, and adapt to customers based on two variables: their planned retirement date and their risk profile.

Asset Management

Asset Management is a separate area within Banco Sabadell Group that focuses on managing collective investment and providing investment advice and solutions for individual customers, companies and institutional investors. It is part of Sabadell Asset Management, the parent of a group of companies operating as collective investment management firms. Its mission is to approach the investment management business through collective investment firms and products managed by third parties.

The Asset Management business model is also distinguished by excellence in the mutual funds it proposes, with the aim of maintaining high levels of reliability, sustainability and consistency with excellent returns, always with investors' best interests in mind.

It also ensures investors obtain healthy returns based on their needs, financial experience, capacity to bear risks, liquidity requirements and ambitions in terms of returns. Accordingly, the aim is to improve investors' knowledge of the recommended investment approach of the mutual funds and venture capital firms proposed by Asset Management and also of discretionary and collective asset management services.

It also introduces savers to investment solutions that offer access to the best opportunities to preserve or expand their capital in the long term through professional management and collective investment. The goal is to increase the use — not only among the more frequent and experienced investors, but also by smaller savers — of investment solutions that enable them to overcome the current ultra-low interest rate environment by assuming an acceptable degree of risk and a certain maturity horizon that matches their goals and needs as to capital conservation or divestment in order to fund life goals.

Sabadell Asset Management also provides portfolio management and administration services for other institutional investors.

In 2019, subscriptions to Sabadell Asset Management funds flowed primarily to InverSabadell funds, whose volume of assets under management reached 1,305.6 million euros. This range of mutual funds comprises four flexible, multi-asset, direct investment funds, with varying portfolio allocations between fixed-income and equities, the aim being to grow the capital invested over the long term on the basis of higher or lower risk. One of investors' favourites in this area is the InverSabadell 25 mutual fund, with 23,412 investors and assets totalling 881.8 million euros at 2019 year-end. Also very well received were the new Fondos Planificación (Planning Funds), which are flexible multi-asset mutual funds to cater for investors wishing to receive an attractive pre-set quarterly income that is built into their investment strategy. Assets under management in these funds attained 193.7 million euros.

In 2019, Sabadell Asset Management carried out two mutual fund merger processes in which four mutual funds were absorbed into other funds with the same investment objectives, always in pursuit of investors' best interests. At the end of the year, there were 222 Spanish-domiciled collective investment undertakings managed by Sabadell Asset Management (65 mutual funds and an open-end investment firm) and SabadellUrquijo Gestión (156 open-end investment firms), and there were three venture capital funds managed by Sabadell Asset Management.

Once again, Sabadell Asset Management's mutual funds earned some outstanding accolades, in recognition of their highly competitive results and the quality of the investment process. In 2019, Sabadell Rendimiento, FI was named Best Euro Fixed-Income Mutual Fund in Spain by financial daily newspaper El Economista. Seven of Sabadell Asset Management's mutual funds are acknowledged by Fitch Ratings as having high management quality. Two equity funds are rated Proficient, and five funds are rated Strong (three of which were fixed-income funds, one an equity fund and one a flexible, multi-asset fund).

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets under management (million** | 9,102.4 | 5,844.5 | 5,609.6 | 4,312.4 | 4,203.3 | 4,443.2 | 6,356.7 | 9,952.6 | 13,091.3 | 14,122.1 | 16,423.0 | 15,930.5 | 16,108.5 |
| **Market share (%)** | 3.8 | 3.5 | 3.4 | 3.1 | 3.3 | 3.6 | 4.1 | 5.1 | 6.0 | 6.0 | 6.3 | 6.2 | 5.8 |
| **Number of investors** | 374,522 | 217,360 | 218,761 | 195,140 | 192,282 | 197,954 | 270,552 | 438,582 | 608,858 | 623,749 | 705,682 | 652,864 | 576,479 |

Sabadell Asset Management is the first Spanish fund manager to be rated “Strong” by Fitch Ratings, a leading credit rating agency and research firm. The basic reasons for which the agency granted this rating are the discipline in its investment process, the quality of the team responsible for the investments, its good risk management and the consistency of the results obtained by the investment funds that it manages. "Strong" is among the highest ratings that Fitch grants, and Sabadell Asset Management is the first — and, to date, the only — Spanish fund manager to achieve this rating.

On 21 January 2020, Banco Sabadell and Amundi Asset Management signed a long-term strategic agreement for the distribution in Spain of Amundi Asset Management products through all Banco Sabadell distribution channels. The agreement does not entail any change in the current offer of Sabadell Asset Management investment funds, which will remain open to Banco Sabadell clients and other investors (see section 6.3 “Material post-closing events” in this Directors' Report).

Funding Solutions

Although it was a complicated year for home mortgages due to a number of regulatory changes affecting the real estate market (Spain's new Mortgage Law and changes in how banks and customers pay fees on home purchases), there has been positive growth in the business and in the market share of new production. New production of loans for home buyers rose by 10%. The focus was on solutions aimed at fixed-rate mortgages, which offer our customers greater long-term security. This kind of mortgage currently represents 69% of total production (42% in the market). The Bank continued to innovate in its transformation of the loan arrangement process, increasing digital capabilities for signatures and for the exchange of documentation between customers and the Bank.

Although overall growth in new production of consumer loans slowed, loan arrangements via digital channels (BsMovil and BsOnline) continued to register exponential growth, going from rates of 20% and 32% in 2017 and 2018, respectively, to 56% in 2019. This growth was underpinned by improvements in online loan arrangement processes, fast-tracking responses and enhancing the customer experience. Furthermore, the take-up of pre-approved loans rose from 52% in 2018 to 62% in 2019.

As for short-term funding solutions, Línea Expansión continued to be strengthened, enabling individuals' cash needs to be managed entirely online.

Working capital funding expanded in 2019, in both specialised products and factoring and reverse factoring, as well as in more traditional products such as discounting and credit lines. These products, which are routinely used to manage and finance companies' receipts and payments, grew significantly in all segments.

Factoring is increasingly popular for managing receipts, both in Spain and internationally, and there has been particularly strong growth in the use of this service by SMEs, where the factored volume increased by 16%.

Reverse factoring (confirming) achieved 8% growth in volume.

Leases (finance or operating)

Banc Sabadell Renting saw an 11% increase in its vehicle lease business, and attained a portfolio of more than 21,500 vehicles. Leases to private individuals increased both in terms of new production and as a share of the portfolio. This business strengthened its focus on sustainability by offering electric vehicles, hybrids and vehicles fuelled by natural gas. Contracts for sustainable vehicles were up 34% year-on-year.

Banc Sabadell Renting expanded its capital goods lease business by 12% and attained a volume of 173 million euros in investment. With new offerings in technology and energy efficiency, and specific value proposals for customer segments such as agriculture and religious institutions, it has cemented its position as a very strong player in this market.

In 2019, Banco de Sabadell launched new leasing products (Flexitrans, Flexiagro and Eco Leasing Vehículos). It has also increased volume by 14% and new contracts by 7%, and it currently has a portfolio of more than 2,400 million euros in the form of 33,400 contracts, i.e. 12.2% of the market.

Bancassurance

At 31 December 2019, Banco Sabadell's insurance and pensions business was structured as follows:

- BanSabadell Vida, BanSabadell Pensiones and BanSabadell Seguros Generales, operating in a strategic alliance with Zurich since 2008.

- BanSabadell Mediación is the Bank's insurance broker. It operates as a tied agent for bancassurance products, distributing insurance through the branches.

- BanSabadell Previsión E.P.S.V. distributes pension/retirement plans within the Basque Country.

In 2019, Banco Sabadell continued to transform the insurance and pensions business, adapting to the new market challenges, including notably the new “Sabadell Blink” personalised online range of household and vehicle insurance products.

In 2019, BanSabadell Vida's business volumes ranked it fifth in Spain in terms of savings under management, according to the latest figures published at year-end. Net profit amounted to 78.7 million euros.

In terms of assets under management, BanSabadell Pensiones ranks tenth in the entire system, according to data published at the end of the year. BanSabadell Pensiones reported a profit of 0.6 million euros in the year.

BanSabadell Seguros Generales increased total premiums by 6% year-on-year, clearly outpacing the market.

International solutions

The International Business continued to expand both customer numbers and foreign trade transactions. The Bank continued to focus on improving the international service offered to our customers, including enhancements to products/services and, in particular, the digitalisation of transactions.

The positive outcome of this trend is evidenced by the positioning in export documentary credit, where 1 in every 3 transactions (31%) involves Banco Sabadell, and in import documentary credit, where the figure is 1 in every 5 (15%).

The Bank introduced sustainable forfaiting, aimed at funding international projects that are committed to the environment and sustainability.

International guarantees achieved double-digit growth for the fifth consecutive year, on the back of the quality service and advice provided to companies in their internationalisation processes.

As a differentiating factor, in 2019 the Bank arranged information sessions for companies concerning the changes in Incoterms 2020 in order to enable them to be aware of the requirements ahead of time; the Bank provided advice and support in order to provide optimal outcomes in international purchases and sales.

Along the same lines, and continuing the success of previous editions, the third cycle of Sabadell International Business Program commenced; this training programme is focused on helping companies to devise a plan to nurture their international business; all places were filled for the third year running.

The Export to Grow programme led by Banco Sabadell held a number of events in Spain to discuss the Portuguese, Arab Emirates and Turkish markets as preferential areas for Spanish companies.

In September, an international business newsletter was launched with helpful articles for Spanish companies interested in internationalisation and in expanding foreign trade, and offering a technical view of various appealing sectors of activity and geographical areas.

Another of the initiatives welcomed by customers were the meetings with managers of our representative offices, which focused on Spain in a week of activities and private meetings during which over 500 participating companies received first-hand information.

Banco Sabadell leveraged the positioning of Spanish business, which is focused on diversifying markets and customers consistently and sustainably over time, to expand its foreign trade operations, in both working capital finance and import-export.

### Sabadell Consumer Finance

Sabadell Consumer Finance is the Group company specialising in point-of-sale consumer financing, and it conducts its business through various channels, by establishing collaboration agreements with retailers.

The company continues to improve processes and to expand the commercial offering, ensuring a rapid response to customers' needs.

This business continued to grow in 2019 in terms of customer numbers and new production, as a result of which we increased market share and the commercial and operating margins.

The delinquency rate was 5.0%. The loan-loss coverage ratio was 99.2%.

New auto loan production increased in 2019 as a result of greater commercial coverage, and loyalty due to the consolidation of the Crédito Stock product for dealerships.

The company has devised its own sustainability and environmental policy, based on the Group's principles, committing to a new business line specialised in the renewable energy sector, in which it is establishing direct agreements with energy supply companies and also strengthening funding to owners associations and individuals to install or modernise energy facilities in homes and buildings with a view to autoproduction of clean energy.

Funding of mobility in buildings and condominium refurbishments also expanded.

Overall, the company performed 251,992 new transactions through more than eleven thousand points of sale distributed throughout Spanish territory, resulting in 1,054 million euros of new loan production in 2019, bringing the company's total outstanding exposure to above 1,608 million euros.

These improvements helped the company to keep its cost-to-income ratio to 30.01%.

### 4.1.2 Corporate & Investment Banking

Business overview

Corporate & Investment Banking offers financial solutions and advisory services to large companies and financial institutions, from Spain and other countries, through branches throughout Spain and in 17 other countries. It encompasses Corporate Banking, Treasury, Trading & Custody, Structured Finance, Capital Markets, Global Financial Institutions, Venture Capital and M&A.

Management priorities in 2019

Corporate & Investment Banking moved decisively in 2019 to improve the value it provides to customers and thereby help enhance their growth and future results. To this end, we have nurtured and innovated our specialist skills, most notably in capital markets, where we can currently cater for 100% of our customers' financial requirements. Our teams are also constantly expanding their international coverage, always focusing on those markets in which our customers invest or have commercial interests.

The key areas in which Corporate & Investment Banking provides value to customers are as follows:

- Know-how through specialisation. The Corporate Banking teams located in the various geographies where we operate not only have specialised knowledge of the large corporates segment but also have industry specialisation so as to better meet our customers' needs based on the specifics of their business.

- Coordination. Large corporates require special solutions that are the result of involving several of the Bank's areas (specialist teams or even teams from different countries). Coordination of all these teams is pivotal for providing value to our customers.

- Specialist product. Corporate & Investment Banking has units that develop tailored products for large corporates and financial institutions (corporate finance, project finance/project bonds, commercial paper programmes, debt issues, M&A, venture capital, asset finance, risk hedges, etc.). The units responsible for developing this range of products are horizontal to the entire Banco Sabadell Group and their capabilities also extend to the Business Banking and Institutional Banking segment.

- Innovation. This is the last, but by no means the least important, of the key areas. Transitioning from idea to action is vital to evolve in such a dynamic and demanding market as that of large corporates. In this regard, we have created the necessary spaces and mechanisms to enable our teams to spend part of their time on innovation, in the broadest sense of the term: innovation in products, transactions and even in how we coordinate between ourselves.

As is the case every year, the key figures that best define Corporate & Investment Banking's performance are total revenues, risk-adjusted return on capital (RAROC) and the Net Promoter Score (NPS), which gauges the customer experience.

Key figures

Net profit amounted to 243 million euros in 2019, a 12% year-on-year increase, due mainly to higher net fees and commissions and lower provisions.

Gross income declined by -4.9% to 557 million euros, and net banking revenues increased by 1% to 575 million euros.

Net interest income amounted to 358 million euros, down 3% on the previous year.

Net fees and commissions totalled 217 million euros, i.e. 8.5% higher than in the previous year due to higher structured finance commissions.

Net trading Income and exchange differences decreased as a result of extraordinary sales of loan portfolios.

Operating expenses and depreciation and amortisation charges totalled -203 million euros, up 3.6% on the previous year as a result of higher staff expenses.

Provisions and impairments amounted to 45 million euros, a 57.5% year-on-year decline as a result of extraordinary provisions in the previous year.

Million euros

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **Net interest income** | **358** | **369** | **(3.0)** |
| Fees and commissions (net) | 217 | 200 | 8.5 |
| **Net banking revenues** | **575** | **569** | **1.1** |
| Net trading income and exchange differences | (16) | 12 | (233.3) |
| Equity-accounted affiliates and dividends | (2) | 12 | - |
| Other operating income/expense | - | (7) | (100.0) |
| **Gross income** | **557** | **586** | **(4.9)** |
| Operating expenses and depreciation and amortisation | (203) | (196) | 3.6 |
| **Pre-provisions income** | **354** | **390** | **(9.2)** |
| Provisions and impairments | (45) | (106) | (57.5) |
| Capital gains on asset sales and other revenue | 7 | 8 | - |
| **Profit/(loss) before tax** | **316** | **292** | **8.2** |
| Corporation tax | (73) | (75) | (2.7) |
| Profit or loss attributed to minority interests | - | - | - |
| **Profit attributable to the Group** | **243** | **217** | **12.0** |
| **Cumulative ratios** | | | |
| ROE (profit / average shareholders' equity) | 20.0% | 18.1% | |
| Cost-to-income (general administrative expenses / gross income) | 34.8% | 31.4% | |
| NPL ratio | 1.2% | 2.5% | |
| NPL coverage ratio | 107.0% | 96.4% | |

Outstanding gross loans and advances increased by 2.7% and customer funds on the balance sheet declined by 3% as a result of demand deposit performance, while off-balance sheet funds decreased by -28.6%, mainly as a result of employer pension plans.

Million euros

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **Assets** | **24,749** | **24,381** | **1.5** |
| Outstanding gross loans and advances | 14,910 | 14,517 | 2.7 |
| **Liabilities** | **23,467** | **23,171** | **1.3** |
| On-balance sheet customer funds | 7,533 | 7,763 | (3.0) |
| **Allocated capital** | **1,282** | **1,209** | **6.0** |
| **Off-balance sheet customer funds** | **768** | **1,075** | **(28.6)** |
| **Other indicators** | | | |
| Employees | 709 | 645 | - |
| Branches | 20 | 22 | - |

Corporate Banking

*Business overview*

Corporate Banking is the unit in charge of large corporates which, because of their size, complexity and unique features, require a customised service in which transactional banking services are supplemented by specialised units; the result is a comprehensive solution model for their needs. The business model is based on close strategic relations with customers, providing them with global solutions that are tailored to their needs while also taking account of the specific features of their business and the markets in which they operate.

*Management priorities in 2019*

Conditions for lending were good in 2019 because of the surplus liquidity, especially in the Eurozone, resulting in an increase in debt issuance. Competitive pressure and the good alternatives to bank funding led to lower growth in net lending volumes, but this did not prevent the unit from achieving its goals.

Against this backdrop, net lending increased by +0.2% in 2019, to 16,294 million euros, of which 61.2% were loans outside Spain (lending outside Spain increased by +16.0%). This international growth is a reflection of the decision to diversify risks and revenue sources made some years ago by Banco Sabadell, which has developed the necessary capabilities to operate in other markets. The volume of deposits fell slightly, by -1.6% in 2019, although the decline was distributed unevenly between regions as a function of the local currency (down 11.1% in regions under the influence of the Euro, but +12.4% growth in regions under the influence of other currencies).

The results, expressed as net revenue, were favourable, increasing by +7.5% in 2019, driven primarily by our franchises outside Spain. With regard to RAROC, and specifically in the EMEA region where its performance is closely monitored, there has been a sizeable increase, from 11.6% in 2018 to 13.8% in 2019.

Quality in this area as measured by the NPS (Net Promoter Score) remains at a high of 40.6%, while other indices gauging overall customer satisfaction were also positive (a score of 8.88, vs 8.81 at the end of the previous year).

Treasury and Capital Markets

*Business overview*

Treasury and Markets is responsible for marketing Treasury products to customers through the units to which that task has been assigned, ranging from the branches through specialist distributors.
In addition, it manages the Bank's short-term liquidity position and manages and oversees compliance with regulatory coefficients and ratios. It also manages the risk in the proprietary trading book and interest rate and exchange rate risk, basically due to operational flows with both internal and external customers originating from the activity of the Distribution units.

*Management priorities in 2019*

Treasury and Markets remains committed to further digitalisation of the operation channels to stay ahead of customers' needs. Capabilities were also enhanced at various levels to expand the catalogue of products on offer in different countries, providing greater flexibility, coverage and convenience to treasury customers. Trading systems adapted satisfactorily to the new market regulations, guaranteeing compliance by all the products offered to customers.

Trading, Custody and Research

*Business overview*

As a stock market member, this division performs the functions of broker for Banco Sabadell: processing and executing sale and purchase orders directly via its trading desk; also, as product manager, it is responsible for the Group's equities. It also provides investment guidance and recommendations in equities and credit markets, and creates and manages the offering of custodian and depository services.

*Management priorities in 2019*

To grow the equities brokerage business, in Spain and other countries, by working along two lines: firstly, improving retail customers' experience by overhauling the digital platform and adding value through the recommendations of our Research units; secondly, creating new brokerage services for international institutional customers, acting as bookrunner in international markets to overcome the fragmented liquidity in Spanish listed equities.

Structured Finance

*Business overview*

Structured Finance encompasses Sabadell Corporate Finance and Global Financial Institutions. This Division and has teams in Spain, the US, the UK, Mexico, France, Peru, Colombia and Singapore.

It focuses on the origination and execution of corporate financing products and M&A, project & asset finance, global trade finance and commercial real estate, with the capacity to underwrite and syndicate deals in Spain and other countries. The Division is also involved in the syndicated loans market, both primary and secondary.

| Line of business | |
|---|---|
| **Specialist Finance** | **Advisory/Distribution** |
| Corporates and Acquisitions | Syndication |
| Project Finance | M&A |
| Asset Finance | Commercial Real Estate |
| Trade Finance | GFI |

Sabadell Corporate Finance operates in M&A through advisory services to companies, shareholders, private equity firms, family offices and other investors, in mergers and acquisitions and in bringing in new shareholders. It is a member of Terra Corporate Finance Alliance, an international alliance of independent M&A and Corporate Finance advisory firms providing coverage in more than 40 countries.
The Global Financial Institutions Unit focuses on relations with the international banks with which Banco Sabadell has collaboration agreements, i.e. some 3,000 correspondent banks worldwide, to ensure that Banco Sabadell Group customers have the maximum reach in their international transactions. It also ensures optimal support of customers in their internationalisation processes, in coordination with the Group's international network of branches, subsidiaries and investees.

*Management priorities in 2019*

In 2019, Banco Sabadell maintained its policy of supporting customers and adapting to meet their emerging needs within the Spanish and international macroeconomic context amid changing credit market conditions. Banco Sabadell is a leader in the Corporate Banking segment in Spain and is exporting its know-how to other geographies. Structured Finance ranked 5th among syndicated loan MLAs and first among the leaders in project finance in the Spanish market.

Syndicated loan MLA — Spanish market 2019

Million euros

| Ranking | Mandated Lead Arranger | Amount | Number |
|---|---|---|---|
| 1 | Santander | 9,541 | 138 |
| 2 | BBVA | 7,007 | 100 |
| 3 | Bankia | 4,634 | 96 |
| 4 | CaixaBank | 5,432 | 87 |
| 5 | BANCO DE SABADELL | 3,116 | 65 |
| 6 | BNP Paribas | 5,361 | 37 |
| 7 | Credit Agricole CIB | 3,063 | 35 |
| 8 | SG Corporate & Investment Banking | 2,973 | 29 |
| 9 | Bankinter | 638 | 23 |
| 10 | ING | 1,516 | 22 |

Project finance MLA — Spanish market 2019:

Million eurosç

| Ranking | Mandated Lead Arranger | Amount | Number |
|---|---|---|---|
| 1 | BANCO DE SABADELL | 564 | 18 |
| 2 | Santander | 1,095 | 17 |
| 3 | Bankia | 396 | 9 |
| 4 | BNP Paribas | 355 | 6 |
| 5 | Abanca | 265 | 6 |
| 6 | Natixis | 564 | 5 |
| 7 | CaixaBank | 646 | 4 |
| 8 | Banco Bilbao Vizcaya Argentaria (BBVA) | 205 | 4 |
| 9 | Kommunalkredit Austria AG | 155 | 4 |
| 10 | Bankinter | 91 | 4 |

Capital markets

*Business overview*

Capital Markets is the CIB Division that coordinates the channelling of institutional investors' liquidity to the Bank's customers, bypassing the Bank's balance sheet.

Capital Markets coordinates both debt products (Debt Capital Markets – DCM, and Debt Asset Management – DAM) and capital products (Equity Capital Markets – ECM), via loans, bonds and capital instruments in both public and private markets.

*Management priorities in 2019*

The year marked a turning point in Capital Markets in the wake of the firm commitment to this business at the end of 2018, when the area's team was doubled in size and, as a result, earnings quadrupled in 2019. The strategy at Capital Markets consists of becoming one of the most active Spanish banks in conventional public capital markets (high yield and investment grade bonds, commercial paper, project bonds, and so on) while at the same time being a leader in structuring operations aimed at the middle market in Spain.

Banco Sabadell took part in more than 20 bond offerings in 2019, issued by corporates, financials and government.

It was also a record year for Capital Markets' participation in commercial paper programmes in Ireland and Spain (Spanish Alternative Fixed Income Market – MARF) attaining an estimated share of over 50% in Spanish issuer programmes.

Renewable energy project bonds attained major milestones in 2019 such as the issuance of the first monoline structured project bond in Spain since 2004, rated AA by S&P; the Hellium project bond, the first in Spain to have a floating coupon structure; and the Iron project bond, the first in Spain to be granted green certification by S&P.

In addition to government public issues, Capital Markets is focusing much of its future strategy on private deals, both bonds and loans, in order to be able to meet the *ad hoc* demands of both the issuer and investor bases.

Capital Markets made a strong commitment in 2019 to developing its positioning in Equity Capital Markets, with a view to supporting its customers in various kinds of transactions to harness liquidity in the form of equity or similar.

Banco Sabadell Capital

*Business overview*

Banco Sabadell Capital is the division that manages Banco Sabadell Group's industrial (i.e. non-real estate) holdings. It focuses on acquiring temporary holdings in companies with the main goal of maximising the return on investment.

*Management priorities in 2019*

In 2019, Banco Sabadell Capital continued to drive the investment cycle in the frameworks of action defined for each business area.

In the venture capital business, it focused on actively contributing value in the investees currently in the portfolio (new acquisitions and the opening of new facilities in Spain and/or other countries).

In renewables, it sealed an investment in two wind farms in Peru (equity and mezzanine) and two in Navarra (mezzanine); granted a mezzanine loan to build a photovoltaic facility in Chile; and invested in a 50% joint venture to develop and promote up to 100 MWp of photovoltaic capacity in Catalonia.

In the Venture Capital sector, the framework of action for both venture capital and venture debt was expanded, and this area invested in more than 14 digital or technological startups.

With regard to Banco Sabadell's global strategy for healthcare sciences, the Sabadell Asabys Health Innovation Investments fund completed its second year and has already arranged its first three investments: Psious, Ona Therapeutics and Cara Care.

In the context of the alliance between Banco Sabadell and Pensium to provide tailored solutions to customers (elderly persons with care needs – ResiRent), it acquired a stake in Pensium, S.L. and also granted a loan to its subsidiary Pensium Direct S.L. to fund the project.

Active management continued of the portfolio of investees, executing the sale of a 40.01% stake in Ribera Salud and the sale of a stake in GAM, as well as the liquidation of Aurica XXI SCR, S.A.U. and Emte Renovables, S.L.

Sabadell Miami Branch

*Business overview*

Banco Sabadell has been operating in the US for 25 years via an international full branch managed from Miami and through Sabadell Securities, which has been operating there since 2008. These business units together manage the international corporate banking and private banking, business in the United States and Latin America.

With its current structure, Sabadell Miami Branch is the largest foreign branch in Florida. It is one of the few financial institutions in the region with the capability and experience to provide a full range of banking and financial services, from highly complex and sophisticated products for large corporate clients, including project finance, through international private banking, to products and services for professionals and companies of any size. To supplement its structure in Miami, the Bank has representative offices in New York, Peru, Colombia and the Dominican Republic.

Sabadell Securities USA, Inc.

This unit provides equities brokerage and investment advisory services to complement and strengthen the business strategy in connection with private banking customers resident in the United States, meeting their needs by means of investment advice in the capital markets.

*Management priorities in 2019*

In 2019, Sabadell International Branch (SIB) focused on organic growth in business volumes, with a particular emphasis on managing and improving spreads. It exceeded the established business volume goals and attained the net profit target even though lower market interest rates had a substantial impact on the Branch's net interest margin.

To offset the negative effect of lower interest rates in the second half of 2019 and those forecast for 2020, steps were taken in 2019 to cut costs, boost margins and improve net fees and commissions, optimising resources and preserving capital. In 2019, these measures yielded positive effects, although the biggest impact will be felt in 2020.

It was a pivotal year in the ongoing effort to achieve greater financial self-sufficiency and operating improvement:

- In 2019, the groundwork was laid for issuing Yankee CDs to institutional customers. The Branch is ready to launch issues so as to increase funding sources and reduce funding costs.
- Updates commenced of the technology platform (the Aspire Project) in 2019 to improve the capabilities available to customers and business and support units. The improved systems will support growth in a more efficient and scalable manner. The project will be executed in 3 phases over the next 3 years.

*Key figures*

In 2019 the volume under management exceeded USD 13,000 million, an increase of 8.1% year-on-year. Customer loans and advances increased by 7.0% to more than USD 5,200 million, while customer deposits were up 6.0% to 3,600 million. Off-balance sheet customer assets also increased, by 11.4%.

Net interest income amounted to USD 137 million, a year-on-year increase of 4.8%. Net fees and commissions amounted to USD 40 million. Gross income amounted to USD 180 million, a year-on-year increase of 4.9%, while administrative expenses and depreciation and amortisation charges rose by 6.1%, including part of the effect of investment in the technology platform. Net profit in the year amounted to USD 82.9 million, a year-on-year increase of 4.0%.

### 4.1.3 Asset Transformation

In 2019, Non-Performing Asset Management (formerly the Asset Transformation Division) was integrated into the Risk Management Division, continuing with its activity and leadership in reducing non-performing exposures. In 2019 an agreement was signed to sell SDIN Residencial, S.L.U., the land earmarked for real estate development and the Rex portfolio, and the sale of Solvia Servicios Inmobiliarios, S.L. and the Challenger, Coliseum and Rex portfolios were finalised, thereby completing the disposal and normalising the size of the Group's non-performing real estate portfolio.

Business overview

This Division operates horizontally to manage the Group's non-performing credit risk and non-performing real estate exposures.

It is focused on designing and implementing the strategy to transform non-performing assets, with a view to optimising and maximising their recovery.

The integration of the Asset Transformation Division into the Risk Management Division is the result of a sizeable reduction in the Group's non-performing assets (particularly real estate) to practically normal levels. This necessitated adapting the organisational structure to the new requirements, so as to harness the experience and know-how of both departments, boost their synergies and attain four main objectives:

- Drive proactive management of the loan book,
- Ensure profitability,
- Develop risk models that enable finance products to be marketed efficiently and dynamically through the new digital channels, and
- Safeguard effective management of non-productive assets.

Management milestones in 2019

In 2019, Banco Sabadell maintained the pace of shedding non-performing exposures, especially in real estate, including an agreement to sell its portfolio of land earmarked for property development, along with the company SDIN Residencial, S.L.U., specialised in developing those assets, and selling a third portfolio of non-performing real estate assets (Rex), in addition to the two portfolios (Challenger and Coliseum) whose sale was agreed in 2018 and completed by the end of 2019. Having finalised the transfer of non-performing real estate assets in those three portfolios, the Group has now completed the disposal and normalisation of this class of assets on its balance sheet.

Moreover, in 2019 the Bank completed the sale of a large portfolio of non-performing assets (Makalu), agreed in 2018, and the sale of 80% of Solvia Servicios Inmobiliarios, S.L., the company focused on managing, maintaining and marketing the Group's real estate.

All these milestones enabled the Bank to amply meet its volume targets in connection with the overall reduction of non-performing exposures.

Management priorities

Having practically normalised its non-performing exposures, the Group still maintains demanding targets for systematically reducing this type of exposure in the coming years.

The strategy for managing and reducing non-performing assets (NPAs) is designed around three strategic priorities:

1. Continuous reduction of NPAs until full de-risking has been achieved.
2. Focus on managing the oldest non-performing exposures.
3. Maintenance of solid, sufficient coverage of non-performing assets.

These three strategic priorities translate into six principles for managing non-performing assets, which are:

- Early action to manage delinquency and preventive action to avoid delinquency, both of which are vital to de-risking. Early action to manage delinquency maximises the recovery and monetisation of non-performing assets, as it minimises the risk of deterioration in credit quality and preserves collateral quality;

- Segmented management of all non-performing and potentially non-performing exposures (potential delinquency);

- Large-scale reduction of the non-performing loans and foreclosed assets that have been on the balance sheet the longest, which is especially important from a management perspective, since the various capacities, solutions and tools require a specialised approach to the oldest balances that differs from the approach to new defaults, delinquencies and foreclosures;

- Business intelligence and continuous process improvement. In recent years, the Bank has developed capabilities of segmentation and prediction in the recovery process. Business intelligence is also applied to systematise, continuously improve and corporatise processes throughout the recovery cycle, where there is mutual agreement and also in litigation and bankruptcy proceedings, to enhance recovery efficiency;

- Financial capacity, i.e. not just having sufficient book coverage of the expected loss but also having the capacity to generate future revenues to guarantee robust capital levels with which to absorb any unexpected losses on NPAs;

- A solid governance system based on three lines of defence, in which the first line of defence, featuring the specialised Non-Performing Asset Management Division, and the business units that approved the exposures, is backed by a second independent line of oversight, comprising the Risk Control and Compliance Divisions, and a third line of defence, namely Internal Audit, which reviews the adequacy and quality of the entire process.

Key figures

Net profit amounted to -309 in 2019, a 33.3% improvement on the previous year.

The 2019 figure includes the impact of institutional sales of portfolios and the disposal of Solvia.

Gross income was -18 million euros, a year-on-year reduction as the sale of institutional real estate portfolios reduced the revenue from that source.

Administrative expenses and depreciation and amortisation charges totalled -80 million euros, a decline of -38.2%.

Provisions and impairments, including real estate sales, amounted to -341 million euros, -34.3% less than in the previous year. Includes the impact of institutional portfolio sales.

Million euros

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **Net interest income** | **(49)** | **(18)** | **169.9** |
| Fees and commissions (net) | 2 | 1 | 57.0 |
| **Net banking revenues** | **(47)** | **(17)** | **179.0** |
| Net trading income and exchange differences | 31 | 5 | - |
| Equity-accounted affiliates and dividends | - | 0 | (100.0) |
| Other operating income/expense | 34 | 119 | (71.4) |
| **Gross income** | **18** | **107** | **(82.9)** |
| Operating expenses and depreciation and amortisation | (80) | (129) | (38.2) |
| **Pre-provisions income** | **(62)** | **(22)** | **181.4** |
| Provisions and impairments | (341) | (520) | (34.3) |
| *Of which: profit or loss on sales* | *54* | 96 | *(43.7)* |
| Capital gains on asset sales and other revenue | - | - | - |
| **Profit/(loss) before tax** | **(403)** | **(542)** | **(25.6)** |
| Corporation tax | 94 | 79 | 19.4 |
| Profit or loss attributed to minority interests | - | - | |
| **Profit attributable to the Group** | **(309)** | **(463)** | **(33.3)** |
| ROE (profit / average shareholders' equity) | - | - | |
| Cost-to-income (general administrative expenses / gross income) | - | - | |
| NPL ratio | 33.8% | 33.5% | |
| NPL coverage ratio | 42.7% | 83.4% | |

Outstanding gross loans and advances increased by 30 million euros year-on-year and net real estate exposure improved by 168 million euros due to the institutional sale of portfolios

Intercompany funding amounted to 7,549 million euros, a decline of -26.8% on the previous year.

Million euros

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **Assets** | **8,810** | **11,907** | **(26.0)** |
| Outstanding gross loans and advances | 883 | 854 | 3.4 |
| Non-performing real estate assets (net) | 791 | 959 | (17.5) |
| **Liabilities** | **7,997** | **10,972** | **(27.1)** |
| On-balance sheet customer funds | 253 | 235 | 7.7 |
| Intercompany funding | 7,549 | 10,315 | (26.8) |
| **Allocated capital** | **813** | **935** | **(13.0)** |
| **Off-balance sheet customer funds** | **45** | **35** | **28.9** |
| **Other indicators** | | | |
| Employees | 209 | 1,073 | (80.5) |
| Branches | - | - | - |

## 4.2 Banking business UK

### Business overview

TSB has a multi-channel nationwide distribution model, comprising 533 branches across the UK. At the end of the year, it had 5 million customers and 7,800 employees. TSB (TSB Banking Group PLC) offers current and savings accounts, personal loans, mortgages and credit/debit cards for retail customers and a broad range of current, savings and lending products for SME customers.

### Management priorities in 2019

In 2019 TSB focused on three key priorities: stabilising technology systems, compensating every customer impacted by migration and establishing a strong business banking offer. These have been delivered:

- The banking platform is stable and offers customers more functionality than before. Recent data from the Financial Conduct Authority shows IT incidents at TSB are now in line with, or better than, the levels of other banks.

- All customer complaints since migration were addressed by April 2019 and the number of new complaints has dropped to within industry standard levels.

- TSB has established itself as a competitive and distinct new player in Business Banking and has seen steady growth in customer numbers throughout the year, including those joining through the Incentivised Switching Scheme where one in four businesses are choosing to move to TSB in those categories that have been targeted.

TSB has also taken a leading position to help protect customers and communities against the rise of fraud. The launch of the Fraud Refund Guarantee in April was a UK banking first with TSB the only bank to offer this protection to its customers.

In May 2019, Debbie Crosbie joined TSB as Chief Executive. Debbie has brought considerable experience and energy to drive the business forward. She has already established a strong new leadership team who have unveiled an ambitious new strategy for 2020 to 2022 to transform TSB and drive long-term growth. The new strategy was unveiled in November along with a new business purpose: '*Money confidence. For Everyone. Every Day*'. TSB is well placed to become a simpler organisation, to build deeper customer relationships and strike a better balance of customer channels. The strategy is underpinned by three pillars:

Customer focus

Following an extensive programme of research, opportunities were identified to better serve the ‘Aspiring Middle’. These customers want a bank that removes unnecessary inconvenience, helps them to manage their money better and reduce unexpected worry and TSB is well positioned to help make a difference for them.

To deliver the best customer experience, a £120 million investment in TSB’s digital channels has been announced and is designed to improve customer journeys on the mobile and digital services and to refresh existing lending products to provide new flexibility.

Branches will remain an integral part of TSB’s business and will complement the focus on digital services. However, TSB has more than double the UK average ratio of branches to customers and, as a result, will reshape the size of its branch network to meet the changing needs of customers. TSB has taken the difficult decision to close 82 branches in quieter locations in 2020 but will continue to invest in flagship branches and, as a result, will continue to have one of the biggest branch footprints across the UK.

Simplification and efficiency

The second pillar is to become a simpler and more focused business. The new IT platform gives TSB a strong foundation to build upon with multi-cloud and data capabilities providing opportunities to use data-driven insights and analytics to improve the TSB experience. TSB will also seek to optimise opportunities from open banking and third-party relationships to improve TSB’s offering to customers.

The time to open a current account has already been reduced from seven days to 10 minutes and allows customers to transact straight away. In 2022, it is expected that customers will access all services from TSB’s mobile platform with three quarters of TSB’s customers expected to be digitally active.

Operational Excellence

The third pillar focuses on creating a more resilient and sustainable business through the safe and sound delivery of the strategic plan through a strong governance and risk management framework overseen by an experienced Executive team. Accountability for TSB’s future conduct risk is clear with all customer banking experiences owned by the Customer Banking Director. Management of operational risk benefits from the same organisational clarity under the Chief Operating Officer.

IT resilience and cyber security will be prioritised to make sure they are allocated the appropriate level of resources. As part of this, the programme for TSB to take direct control of suppliers of IT services, currently managed by Sabis under the Operating Services Agreement, has commenced with the signing of an agreement with IBM. Increasingly, TSB will partner with a small number of larger industry leaders to bring significant cost savings and reduce risk. This is a joint programme of work between Sabis and TSB and is already significantly advanced.

TSB continues to operate amidst economic uncertainty as geopolitical instability limits GDP growth, interest rates remain lower for longer than expected and the ‘gig economy’ and ‘generation rent’ continue to expand. The Bank faces intense competition with mortgage margin compression and the repayment of the Bank of England’s Term Funding Scheme driving funding cost pressures. This is taking place at a time when customers continue to change the way they bank, preferring a more digital way of managing their money, and the accelerated growth of Fintechs as they focus on attracting more customers.

UK banking is a highly regulated industry which, at a point of increasing regulatory intervention, brings its own challenges such as the high cost of credit review, the ongoing evolution of capital regulation, and increased competition brought about by UK ringfencing. However, TSB remains one of the most strongly capitalised banks in the UK, with a CET1 ratio of 20.4%, and holds a healthy liquidity reserve. TSB’s strategic plan is self financed, requiring no additional capital from Sabadell. However, the expected organic growth and the adoption of a 90-day definition of default on our mortgage portfolio is expected to result in a reduction in the CET1 ratio to circa 16% in 2020.

## Key figures

Net profit amounted to -45 million euros in 2019, a significant improvement on the previous year, whose results were affected by the impact of the systems migration.

Net interest income amounted to 979 million euros, down -2.1% year-on-year, mainly because of higher competitive pressure in interest rates and higher capital market costs caused by the increased volume of issuance.

Net fees and commissions increased by 36.8% year-on-year mainly due to growth by service fees. The previous year was impacted by waiver of overdraft fees after the systems migration.

Other operating income/expense improved, mainly due to the impact of fraud losses in the technology migration the previous year and the positive impact of the agreement with VISA in 2019.

Administrative expenses and depreciation and amortisation charges totalled -1,052 million euros, down -8.4% year-on-year, as the 2018 figure included extraordinary expenses related to the migration. There were -85 million euros of non-recurring costs in 2019 (-50 million euros of restructuring costs and -35 million euros under other headings).

Provisions and impairments amounted to -72 million euros, a 68.7% year-on-year improvement due to the indemnities to TSB customers arising from the migration in the previous year.

Capital gains on asset sales and other income included -3 million euros in restructuring costs due to branch closures.

Million euros

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **Net interest income** | **979** | **1,000** | **(2.1)** |
| Fees and commissions (net) | 117 | 85 | 36.8 |
| **Net banking revenues** | **1,095** | **1,085** | **0.9** |
| Net trading income and exchange differences | 15 | 18 | (13.2) |
| Equity-accounted affiliates and dividends | - | - | - |
| Other operating income/expense | (20) | (60) | (67.4) |
| **Gross income** | **1,091** | **1,042** | **4.6** |
| Operating expenses and depreciation and amortisation | (1,052) | (1,148) | (8.4) |
| **Pre-provisions income** | **39** | **(106)** | **(136.6)** |
| Provisions and impairments | (72) | (231) | (68.7) |
| Capital gains on asset sales and other revenue | (4) | 1 | (425.5) |
| **Profit/(loss) before tax** | **(38)** | **(335)** | **(88.8)** |
| Corporation tax | (8) | 95 | (107.9) |
| Profit or loss attributed to minority interests | - | - | - |
| **Profit attributable to the Group** | **(45)** | **(240)** | **(81.2)** |
| ROE (profit / average shareholders' equity) | - | - | |
| Cost-to-income (general administrative expenses / gross income) | 84.0% | 101.6% | |
| NPL ratio | 1.2% | 1.3% | |
| NPL coverage ratio | 43.1% | 50.4% | |

Loans and advances amounted to 36,496 million euros, an increase of 8.5% supported by sterling's appreciation. At constant exchange rates, year-on-year growth would have been 3.2%, driven by increased mortgage production on the back of a broader, enhanced offering and higher customer retention.

Customer funds on the balance sheet amounted to 35,423 million euros, a 9.0% increase year-on-year due to growth in demand deposits supported by the positive exchange rate effect. At constant exchange rates, year-on-year growth would have been 3.7%, supported by growth in all products, notably business accounts, and a competitive savings proposition.

Million euros

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **Assets** | **46,449** | **46,182** | **0.6** |
| Outstanding gross loans and advances | 36,496 | 33,634 | 8.5 |
| **Liabilities** | **44,921** | **44,662** | **0.6** |
| On-balance sheet customer funds | 35,423 | 32,484 | 9.0 |
| Wholesale funding in the capital markets | 2,423 | 1,688 | 43.6 |
| **Allocated capital** | **1,528** | **1,520** | **0.5** |
| **Off-balance sheet customer funds** | - | - | - |
| **Other indicators** | | | |
| Employees | 7,394 | 8,353 | (11.5) |
| Branches | 540 | 550 | (1.8) |

### 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 (Mexican multi-purpose financial company), which commenced operations in 2014, followed by a bank. The banking licence was obtained in 2015 and the Bank commenced operations in early 2016.

Both vehicles operate using a customer-focused approach, with agile processes, digital channels and no branches. The roll-out of commercial capacities is based on the aforementioned two vehicles and the following business lines:

- Corporate Banking, with the focus on companies and major corporations: 3 branches (Mexico City, Monterrey and Guadalajara) and sector-specific specialisation.
- Business Banking, which reproduces the Group's original business relationship model: launched in 2016 with 13 branches, it has continued to expand since then.
- Personal Banking, based on a disruptive digital model initially focused on capturing customer funds.

## Management priorities in 2019

The year was characterised in Mexico by a period of socio-political and financial transition as a result of: i) trade tensions arising mainly from the tariff war launched by the United States against China, and, ii) the election of a new government, under Andrés Manuel López Obrador, which resulted in a year of change in many sectors of the Mexican economy. In this context, the Mexican subsidiaries (Banco Sabadell, IBM) performed well and met their targets for the year.

During 2019, the Mexican subsidiaries continued to focus on growth, financial self-sufficiency, and profitability. The following initiatives were implemented during the year:

- Corporate Banking focused particularly on the renewable energy industry. It signed a 100 million dollar finance agreement with IFC to develop sustainable infrastructure in Mexico. These funds will be lent to customers wishing to develop sustainable projects, mainly hotels and green buildings that promote best practices in efficient energy use, rational water management, waste abatement and the reduction of harmful emissions to the environment.
  The range of services in this segment continue to expand with the launch of the derivatives desk and the trust unit. These initiatives will enable us to offer a more comprehensive service in structured financing, strengthening relations with customers.

- In Business Banking, we continued to enhance our transactional capabilities, an initiative that will continue in 2020. Additionally, some of our Business Banking branches were merged, reducing the number from 19 to 12, so as to enhance the returns on the capabilities rolled out in previous years. Initiatives in the commercial model and a new incentive scheme seek to boost banker productivity and efficiency and to continue offering an excellent service, which has been a distinctive feature since this segment was created.

- The Personal Banking segment made significant efforts to deploy new products and services such as a 100% digital account, debit card, CoDi mobile payments, and instant transfers, some of which were already available in 2019 and the remainder will be rolled out in early 2020. Additionally, a project has been developed that will allow us to position ourselves in the consumer lending market in Mexico with an all-digital online value proposition.

Other horizontal initiatives implemented in the year include: 1) a delinquency prevention plan, 2) strengthening IT architecture, 3) industrialisation and outsourcing of operational processes, and 4) establishment of new funding lines in USD in partnership with IFC and ICO. The latter initiatives served to optimise funding and capital in the Mexican franchise.

A financial planning exercise was conducted in 2019 in line with that of Banco Sabadell Group to determine the main lines of strategic action for Banco Sabadell in Mexico with the goal of driving value creation by the Group's Mexican franchise, as summarised below:

- Enhancement of ROE by increasing revenues without capital consumption (through greater fees and commissions and the development of new business lines, such as trade finance, derivatives, currency trading, trusts, etc.).

- Promotion of financial self-sufficiency actions, through: i) the incorporation of transactional services and products that increase customer loyalty; and ii) improvement of our Personal Banking customer onboarding platform.

On 20 December, Standard & Poor's (S&P) upgraded the short- and long-term ratings of Banco Sabadell IBM and SabCapital, to mxAA, from mxA+ (long term), and mxA-1+, from mxA-1 (short term). In its report, S&P highlighted the improvement and increasing diversification of the Group's revenue base in Mexico, healthy growth of its loan book (with superior credit quality metrics to the overall Mexican banking system), gradual diversification of its funding sources, and a growing share of the Mexican market.

Banco Sabadell Mexico ended the year with a consolidated gross loan portfolio of MXN 78,840 million (3,722 million euros), 9% higher at the end of the previous year, ranking it in 10th place in lending to business, MXN 42,693 million (2,016 million euros) in customer funds, a 59% year-on-year increase, and consolidated net profit of MXN 465 million (22 million euros), up 54% year-on-year.

**Key figures**

Net profit amounted to 19 million euros in 2019, a 149.1% increase year-on-year, mainly as a result of improvements in the core business.

Net interest income amounted to 117 million euros, a 29.0% increase year-on-year due to higher lending.

Net fees and commissions increased by 68.3% year-on-year due to the influx of new customers.

Other operating income/expense increased in the year, mainly because of the higher payment to the Instituto para la Protección al Ahorro Bancario (IPAB) as a result of the strong growth in customer deposits.

Gross income amounted to 127 million euros, a 30.9% increase due to improved core banking revenues.

Administrative expenses and depreciation and amortisation charges increased by 19.3% year-on-year as a result of higher staff expenses and higher depreciation on technology projects.

Provisions and impairments amounted to -16 million euros, a 32.3% improvement year-on-year due to the improvement in the credit quality of the loan book.

Million euro

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **Net interest income** | **117** | **91** | **29.0** |
| Fees and commissions (net) | 19 | 11 | 68.3 |
| **Net banking revenues** | **136** | **102** | **33.2** |
| Net trading income and exchange differences | 1 | 1 | (29.1) |
| Equity-accounted affiliates and dividends | - | 1 | (100.0) |
| Other operating income/expense | (9) | (6) | - |
| **Gross income** | **127** | **97** | **30.9** |
| Operating expenses and depreciation and amortisation | (91) | (76) | 19.3 |
| **Pre-provisions income** | **36** | **21** | **73.3** |
| Provisions and impairments | (16) | (23) | (32.3) |
| Capital gains on asset sales and other revenue | 0 | - | - |
| **Profit/(loss) before tax** | **20** | **(2)** | **(948.9)** |
| Corporation tax | (2) | 10 | (116.7) |
| Profit or loss attributed to minority interests | - | - | - |
| **Profit attributable to the Group** | **19** | **8** | **149.1** |
| ROE (profit / average shareholders' equity) | 3.5% | 1.9% | |
| Cost-to-income (general administrative expenses / gross income) | 62.9% | 77.2% | |
| NPL ratio | 1.2% | 0.4% | |
| NPL coverage ratio | 108.9% | 284.5% | |

Outstanding loans and advances amounted to 3,640 million euros, a 14.4% increase year-on-year.

Customer funds on the balance sheet expanded by 60.2% year-on-year to 1,996 million euros.

Million euro

| | 2019 | 2018 | Year-on-year change (%) |
|---|---|---|---|
| **Assets** | **4,695** | **3,894** | **20.6** |
| Outstanding gross loans and advances | 3,640 | 3,181 | 14.4 |
| Real estate exposure (net) | - | - | - |
| **Liabilities** | **4,146** | **3,377** | **22.8** |
| On-balance sheet customer funds | 1,996 | 1,246 | 60.2 |
| **Allocated capital** | **548** | **517** | **5.9** |
| **Off-balance sheet customer funds** | **-** | **-** | **-** |
| **Other indicators** | | | |
| Employees | 450 | 455 | (1.1) |
| Branches | 15 | 15 | - |

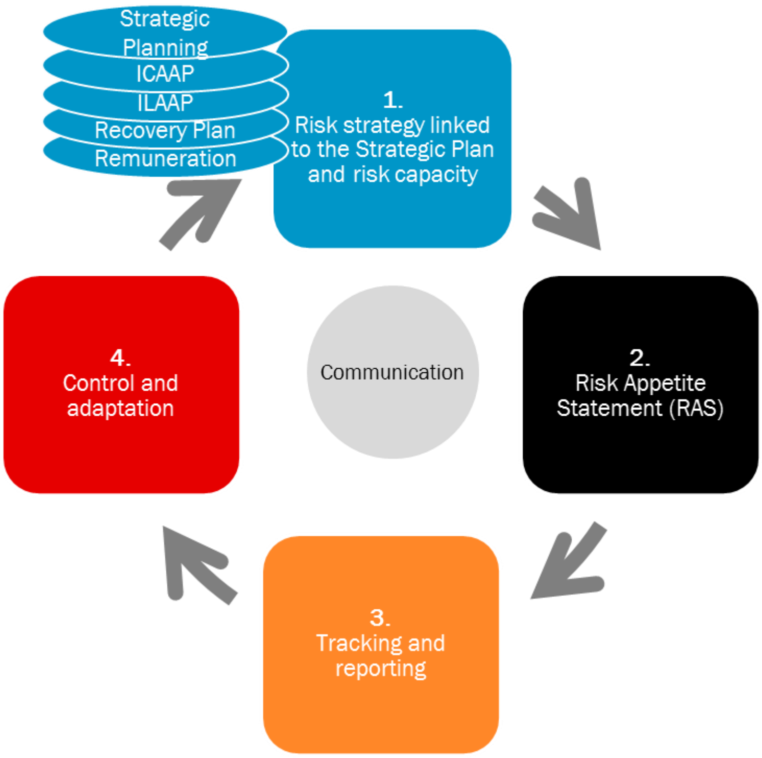
## 5. RISKS

In 2019, Banco Sabadell Group continued to strengthen its risk management framework by making improvements in line with best practices in the financial sector.

The Group maintains a medium-low risk profile, in accordance with the risk appetite defined by the Board of Directors.

The Group's risk strategy is fully implemented and linked to the Strategic Plan and the Group's risk capacity, articulated through the Risk Appetite Statement (RAS), under which all material risks are monitored, tracked and reported, and the necessary control and adaptation systems are established to ensure compliance:

**Strategic management and risk control processes**



Main 2019 milestones in risk management and control

Risk taxonomy

In March 2019, Banco Sabadell Group approved a new taxonomy of risks that establishes and defines first- and second-tier risks (and sub-risks or risk factors) on the basis of their nature.

This taxonomy lends visibility to the management and control of certain types of risks that would otherwise be diluted due to their lower materiality or the difficulty in quantifying them.

In parallel with the approval of this taxonomy, the first- and second-tier metrics in the RAS were enhanced for the material risks in the taxonomy at Group, company and/or geography level.

With regard to the first-tier risks identified in the Banco Sabadell Group risk taxonomy, the most salient aspects of their management and the steps taken in this connection in 2019 are set out below:

Strategic risk

Definition: Risk of losses (or negative impacts in general) as a result of strategic decisions or their implementation. It also includes the inability to adapt the Group's business model to changes in the environment in which it operates.

Main milestones in 2019:

(i) Strategy and reputation

- The Group's guidance indicators for 2019, showing the general level of attainment at year-end.
- Maintenance of the NPS in Spain in 2019, which is one of the Group's competitive advantages, while improving the outcome of the Service Quality Index. At TSB, continuous improvement of the NPS for the Bank overall and for mobile banking; in fact, the latter has practically regained its pre-migration values.
- Deployment of the Group's digital transformation strategy, with significant increases in the main indicators in connection with customers and digital sales.

(ii) TSB:

- Presentation of the new strategy for 2019-2022 in November 2019, the goal being to increase returns and lending, advance in the digital transformation, increase profits and improve the customer experience.

(iii) Improved capital position:

- The CET1 ratio improved to 11.7% in fully-loaded terms at 2019 year-end, driven significantly by organic capital creation. Generalised fulfilment of regulatory capital requirements.
- The Total Capital ratio was 15.0% at 2019 year-end, while the Leverage ratio was 4.75%, vs. 4.54% a year earlier.
- The first asset-backed security was issued in the third quarter of 2019, which released 14bp of capital due to shedding risk.

(iv) Profitability:

- Group net profit amounted to 768 million euros in 2019. ROE was 5.9%. The Group's banking revenues remain strong despite the prevailing interest rate situation. Fees and commissions performed well, rising 7.6% year-on-year on the back of service fees.
- At the same time, the Bank laid the foundations for greater future profitability based on expanding core banking revenues, mainly through digitalisation and divesting non-strategic businesses.

Credit risk

Definition: the possibility that losses may be incurred as a result of borrowers failing to meet their obligations or through losses in value due simply to deterioration in borrower quality.

Main milestones in 2019:

(i) **Reduction in non-performing assets**

- The non-performing assets ratio declined from 5.6% to 4.85% in 2019, and the ratio of net non-performing assets to total assets was 1.7%, while the Group disposed of practically all of its non-performing real estate from the balance sheet.
- The Group's NPL ratio was reduced to 3.83%, from 4.22% at 2018 year-end.

(ii) **Concentration**

- The portfolio is well diversified in terms of industries, with rising exposure to sectors that have superior credit quality. Reduction in the exposure to real estate (to one-third of the 2014 level).
- Risk metrics relating to concentration of large exposures have also declined, while the credit rating of the main borrowers improved.
- Geographically, the portfolio is positioned in the most dynamic regions, in Spain and worldwide.
- International exposure continues to represent almost one-third of the loan book, with year-on-year increases in all relevant geographies (Mexico +7.9%, TSB +3.2% and foreign branches and offices +16.2%).

(iii) **TSB lending performance**

- TSB expanded lending in the second half of the year, regaining the upward year-on-year trend. Net lending increased, as the high volume of mortgage applications resulted in an increase in mortgage production.
- Lending recovered while maintaining a low risk profile (more than 94% in retail mortgages with average LTV of 44%) and improving the composition of the loan book, as exposure to interest-only and buy-to-let loans was reduced.

Finance risk

Definition: The possibility of obtaining insufficient returns or having insufficient liquidity such as to prevent compliance with requirements and future expectations.

Main milestones in 2019:

(i) **Sound liquidity position:**

- The liquidity position was sound, with a Liquidity Coverage Ratio (LCR) of 172% at Group level at the end of 2019 (184% excluding TSB and 231% at TSB), after the early repayment of 7,000 million euros of TLTRO II to the ECB in 2019 and the repayment of GBP 1,995 million of the TFS to the Bank of England.
- The loan-to-deposit ratio was 99% at 2019 year-end, with a balanced retail funding structure. In 2019, Banco Sabadell fulfilled its issuance plan, and strong investor appetite enabled it to optimise the associated costs.
- By year-end, the Bank had exceeded the MREL (Minimum Required Eligible Liabilities).

(ii) **Structural interest rate risk:**

- The Bank continued to adapt the balance sheet structure to the current and expected environment of negative rates in the Eurozone, showing great resilience to possible future declines. The mortgage book in Spain is exhibiting an increasing preference for fixed rates. On the liabilities side, the customer deposit base makes it possible to pass negative rates on to the wholesale segments, which represent 36% of funds.
- The Bank maintained its programme of adaptation to the new benchmark indices following the entry into force of the European Benchmark Regulation (BMR): the Euro short-term rate was implemented successfully (in October), as was the Euribor hybrid methodology.

**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 2019:

(i) **Technology function:**

- The year 2019 was a transformative one in the Group's technology function, as a new organisation structure was implemented and the control structure and risk management were strengthened in the technology function (new methodologies, procedures and policies). The mainframe configuration was enhanced on the basis of high availability (service quality and resilience).
- TSB's IT platform was stabilised and it regained pre-migration levels of customer service quality.

(iii) **PSD2:**

- The entry into force of the revised European Payment Services Directive (PSD2) led to a slight change in the risk profile in terms of exposure to fraud and operational risk.

**New organisation in the Risk Management Division**

The Risk Management Division and the Asset Transformation Division were merged to bring the structure more into line with emerging needs, take advantage of their accumulated experience and know-how, and achieve four fundamental goals:

- Step up the proactive approach to portfolio management and the investment strategy in the loan book by activating the necessary levers to ensure an appropriate return on the loan books.

- Adoption of risk models and the necessary methodologies to market financial products via digital channels that require decision models and fully digitalised processes.

- Accelerate the rotation of real estate assets and holdings in investees within the portfolio of unproductive assets.

- Drive effective, efficient management of unproductive assets.

For more details of the corporate risk culture, the global risk framework and the overall organisation of the risk function as well as the main financial and non-financial risks, see note 4 "Risk management" in the consolidated annual financial statements for 2019.

## 6 – OTHER MATERIAL INFORMATION

### 6.1 R&D and innovation

In the domestic market:

Commercial Banking implemented the Retail Model that had been designed in 2018, which transformed the management approach for individual customers by optimising processes, freeing up commercial capacity and encouraging customers to avail themselves of the self-service features in the digital channels. The organisation was optimised in order to cater for the mass market segment, a move that bore fruit in 2019 in the form of higher commercial activity and customer satisfaction.

Leveraging this momentum, a transformation programme for business customers was initiated to optimise service by taking advantage of digital capacities to simplify processes, expand the range of products and restructure the commercial offer for self-employed workers, small businesses and companies, while providing a personalised service. These initiatives included the first Company Hub, a physical space where customers can receive advice on growing their companies, coupled with mobile workspaces and a website to provide information about events; a new app, called Nomo, was released to provide solutions for self-employed workers; and account managers received upgraded support for their visits to customers.

Additionally, a plan was launched comprising over 90 measures to enhance margins and a programme to Improve the Account Manager Experience by focusing on usability of the account manager's office tools to make the sale process more efficient.

In the field of digital capabilities and solutions, OpenBanking was boosted by rolling out the new API Channel, a result of the PSD2 Directive, based on new microservices and cloud technologies. In this area, account aggregation capabilities and payment initiation features were pilot-tested.  The digital capabilities of current market applications were also enhanced to offer a multichannel front-end.

Other digital initiatives include the new website *estardondeestes*, to support digital customers in home purchase, business initiatives and decisions about savings and pensions. Additionally, the Lisbon branch now has its own website.

In the area of digital solutions, *Sabadell Inversor*, the MiFID-compliant advisory and reporting tool, was strengthened. A new online broker (*Sabadell Equity*) was launched and the forex trading platform, *Sabadell Forex*, was updated by providing it with the functionalities most in demand by business customers. "*Sabadell Blink*", the new offer of Auto and Home insurance, was launched.

Digital services to customers were expanded in such areas as signing, generating and updating digital documentation, demos were created to familiarise users with the new processes, improvements were made in the reverse factoring (confirming) process, and new instalment plans and new alerts were introduced. Customers are now more digital and more engaged as a result. The use of mobile devices expanded, with good customer satisfaction scores (BSMóvil is rated 4.6 out of 5 on the Apple App Store).

The international context:

During the year, TSB worked to improve its offer, enhance digital channels and improve its understanding of its customers and their needs through better data capture, management and analysis.

Analytics continued to improve our knowledge of customers and their needs (360º vision) in order to customise the offer and enhance data aggregation.

As for Channels, particularly digital channels, self-service capabilities were strengthened, communications with customers were made more flexible, and mobile marketing capabilities were enhanced. All these initiatives were part of TSB's *Omnichannel* strategy applied in 2019. In particular, work was done to improve the customer onboarding process, including a new feature enabling customers to open a personal current account (PCA) online from a smartphone. This development enables new customers to open an account in an easy, secure environment.

Additionally, in conformity with the EBA's PSD2 regulation, TSB developed a new API channel. This channel not only provides customer data but also enables them to perform local and international payments (PISP) and see their account balance (CBPII). The API Channel was developed as a hybrid between the cloud and on-premises in a bid to combine the best of both worlds. All these functionalities are integrated with the Bank's mobile app, enabling the service to be used on computers, smartphones and tablets.

### 6.2 Trading in own shares

See note 23 to the consolidated annual financial statements.

### 6.3 Material post-closing events

No material events meriting disclosure have occurred since 31 December 2019, apart from those detailed below:

On 21 January 2020, Banco Sabadell and Amundi Asset Management (Amundi) signed a long-term strategic agreement for the distribution of Amundi products through the Banco Sabadell branch network in Spain. The agreement includes the sale of 100% of Sabadell Asset Management, S.A., S.G.I.I.C., Sociedad Unipersonal (SabAM) for 430 million euros. It also provides for an additional 30 million euros in 2024 depending on the assets under the management belonging to Banco Sabadell customers on that date.

At 2019 year-end, SabAM had approximately 21,800 million euros in assets under management, not counting third-party investment vehicles, and it reported 34 million euros in net profit (including 65 million euros of net fees and commissions and 17 million euros of operating and staff expenses). The sale of SabAM also 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.

Completion of the sale, which is contingent upon the pertinent official approvals, is expected in the third quarter of 2020. The deal will generate a capital gain of approximately 351 million euros, net of taxes, which will strengthen Banco Sabadell's capital position by contributing 43 basis points to the fully-loaded Common Equity Tier 1 (CET1) ratio.

Of that capital gain, 58 million euros (7 basis points of fully-loaded CET1) are contingent upon certain conditions being met throughout the period of the distribution agreement and, consequently, they will be recognised proportionally over the next 10 years. The remaining 293 million euros will be recognised when the transaction is completed.

The strategic agreement between Banco Sabadell and Amundi will give Banco Sabadell customers access to new investment opportunities and a wider range of internationally recognised products, rounding out the current range of savings and investment products but without entailing any change in existing mutual funds and pension plans. The deal reinforces Banco Sabadell's commitment to remaining in the lead in terms of customer satisfaction and experience, both of which are commercial priorities for Banco Sabadell in 2020.

### Non-Financial Disclosures Report

In accordance with the provisions of Act 11/2018, of 28 December, on non-financial and diversity disclosures, Banco Sabadell Group has drawn up the consolidated Non-Financial Disclosures Report for 2019, which, in accordance with article 44 of the Commercial Code, is attached as a separate document to the 2019 consolidated directors' report. The separate information corresponding to Banco Sabadell, S.A. is contained in that separate document attached to the consolidated directors' report, which will be filed with the Alicante Mercantile Registry.

### Corporate Governance

In accordance with the provisions of article 540 of the Capital Companies Act, Banco Sabadell Group has drawn up the Annual Corporate Governance Report for 2019, which, in accordance with article 49 of the Commercial Code, is a part of this Directors' Report and is attached as a separate document; it contains a section setting out the degree to which the Bank adheres to the recommendations on corporate governance in Spain.

The information about corporate governance is available on the Group's corporate website (www.grupobancosabadell.com) directly in the section entitled "Corporate governance and remuneration policy", which is linked to from the Home page.

## Glossary of terms on performance measures

In the presentation of its results to the market, and for the purpose of monitoring the business and decision-making processes, the Group uses performance indicators pursuant to the generally accepted accounting regulations (EU-IFRS), and also uses other non-audited measures commonly used in the banking 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 entities.

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 the definition, calculation and reconciliation of each APM in this section.

APMs reconciliation (data in million euros, with the exception of those shown in percentages).

***BALANCE***

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| Outstanding gross loans and advances | Includes gross customer loans and advances, excluding repos, accrual adjustments and Stage 3 assets. | Mortgage loans & credit | 83,720 | 80,872 |
| | | Loans and credit secured with other collateral | 3,330 | 2,767 |
| | | Commercial loans | 6,443 | 6,186 |
| | | Finance leases | 2,558 | 2,565 |
| | | Overdrafts and other debtors | 48,521 | 46,976 |
| | | **Outstanding gross loans and advances** | **144,572** | **139,366** |
| Loans and advances to customers, gross | Includes loans and advances to customers excluding impairment allowances. | Stage 3 assets (customers) | 5,923 | 6,472 |
| | | Accruals | 18 | (13) |
| | | **Loans and advances to customers, gross, excluding repos** | **150,513** | **145,824** |
| | | Repos | 236 | 596 |
| | | **Loans and advances to customers, gross** | **150,749** | **146,420** |
| | | Impairment allowances | (2,933) | (3,433) |
| | | **Loans and advances to customers** | **147,816** | **142,987** |
| 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). | Financial liabilities measured at amortised cost | 205,636 | 206,077 |
| | | Non-retail financial liabilities | 59,327 | 68,734 |
| | | Deposits with central banks | 20,065 | 28,799 |
| | | Deposits from credit institutions | 11,471 | 12,000 |
| | | Institutional issues | 23,623 | 24,334 |
| | | Other financial liabilities | 4,168 | 3,601 |
| | | **On-balance sheet customer funds** | **146,309** | **137,343** |

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| On-balance sheet funds | Includes the following accounting sub-headings: customer deposits, outstanding marketable debt securities (Bonds and other marketable securities and subordinated liabilities) | Customer deposits | 147,362 | 139,079 |
| | | Sight accounts | 118,868 | 107,665 |
| | | Deposits with agreed maturity, including deposits redeemable at notice, and hybrid financial liabilities | 27,339 | 28,709 |
| | | Repos | 951 | 2,533 |
| | | Accrual adjustments and hedging derivatives | 204 | 172 |
| | | Bonds and other marketable securities | 19,514 | 19,568 |
| | | Subordinated liabilities (*) | 3,056 | 3,031 |
| | | **On-balance sheet funds** | **169,932** | **161,678** |
| Off-balance sheet customer funds | Incluye los fondos de inversión, gestión de patrimonios, fondos de pensiones y seguros comercializados. | Mutual funds | 26,003 | 26,379 |
| | | Asset management | 3,363 | 3,595 |
| | | Pension funds | 3,367 | 3,594 |
| | | Insurance products sold | 10,430 | 10,465 |
| | | **Total off-balance sheet funds** | **43,163** | **44,034** |
| Funds under management | The sum of on-balance sheet funds and off-balance sheet customer funds. | **Funds under management** | **213,095** | **205,711** |
| Other assets | Comprises the following accounting items: derivatives - hedge accounting, fair value changes in hedged items in a portfolio with interest rate hedge, tax assets, other assets, assets under insurance or reinsurance contracts and non-current assets and disposal groups classified as held for sale. | Derivatives – Hedge accounting | 469 | 302 |
| | | Fair value changes of the hedged items in portfolio with interest rate hedge | 250 | 57 |
| | | Tax assets | 7,008 | 6,859 |
| | | Other assets | 1,496 | 1,640 |
| | | Non-current assets and disposal groups classified as held for sale | 764 | 4,587 |
| | | **Other assets** | **9,987** | **13,445** |
| Other liabilities | Comprises the following accounting items: derivatives - hedge accounting, fair value changes in hedged items in a portfolio with interest rate hedge, tax liabilities, other liabilities y liabilities included in disposal groups classified as held for sale. | Derivatives – Hedge accounting | 729 | 634 |
| | | Fair value changes of the hedged items in portfolio with interest rate hedge | 235 | 37 |
| | | Tax liabilities | 241 | 176 |
| | | Other liabilities | 784 | 995 |
| | | Liabilities included in disposal groups classified as held for sale | 10 | 83 |
| | | **Other liabilities** | **1,998** | **1,924** |

(*) Subordinated liabilities in connection with debt securities.

*INCOME STATEMENT*

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| Customer spread (*) | Difference between yield and costs of customer-related assets and liabilities, i.e. the contribution to net interest income solely from customer-related transactions. 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. | Loans and advances to customers (net) | | |
| | | Average balance | 139,674 | 135,903 |
| | | Profit/(loss) | 4,058 | 4,017 |
| | | Rate (%) | 2.91 | 2.96 |
| | | Customer deposits | | |
| | | Average balance | 147,551 | 141,060 |
| | | Profit/(loss) | (392) | (309) |
| | | Rate (%) | (0.27) | (0.22) |
| | | **Customer spread** | **2.64** | **2.74** |
| Other operating income/expense | Comprises the following accounting items: other income and other operating expenses as well as income from assets and expenses from liabilities under insurance or reinsurance contracts. | Other operating income | 234 | 257 |
| | | Other operating expenses | (551) | (547) |
| | | Income from assets under insurance or reinsurance contracts | - | - |
| | | Expenses on liabilities under insurance or reinsurance contracts | - | - |
| | | **Other operating income and expenses** | **(317)** | **(290)** |

(*) Average calculated on the basis of average daily balances.

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| Pre-provisions income | Comprises the following accounting items: Gross income plus administrative expenses and depreciation and amortisation. | Gross income | 4,932 | 5,010 |
| | | Administrative expenses | (2,743) | (2,920) |
| | | Staff | (1,649) | (1,591) |
| | | Other general administrative expenses | (1,095) | (1,330) |
| | | Depreciation and amortisation | (470) | (353) |
| | | **Pre-provisions income** | **1,719** | **1,737** |
| Total provisions and impairments | Comprises the following accounting items: i) impairment or reversal of impairment and gains or losses on changes in cash flows from financial assets not measured at fair value through profit or loss and net modification losses or gains, 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) profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding profit or loss on sale of 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 property). | Impairment or reversal of impairment of investments in joint ventures and associates | 7 | 0 |
| | | Impairment or reversal of impairment on non-financial assets | (86) | (401) |
| | | Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations | (36) | (35) |
| | | Gains on sale of equity holdings | (133) | (0) |
| | | Profit/(loss) on sale of investment properties | 4 | 32 |
| | | **Other provisions and impairments** | **(244)** | **(404)** |
| | | Provisions or reversal of provisions | (27) | (161) |
| | | Impairment or reversal of impairment and gains or losses on changes in cash flows from financial assets not measured at fair value through profit or loss and net modification losses or gains | (667) | (756) |
| | | **Provisions for loan losses and financial asse** | **(694)** | **(917)** |
| | | **Total provisions and impairments** | **(938)** | **(1,320)** |
| Capital gains on asset sales and other revenue | Comprises the following accounting items: gains or losses on derecognition of non-financial assets, net (excluding gains/losses on sale of investment properties) and gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (includes only gains or losses on the sale of equity holdings). | Gains or losses on derecognition of non-financial assets, net | 41 | 35 |
| | | Gains on sale of equity holdings | 133 | - |
| | | Profit/(loss) on sale of investment properties | (4) | (32) |
| | | **Capital gains on asset sales and other revenue** | **170** | **2** |

***PROFITABILITY AND EFFICIENCY***

| Performance indicator | | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|---|
| ROA | (*) (**) | Consolidated profit or loss for the year / Average total assets. Considering the annualisation on a straight-line basis of profit to date, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. Average total assets: measure of assets calculated using daily balances. | Consolidated profit or loss for the year | 777 | 335 |
| | | | Average total assets | 223,470 | 217,168 |
| | | | **ROA (%)** | **0.35** | **0.15** |
| RORWA | (*) | Profit attributable to the Group / Risk weighted assets (RWA).The numerator is the annualisation on a straight-line basis of profit to date, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. | Net profit attributable to the Group | 768 | 328 |
| | | | Risk weighted assets (RWAs) | 81,231 | 80,335 |
| | | | **RORWA (%)** | **0.95** | **0.41** |
| ROE | (*) (***) | Profit attributable to the Group / Average shareholders' equity The numerator is the annualisation on a straight-line basis of profit to date, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year. | Net profit attributable to the Group | 768 | 328 |
| | | | Average shareholders' equity | 12,926 | 12,643 |
| | | | **ROE (%)** | **5.94** | **2.60** |
| ROTE | (*) (***) | Profit attributable to the Group / Average shareholders' equity The numerator is the annualisation on a straight-line basis of profit to date, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. Intangible assets are excluded from the denominator. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year. | Net profit attributable to the Group | 768 | 328 |
| | | | Average shareholders' equity (excluding intangible ass | 10,437 | 10,309 |
| | | | **ROTE (%)** | **7.36** | **3.18** |

(*) Accrual on a straight-line basis of the contributions to the DGF and SRF and the tax on deposits at credit institutions was based on the Group's best estimates.

(**) Average calculated on the basis of daily balances.

(***) Average calculated using the month-end positions since December of the previous year.

| Performance indicator | | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|---|
| Cost-to-income ratio | (*) | Administrative expenses / Adjusted gross income. The denominator contains accrual on a straight-line basis of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. | Administrative expenses | (2,743) | (2,920) |
| | | | Adjusted gross income | 4,932 | 5,010 |
| | | | **Cost-to-income ratio (%)** | **55.63** | **58.29** |

***RISK MANAGEMENT***

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| Stage 3 exposures (doubtful) | The sum of the following accounting items: customer loans and advances classified as stage 3 and not classified as non-current assets held for sale, together with guarantees given classified as stage 3. | Loans and advances to customers | 5,942 | 6,472 |
| | | Stage 3 guarantees given | 198 | 81 |
| | | **Stage 3 exposures** | **6,141** | **6,554** |
| Coverage ratio of stage 3 exposures | Percentage of exposures classified as stage 3 that are covered by provisions.Calculated as impairments of customer loans and advances not classified as current assets held for sale (including provisions for guarantees given) / Total risks classified as stage 3 (including guarantees given classified as stage 3). | Provisions for loan losses | 3,045 | 3,544 |
| | | Stage 3 exposures | 6,141 | 6,554 |
| | | **Stage 3 coverage ratio** | **49.6%** | **54.1%** |
| Coverage ratio on non-performing real estate | Provisions for non-performing real estate assets / Total non-performing real estate assets Non-performing real estate assets are foreclosed properties or properties accepted in payment of debt and properties in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment. | Provisions for non-performing real estate assets | 394 | 767 |
| | | Non-performing real estate assets | 1,185 | 1,726 |
| | | **Coverage ratio on non-performing real estate** | **33.3%** | **44.5%** |

(*) Accrual on a straight-line basis of the contributions to the DGF and SRF and the tax on deposits at credit institutions was based on the Group's best estimates.

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| Non-performing assets and non-performing assets coverage ratio | 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 mainly in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment. The non-performing assets coverage ratio is obtained by dividing provisions for non-performing assets by total non-performing assets. | Stage 3 exposures | 6,141 | 6,554 |
| | | Non-performing real estate assets | 1,185 | 1,726 |
| | | **Non-performing assets** | **7,326** | **8,279** |
| | | Provisions for non-performing assets | 3,439 | 4,311 |
| | | **Coverage ratio on non-performing assets** | **46.9%** | **52.1%** |
| 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 impairments of exposures classified as stage 3, including guarantees given classified as stage 3 / Customer loans and advances not classified as current assets held for sale and guarantees given. See definition of assets classified as stage 3 elsewhere in this table. | Stage 3 exposures | 6,141 | 6,554 |
| | | Loans and advances to customers and guarantees giv | 160,127 | 155,206 |
| | | **NPL ratio** | **3.8%** | **4.2%** |
| *Cost of risk* (pbs) | Provisions for loan losses and other provisions and impairments / Gross customer loans and advances, excluding repos, plus non-performing real estate assets The numerator considers annualisation on a straight-line basis of provisions for loan losses and other provisions and impairments to date, adjusted for impairment or reversal of impairment on investments in joint ventures or associates. Additionally, provisions for institutional portfolio sales are adjusted. This metric is expressed in basis points. | **Provisions for loan losses and real estate, adjusted** | **(792)** | **(977)** |
| | | Provisions for loan losses | (672) | (751) |
| | | Other provisions and impairments | (244) | (404) |
| | | Impairment or reversal of impairment of investments in joint ventures and associates | (7) | - |
| | | Provisions for institutional portfolio sales | 131 | 177 |
| | | **Loans and advances to customers, gross, excluding repos** | **150,513** | **145,824** |
| | | **Non-performing real estate assets** | **1,185** | **1,726** |
| | | **Cost of risk (bp)** | **52** | **66** |

***LIQUIDITY MANAGEMENT***

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| Loan to deposits ratio | Net loans and receivables in retail financing. Calculated by subtracting brokered loans from the numerator. The denominator consists of retail funding or customer funds, as defined in this table. | Net loans and advances excluding repos, adjusted for brokered loans | 144,246 | 139,583 |
| | | On-balance sheet customer funds | 146,309 | 137,343 |
| | | **Loan-to-deposit ratio** | **98.6%** | **101.6%** |

*SHAREHOLDERS AND SHARES*

| Performance indicator | Definition and calculation | Reconciliation (million euro) | 31/12/2019 | 31/12/2018 |
|---|---|---|---|---|
| Market capitalisation | Calculated by multiplying the share price by the average number of shares outstanding as at the reporting date. | Average number of shares (million) | 5,538 | 5,565 |
| | | Listed price | 1.040 | 1.001 |
| | | **Market capitalisation (million euros)** | **5,760** | **5,568** |
| Earnings per share (EPS) | Profit attributed to the Group / Average number of shares outstanding at end of period. The numerator is the annualisation on a straight-line basis of profit to date, adjusted for the amount of the AT1 coupon recognised in equity and the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. | Adjusted profit attributable to the Group | 695 | 277 |
| | | Profit attributable to the Group | 768 | 328 |
| | | Adjustment for accrued AT1 | (73) | (51) |
| | | Average number of shares (million) | 5,538 | 5,565 |
| | | **Earnings per share (euros)** | **0.13** | **0.05** |
| Book value per share | Book value / Average number of shares outstanding at end of period. Book value is the sum of shareholders' equity, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. | Adjusted shareholders' equity | 13,172 | 12,545 |
| | | Average number of shares (million) | 5,538 | 5,565 |
| | | **Book value per share (euro)** | **2.38** | **2.25** |
| TBV per share (€) | Tangible book value / Average number of shares outstanding at end of period. Tangible book value is the sum of shareholders' equity, adjusted for intangible assets and the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. | Shareholders' equity | 13,172 | 12,545 |
| | | Intangible assets | 2,565 | 2,461 |
| | | Tangible book value (adjusted shareholders' equity) | 10,607 | 10,084 |
| | | Average number of shares (million) | 5,538 | 5,565 |
| | | **TBV per share** | **1.92** | **1.81** |
| Price/Book value | Share price or value / Book value per share. | Listed price | 1.040 | 1.001 |
| | | Book value per share (euro) | 2.38 | 2.25 |
| | | **Price/Book value** | **0.44** | **0.44** |
| Price / Earnings ratio (P/E) | Share price / Net attributed earnings per share | Listed price | 1.040 | 1.001 |
| | | Earnings per share (euros) | 0.13 | 0.05 |
| | | **Price / Earnings ratio (P/E)** | **8.29** | **20.11** |

CNMV
COMISIÓN NACIONAL DEL MERCADO DE VALORES

# ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

## ISSUER IDENTIFICATION DATA

Reporting Year Ended [ 31/12/2019 ]

Tax ID Number: [ A-08000143 ]

Company name:

[ **Banco de Sabadell, S.A.** ]

Registered office:

[ AV. OSCAR ESPLÁ N.37 (ALICANTE) ]

## A. OWNERSHIP STRUCTURE

A.1. Complete the next table about the company's ownership structure:

| Date of last change | Share capital (€) | No. of shares | No. of voting rights |
|---|---|---|---|
| 16/11/2017 | 703,370,587.63 | 5,626,964,701 | 5,626,964 |

Indicate whether there are different classes of shares, with different associated rights:

[ ] Yes
[ √ ] No

A.2. Detail direct and indirect owners of significant stakes at year-end, excluding directors:

| Name of shareholder | Voting rights attributed to the shares (%) | | Voting rights through financial instruments (%) | | Total voting rights (%) |
|---|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect | |
| BLACKROCK INC. | 0.00 | 5.08 | 0.00 | 0.13 | 5.21 |
| FINTECH EUROPE, S.À.R.L. | 3.49 | 0.00 | 0.00 | 0.00 | 3.49 |
| COLTRANE MASTER FUND,L.P. | 0.00 | 0.00 | 1.07 | 0.00 | 1.07 |

Detail the indirect holding:

| Full name/corporate name of indirect owner | Full name/corporate name of direct owner | Voting rights attributed to the shares (%) | Voting rights through financial instruments (%) | Total voting rights (%) |
|---|---|---|---|---|
| BLACKROCK INC. | Subsidiaries of BLACKROCK, INC. | 5.08 | 0.13 | 5.21 |

Indicate significant changes in the ownership structure in the year:

| Main changes |
|---|

NORGES BANK 07/01/2019. Fell below 3% of voting rights attributed to shares.
BLACKROCK INC. 01/02/2019. Fell below 5% of voting rights attributed to shares.
BLACKROCK INC. 04/02/2019. Exceeded 5% of voting rights attributed to shares.
BLACKROCK INC. 05/02/2019. Fell below 5% of voting rights attributed to shares.
BLACKROCK INC. 26/02/2019. Fell below 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 28/02/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 03/05/2019. Fell below 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 07/05/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 08/05/2019. Fell below 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 23/05/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 10/06/2019. Fell below 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 11/06/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 15/08/2019. Fell below 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 19/08/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 23/08/2019. Fell below 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 20/11/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 28/11/2019. Exceeded 5% of voting rights attributed to shares.
BLACKROCK INC. 16/12/2019. Fell below 5% of voting rights attributed to shares and financial instruments.

BLACKROCK INC. 20/12/2019. Exceeded 5% of voting rights attributed to shares and financial instruments.
BLACKROCK INC. 30/12/2019. Fell below 5% of voting rights attributed to shares.
BLACKROCK INC. 31/12/2019. Exceeded 5% of voting rights attributed to shares.

Mr. David Martínez Guzmán is the indirect holder of the voting rights attributed to the shares of FINTECH EUROPE, S.À.R.L.

A.3. Complete the next tables regarding the members of the company's board of directors who hold voting rights in the company:

| Name of director | Voting rights attributed to the shares (%) | | Voting rights through financial instruments (%) | | Total voting rights (%) | Voting rights that may be transferred through financial instruments (%) | |
|---|---|---|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect | | Direct | Indirect |
| Mr. JOSÉ OLIU CREUS | 0.01 | 0.11 | 0.03 | 0.00 | 0.15 | 0.00 | 0.00 |
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mr. JAIME GUARDIOLA ROMOJARO | 0.03 | 0.00 | 0.02 | 0.00 | 0.05 | 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. PEDRO FONTANA GARCIA | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Ms. MARÍA JOSÉ GARCÍA BEATO | 0.00 | 0.00 | 0.01 | 0.00 | 0.01 | 0.00 | 0.00 |
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mr. GEORGE DONALD JOHNSTON | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mr. DAVID MARTÍNEZ GUZMÁN | 0.00 | 3.49 | 0.00 | 0.00 | 3.49 | 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 |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | 0.05 | 0.00 | 0.01 | 0.00 | 0.06 | 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 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| | |
|---|---|
| Total % of voting rights held by the board of directors | 3.78 |

Detail the indirect holding:

| Name of director | Full name/ corporate name of direct owner | Voting rights attributed to the shares (%) | Voting rights through financial instruments (%) | Total voting rights (%) | Voting rights that may be transferred through financial instruments (%) |
|---|---|---|---|---|---|
| Mr. DAVID MARTÍNEZ GUZMÁN | FINTECH EUROPE, S.À.R.L. | 3.49 | 0.00 | 3.49 | 0.00 |

The percentage of voting rights through financial instruments reflects the rights attributed to the long-term supplementary incentives for the years 2017 and 2018, which have not vested.

A.4. Indicate any family, commercial, contractual or business relationships among owners of significant stakes, insofar as they are known to the company, unless they are not material or are derived from ordinary commercial transactions, except those disclosed in section A.6:

| Name of related parties | Relationship type | Brief description |
|---|---|---|
| No data | | |

A.5. Indicate any commercial, contractual or corporate relationships between owners of significant stakes and the company and/or its group, unless they are not material or are derived from ordinary commercial transactions:

| Name of related parties | Relationship type | Brief description |
|---|---|---|
| No data | | |

A.6. Indicate any relationships between significant shareholders or shareholders with board representation and the directors, or their representatives, in the case of natural persons representing directors that are legal persons, except where such relations are non-material for the two parties.

Indicate how the significant shareholders are represented. Specifically, identify any directors who were appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders, or who are related to significant shareholders and/or entities in their group, indicating the nature of the relationship. In particular, disclose the existence, identity and position of directors, or representatives of directors, of the listed company who are, in turn, members of the board, or their representatives, in companies that hold significant stakes in the listed company or in entities of such significant shareholders' group:

| Full name/corporate name of related director or representative | Name of related significant shareholder | Corporate name of the significant shareholder's group company | Description of relationship/position |
|---|---|---|---|
| Mr. DAVID MARTÍNEZ GUZMÁN | FINTECH EUROPE, S.À.R.L. | NOT APPLICABLE | - |

Fintech Europe S.A.R.L. is owned 100% by Fintech Investment Ltd., the investment fund managed by Fintech Advisory Inc. (FAI). FAI is owned 100% by Mr. David Martínez Guzmán.

A.7. Indicate whether shareholders' agreements that affect the company have been notified to the company as provided in articles 530 and 531 of the Capital Companies Act. If so, briefly describe the agreements and list the shareholders involved:

[ ] Yes
[ √ ] No

Indicate if the company is aware of any concerted actions among its shareholders. If so, give a brief description:

[ ] Yes
[ √ ] No

If the shareholders' agreements or concerted actions have been amended or terminated in the year, indicate this expressly.

-

A.8. Indicate if any natural or legal person exercises or can exercise control over the company in accordance with article 5 of the Securities Market Act. If so, identify that person:

[ ] Yes
[ √ ] No

A.9. Complete the next tables about the company's own shares:

At year-end:

| No. of direct shares | No. of indirect shares (*) | Total % of share capital |
|---|---|---|
| 6,006,864 | 10,155,636 | 0.287 |

(*) Through:

| Name of direct owner of holding | No. of direct shares |
|---|---|
| BANCO SANTANDER S.A. | 10,155,636 |
| Total | 10,155,636 |

Describe the main changes in the year:

| Describe the main changes |
|---|
| See detail in table. |

A.10. Detail the conditions and term of the current authorisation that the Shareholders' Meeting has given to the Board of Directors to buy or sell own shares:

The current mandate was granted by a resolution of the General Meeting of Shareholders of Banco de Sabadell, S.A. on 28 March 2019, under item 8 on the agenda, for five years, in the following terms:

"Revoke the delegation granted under resolution six adopted at the General Meeting on 19 April 2018 in the part not executed, and authorise Banco de Sabadell, Sociedad Anónima so that, either directly or through any of its subsidiaries, and within a maximum period of five years as from the date of this General Meeting, it may, subject to obtaining prior authorisation from the European Central Bank, acquire, at any time and as often as it sees fit, shares of Banco de Sabadell, Sociedad Anónima by any of the means admitted by law, including against profit for the year and/or unrestricted reserves, and that it may subsequently sell or cancel any shares thus acquired or, as appropriate, deliver them to employees or directors of Banco de Sabadell, Sociedad Anónima as part of their remuneration or as a result of the exercise of stock options which they hold, all in accordance with the provisions of articles 146, 509 and matching articles of the Capital Companies Act.

Approve the limits or conditions of these acquisitions, as follows:

- The par value of the shares thus acquired, directly or indirectly, in addition to any shares already held by Banco de Sabadell, Sociedad Anónima and its subsidiaries, must not exceed, at any time, the legal limit established at any time by the legislation in force (currently ten per cent of share capital), complying in all cases with all the limits for acquisition of own shares established by the stock market regulators in the markets on which the shares of Banco de Sabadell, Sociedad Anónima are listed.
- The acquisition, including any shares previously acquired by Banco de Sabadell, Sociedad Anónima (or by a person acting in their own name but on the bank's behalf) and held by it, must not lead to equity being less than the amount of capital plus legal reserves and reserves that are designated as restricted under the Articles of Association.
- The shares acquired must have been fully paid.
- The acquisition price must be no less than par value and no higher than 20 per cent above the stock market price or any other price whereby the shares may be valued as of the date of their acquisition. All acquisitions of own shares must be made in accordance with general stock market rules and regulations."

A.11. Estimated free float:

| | % |
|---|---|
| Estimated free float | 90.84 |

A.12. Indicate whether there are any restrictions (under the Articles of Association, the law or any other type) on the transfer of securities and/or any restriction on voting rights. In particular, disclose the existence of any restrictions that might hamper the acquisition of control of the company by purchasing its shares in the market, and the requirements as to prior authorisation or disclosure of the acquisition or disposal of the company's financial instruments that are applicable in its industry.

[ √ ] Yes

[ ] No

| Description of the restrictions |
|---|
| The only existing restrictions are those established in Spanish law applying to all credit institutions. Act 10/2014, of 26, June, on ordering, supervision and solvency of credit institutions, establishes that in any acquisition of at least 10 percent of the capital or of the voting rights of the institution, 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 the acquisition of 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 the stake below those thresholds must be notified by the seller to the Bank of Spain. |

A.13. State whether the General Meeting adopted measures to neutralise a takeover bid under the provisions of Act 6/2007.

[ ] Yes
[ √ ] No

A.14. Detail any such methods that have been approved and the terms in which the restrictions will be rendered ineffective:

A.15. Indicate whether the company has issued securities that are not listed in a regulated market in the European Union.

[ ] Yes
[ √ ] No

If so, state the classes of shares and, for each class of shares, their corresponding rights and obligations:

## B. GENERAL MEETING

B.1. Indicate whether there are differences with respect to the minimum requirements set out in the Capital Companies Act in connection with the quorum for a General Meeting of Shareholders, and describe any such differences:

[ ] Yes
[ √ ] No

B.2. Indicate and, if applicable, explain whether there are differences with respect to the rules provided by the Corporations Law for the adoption of corporate resolutions:

[ ] Yes
[ √ ] No

B.3. Describe the rules that apply to amendments of the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and any rules for safeguarding shareholders' rights in the event of an amendment of the Articles.

Amendments of the Bank's Articles of Association are governed by the Capital Companies Act and the Bank's own Articles of Association; where required by law, it is also necessary to obtain authorisation from the Bank of Spain under the powers assigned to it by article 10 of Royal Decree 84/2015, of 13 February, implementing Act 10/2014, of 26, June, on ordering, 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.

In accordance with the provisions of the Capital Companies Act, where amendments are approved by the General Meeting, the following requirements must be met:

- The directors or shareholders proposing the amendment must provide a written report justifying the proposed amendment.
- The proposed amendments must be clearly set out in the notice of the General Meeting.
- The notice of the General Meeting must state that all shareholders are entitled to inspect the full text of the proposed amendment and accompanying explanations at the Company's registered office and to request that those documents be provided or sent to them free of charge.

The resolutions must be adopted by the Shareholders' Meeting in accordance with Article 43 of the Articles of Association:

Article 43.
In order for an Ordinary or Extraordinary Shareholders' Meeting to validly adopt a resolution to issue bonds that are convertible into shares or that grant entitlement to participate in the company's earnings, to reduce or increase the share capital, to change the legal form of the Company, to merge or de-merge the Company or, generally, to make any amendment to the Articles of Association, the Meeting, if at first call, must be attended, in person or by proxy, by shareholders holding not less than 50 per cent of the subscribed voting shares.

If at second call, 25 per cent of capital will suffice.

Where those present represent less than 50 per cent of the subscribed voting shares, any of the resolutions referred to in the preceding paragraph requires a majority of two-thirds of the capital in attendance, whether in person or by proxy.

B.4. Indicate the attendance at the shareholders' meetings held in the reporting year and the two preceding years:

| | Attendance data | | | | |
|---|---|---|---|---|---|
| Date of General Meeting | % in attendance | % by proxy | % remote voting | | Total |
| | | | Electronic 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 |
| 19/04/2018 | 0.78 | 60.57 | 0.00 | 0.00 | 61.35 |
| Of which free float: | 0.66 | 60.38 | 0.00 | 0.00 | 61.04 |
| 30/03/2017 | 0.68 | 63.30 | 0.00 | 0.00 | 63.98 |
| Of which free float: | 0.55 | 62.92 | 0.00 | 0.00 | 63.47 |

The estimated percentages of free float may include significant holdings held through international custodians.

B.5. Indicate whether any item on the agenda of the general meetings held during the year was not approved by the shareholders, for any reason:

[ ] Yes
[ √ ] No

B.6. Indicate whether there are any restrictions in the Articles requiring a minimum number of shares to attend the General Meeting or to vote by distance means:

[ √ ] Yes
[ ] No

| | |
|---|---|
| Number of shares required to attend the General Meeting. | 1,000 |
| Number of shares required to vote by distance means | - |

B.7. Indicate whether there are rules requiring that certain decisions, other than those established by law, involving the acquisition, transfer, contribution to another company of essential assets or other similar corporate operations must be submitted for the approval of the general meeting:

[ ] Yes
[ √ ] No

B.8. Give the address of the company's website and the way to access the information about corporate governance and other information about General Meetings that must be placed at shareholders' disposal via the company's website:

The information about corporate governance is available on the Group's corporate website (www.grupobancosabadell.com) directly in the section entitled "Corporate governance and remuneration policy". The information about General Meetings is available on the Group's corporate website (www.grupobancosabadell.com) directly in the section entitled "Shareholder and investor information".

## C. THE COMPANY'S GOVERNANCE STRUCTURE

C.1. Board of Directors

C.1.1 Maximum and minimum number of directors envisaged in the Articles, and the number established by the general meeting:

| | |
|---|---|
| Maximum number of directors | 15 |
| Minimum number of directors | 11 |
| Number of directors established by the general meeting | 15 |

C.1.2 Complete the next table with the members of the board:

| Name of director | Representative | Director category | Board position | Date of first appointment | Date of latest appointment | Election procedure |
|---|---|---|---|---|---|---|
| Mr. JOSÉ OLIU CREUS | | EXECUTIVE | CHAIRMAN | 29/03/1990 | 28/03/2019 | GENERAL MEETING DECISION |
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | | INDEPENDENT | DEPUTY CHAIRMAN | 18/09/2010 | 28/03/2019 | GENERAL MEETING DECISION |
| Mr. JAIME GUARDIOLA ROMOJARO | | EXECUTIVE | MANAGING DIRECTOR | 27/09/2007 | 19/04/2018 | GENERAL MEETING DECISION |
| Mr. ANTHONY FRANK ELLIOTT BALL | | INDEPENDENT | LEAD INDEPENDENT DIRECTOR | 30/03/2017 | 30/03/2017 | GENERAL MEETING DECISION |
| Ms. AURORA CATÁ SALA | | INDEPENDENT | DIRECTOR | 29/01/2015 | 28/03/2019 | GENERAL MEETING DECISION |
| Mr. PEDRO FONTANA GARCIA | | INDEPENDENT | DIRECTOR | 27/07/2017 | 19/04/2018 | GENERAL MEETING DECISION |
| Ms. MARÍA JOSÉ GARCÍA BEATO | | EXECUTIVE | DIRECTOR | 24/05/2018 | 28/03/2019 | GENERAL MEETING DECISION |
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | | OTHER EXTERNAL | DIRECTOR | 29/03/2007 | 30/03/2017 | GENERAL MEETING DECISION |
| Mr. GEORGE DONALD JOHNSTON | | INDEPENDENT | DIRECTOR | 25/05/2017 | 19/04/2018 | GENERAL MEETING DECISION |
| Mr. DAVID MARTÍNEZ GUZMÁN | | PROPRIETARY | DIRECTOR | 27/03/2014 | 19/04/2018 | GENERAL MEETING DECISION |

| | | | | | | |
|---|---|---|---|---|---|---|
| Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ | | INDEPENDENT | DIRECTOR | 26/03/2013 | 19/04/2018 | GENERAL MEETING DECISION |
| Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI | | INDEPENDENT | DIRECTOR | 18/09/2010 | 28/03/2019 | GENERAL MEETING DECISION |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | | EXECUTIVE | DIRECTOR | 31/05/2012 | 30/03/2017 | GENERAL MEETING DECISION |
| Mr. MANUEL VALLS MORATÓ | | INDEPENDENT | DIRECTOR | 22/09/2016 | 30/03/2017 | GENERAL MEETING DECISION |
| Mr. DAVID VEGARA FIGUERAS | | EXECUTIVE | DIRECTOR | 28/05/2015 | 28/03/2019 | GENERAL MEETING DECISION |

| | |
|---|---|
| Total number of directors | 15 |

Indicate any directors who stepped down in the reporting period, due to resignation, removal or any other reason:

| Name of director | Director's category at time of removal | Date of last appointment | Date of removal | Specialised committees of which he/she was a member | Indicate whether the director stepped down before the end of his/her tenure |
|---|---|---|---|---|---|
| No data | | | | | |

| Reason for stepping down, and other comments |
|---|
| - |

C.1.3 Complete the next tables with the members of the board and their category:

| EXECUTIVE DIRECTORS | | |
|---|---|---|
| Name of director | Position in the company's organisation chart | Profile |
| Mr. JOSÉ OLIU CREUS | CHAIRMAN | BANKING / RETAIL & CORPORATE BANKING / FINANCE/ ACADEMIC/INTERNATIONAL. He holds a degree in economics from the University of Barcelona and a PhD in Economics from the University of Minnesota (USA). He was appointed Director-General Manager of Banco Sabadell in 1990 and has been Chairman of Banco Sabadell since 1999. Non- |

| | | |
|---|---|---|
| | | executive Chairman of Exea Empresarial and the latter's representative on the board of Puig, S.L. Member of FEDEA (Fundación de Estudios de Economía Aplicada), and a member of the Board of Trustees of the Princess of Asturias Foundation and the Princess of Girona Foundation. |
| Mr. JAIME GUARDIOLA ROMOJARO | MANAGING DIRECTOR | BANKING / RETAIL & CORPORATE BANKING / FINANCE. He graduated in Law from University of Barcelona and holds a degree in Business and an MBA from ESADE. He commenced working at BBVA in 1990, where he reached the position of General Manager for Spain and Portugal (2006-2007). He has been managing director of Sabadell since 2007. Member of the Board of Trustees of Fundación ESADE, representative of Banco Sabadell on the Board of Barcelona Chamber of Commerce, and a member of the Board of Círculo de Economía. |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | DIRECTOR - GENERAL MANAGER | BANKING /FINANCE/AUDITOR/RISKS. Diploma in General Management from IESE. In the course of his career at Banco Sabadell, he has held a number of positions, such as General Secretary - Control (2000-2001) and Controller General (2001-2012), and Vice-Secretary of the Board of Directors (2006-2012). Director of Banco Sabadell since 2012 and Director-General Manager since 2013. Director of BancSabadell d'Andorra, S.A. since 2019. Director of Sociedad Rectora de la Bolsa de Valores de Barcelona and Vice-Chairman of Barcelona Centro Financiero Europeo. |
| Ms. MARÍA JOSÉ GARCÍA BEATO | DIRECTOR SECRETARY GENERAL | BANKING / LAW / REGULATORY. Degree in Law and Diploma in Criminology. Spanish State Attorney since 1991. She was appointed Chief of Staff of the Minister of Justice in 2000, and Under-Secretary of Justice in 2002. General Counsel of Banco Sabadell (2005-2008). Secretary General of Banco Sabadell since 2008, and Director and Secretary General of Banco Sabadell since 2018. Independent director at listed company Red Eléctrica Corporación, S.A., member of the Boards of Trustees of Fundación Banco Sabadell and Fundación de la Asociación Española de Banca. |
| Mr. DAVID VEGARA FIGUERAS | DIRECTOR - GENERAL MANAGER | FINANCIAL / RISKS / ACADEMIC / REGULATORY. A graduate in Economics and Business Studies, major in General Economics (Applied Economics) from the Autonomous University of Barcelona, he holds a Master in Economics, major in Capital Markets and Political Science, from London School of Economics. Formerly Secretary of State for the Economy in the Spanish government (2004-2009), Deputy Managing Director, Banking, European Stability Mechanism (ESM) (2012-2015), and Associate Professor in the Department of Economics, Finance and Accounting at ESADE (until 2018). Independent director of Banco Sabadell (2015-2019). Director and Chief Risk Office of Banco Sabadell since 2019. Member of the Supervisory Board of Hellenic Corporation of Assets and Participations, S.A. |

| | |
|---|---|
| Total number of executive directors | 5 |
| % of total Board | 33.33 |

| PROPRIETARY EXTERNAL DIRECTORS | | |
|---|---|---|
| Name of director | Name of the significant shareholder whom the director represents or who proposed his/her appointment | Profile |
| Mr. DAVID MARTÍNEZ GUZMÁN | FINTECH EUROPE, S.À.R.L. | BUSINESS / FINANCE / INTERNATIONAL Degree in Electrical/Mechanical Engineering from the National Autonomous University of Mexico, and MBA from Harvard Business School. Founder in 1987 of Fintech Advisory, which manages the Fintech Investments Limited fund (New York and London). Proprietary director of Banco Sabadell since 2014. Director of listed companies Alfa, S.A.B., Vitro, S.A.B. and Cemex, S.A.B. |

| | |
|---|---|
| Total number of proprietary directors | 1 |
| % of total Board | 6.67 |

| INDEPENDENT EXTERNAL DIRECTORS | |
|---|---|
| Name of director | Profile |
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | BANKING / RETAIL & CORPORATE BANKING / BUSINESS. Holds a degree in Economics and Actuarial Science from the University of the Basque Country. Formerly Director and General Manager of Allianz-Ercos (1982-1990), General Manager of BBVA Group (1992-2001) and Chairman of Banco Guipuzcoano (2009-2012). Formerly a director of many companies in the energy and construction industries and the media. Independent director of Banco Sabadell since 2010 and Vice Chairman of the Board since 2013. Proprietary director of listed company ACS, Actividades de la Construcción y Servicios, S.A. and of ACS, Servicios, Comunicaciones y Energía, S.L., both belonging to the same group, of listed company Ence, Energía y Celulosa, S.A., and independent director of listed company Telefónica, S.A. (since 2019: Vice-Chair and Lead Independent Director), director of Telefónica Móviles México, S.A. de C.V. and Telefónica Audiovisual Digital, S.L.U., all belonging to the same group. He is also a trustee of Fundación Novia Salcedo. |
| Mr. ANTHONY FRANK ELLIOTT BALL | BUSINESS/INTERNATIONAL. Chartered Engineer; MBA from Kingston Business School, Kingston University (London). Honorary Doctorate from the Kingston University Faculty of Business and Law.<br>Formerly Chairman and CEO of Fox Sports International (1995-1996), CEO of Fox Liberty Networks LLC. (1996-1999), CEO of BSkyB Plc.(1999-2004) and Chairman of Kabel Deutschland GmbH (2005-2013), and independent director of BT Group (2009-2018). Independent director of Banco Sabadell since 2017, and Lead Independent Director of Banco Sabadell since March 2019. Chairman of Ambassadors Theatre Group Ltd and of Bité Group, both part-owned by Providence Equity Partners LLC. |

| | |
|---|---|
| Ms. AURORA CATÁ SALA | BUSINESS / CONSULTING / FINANCE / HUMAN RESOURCES. Holds a degree in Industrial Engineering (major in Industrial Organisation) from the Polytechnic University of Catalonia and an MBA and PADE from IESE Barcelona. Formerly CFO of Nissan Motor Ibérica, S.A. (1991-1996), Managing Director of Planeta 2010 (1999-2002), Founder of ContentArena (2002-2003), General Manager of Audiovisual Media at Recoletos Grupo de Comunicación (2003-2008) and member of the Governing Board of Institut Català de Finances (2014). Formerly held a number of directorships. Independent director of Banco Sabadell since 2015. Partner of Seeliger y Conde, S.L., director of listed company Atresmedia Corporación de Medios de Comunicación, S.A., member of the Executive Committee of IESE and member of the Board of Barcelona Global. |
| Mr. PEDRO FONTANA GARCIA | BANKING / RETAIL BANKING / BUSINESS. Degree in Business from Escuela Superior de Administración y Dirección de Empresas (ESADE), Barcelona, and MBA from Harvard Graduate School of Business Administration. General Manager of COOB'92 (1990-1993), General Manager of Turisme de Barcelona (1993-1994), Chairman of Banca Catalana (1994-1999), General Manager of BBVA Catalonia (2000-2009), Executive Chairman of AREAS (Elior Group) (2012-2017), and Deputy General Manager of Elior Group, S.A. (2017-2018), and representative of EMESA Corporación Empresarial, S.L. on the board of listed company Elior Group, S.A (2018-2019). Independent director of Banco Sabadell since 2017. Independent director of Grupo Indukern, S.L. and of Pax Equityco, S.à.R.L., President of Asociación para el Progreso de la Dirección, 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. |
| Mr. GEORGE DONALD JOHNSTON | BANKING / CORPORATE BANKING / INTERNATIONAL. BA in Political Science from Middlebury College, Vermont; MA in International Economics and Latin American Studies from Johns Hopkins University. 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 of Deutsche Bank (2005-2010), Director of SCi Entertainment Plc (Eidos) (2007-2009). Independent director of Banco Sabadell since 2017. Independent director of listed companies Acerinox, S.A. and Merlin Properties, SOCIMI, S.A. |
| Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ | BUSINESS / INSURANCE / FINANCE / INTERNATIONAL. A Public Works Engineer, he obtained a degree in Economics and Actuarial Science at the University of Madrid. Formerly Chairman of MAPFRE (2001-2012), President of Fundación MAPFRE (2007-2012) and member of the Board of Directors of Consorcio de Compensación de Seguros and the International Insurance Society. Independent director of Banco Sabadell since 2013. Honorary Chairman of MAPFRE. |
| Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI | BANKING / BUSINESS. An architect specialised in urban development, he holds an Executive MBA from IE Business School. Formerly director of Banco Guipuzcoano (1990-2010). Independent director of Banco Sabadell since 2010. Owner and Chairman of an extensive group of companies, he is currently Chairman of Centro Fuencarral, S.A., Comercial del Campo, S.A., Edificios Cameranos, S.A., Inversiete, S.A., Producción y Desarrollo, S.A., Títulos e Inversiones, S.A., and Villa Rosa, S.A. |
| 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). Independent director of Banco Sabadell since 2016. Independent director of listed company Renta Corporación Real Estate, S.A. |

| | |
|---|---|
| Total number of independent directors | 8 |
| % of total Board | 53.33 |

Indicate whether any director classified as independent receives, from the company or the same group, any amount or benefit under a heading other than director remuneration, or holds or has held, during the last year, a business relationship with the company or any other company in its group, either in his/her own name or as a significant shareholder, director or senior manager of an institution that holds or has held such a relationship.

If yes, give the reasons why it is considered that the director qualifies as an independent director.

| Name of director | Description of the relationship | Disclosure with rationale |
|---|---|---|
| No data | | |

OTHER EXTERNAL DIRECTORS

Identify the other external directors and detail the reasons why they cannot be classified as proprietary or independent, and any relations they have with the company, its executives or its shareholders.

| Name of director | Reason | Company, executive or shareholder with which he/she is related | Profile |
|---|---|---|---|
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | Twelve years elapsed since first appointment on 29 March 2007. | N.A. | ACADEMIC/AUDITOR/FINANCE. She has a Degree in Economics from the University of Barcelona and a PhD in Economics from the University of Minnesota, and has been a senior lecturer at the Department of Economics and Business at Pompeu Fabra University since 1995. Formerly held a number of directorships. Independent director of Banco Sabadell (2007-2019) and Lead Independent Director (2016-2019). Classified as an Other external director since April 2019. Independent director at listed company Repsol, S.A. Director of the Barcelona Graduate School of Economics, and a researcher and Board member of the International Economics Research Centre (CREI). |

| | |
|---|---|
| Total number of other external directors | 1 |
| % of total Board | 6.67 |

Indicate any changes in each director's status in the period:

| Name of director | Date of change | Previous category | Current category |
|---|---|---|---|
| Mr. DAVID VEGARA FIGUERAS | 31 January 2019 | Independent director | Executive director |
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | 25 April 2019 | Independent director | Other external director |

C.1.4 Complete the following table with information on the number of female directors at the end of the last four years, and their category:

| | Number of female directors | | | | % of total directors in each category | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 | 2019 | 2018 | 2017 | 2016 |
| Executive | 1 | 1 | | | 20.00 | 25.00 | 0.00 | 0.00 |
| Proprietary | | | | | 0.00 | 0.00 | 0.00 | 0.00 |
| Independent | 1 | 2 | 2 | 2 | 12.50 | 20.00 | 20.00 | 28.57 |
| Other external | 1 | | | | 100.00 | 0.00 | 0.00 | 0.00 |
| Total | 3 | 3 | 2 | 2 | 20.00 | 20.00 | 13.33 | 14.29 |

C.1.5 Indicate whether the company has diversity policies in relation to the board of directors with regard to issues such as age, gender, ability, or professional training and experience. Small and medium-sized undertakings, as defined the Audit Act, must disclose at least the policy they have established in relation to gender diversity.

[ √ ] Yes

[ ] No

[ ] Partial policies

If yes, describe the diversity policies, their objectives, the measures and the way in which they have been applied and their results in the year. Also disclose specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee to achieve balance and diversity on the Board of Directors.

If the company does not apply a diversity policy, give the reasons.

| Description of the policies, objectives, measures and manner in which they were applied, as well as the results obtained |
|---|

In general Banco Sabadell has policies governing diversity, age, gender, ability, and professional training and experience.

The Banco Sabadell Policy for the Selection of Candidates for Directorship, which was approved by the Board of Directors on 25 February 2016 and amended on 28 March 2019, establishes criteria to be considered in the process of selecting new members and re-appointing incumbent members of the Board of Directors.

The candidate selection process pursues an appropriate balance in the composition of the Board of Directors, which, as a whole, enriches decision-making and contributes plural viewpoints to the discussion of matters within its remit.

In particular, the Appointments Committee must ensure that candidates for directorships of Banco Sabadell meet the following parameters established in the Policy:
(i) Professional competence, by selecting persons who have achieved recognition in their profession; particular value is attached to experience in banking or finance that enables the candidate to contribute a strategic and business vision.
(ii) Diversity, selecting a variety of profiles within the Board of Directors (business, banking, academic, financial, legal, consultants, ...) and a diversity of experience, origin, nationality, and, in particular, gender, ensuring that there is a sufficient number of female directors. The committee also seeks to ensure that there is a sufficient representation of directors with banking experience in areas such as retail banking, business banking, corporate banking, or investment banking, in Spain or in other countries; and
(iii) Fitness and suitability, which are to be found in persons evidencing an appropriate track record and personal, commercial and professional conduct that does not cast doubt on their ability to exercise healthy prudent management of the bank.

The Appointments Committee fulfils its function of overseeing the qualitative composition of the Board of Directors, as set out in the Articles of Association and the Board of Directors Regulation; it oversees the application of, and compliance with, the Banco Sabadell Policy for the Selection of Candidates for Directorship, and by ensuring that the selection procedures, when filling vacancies on the Board or appointing new directors, favour a diversity of experience and knowledge, facilitate the selection of female directors and, in general, do not have any implicit biases that might entail discrimination of any kind.

In fulfilment of its function of making proposals to the Board of Directors for amendments to the selection and diversity policies, the Appointments Committee advised the Board on the amendment that was approved on 28 March 2019, to expressly state that, in connection with candidates' professional competence, particular value would be attached to experience in banking and finance and that, in selecting profiles, care would be taken to ensure that there is a sufficient representation of directors with knowledge of banking in such areas as retail banking, business banking, corporate banking and investment banking, both in Spain and in other countries.

On 27 June 2019, the Appointments Committee advised the Board of Directors on the approval of a Matrix of competencies and diversity of the members of the Board of Directors of Banco Sabadell, defining directors' abilities and knowledge. In connection with competencies, the matrix describes the professional profiles and industry-specific and horizontal competencies required to maintain the collective fitness of the Board of Directors. Regarding diversity, the diversity of directors' gender and geographical origin is taken into account, as well as their seniority in the position.

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 that 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.

C.1.6 Describe any measures adopted by the Appointments Committee to ensure that the selection procedure is free of any implicit bias that might prevent the selection of women, and that the company deliberately seeks female candidates with the necessary professional profile, enabling it to attain a balance of women and men:

| Detail such measures |
|---|

The Board of Directors has adopted active policies to promote gender equality within the institution. Specifically, at a meeting on 17 February 2016, the Appointments Committee issued a favourable report to the Board of Directors on the approval of the Banco Sabadell Policy for the Selection of Candidates for Directorship, in compliance with Recommendation 14 of the Code of Good Governance for Listed Companies.

As indicated in section C.1.5 above, the Policy sets out the criteria to be applied in the process of selecting new members of the Board of Directors and in the re-appointment of directors, under the provisions of the applicable laws and recommendations, and establishes that those selection procedures must facilitate the selection of female directors and, generally, must not have any implicit biases that might hamper the appointment of female directors. The Policy goal is that the under-represented gender accounts for at least 30% of the Board by 2020.

In particular, the Appointments Committee ensures that the director selection process fulfils the requirements as to professional competency, integrity, suitability and diversity and, specifically, seeks to ensure that there is a sufficient number of female directors. To this end, during the director selection process, the Committee focuses particularly on ensuring gender diversity on the Board of Directors, ensuring that the candidates for directorships include women with the necessary professional profile, for which purpose it can be assisted by an external consulting firm in order to obtain a diversity of profiles for analysis.

In compliance with that Policy, the Appointments Committee advised on the proposal to ratify and appoint a director who had been appointed by the Board of Directors in 2018, in the category of executive director, and it proposed the re-appointment of an independent director.

At 2019 year-end, the bank's Board of Directors comprised 3 female directors out of a total of 15, one of them an independent director, one of them in the category of Other external, and one of them an executive director. Accordingly, women made up 20% of the Board of Directors.

The female independent director is the Chair of the Appointments Committee and of the Remuneration Committee, and the female other external director is a member of the Audit and Control Committee, the Appointments Committee and the Risk Committee. Consequently, women chair two of the Board committees and are present in four of the five Board committees. Women account for 25% of the Audit and Control Committee, 33.33% of the Risk Committee, 25% of the Remuneration Committee and 50% of the Appointments Committee.

Where, despite such measures, there are few or no female directors, indicate the reasons for this situation:

| Detail the reasons |
|---|
| - |

C.1.7 Detail the conclusions reached by the Appointments Committee in assessing compliance with the director selection policy. In particular, indicate how this policy promotes the objective that, by 2020, women account for at least 30% of the Board.

In compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, the Appointments Committee checked that the policy was complied with in the motions passed in 2019 by the General Meeting of Shareholders in connection with ratifying, appointing or re-appointing directors, which conformed to the parameters and requirements of both the Policy and the existing regulations governing directorships at credit institutions, and whose selection was based on the pursuit of an appropriate balance in the Board of Directors such as to enrich decision-making and provide a plurality of viewpoints in debates. A Matrix of competencies and diversity of the members of the Board of Directors of Banco Sabadell was approved that defines directors' abilities and knowledge. The matrix describes the professional profiles and industry-specific and horizontal competencies required to maintain the collective fitness of the Board of Directors, and it takes account of diversity of gender and geographical origin, as well as directors' seniority in the position.

Specifically, with regard to gender diversity, the General Meeting of Shareholders on 28 March 2019 ratified and appointed executive director Ms. María José García Beato, who had been appointed by the Board on 24 May 2018, as her banking, regulatory and legal profile complements the diversity of knowledge and experience of the Board of Directors, and it approved the proposal by the Appointments Committee for the re-appointment of independent director Ms. Aurora Catá Sala, who contributes a suitable combination of financial, business, consulting and human resources knowledge that which contributes to the diversity of competencies in the Board of Directors and to its collective suitability.

Both motions for the appointment and re-appointment of directors that were approved by the General Meeting of Shareholders comply with the mandate to the Board of Directors and to the Appointments Committee itself to contribute to maintaining gender diversity within the Board, as the percentage of gender diversity attained in 2018, when the presence of women in the Board was increased significantly with respect to previous years, was maintained in 2019. The Bank maintains its goal of increasing the number of female directors and executives.

C.1.8 Indicate any reasons for which proprietary shareholders were appointed at the proposal of a shareholder owning less than 3% of capital:

| Name of shareholder | Justification |
|---|---|
| No data | |

Disclose any rejection of a formal request for a board seat from shareholders whose equity stake is equal to or greater than that of others which applied successfully for a proprietary directorship. Detail the reasons for any such rejection:

[ ] Yes
[ √ ] No

C.1.9 Disclose any powers or faculties delegated by the Board of Directors to directors or committees of the Board:

| Name of director or committee: | Brief description |
|---|---|
| Mr. JOSÉ OLIU CREUS | Has general powers to exercise all the functions of Chairman of the Board of Directors and Chairman of the Delegated Committee, and to oversee supervision and drive the Bank's strategy, communication and performance. |
| Mr. JAIME GUARDIOLA ROMOJARO | All the powers of the Board, except those that may not by law be delegated, and those powers that are necessary for him to manage the institution effectively as its chief executive. |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | The general powers that are necessary to perform his functions in the institution. |
| Ms. MARÍA JOSÉ GARCÍA BEATO | The general powers that are necessary to perform her functions in the institution. |
| DELEGATED COMMITTEE | It has been expressly delegated with all the powers corresponding to the Board of Directors, except the powers that the law or the Articles reserve exclusively for the Board. |

C.1.10 Identify any board members who are directors, representatives of directors, or executives in other companies that form part of the listed company's group:

| Name of director | Name of Group company | Position | Does he/she have executive functions? |
|---|---|---|---|
| Mr. JOSÉ OLIU CREUS | SABADELL CONSUMER FINANCE S.A.U. | CHAIRMAN | No |
| Mr. JAIME GUARDIOLA ROMOJARO | SABADELL CONSUMER FINANCE S.A.U. | DIRECTOR | No |
| Mr. JAIME GUARDIOLA ROMOJARO | BANCO SABADELL, S.A. I.B.M. (MEXICO) | CHAIRMAN | No |
| Mr. JAIME GUARDIOLA ROMOJARO | SABCAPITAL, S.A. de C.V., SOFOM, E.R. (MEXICO) | CHAIRMAN | No |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | SABADELL CONSUMER FINANCE S.A.U. | DIRECTOR | No |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | BANSABADELL FINANCIACIÓN, E.F.C., S.A. | CHAIRMAN | No |
| Mr. JOSÉ LUIS NEGRO RODRÍGUEZ | BANCSABADELL D'ANDORRA, S.A. | DIRECTOR | No |

C.1.11 Detail any directors of the company, or representatives of directors that are legal persons, who are members of the board of directors, or representatives of directors that are legal persons, of other companies listed on official stock markets, other than group companies, of which the company has been notified:

| Name of director | Name of listed company | Position |
|---|---|---|
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | ACS ACTIVIDADES DE CONSTRUCCION Y SERVICIOS, S.A. | DIRECTOR |
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | ENCE ENERGÍA Y CELULOSA, S.A. | DIRECTOR |
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | TELEFONICA, S.A. | DIRECTOR |
| Ms. AURORA CATÁ SALA | ATRESMEDIA CORPORACIÓN DE MEDIOS DE COMUNICACIÓN, S.A. | DIRECTOR |
| Ms. MARÍA JOSÉ GARCÍA BEATO | RED ELÉCTRICA CORPORACIÓN, S.A. | DIRECTOR |
| Ms. MARIA TERESA GARCÍA-MILÀ LLOVERAS | REPSOL, S.A. | DIRECTOR |
| Mr. GEORGE DONALD JOHNSTON | ACERINOX, S.A. | DIRECTOR |
| Mr. GEORGE DONALD JOHNSTON | MERLIN PROPERTIES, SOCIMI, S.A. | DIRECTOR |
| Mr. DAVID MARTÍNEZGUZMÁN | ALFA, S.A.B.DE C.V. | DIRECTOR |
| Mr. DAVID MARTÍNEZGUZMÁN | CEMEX, S.A.B.DE C.V. | DIRECTOR |
| Mr. DAVID MARTÍNEZGUZMÁN | VITRO, S.A.B.DE C.V. | DIRECTOR |
| Mr. MANUEL VALLS MORATÓ | RENTA CORPORACION REAL ESTATE, S.A. | DIRECTOR |

C.1.12 Indicate whether the company has established rules about the maximum number of directorships that board members can hold; describe any such rules and detail their location:

[ √ ] Yes
[ ] No

Banco Sabadell is bound by article 26 of Act 10/2014, of 26, June, on ordering, supervision and solvency of credit institutions, which establishes the maximum number of directorships that directors of credit institutions may hold, in transposition of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, and specifically by article 91, which establishes the following maximum combination of positions: i) one executive position with two non-executive positions, ii) four non-executive positions. Executive and non-executive positions in the same group or in companies in which the institution holds a significant stake count as one position. Also applicable are the European Central Bank's Guide to fit and proper assessments, updated in May 2018, and the Guidelines to assess the suitability of members of management bodies and key function holders (EBA/GL/2017/12) dated 12 March 2018, which came into force on 30 June 2018.

The Banco Sabadell Policy for the Selection of Candidates for Directorship, which was approved by the Board of Directors on 25 February 2016 and amended on 28 March 2019, refers to the applicable legislation with regard to the criteria and requirements that directors must fulfil.

C.1.13 Indicate the amounts of the following items of the overall remuneration for the Board of Directors:

| | |
|---|---|
| Remuneration earned by the Board of Directors in the year (thousand euro) | 9,674 |
| Amount of accumulated pension rights held by current directors (thousand euro) | 40,907 |
| Amount of accumulated pension rights held by former directors (thousand euro) | |

C.1.14 Indicate senior management members who are not executive directors and the total remuneration accrued to them in the year:

| Name | Position(s) |
|---|---|
| Mr. MIQUEL MONTES GÜELL | GENERAL MANAGER |
| Mr. TOMÁS VARELA MUIÑA | GENERAL MANAGER |
| Mr. CARLOS VENTURA SANTAMANS | GENERAL MANAGER |
| Mr. RAFAEL JOSÉ GARCÍA NAUFFAL | DEPUTY GENERAL MANAGER |
| Mr. JAIME MATAS VALLVERDÚ | DEPUTY GENERAL MANAGER |
| Mr. JOSÉ NIETO DE LA CIERVA | DEPUTY GENERAL MANAGER |
| Mr. RAMÓN DE LA RIVA REINA | DEPUTY GENERAL MANAGER |
| Mr. ENRIC ROVIRA MASACHS | DEPUTY GENERAL MANAGER |
| Mr. MANUEL TRESÁNCHEZ MONTANER | DEPUTY GENERAL MANAGER |
| Ms. NURIA LÁZARO RUBIO | DEPUTY GENERAL MANAGER - HEAD OF INTERNAL AUDIT |
| Total remuneration of senior management (in thousand euro) | **7,022** |

C.1.15 Indicate whether there were any amendments to the board regulation in the year.

[ √ ] Yes
[ ] No

At a meeting on 21 February 2019, in accordance with the procedure established in article 3 of the Board of Directors Regulation, the Board of Directors resolved to amend articles 5, 11, 12, 14 bis, 17, 23 and 24 of the aforementioned Board of Directors Regulation, subject to approval of the amendment of the Articles of Association that was proposed to the General Meeting of Shareholders on 28 March 2019 and approved by the latter, which also took cognizance of the aforementioned amendment of the Board Regulation. The amendment to the Board of Directors Regulation is a direct consequence of the amendment to the Articles of Association that was proposed to the General Meeting of Shareholders to adapt its wording to the new name of the Executive Committee, which is now called the Delegated Committee.

C.1.16 Indicate the procedure for appointing, re-appointing, assessing and removing directors. Indicate the competent bodies, the process and the criteria for each procedure.

In accordance with the provisions of Articles 50, 53, 55 and 61 of the Articles of Association, articles 14, 19 and 20 of the Board of Directors Regulation, the Banco Sabadell Policy for the Selection of Candidates for Directorship, approved by the Board of Directors on 25 February 2016, and the procedure for assessing the suitability of the members of the Board of Directors and key function holders of Banco Sabadell, the procedures for appointment, reappointment, evaluation and removal of directors are as follows:

Selection

The Appointments Committee is responsible for analysing the competencies and diversity of the Board of Directors in order to determine the profile of candidates for director of Banco Sabadell, for which purpose it relies on the Matrix of competencies and diversity of the members of the Board of Directors, which was approved by the Board of Directors based on a report by the Appointments Committee. In compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, it is responsible for performing a prior assessment to ensure that candidates for directorship possess the necessary competencies, knowledge and experience; to that end, it is necessary to consider the balance of knowledge, skills, diversity and experience of the members of the Board of Directors and, for this purpose, to define the roles and capabilities required of the candidates to fill each vacancy and to evaluate the time and dedication needed for them to effectively perform their duties.

To select candidates, the Appointments Committee may, if deemed necessary, engage a prestigious consultant in the field of personnel selection to initiate a process of finding candidates that fit the desired profile. Additionally, any director may suggest candidates for director provided they meet the requirements of the Banco Sabadell Policy for the Selection of Candidates for Directorship.

Suitability assessment

Once a candidate has been selected, the procedure for assessing the suitability of Board members and key personnel must be applied; on this basis, the Appointments Committee will analyse the information about the candidates and the reports presented by the Board Secretary, drawn up by the Bank's Senior Counsel, as to their commercial and professional integrity, knowledge and experience and their willingness to provide good governance, by application of the requirements set out in Act 10/2014, of 26 June, on ordering, supervision and solvency of credit institutions, and having regard to the criteria for assessing the suitability of the members of the Board of Directors as set out in Royal Decree 84/2015, of 13 February, implementing the aforementioned Act 10/2014, of 26 June, and the European Central Bank guidelines on fit and proper assessments dated 15 May 2017, as well as the Guidelines to assess the suitability of members of management bodies and key function holders (EBA/GL/2017/12) dated 21 March 2018, which came into force on 30 June 2018.The Appointments Committee will check that candidates meet the requirements as to integrity, knowledge, experience and governance envisaged in the applicable legislation and will draw up a candidate suitability assessment report. In addition, candidates for directorships must be vetted by the European Central Bank.

The Appointments Committee is also entrusted with assessing director suitability on an ongoing basis, and evaluating the profile of the persons most suited to being members of the various committees, and making proposals in this regard to the Board of Directors; in particular, it must seek to ensure that the rules on the qualitative composition of the Board of Directors are complied with.

Appointment

After assessing the suitability of candidates for director, the Appointments Committee is entrusted, among its basic responsibilities in accordance with Article 61 of the Articles of Association, with making proposals to the Board for the appointment of independent directors either by co-optation or for submission to a vote at the General Meeting of Shareholders, and must advise on the proposals to appoint other director categories by co-optation or by referral to the General Meeting of Shareholders.

Ordinary members of the Board of Directors are appointed by the General Meeting of Shareholders. Any vacancies arising on the Board of Directors are filled by the General Meeting unless the Board decides, in the interests of the bank, to act in accordance with the Capital Companies Act. Directors appointed by co-optation hold office until the next General Meeting of Shareholders.

Re-appointment

Directors are appointed for a term of at most four years and they can be re-appointed one or more times for periods of the same maximum duration.

Removal

Directors must step down when their term ends if they are not re-appointed, or when the General Meeting of Shareholders or the Board of Directors so decides using the powers conferred on them by law or the Articles of Association. The Appointments Committee is empowered to make proposals for the removal of independent directors by the General Meeting of Shareholders, and to advise on proposals to remove directors in other categories. The Board does not currently have any powers in this respect under the law or the Articles of Association. The General Meeting of Shareholders may remove directors at any time, as provided in article 50 of the Articles of Association.

Restrictions

The following may not hold office as members of the Board of Directors:

a) Minors.

b) Persons disqualified by law, undischarged bankrupts or insolvents, those under convictions involving disqualification from holding public office, and those convicted of serious breaches of the Spanish Corporations Act or Company regulations, or who are prevented from engaging in trade by reason of their office.

c) Government officials whose duties are related to, or have a bearing on, the business of the Bank.

d) Those in default with respect to any obligation to the Bank.

e) Persons in any of the situations of incompatibility or limitation on holding office as provided by law.

C.1.17 Describe the extent to which the annual evaluation of the Board led to significant changes in its internal organisation and the procedures applicable to its activities:

| Description of changes |
| --- |

Each year since 2007, the Bank assesses the performance of the Board of Directors and of its sub-committees (Delegated Committee, Audit and Control Committee, Appointments Committee, Remuneration Committee and Risk Committee).

In compliance with Recommendation 36 of the Good Governance Code of Listed Companies, every three years the Board of Directors engages an external facilitator to aid in the evaluation process. This facilitator's independence is verified by the appointments committee.

The report on the assessment of the Board of Directors and the Committees of Banco Sabadell for 2018 was approved by the Board of Directors at its meeting on 31 January 2019, after a favourable report from the Appointments Committee.

The aforementioned Report confirms that the Board functions properly and, on the basis of the self-assessment carried out by each sub-committee and submitted to the Board, the sub-committees' performance is also satisfactory. Nevertheless, the Report established an Action Plan for 2019 consisting of measures aimed at improving Banco Sabadell's corporate governance and the workings of both the Board of Directors and of its sub-committees. In line with those measures, the following actions were taken:

- With regard to sending documentation to directors sufficiently in advance, internal procedures and technology systems at directors' disposal were strengthened, as was the structure of supporting documentation, to include an executive summary, background, the purpose of the document, and suggested talking points.
- Establishment of procedures and controls through the Risk Control Department to ensure that its supervisory function is performed effectively; to this end, policies were developed including a specific procedure for approving material amendments and exceptional transactions that involves the second line of defence by requiring it to issue a reasoned written report. Participation by the second line of defence has also been increased as the Chief Risk Officer and other executives in the second line are present in the decision-making committees as members or attendees.
- Enhancement of the director training programme. The programme was expanded to address specific needs of the directors; one advantage is that the training is given by Banco Sabadell executives.
- To encourage and monitor compliance with the specific action plans approved by the Committees for 2019, and by the Board itself, Banco Sabadell undertook measures in addition to those covered by the 2019 Action Plan, by adapting the composition and structure of the Delegated Committee with respect to the Board of Directors, amending the Articles of Association and Board of Directors Regulation to change the name of the Executive

  Committee to that of Delegated Committee in order to lend more visibility to its function as a body with all the faculties delegated by the Board of Directors, and the approval of policies aimed at achieving more effective control of such issues as remuneration in the Group and risk control and management in Banco Sabadell.

Additionally, Banco Sabadell drew up a Plan to make the Board's supervisory function more effective and, in particular, to ensure that new Board members have solid experience in the banking business, that all strategic issues are included in the Agenda in a timely manner and discussed with priority, that decisions by the Board are solidly grounded and well informed, that the documents and information are received sufficiently in advance of the meetings and that, in exercising its supervisory function, the Board constructively questions and critically reviews not only proposals and decisions but also the information provided to the members of the Board. The Board of Directors approved that Plan at a meeting on 27 June 2019, and all the measures set out in the Plan had been completed by the end of 2019.

Among the measures provided for in that Plan, the Appointments Committee resolved that the evaluation of the performance of the Board of Directors and its Committees for the year 2019 be carried out by an independent external consultant, Deloitte Legal, S.L.P., in order to ensure and review the effectiveness of the measures and improvements provided for in the Plan. The external consultant's assessment was performed earlier than the minimum three-year frequency recommended in the Good Governance Code, as the previous evaluation in which the Board was assisted by an external consultant referred to 2017.

Describe the evaluation process and the areas assessed by the Board of Directors with the assistance of an external consultant, if any, with regard to the performance and composition of the Board and its committees, and any other area or aspect that was assessed.

| Description of the assessment process and the areas that were |
|---|

In accordance with article 529 nonies of the Capital Companies Act, the Code of Good Governance for Listed Companies and the Board of Directors Regulation, the Board of Directors assessed its own performance and that of its sub-committees in 2018.

In line with the recommendations in the Code of Good Governance for Listed Companies, the evaluation of the performance of the Board of Directors and its committees was organised and coordinated by the Chairman of the Board of Directors, as the person with responsibility for the Board's effective performance, with the assistance of the Secretary and the participation of all directors and, as needed, of the Lead Independent Director. It incorporated the conclusions of the self-assessments carried out by the Board Committees. The Appointments

Committee also reported favourably on the performance assessment of the Board and of the Chairman and Managing Director.

The regular performance evaluation of the Chairman of the Board of Directors was directed by the Lead Independent Director in accordance with article 529 septies of the Capital Companies Act and with article 55 of the Articles of Association and article 8 of the Board of Directors Regulation; the assessment of the Managing Director's performance was organised and coordinated by the Chairman of the Board.

The assessment of Board committee performance covered the following areas: committee quality and efficiency, operation, composition and functions, matters discussed at the meetings, and performance of the committee chair and secretary. The corresponding reports contain a review of the implementation of the 2018 Action Plan and specific recommendations and proposals for the 2019 Action Plan.

The assessment of the Board of Directors analysed the areas covered by Recommendation 36 of the Code of Good Governance: quality and efficiency of the Board of Directors' performance; the performance and composition of its committees; diversity in the composition and competencies of the Board; the performance of the Chairman of the Board and the Managing Director; and the performance and contribution by each director. The report also describes the measures implemented to fulfil the 2018 Action Plan for the Board of Directors, and the 2019 Action Plan was developed including proposals to improve corporate governance at Banco Sabadell and Sabadell and the functioning of the Board of Directors.

The methodology applied in the assessment is based on three main elements:

- Input from the directors. The perception of the members of the Board of Directors and its committees is a key component of the analysis, since they know how it works and are a source of essential information for diagnostic purposes.
- Analysis of significant corporate documentation of Banco Sabadell relating to key aspects of the corporate governance system. The documentation and information that were reviewed were the agendas and minutes of the Board of Directors and sub-committee meetings, as well as records of member attendance at meetings, the self-assessment report for 2017 and the action plan for 2018, the institution's internal regulations (Articles of Association, Board of Directors Regulations, Regulations of the Audit and Control Committee, and the Code of Conduct in relation to the securities market), and the bank's policies, and other information such as the Annual Corporate Governance Report for 2017.
- Review of the 2018 Reports on the activities of the Appointments Committee, the Remuneration Committee and the Risk Committee. Analysis of these documents provided greater insight into the actions of the committees in 2018, giving a broader vision of their performance and the fulfilment of the duties assigned to them.

Analysis of the information and documentation from Banco Sabadell made it possible to assess the performance of the Board of Directors, the degree of participation by its members and key position holders, the efficiency of its committees, the matters that were reported and debated, and other additional information that is germane to the performance assessment and the identification of potential areas for improvement on which to design the action plan for 2019.

The assessment for 2019 is being conducted in 2020 with the assistance of an independent external consultant, Deloitte Legal, S.L.P., in accordance with a decision adopted by the Appointments Committee in November 2019 as one of the measures in the aforementioned plan to enhance the Board's effectiveness in the performance of its supervisory function.

C.1.18 In years where the assessment was performed with the support of an external consultant, detail the business relations between the consultant and any company in its group with the company and any company in its group.

Deloitte Legal, S.L.P. advised Banco Sabadell in the assessment for 2017 and is doing so for the assessment in connection with 2019.

The business relations with the external consultant and any company in its group are within the ordinary course of business. Deloitte Legal, S.L.P. has provided advice on matters of criminal liability. Other companies in the Deloitte group have provided advisory services to the Banco Sabadell group, particularly in the field of information technology and security.

C.1.19 Indicate the reasons for which directors may be forced to resign.

Under article 20 of the Banco Sabadell Board of Directors Regulation, directors may be removed:

a) If they meet any of the conditions of incompatibility or prohibition envisaged in the law or the Articles of Association.

b) If they are arraigned for a crime or are the subject of disciplinary proceedings by the supervisory authorities for a serious or very serious violation.

c) Where their continuance on the Board may jeopardise the company's interests.

C.1.20 Is a supermajority, other than the legal majority, required in some decisions?

[ ] Yes
[ √ ] No

Describe the differences, if any.

-

C.1.21 Detail whether there are specific requirements, other than those relating to directors, for appointing the Chairman of the Board of Directors.

[ √ ] Yes
[ ] No

| Description of requirements |
|---|

Those established in the Succession Plan for the Chairman and Managing Director of Banco Sabadell, approved by the Board of Directors on 21 July 2016.

In general, the Chairman of the Board of Directors must be of acknolwedged commercial and professional fitness, have suitable knowledge and experience to perform the duties of the office, and be willing to exercise good governance of the Bank. In particular, they must have proven experience in the financial sector and/or in senior management functions, have sufficient technical training in the fields of finance and/or business management and administration for the performance of the executive functions inherent to their position, and they must accredit a professional career that demonstrates leadership and/or entrepreneurship, in addition to meeting the conditions of suitability required of a director of a credit institution in accordance with the applicable regulations.

C.1.22 Indicate if the articles or board regulation establish an age limit for directors:

[ ] Yes
[ √ ] No

C.1.23 Indicate if the articles or board regulation establish a term limit for independent directors or other requirements for them that are stricter than those provided by law, other than those provided in the regulations:

[ ] Yes
[ √ ] No

C.1.24 Indicate whether or not the Articles of Association or the Board Regulation set out specific rules for directors to grant proxy to other directors in Board of Directors meetings, the method of doing so and, more specifically, the maximum number of proxies that a director can hold, as well as whether or not a limitation has been set with regard to the categories to which proxy may be granted, above and beyond the limitations imposed by law. Give a brief description of any such rules.

Directors must attend Board of Directors meetings in person. However, when they can not attend in person, they may grant proxy to another director. Article 56 of the Articles of Association establishes that non-executive directors may grant proxy only to another non-executive director.

Additionally, the Director Remuneration Policy for 2019, 2020 and 2021, approved by the Shareholders' Meeting on 28 March 2019, which establishes the system of remuneration for directors for their functions as members of the Board of Directors, breaks down their fixed remuneration under this heading, establishing, 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.

C.1.25 Indicate the number of board of directors meetings held in the year.Also, state the number of times that the Chairman did not attend Board meetings.Proxies granted with specific instructions are not counted as absences:

| | |
|---|---|
| Number of Board meetings | 13 |

| | |
|---|---|
| Number of Board meetings held without the chairman | |

Indicate the number of meetings held by the lead director with the other directors, without any executive director being present.

| | |
|---|---|
| Number of meetings | 2 |

Indicate the number of meetings held by board sub-committees in the year:

| | |
|---|---|
| Number of Delegated Committee meetings | 36 |
| Number of Audit and Control Committee meetings | 11 |
| Number of Appointments Committee meetings | 11 |
| Number of Remuneration Committee meetings | 11 |
| Number of Risk Committee meetings | 10 |

C.1.26 Indicate the number of board of directors meetings held in the year, and give data on attendance by members:

| | |
|---|---|
| Number of Board meetings held with at least 80% of directors in attendance | 13 |
| Attendance in person as a % of the total number of votes during the year | 97.95 |

| | |
|---|---|
| Number meetings attended by all directors in person or by proxy with specific instructions | 13 |
| Votes cast with all directors actually present or having granted proxy with specific instructions, as a % of total votes in the year | 100.00 |

C.1.27 Indicate whether the separate and consolidated financial statements that are presented for board approval are certified beforehand:

[ √ ] Yes
[ ] No

Identify the person(s) that certified the company's separate and consolidated financial statements for board authorisation:

| Name | Position |
|---|---|
| Mr. JOSÉ OLIU CREUS | CHAIRMAN |
| Mr. JAIME GUARDIOLA ROMOJARO | MANAGING DIRECTOR |
| Mr. TOMÁS VARELA MUIÑA | GENERAL MANAGER— CHIEF FINANCIAL OFFICER |

C.1.28 Detail whether the board of directors has established any mechanisms to ensure that the separate and consolidated financial statements authorised by it are presented to the Shareholders' Meeting without audit qualifications.

The Bank's internal units draw up financial statements clearly such as to present a true and fair view of the company's net worth, financial situation and results, to which end they must apply generally accepted accounting principles to all the financial and accounting information.
The Audit and Control Committee reviews the company's financial statements, both separate and consolidated, before referring them to the Board, and exercises vigilance to ensure compliance with the law and the proper application of generally-accepted accounting principles. To this end, it holds regular meetings with the external auditors in order to be informed punctually about the audit process and to be aware sufficiently in advance of any discrepancies or differences of opinion that might arise. In the event of a discrepancy that might lead to a qualification in the auditors' report, the committee seeks to resolve it before the financial statements are authorised.

If the discrepancy cannot ultimately be resolved before the financial statements are authorised, the annual report of the Audit and Control Committee must expressly describe the discrepancies and its position in connection with them.

The auditors' reports on the separate and consolidation financial statements for 2019 were unqualified.

C.1.29 Is the board secretary a director?

[ ] Yes
[ √ ] No

If the secretary is not a director, complete the following table:

| Name of secretary | Representative |
|---|---|
| Mr. MIQUEL ROCA JUNYENT | |

C.1.30 Describe the specific mechanisms established by the company to safeguard the independence of the external auditors, and any mechanisms to safeguard the independence of financial analysts, investment banks and rating agencies, including details of how the legal requirements are implemented in practice.

In general, in connection with the external auditors, article 60 of the Articles of Association provides that the Audit and Control Committee has the following competencies:
(...)
4. Proposing to the Board of Directors, for submission to the General Meeting, the appointment of the external auditor, establishing the engagement conditions, the scope of the professional mandate, and revocation or non-renewal, if appropriate; reviewing compliance with the audit contract, striving to ensure that the opinion on the financial statements and the main content of the auditors' report are drafted clearly and accurately.
(...)
6. Establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions and in the audit rules."

The Board of Directors Regulation expresses itself in similar terms: article 30 provides that:"Relations between the Board and the company's external auditors will be conducted through the Audit and Control Committee."

Specifically, in 2019, to preserve the independence of the external auditor, Banco Sabadell adopted resolutions to rotate the auditor in compliance with current legislation; based on a reasoned recommendation from the Audit and Control Committee, the Board of Directors proposed that the General Meeting of Shareholders appoint KPMG Auditores, S.L. as auditors of Banco Sabadell and of the consolidated annual accounts of the Banco Sabadell Group for the years 2020, 2021 and 2022; that motion was approved by the General Meeting of Shareholders on 28 March 2019. In addition, the Audit and Control Committee monitored the handover between the outgoing auditor and the incoming auditor to ensure proper transfer of knowledge and compliance with restrictions during the 'cooling in' period.

During 2019, the Audit and Control Committee was composed of four directors, all of whom were independent until 25 April 2019, when a female member changed category, from independent director to other external director. That Committee's Regulation, which was current in 2019, includes the provisions of the Articles of Association and the Board of Directors Regulation; article 21.3 provides that, as directors and members of the Committee, those members must act with independence of opinion and action with respect to the rest of the organisation (...)

On 19 April 2016, in conformity with Act 22/2015, of 20 July, on Auditing, and Regulation (EU) No 537/2014, of 16 April, the Audit and Control Committee approved the Group policy for safeguarding auditor independence. The policy is implemented through procedures that contemplate measures to preserve the auditor's independence by monitoring possible incompatibilities arising from personal circumstances, prohibited services, rotation requirements and fee limits, as well as measures in the processes of auditor selection, appointment, reappointment or replacement, and processes for authorising all the auditor's services, particularly in connection with non-audit services that the auditor is not prohibited from providing.

Additionally, based on information received from the auditors, the Committee vetted the procedures and tools used by the firm to ensure compliance with the auditor independence requirements. Written confirmation of the firm’s independence with respect to the Banco Sabadell Group was received on 22 July 2019 and 28 January 2020. 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.

The institution complies with the principles of transparency and non-discrimination set out in the current legislation with respect to other market players. Specifically, the institution: 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 the bank receives advice from investment banks in certain transactions and, in the course of providing those services, such investment banks become privy to inside information, the institution includes the persons who become privy to such information in its internal control systems, and expressly notifies such persons of the obligation to fulfil their duty of confidentiality and comply with any trading restrictions, and ensure that others comply with them too.

Additionally, the bank conforms to the rules set out in its General Policy on Conflicts of Interest that was approved by the Board of Directors, whose ultimate and fundamental objective is that the persons who are bound by it should act in accordance with the ethical norms and principles that govern the bank's activities, based on the following guidelines:

- Existence of measures to prevent conflicts of interest from arising.
- Where conflicts of interest arise or are going to arise, existence of measures that enable them to be detected for the purpose of registering them and addressing them immediately.
- Where conflicts arise, they must be eliminated; otherwise, steps must be taken to reveal their nature and origin to the customer or the decision-making bodies, as appropriate, for the appropriate decisions to be made.

The bank also acts in accordance with the principles established in the Banco Sabadell Policy on Outsourcing of Functions, approved by the Board of Directors.

C.1.31 State whether the Company changed its external auditor during the year. If so, identify the incoming and outgoing auditor:

[ ] Yes
[ √ ] No

Although the external auditor was not changed in 2019, the Board of Directors, based on a reasoned recommendation from the Audit and Control Committee, resolved at a meeting on 20 December 2018, as disclosed via regulatory disclosure no. 273.045, to appoint KPMG Auditores, S.L. as auditors of the financial statements of Banco Sabadell and the consolidated financial statements of the Banco Sabadell Group for the years 2020, 2021 and 2022.This decision was adopted in compliance with current legislation on auditor rotation and as a result of a selection process performed in accordance with the provisions of Regulation (EU) 537/2014 of 16 April, on specific requirements regarding statutory audit of public-interest entities. Based on a proposal by the Board of Directors, the General Meeting of Shareholders approved that appointment on 28 March 2019.

If there was a disagreement with the outgoing auditor, describe it:

[ ] Yes
[ √ ] No

C.1.32 Indicate whether the audit firm performs work for the company and/or its group other than auditing and, if so, state the fees received for such work and those fees as a percentage of the total fees billed to the company and/or its group:

[ √ ] Yes
[ ] No

| | Company | Group companies | Total |
|---|---|---|---|
| Fees for work other than auditing (thousand euro) | 95 | 39 | 134 |
| Fees for work other than auditing/Total audit fees (%) | 6.28 | 0.72 | 1.94 |

The amount of fees for non-audit work does not include audit-related services for a total of 992 thousand euros (671 thousand euros corresponding to the Company and 321 thousand euros corresponding to Group subsidiaries), since they are independent assurance services, some of which are required by law.

C.1.33 State whether or not the auditors' report on the previous year's financial statements was qualified. If it was, state the reasons given by the Chairperson of the Audit Committee to the shareholders at the General Meeting of Shareholders to explain the content and scope of the qualification or exception.

[ ] Yes
[ √ ] No

C.1.34 Indicate the number of consecutive years that the current audit firm has been auditing the financial statements of the company and/or the consolidated financial statements of its group. Also, indicate the number of years audited by the current audit firm as a percentage of the total number of years in which the financial statements have been audited:

| | Separate | Consolidated |
|---|---|---|
| Number of consecutive years | 37 | 35 |

| | Separate | Consolidated |
|---|---|---|
| No. of years audited by the current audit firm/No. of years that the company or its group has been audited (%) | 94.87 | 100.00 |

C.1.35 State and detail any procedures in place to ensure that directors can obtain the information they need to prepare in good time for meetings of the Board and committees:

[ √ ] Yes
[ ] No

| Detail the procedure |
|---|

Article 17.1 of the Board of Directors Regulation establishes that the notice of meeting must always include the Agenda, which must contain, among other items, information about subsidiaries and Board sub-committees, and proposals and suggestions by the Chairman and other Board members and the bank's General Managers, to be received no less than five days in advance of the Board meeting; such proposals must be accompanied by the appropriate material for distribution to the directors.

Additionally, article 21 provides that:

1. Directors are vested with the broadest powers to be informed about any aspect of the company, to examine its books, records, documents and other background information on the company's transactions and to inspect all of its installations.The right to information extends to subsidiaries, both domestic and foreign.

2. So as not to disturb the ordinary running of the company, requests by directors for information must be channelled through the Chairman or the Secretary to the Board, 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 formal 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 sub-committees in a confidential and encrypted way, using the Diligent Boards software running on iPads. Information for Board meetings is circulated to the directors one week in advance, and it is elaborated upon or updated in the boardbook as needed; hence, they are duly informed.

In accordance with the Action Plan for 2019 established in the Board performance assessment for 2018 and the Plan to enhance the effectiveness of the Board's supervisory function, internal procedures and the technology systems at directors' disposal were strengthened in terms of the advance notice with which documentation is circulated to the directors, and improvements were made to the structure of supporting documentation, to include an executive summary, background, the purpose of the document, and suggested talking points

C.1.36 State and detail any rules in place that oblige the directors to report any circumstances that might jeopardise the company’s credit and reputation and, if appropriate, resign:

[ √ ] Yes
[ ] No

The rules in the Capital Companies Act, in the chapter on directors' duties, are applicable: Specifically, under article 50 of the Articles of Association and article 23 of the Board of Directors Regulation, and in compliance with the Banco Sabadell Group Code of Conduct and its Policy on Conflicts of Interest of Directors and Senior Executives, 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.

Additionally, article 20 of the Board of Directors Regulation provides that directors will be removed:

a) If they meet any of the conditions of incompatibility or prohibition envisaged in the law or the Articles of Association.
b) If they are arraigned for a crime or are the subject of disciplinary proceedings by the supervisory authorities for a serious or very serious violation.
c) Where their continuance on the Board may jeopardise the company's interests.

All the foregoing is without prejudice to the application of the rules on the fitness assessment to be performed by the bank in line with the procedure approved by the Board of Directors, which requires that any potential conflicts of interest or special situations be checked and assessed.

C.1.37 State whether any member of the Board of Directors has informed the company that he/she has faced criminal charges or has been arraigned for any of the offences listed in Article 213 of the Capital Companies Act:

[ ] Yes
[ √ ] No

C.1.38 Detail any significant agreements entered into by the company 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.

-

C.1.39 Identify and detail, individually, in the case of directors, and in overall terms, in other cases, any agreements between the company and its directors and senior executives or employees that contain indemnities, guarantees or severance clauses in the event of their resignation or unfair dismissal or if the contractual relationship is terminated due to a takeover bid or other transaction.

| Number of beneficiaries | 45 |
|---|---|
| Type of beneficiary | Description of agreement |
| CHAIRMAN, MANAGING DIRECTOR, DIRECTOR - GENERAL MANAGER, DIRECTOR - SECRETARY GENERAL, DIRECTOR - CHIEF RISK OFFICER, OTHER BENEFICIARIES | CHAIRMAN, MANAGING DIRECTOR, DIRECTOR-GENERAL MANAGER, AND DIRECTOR-SECRETARY GENERAL - Clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control.<br><br>DIRECTOR - CHIEF RISK OFFICER: Clause providing indemnity in the amount of 1 year's fixed remuneration for cases of unfair dismissal or some limited cases of change of control, in the first year of his contract, and a post-contractual non-compete clause for a duration of 2 years from the date of unfair dismissal or change of control in some limited cases, applicable from the first year of the contract and at most up to the first date of ordinary retirement, in the amount of two years' fixed remuneration.<br><br>OTHER BENEFICIARIES - 21 executives have a clause providing indemnity in the amount of 2 years' fixed remuneration for cases of unfair dismissal and some limited cases of change of control.<br><br>16 executives have a post-contractual non-compete clause for a duration of 2 years from the date of unfair dismissal and some limited cases of change of control, lasting at most until the first date of ordinary retirement, in the amount of two years' fixed remuneration. |

State whether, outside the cases provided for in the regulations, such contracts must be reported and/or approved by the decision-making bodies of the company or group. If so, specify the procedures, cases and nature of the parties responsible for approving or disclosing:

| | Board of Directors | General Meeting |
|---|---|---|
| Body that authorises the clauses | √ | |

| | Yes | No |
|---|---|---|
| Is the General Meeting informed of the clauses? | √ | |

C.2. Board of Directors Committees

C.2.1 Give details of all committees of the Board of Directors, their members, and the proportion of executive, proprietary, independent and other non-executive directors in their composition:

| Delegated Committee | | |
|---|---|---|
| Name | Position | Category |
| Mr. JOSÉ OLIU CREUS | CHAIRMAN | Executive |
| Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR | MEMBER | Independent |
| Mr. JAIME GUARDIOLA ROMOJARO | MEMBER | Executive |
| Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ | MEMBER | Independent |
| Mr. PEDRO FONTANA GARCÍA | MEMBER | Independent |

| | |
|---|---|
| % executive directors | 40.00 |
| % proprietary directors | 0.00 |
| % independent directors | 60.00 |
| % other external directors | 0.00 |

Detail the functions assigned to this committee, and describe its procedures and rules of organisation and operation. For each of these functions, describe the most salient actions during the year and how it exercised, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Delegated Committee is regulated by article 59 of the Articles of Association and article 12 of the Board of Directors Regulation, and it has its own terms of reference approved by the Board of Directors on 24 October 2019 that regulate its organisation and functioning.

The Delegated Committee must consist of a maximum of six directors, to be appointed by the Board with the favourable vote of two-thirds of its members, with a composition similar to that of the Board in terms of categories; the Chairman of the Board must act as its Chair. The resolutions of the Committee must be entered in a minutes book, and the minutes must be signed by the Chairman and the Secretary or, where applicable, by those who played those roles at the meeting in question.

It must meet whenever convened by its Chairman or by the Vice-Chairman standing in for the former, and its meetings may be attended by any person, whether related to the Company or otherwise, who is invited to attend, by a decision of the Committee itself or the Chairman of same, for the purposes to be determined on the basis of the matter in question; such persons may speak but not vote.

The Committee Secretary, who need not be a director, must be designated by the Board of Directors, which must also designate a substitute secretary for cases of illness or absence.

On 31 January 2019. independent director Mr. Pedro Fontana García was appointed as a member of the Delegated Committee to replace Mr. José Luis Negro Rodríguez.

The Delegated Committee is responsible for the coordination of the Bank's executive management, adopting any resolutions and decisions to this end under the scope of the powers granted to it by the Board of Directors, and for overseeing the Bank's ordinary activities; it must report the decisions adopted at its meetings to the Board of Directors, without prejudice to the other functions attributed to it by the Articles of Association and the Board of Directors Regulation. Under Article 4 of its own terms of reference, the Delegated Committee also has information, consultative and advisory functions in relation to all the powers that vested in the Board of Directors, as well as the power to coordinate the executive functions of the Bank's executives, the power to decide on which lies with the executive bodies. The Delegated Committee is also empowered to make decisions within the limits established by the Bank's policies, particularly risk decisions, in accordance with the delegations scheme approved by the Board of Directors.

In 2019, the Delegated Committee monitored the ordinary activities of the Bank, oversaw Bank management, adopted resolutions and decisions falling within the scope of the powers that the Board of Directors delegated to it, and analysed and reviewed other issues, providing favourable reports to the sub-committees with competency in those areas and to the Board of Directors for the adoption of the appropriate resolutions.

The most salient actions undertaken in 2019 by the Delegated Committee in carrying out its functions and discharging its functions and responsibilities included tracking and analysing the financial information and results of the Bank and its group; analysing the reaction of markets and investors to the institution's results; being apprised of the strategic plan and tracking strategic issues appropriately; and tracking business performance and trends in own stock and the share price. The Committee also analysed and, as appropriate, approved transactions in connection with the Group's corporate development. It was informed of new developments in legislation, of relations with the supervisors and of regulatory matters, and adopted the pertinent decisions for action. It was also informed of the Group's risks, deciding on the risk operations that fell under its remit due to their amount or relevance. It issued favourable reports to the Board of Directors on the incorporation and/or dissolution and liquidation of subsidiaries and investees, as well as changes in capital and other amendments to the articles of association; it informed the Appointments Committee and the Board of Directors of changes in the composition of such institutions' governing bodies. The Delegated Committee also performed a self-assessment of its performance in 2018, and the assessment of its performance in 2019 is being conducted in 2020 with the assistance of an independent external consultant.

| Audit and Control Committee | | |
|---|---|---|
| Name | Position | Category |
| Mr. MANUEL VALLS MORATÓ | CHAIRMAN | Independent |
| Mr. PEDRO FONTANA GARCIA | MEMBER | Independent |
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | MEMBER | Other external |
| Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI | MEMBER | Independent |

| | |
|---|---|
| % executive directors | 0.00 |
| % proprietary directors | 0.00 |
| % independent directors | 75.00 |
| % other external directors | 25.00 |

Detail the functions assigned to this committee, including any that are additional to those established by law, and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it fulfilled, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Audit and Control Committee is regulated by article 60 of the Articles of Association and article 13 of the Board of Directors Regulation, and it has its own terms of reference that regulate its organisation, functioning and governance.

The Audit Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least a majority of them must be independent directors, and one must be appointed on the basis of his/her knowledge and experience of accounting and/or auditing. The Board of Directors must appoint the committee's Chair from among the members who are independent directors, with the favourable vote of two-thirds of its members, and the committee secretary, who must not be a director. The Secretary must take minutes of every meeting, which must be approved at the end of the meeting itself or at the next meeting. The business transacted at Committee meetings must be reported to the Board of Directors at the next meeting by means of a reading of the minutes.

The Committee must meet at least once every three months, and whenever convened by the Chair at his/her own initiative or at the request of any Committee member, or at the request of the Chairman of the Board of Directors or of the external auditors, to discharge the duties assigned to it.

The purpose of the Audit and Control Committee is to exercise oversight to ensure good banking and accounting practices in the various echelons of the organisation, as well as to ensure that suitable measures are taken to address improper conduct or methods. It is also a watchdog, ensuring that the measures, polices and strategies defined by the Board are duly implemented.

The Audit and Control Committee has the responsibilities established by law, including:

a) Reporting to the General Meeting on all issues raised by shareholders that are within its remit.

- When notice is given of a General Meeting of Shareholders, the Committee makes the report on its activities during the year available to shareholders so as to inform them of the issues and actions under its area of competence.

b) Supervising the effectiveness of the company’s internal control, internal audit and risk management systems, including those relating to tax risk, as well as discussing with the auditors or audit firms any significant weaknesses in the internal control system that were detected in the course of the audit.

- During the year, the Committee reviewed the Group’s risk management and control systems using reports prepared by the Risk, Finance and Internal Audit Departments.

In compliance with the requirements as to disclosures to the markets in the framework of the provisions of Part Eight: "Disclosure by Institutions" of Regulation (EU) 575/2013 of the European Parliament and the Council, of 26 June 2013, (hereinafter, the Capital Requirements Regulation - CRR), the Committee reviewed the contents of the "Pillar III disclosures" and analysed the information in connection with the group's computable equity and capital and the degree to which it conformed to the criteria defined in the CRR and the risk management and control objectives set out in group policies. The Committee also carried out a detailed review of all financial data to be relied on as a basis for characterising the group’s risk profile as conservative in the various categories of risk for which disclosure was required.

The Committee also reviewed the Internal Capital Adequacy Assessment Process (ICAAP) for 2018 in connection with risk governance, management and control systems, and concluded that they conformed to the institution's risk profile and reached a favourable conclusion as to the Banco Sabadell Group's consolidated capital, which assures coverage of the regulatory requirements. It also reviewed Internal Liquidity Adequacy Assessment Process (ILAAP). Based on the contents of the report, the Commission was able to conclude that the Banco Sabadell Group has a liquidity position that enables it to meet payment commitments at a reasonable cost, either under normal conditions or in a situation of stress, that the group has a stable and balanced funding structure, in line with the risk appetite and the defined risk management strategy, and that a robust governance framework is in place for managing and controlling liquidity and funding risk.

Regarding tax risks, in 2019 the Committee supervised and tracked tax management by the Banco Sabadell Group and, in particular, the application of the tax strategy and its guiding principles of efficiency, prudence, transparency and minimisation of tax risk, and it reviewed the actions and horizontal projects that were implemented for an appropriate analysis of the Group's tax issues.

In connection with its function of overseeing the internal audit units, on 24 May 2018, following a favourable report by the Appointments Committee, the Board of Directors resolved unanimously to ratify that the Internal Audit Department reports directly to the Board of Directors' Audit and Control Committee. This reinforced its hierarchical and functional independence from the rest of the institution's departments and positions the function at an appropriate level of the organisation.

On the basis of its policy, which was approved by the Board of Directors, the functions of the Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design, implementation, and effective functioning of the risk management and control systems.

The Overall Audit Plan that the Board of Directors approved at a meeting on 31 January 2019, based on a recommendation by the Audit and Control Committee dated 28 January 2019, determined the priorities of the Internal Audit activity, using a risk-based approach. During 2019, the Committee received information about the execution of the planned actions; in some cases, it reviewed the control environment and, in particular, evaluated the proper identification of risks in processes, and the sufficiency, design, implementation and effective functioning of existing controls. The committee evaluated the results of each internal audit and prioritised and monitored corrective actions.

In addition, during 2019, the Committee checked the independence and objectivity of the internal audit function, checking that it has sufficient resources and access to information to fulfill its tasks, in accordance with the professional standards that apply to internal auditors. On 28 January 2020, the Committee received the Annual Report on Internal Audit Activities, which includes the report of the Internal Audit Quality Assurance and Improvement Programme with the internal evaluations carried out on its function to assess its effectiveness, as well as the performance of the head of that unit.

In 2019, the Committee also received information about the conclusions of the reports issued by the external auditors and the supervisory authorities and on the proper implementation of the improvement measures proposed by the regulatory bodies.

c) Overseeing the drafting and presentation of regulated financial information.

- During the year, the Audit and Control Committee supervised the internal control model established in the institution with respect to the process of preparing and presenting regulated financial and regulated non-financial disclosures. To this end, it received information from the Finance Department, the Internal Audit Department and the External Auditors regarding the risks relating to financial and non-financial reporting processes and the adequacy and effectiveness of the controls that mitigate them, as well as aspects that may give rise to changes in the internal control model, including regulatory changes, the incorporation of new products or the modification of Banco Sabadell's processes.

d) Proposing to the Board of Directors, for submission to the General Meeting, the appointment of the external auditor, establishing the engagement conditions, the scope of the professional mandate, and revocation or non-renewal, if appropriate; reviewing compliance with the audit contract, striving to ensure that the opinion on the financial statements and the main content of the auditors' report are drafted clearly and accurately.

- With regard to the external auditor, the Committee reviewed the criteria and conditions of engagement and, as a result, proposed to the Board that the firm of PricewaterhouseCoopers Auditores, S.L. be re-appointed as auditors of the Bank’s separate and consolidated accounts for the year 2019. The Board of Directors resolved to submit the Committee’s recommendation to the General Meeting of Shareholders, which approved it on 28 March 2019. That same General Meeting of Shareholders approved the appointment of KPGM Auditores, S.L. for the years 2020 to 2022, based on a proposal by the Board of Directors, which was based on a reasoned recommendation from the Audit and Control Committee made following a selection process performed in accordance with the provisions of Regulation (EU) 537/2014 of 16 April, on specific requirements regarding statutory audit of public-interest entities.

In the course of the audit, the Committee remained in contact with the external auditor constantly to be apprised of the scope and schedule and the resources assigned to the work, the determation of materiality and the auditors' opinion on any material accounting or financial reporting issues arising in the course of the audit work. The Committee also reviewed in depth the contents of the audit report, as well as the Additional Report presented by the auditors to the Audit and Control Committee in connection with the audit of the year ended 31 December 2019, required to comply with the provisions of article 36 of Act 22/2015, of 20 July 2015, on Auditing and with article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities.

e) Advising on the annual, quarterly and half-yearly financial statements and the prospectuses that must be submitted to the regulatory or supervisory bodies, exercising vigilance to ensure compliance with the requirements of the law and the proper application of generally accepted accounting principles, and advising on proposals to amend those principles.

- In the course of the year, the Committee paid particular attention to reviewing the financial statements and the quarterly and half-yearly trading and financial reports as well as other information disclosed to the market, including the Share Registration Document, before they were released for publication. In order to carry out these reviews, the Finance Department and the External Auditor participated in meetings of the Committee to present matters relating to the financial disclosures.

f) Establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions and in the audit rules.

- In order to comply with the requirements for the engagement of non-audit services from audit firms and their networks, as established in the Banco Sabadell Group Policy to safeguard auditor independence, approved by the Audit and Control Committee on 19 April 2016, the Audit and Control Committee reviewed the main non-audit services provided by PricewaterhouseCoopers during 2019. The objective of these reviews was to ensure that all that work fulfilled the independence requirements established in Act 22/2015, of 20 July, on Auditing and in Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

Additionally, based on information received from the auditors, the Committee vetted the procedures and tools used by the firm to ensure compliance with the auditor independence requirements. Written confirmation of the firm’s independence with respect to the Banco Sabadell Group was received on 22 July 2019 and 28 January 2020.

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.

g) Advising on any issues referred to the Committee by the Board of Directors that are within its remit.

- In the course of its duties as assigned by the law, the Articles of Association and the Board of Directors Regulation and its own terms of reference, the Audit and Control Committee reviewed all the reports under its remit, including the annual assessment of its performance, as well as a report on the issues it dealt with and the activities it performed in discharging its duties.

h) Any other matters for which the Committee is responsible by law or under the Articles of Association or any regulations made in accordance therewith, or under any generally applicable rules on corporate governance.

- In pursuit of good governance of the Bank's business, the Committee decided to recommend that the Board of Directors give its approval to a report submitted by the Executive Committee on the corporate governance structure and practices at Banco Sabadell in the year.

The Committee also examined half-yearly reports from the Group’s Corporate Ethics Committee on action taken to ensure compliance with the Banco Sabadell Group Code of Conduct in relation to the securities market, the Group’s Code of Conduct, initiatives undertaken in the area of Corporate Social Responsibility and other key aspects.

By reviewing these reports, the Committee also received information on the performance of the whistleblower channel, including the number of notifications received, their origin and types, the results of the investigations and the proposals for action.

In connection with related-party transactions as referred to in recommendation 6 of the Good Governance Code of Listed Companies approved by the National Securities Market Commission (CNMV) on 18 February 2015, the Committee verified that the related-party transactions performed during the year fulfilled the terms and conditions established in current legislation such as not to require authorisation from the governing bodies or had obtained such authorisation based on a recommendation by the Committee, after it had checked that the consideration and other proposed conditions were in line with market parameters. The Committee also reviewed the information on related-party transactions that was disclosed in the financial statements.

Additionally, in conformity with the recommendations contained in a document published by the CNMV on 18 July 2013 entitled "Recommendations by the Comisión Nacional del Mercado de Valores for securities issuers and financial intermediaries acting on their behalf in discretionary transactions with own shares", the Audit and Control Committee received regular briefings from the Director-General Manager and the head of treasury share management on trading in the Bank’s own shares and on compliance with the regulator’s recommendations.

Identify the members of the audit committee who were appointed on the basis of their knowledge and experience in accounting, auditing or both, and state the date of appointment of the Chairman of this committee.

| | |
|---|---|
| Name of directors with experience | Mr. MANUEL VALLS MORATÓ |
| Date of appointment as Chairman | 30/03/2017 |

| Appointments Committee | | |
|---|---|---|
| Name | Position | Category |
| Ms. AURORA CATÁ SALA | CHAIRMAN | Independent |
| Mr. ANTHONY FRANK ELLIOTT BALL | MEMBER | Independent |
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | MEMBER | Other External |
| Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ | MEMBER | Independent |

| | |
|---|---|
| % executive directors | 0.00 |
| % proprietary directors | 0.00 |
| % independent directors | 75.00 |
| % other external directors | 25.00 |

Detail the functions assigned to this committee, including any that are additional to those established by law, and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it fulfilled, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Appointments Committee is regulated by article 61 of the Articles of Association and article 14 of the Board of Directors Regulation, and it has its own terms of reference approved by the Board of Directors on 24 October 2019 that regulate its organisation and functioning.

The Appointments Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least two of them must be independent directors. The Committee will have a Chair, appointed by the Board of Directors with a two-thirds majority from among the independent directors who are members of the Committee.

The Board of Directors will also appoint the Committee Secretary and, in the event, a Vice-Secretary, neither of whom need be a member of the Board of Directors.
The Appointments Committee meets as often as necessary, and at least once every three months, when convened by its Chairman, at his/her own initiative or at the request of any member of the Committee, or whenever the Board or its Chairman requests that it issue a report or adopt a proposal, and, in any event whenever it is advisable in order to properly discharge its duties. In any case, it must meet once per year to provide advice in advance on the Board's performance evaluation.

On 28 March 2019, Mr. José Manuel Martínez Martínez was appointed as a member of the Appointments Committee in place of Mr. Pedro Fontana García.

Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors, the Board of Directors Regulation or its own terms of reference, the Appointments Committee has the following basic duties:

a) Making proposals to the Board of Directors as to the appointment of independent directors, for co-optation or for referral to the General Meeting, and as to the re-appointment or removal of such directors;

- In fulfilment of its functions, it made a proposal to the Board of Directors that it refer to the General Meeting of Shareholders the re-appointment of independent directors, and ratify their fitness and suitability.

b) Advising on proposals to appoint other directors — proprietary, other external and executive — by co-optation or for referral to the General Meeting, and on proposals to re-appoint or remove them;

- In fulfilment of its functions, it advised the Board of Directors on proposals for the re-appointment of two executive directors, ratifying their fitness and suitability, for submission to the General Meeting of Shareholders, and it advised on the proposal, which was referred to the General Meeting of Shareholders, to ratify and appoint a female executive director, ratifying her fitness and suitability.

c) Ensuring that the qualitative composition of the Board of Directors complies with the provisions of article 53 of the Articles of Association, by assessing the balance of knowledge, capacity, diversity and experience among its members. To this end, it must define the necessary functions and skills to be possessed by candidates for each vacancy, as well as the time that it considers needs to be dedicated to properly discharge the duties;

- The Committee exercised oversight to ensure compliance with the qualitative composition of the Board in all its proposals for the re-appointment of independent directors, as well as advising on the Board's proposals with respect to the other directors. It also verified compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, in accordance with Recommendation 14 of the Code of Good Governance of Listed Companies, and analysed and advised the Board on the composition of the Board, the categories of directors, and the approval of the Annual Corporate Governance Report.

d) Striving to ensure that selection procedures for filling vacancies or appointing new directors favour a diversity of experience and knowledge, facilitate the selection of female directors and, generally, do not suffer from implicit biases that might result in discrimination of any type;

e) Evaluating to ensure that the members of the Board of Directors are suitable and have the requisite competency, knowledge and experience, and assessing their ability to devote the necessary time, with a view to referring their candidacy to the competent authorities;

- During 2019, it analysed the powers and diversity of the Board of Directors to determine the profiles of the candidates for directorships and assessed the suitability of the directors presented for appointment and/or re-appointment. It also performed a supplementary fitness assessment for one director as a result of the changes of functions and positions in the Banco Sabadell Group.

f) Advising on proposals for the appointment and removal of senior executives and other Group’s identified staff, and assessing their fitness and suitability;

- The Committee fulfilled its function of advising the Board of Directors on proposals for the appointment of senior executives, having assessed their suitability. It also reviewed the list of Group’s identified staff of the Bank, the group and the subsidiaries, and advised the Board of Directors on proposals to amend the list of Group's identified staff.

g) Advising on the basic contractual conditions for executive directors and, as appropriate, on their specific contracts, which must be approved by the Board of Directors and be attached to its minutes as an annex;

- The Appointments Committee issued a favourable report to the Board of Directors on the contractual terms and conditions under which the director appointed as Chief Risk Officer will perform executive functions, having switched category from independent to executive director.

h) Examining and organising succession plans for the Chairman of the Board of Directors and the Bank's Managing Director, and, as appropriate, raising proposals to the Board and implementing the provisions of any duly approved and published Succession Plan in the event;

- The Succession Plan for the Chairman and Managing Director of Banco Sabadell was approved by the Board of Directors on 21 July 2016.

i) establishing a target for representation of the gender that is less represented on the Board of Directors and drawing up guidelines on how to achieve that target;

- That target is set in the Banco Sabadell Policy for the Selection of Candidates for Directorship, which was approved by the Board of Directors at a meeting on 25 February 2016 and amended by the Board of Directors on 28 March 2019. The Appointments Committee verified compliance with this Policy in the resolutions adopted in 2019 regarding the re-appointment, ratification and/or appointment of directors, which conformed to the diversity parameters and requirements set out in the Policy and in the current regulations governing directorships of credit institutions and, in particular, with a view to achieving the objectives as to the weighting in the Board of the under-represented gender.

j) Evaluating regularly, and at least once per year, the structure, size and composition of the Board of Directors and its Committees, and advising the Board on the most appropriate configuration, as well as advising on proposals regarding the appointment or removal of their members;

- The Committee evaluated the structure, size and composition of the Board and its committees and advised the Board of Directors on the most appropriate configuration, also providing advice on proposals for re-appointment and appointment of directors, and on changes in the composition of the Board Committees.

k) Making proposals to the Board of Directors for the assignment of directors to the appropriate category, their continuance in that category in the event of re-appointment, and changes of category where necessary;

- The Committee analysed the implications of the change of category of two directors and submitted its conclusions to the Board for it to take cognizance and adopt the appropriate resolutions.

l) Reviewing directors' categories each year and informing the Board of Directors for inclusion in the Annual Corporate Governance Report;

- The Committee reviewed the directors' categories and informed the Board for inclusion in the Annual Corporate Governance Report.

m) Advising the Board of Directors on proposals for the appointment of the Vice-Chairman or Vice-Chairmen, as applicable;

n) Advising the Board of Directors on proposals regarding the appointment of the Secretary and, as appropriate, the Vice-Secretary of the Board of Directors, neither of whom need be a director.

o) Making proposals to the Board of Directors for the appointment, removal or re-appointment of the Lead Independent Director;

- In 2019, there was a change in the person acting as Lead Independent Director after three years in the position, to which end the Committee issued a favourable report to the Board of Directors on the appointment of a new Lead Independent Director.

p) Producing and regularly updating a matrix of competencies in the Board of Directors, evaluating the knowledge, skills and experience of the members of the Board of Directors and of the Board as a whole, for approval by the Board of Directors;

- The Committee drew up the Matrix of competencies and diversity of the members of the Board of Directors and provided advice to the Board in this connection; the matrix defines the skills and knowledge of the directors in accordance with the criteria of Technical Guide 1/2019 on Nominations and Remuneration Committees, issued by the Spanish National Securities Market Commission (CNMV) on 20 February 2019, and of the EBA Guidelines on the assessment of suitability of members of the management body and key function holders (EBA-GL-2017-12). The Committee issued a recommendation to the Board on the approval of the Competence Matrix at a meeting of 27 June 2019.

q) Periodically reviewing and making proposals to the Board for the amendment of the policies regarding the selection and diversity of the members of the Board of Directors, and verifying compliance with them annually, informing the Board of Directors as to the degree of compliance;

- At a meeting on 27 March 2019, the Committee amended the Policy for the Selection of Candidates for Directorship to expressly state that, in the area of candidates' professional competence, particular value will be attached to experience in banking and finance. It also checked compliance with the policy.

r) Providing advice each year on performance reviews for the Board of Directors and for the Chairman of the Board of Directors and the Managing Director;

- The Appointments Committee provided advice on the annual performance review of the Board of Directors, its Chairman and the Managing Director. The performance review for 2019 is being conducted in 2020 with the assistance of an independent external consultant.

s) Referring to the Board of Directors the assessments of the Board Committees with the results of the assessment and a proposal for an action plan or recommendations to correct any deficiencies detected or improve the functioning of the Board or its Committees;

- The Appointment Committee issued a favourable report to the Board on the annual performance review of the Committee itself for 2018, as well the performance reviews for the other Board committees (Delegated Committee, Audit and Control Committee, Appointments Committee, Remuneration Committee and Risk Committee), which included, depending on the outcome, an action plan to correct any deficiencies that had been detected.

t) Designing and organising regular refresher courses for directors;

- At a meeting on 31 January 2019, the Appointments Committee issued a favourable report to the Board of Directors on the 2019 Director Training Programme, with special emphasis on updating the skills and knowledge of the Bank's directors in specific issues related to the institution.

u) Reviewing, at least once per year, the execution and quality of the initial training and onboarding and the Director Training Programme, and informing the Board of Directors;

- At a meeting on 27 March 2019, the Appointments Committee advised the Board on the amendment to the 2019 Director Training Programme approved on 31 January 2019 in order to reinforce training in the banking business, by modifying the content of the planned training sessions to this end.

| Remuneration Committee | | |
|---|---|---|
| Name | Position | Category |
| Ms. AURORA CATÁ SALA | CHAIRMAN | Independent |
| Mr. ANTHONY FRANK ELLIOTT BALL | MEMBER | Independent |
| Mr. GEORGE DONALD JOHNSTON | MEMBER | Independent |
| Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI | MEMBER | Independent |

| | |
|---|---|
| % proprietary directors | 0.00 |
| % independent directors | 100.00 |
| % other external directors | 0.00 |

Detail the functions assigned to this committee, including any that are additional to those established by law, and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it fulfilled, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Remuneration Committee is regulated by article 62 of the Articles of Association and article 14 bis of the Board of Directors Regulation, and it has its own terms of reference approved by the Board of Directors on 24 October 2019 that regulate its organisation and functioning.

The Remuneration Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least two of them must be independent directors. The Committee will have a Chair, appointed by the Board of Directors with a two-thirds majority from among the independent directors who are members of the Committee. The Board of Directors will also appoint the Committee Secretary and, in the event, a Vice-Secretary, neither of whom need be a member of the Board of Directors.

The Remuneration Committee meets as often as necessary, and at least once every three months, when convened by its Chairman, at his/her own initiative or at the request of any member of the Committee, or whenever the Board or its Chairman requests that it issue a report or adopt a proposal, and, in any event, whenever it is advisable in order to properly discharge its duties. In any event, the Committee must meet once per year to prepare the information on directors' remuneration that the Board of Directors must approve and include in its annual public documentation.

On 28 March 2019, Mr. José Ramón Martínez Sufrategui was appointed as a member of the Remuneration Committee in place of Ms. Maria Teresa Garcia-Milà Lloveras.

Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors, the Board of Directors Regulation or its own terms of reference, the Remuneration Committee has the following basic duties:

a) Making proposals to the Board of Directors in connection with the director remuneration policy;

- The Remuneration Committee issued a favourable report to the Board of Directors on the proposal to the Ordinary General Meeting of Shareholders to approve the Banco Sabadell Director Remuneration Policy for the years 2019, 2020 and 2021, which was approved by the General Meeting of Shareholders on 28 March 2019.

b) Proposing, to the Board of Directors, the remuneration policy for general managers and others performing senior management functions who report directly to the Board of Directors, the Delegated Committee or the Managing Directors, and the individual remuneration and other contractual conditions for executive directors, exercising oversight to ensure that they are complied with;

- To perform this function, it cross-checked the compensation benchmark for the executive directors and senior management and internal audit with reports from external consultants; it issued a favourable report to the Board of Directors in connection with the degree of fulfilment of the 2017 objectives for executive directors, senior management and internal audit, as well as their fixed and variable remuneration for 2019.

c) Advising on remuneration programmes based on shares and/or options;

d) Periodically reviewing the general principles of remuneration and the remuneration programmes for all employees, and considering whether they conform to those principles;

- The Remuneration Committee examined the independent assessment of remuneration policy and practices produced by an external consultant, which analysed whether Banco Sabadell's remuneration policy and practices conform to the regulators' requirements and recommendations. It also reviewed the report produced each year by the Human Resources Department in order to provide the Remuneration Committee with the essential information to enable it to perform the functions entrusted to it in relation to reviewing the general principles of Banco Sabadell's remuneration policy and exercising oversight of the remuneration of the bank's executive directors, senior management and other members of the identified staff;

It also reported favourably to the Board of Directors on the fixed remuneration for group's entire workforce and an increase in the total salary expense for the year 2019.

e) Reviewing the remuneration policy each year to ensure that it is aligned with the institution's situation and short-, medium- and long-term strategy and with market conditions and to assess whether it contributes to the creation of long-term value and to appropriate risk control and management;

- In 2019, the Remuneration Committee analysed an independent report by an external consultant evaluating remuneration policy and practices; and it reviewed the remuneration policies of Banco Sabadell and reported favourably on this matter to the Board of Directors.

f) Ensuring that the institution's remuneration policy and practices are up to date, by proposing any necessary changes, and ensuring that they are subject to a central, independent internal review at least once per year;

- The Remuneration Committee analysed the Internal Audit Report on the Remuneration Policy of the Group and Subsidiaries, whose objective was to review the degree to which the institution's remuneration policies conform to the EBA/ESMA guidelines.

g) Verifying that the remuneration policy is properly applied and that directors do not receive remuneration outside the policy;

- The Remuneration Committee analysed the Independent performance evaluation report in connection with oversight over variable remuneration that was produced by an external consultant, which concluded that the Remuneration Committee, the second and third line of defence and the annual independent external evaluation comply with the provisions of the regulations and with the corporate governance recommendations regarding the control of variable remuneration, and that they conform to market best practices in this area.

h) Assessing the mechanisms and systems adopted to ensure that the remuneration system duly takes account of all types of risks and liquidity and capital levels, and that the remuneration policy promotes and is consistent with adequate, effective risk management, and that it is in line with the institution's business strategy, objectives, culture and corporate values and long-term interests;

- At a meeting on 29 January 2019, the Remuneration Committee examined the independent report on the evaluation of the remuneration policy and practices prepared by an external consultant, which concluded that Banco Sabadell has in place criteria for analysing risk in managing remuneration, and that the criteria used in the objective assessment systems consider present and future risks;

The Risk Committee also informed the Remuneration Committee about the coherence between the remuneration programmes and the Bank's risk, capital and liquidity levels, ensuring that its objectives are set in alignment with the Risk Appetite Statement (RAS). The report also concluded that the Remuneration Policy aligned to Risk conforms to the institution's business strategy and long-term objectives, values and interests, is consistent with the principles relating to the protection of customers, investors and shareholders, and does not encourage excessive risk-taking.

i) Reviewing the various possible scenarios to analyse how remuneration policies and practices react to internal and external events, and considering retrospective evidence of the criteria used to determine remuneration and the ex-ante adjustment to risk based on actual risk outcomes;

j) Reviewing the conditions of the contracts with executive directors and senior management and providing advice in this connection to the Board of Directors, and verifying that they are consistent with the current remuneration policy;

- The Committee analysed and approved the amendment or adjustment of the senior management contracts, verifying that they conform to the remuneration policy.

k) Evaluating the degree of compliance with the criteria and objectives established in relation to the previous year, which is what must determine the proposal for the individual remuneration for directors, particularly executive directors, senior management and other members of the identified staff, including the short-, medium- and long-term variable components, with the participation of the external advisor where appropriate;

- The Committee informed the Board about the degree of attainment of the 2018 objectives by the executive directors, and its proposal for fixed remuneration for 2019 and the establishment of objectives and the proposal for variable remuneration for 2019. It also issued a favourable report to the Board of Directors on the long-term remuneration target for executive directors. The committee also ratified the attainment of the 2018 objectives by senior management and the head of Internal Audit and gave advice to the Board on the payment of their variable remuneration, and it also advised on the establishment of senior management's objectives for 2019.

In connection with the identified staff, the Committee ratified the attainment of their objectives and their salary review, and provided advice on the variable remuneration target for 2019.

l) Proposing the determination of remuneration earned by the directors and senior management;

- The Remuneration Committee reported favourably to the Board of Directors on the fixed remuneration and short- and long-term variable remuneration for 2019 for executive directors and senior management.

m) Proposing the determination of the bonus for senior management at the Bank and its subsidiaries;

- The Remuneration Committee issued a favourable report to the Board of Directors on the 2019 variable remuneration for senior management at the Bank and its subsidiaries;

n) Verifying whether circumstances have arisen that justify triggering the malus or clawback clauses governing variable remuneration, and proposing the appropriate measures to recover any amounts due in that event;

o) Approving the appointment of external consultants on remuneration that the Board decides to hire to provide advice or support;

- It approved the hiring of remuneration advisers for 2020.

p) Ensuring that any conflicts of interests are not detrimental to the independence of external advisors;

q) Ensuring that remuneration is transparent;

- It cooperated actively in the Corporate Governance Road Show held at the beginning of February 2019 for proxy advisors and significant shareholders, in which it detailed the most salient aspects of the remuneration policy.

r) Verifying the information on remuneration contained in the various corporate documents, including the Report on Director Remuneration.

- The Remuneration Committee vetted and cleared the information on remuneration to be included in the Annual Corporate Governance Report, and recommended that the Board of Directors approve the Annual Report on Director Remuneration, and it exercised oversight to ensure that they were publicised properly on Banco Sabadell's corporate website.

s) Preparing the information on directors' remuneration that the Board of Directors must approve and include in its annual public documentation.

- The Remuneration Committee determined and reviewed the information on director remuneration that the Board must approve and disclose in the annual public documentation.

t) Reviewing to ensure that the information that the institution divulges via its website on matters that are the competence of the Committee in connection with directors and senior management is sufficient and adequate and conforms to the applicable corporate governance recommendations.

- The Remuneration Committee ensured the proper dissemination of the information on remuneration through the corporate website, in accordance with the applicable regulations and corporate governance recommendations.

The Remuneration Committee also approved, and resolved to submit to the Board of Directors, the Report on the assessment of the Remuneration Committee for 2018 and the proposal for the action plan for 2019. The performance review for 2019 is being conducted in 2020 with the assistance of an independent external consultant. It also reported favourably to the Board of Directors on the submission to the General Meeting of Shareholders of the maximum limit on variable remuneration for the Group's identified staff at an amount equivalent to 2 years' remuneration, i.e. 200% of the fixed annual remuneration assigned to each one of them.

| Risk Committee | | |
|---|---|---|
| Name | Position | Category |
| Mr. GEORGE DONALD JOHNSTON | CHAIRMAN | Independent |
| Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS | MEMBER | Other external |
| Mr. MANUEL VALLS MORATÓ | MEMBER | Independent |

| | |
|---|---|
| % executive directors | 0.00 |
| % proprietary directors | 0.00 |
| % independent directors | 66.66 |
| % other external directors | 33.33 |

Detail the functions assigned to this committee, and describe its procedures and rules of organisation and operation. For each of these functions, describe the most salient actions during the year and how it exercised, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Risk Committee is regulated by article 63 of the Articles of Association and article 15 of the Board of Directors Regulation, and it has its own terms of reference approved by the Board of Directors on 24 October 2019 that regulate its organisation and functioning.

It comprises at most five directors, appointed by the Board of Directors, none of whom may be an executive director; they must have the appropriate knowledge, skill and experience to fully understand and oversee the Bank's risk strategy and risk appetite; at least two of them must be independent directors. The Board of Directors appoints its Chairman from among the members who are independent directors, with the favourable vote of two-thirds of its members.

In the exercise of its functions, the Risk Committee may directly request the information it sees fit from both the director who is Chief Risk Officer and the Risk Control Manager.

The Risk Committee meets as often as necessary, and at least once every two months, when convened by its Chairman, at his/her own initiative or at the request of any member of the Committee, or at the instance of Board or its Chairman.

On 31 January 2019, Mr. George Donald Johnson was appointed Chairman of the Risk Committee in place of Mr. David Vegara Figueras.

Its functions are focused on supervising and exercising oversight to ensure that all the risks of the bank and its consolidated group are accepted, controlled and managed appropriately, and reporting to the Board on the performance of the functions corresponding to it, in accordance with the law, the Articles of Association, the Board of Directors Regulation and its own terms of reference. The main functions of the Risk Committee are as follows:

a) Supervising implementation of the Overall Risk Policy;

b) Reporting each quarter to the full Board about the levels of risk assumed, investments made and their performance, and the potential repercussions on Group revenues of variations in interest rates, and the degree to which they conform to the VAR levels approved by the Board of Directors;

c) Monitoring and detecting any excess above the approved tolerance thresholds, and overseeing the activation of the contingency plans established for this purpose;

d) Advising the Remuneration Committee as to whether the employee compensation programmes are coherent with the Bank's levels of risk, capital and liquidity.

e) Advising and supporting the Board of Directors in connection with tracking the institution's risk appetite and general risk strategy, taking into account all types of risks, to ensure that they are in line with the institution's business strategy, objectives, corporate culture and values.

f) Assisting the Board of Directors in monitoring the application of the institution's risk strategy and established limits.

g) Monitoring implementation of the capital and liquidity management strategies, as well as all the institution's other material risks, in order to assess their conformity to the approved risk strategy and appetite.

h) Providing recommendations to the Board of Directors on such adjustments to the risk strategy as may be considered necessary as a result of, inter alia, changes in the institution's business model, market performance or recommendations made by the risk control function.

i) Advising on the appointment of external consultants in connection with overseeing the institution's activities.

j) Analysing a series of possible scenarios, including stress scenarios, to assess how the institution's risk profile would react to external and internal events.

k) Monitoring the degree to which the major financial products and services offered to customers conform to the institution's business model and risk strategy. The Risk Commission will assess the risks associated with the offered financial products and services and will take into account how the prices of those products and services relate to the rewards obtained.

l) Assessing internal or external auditors' recommendations and verifying proper implementation of any measures that are adopted.

m) Reporting to the full Board regarding the performance of its functions under this article and other applicable legislation and the provisions of the Articles of Association;

For each of the functions of the Risk Committee listed in the preceding paragraphs, items a) through m), the most salient actions carried out by the Committee during the year were as follows:

In relation to Governance functions, as referred to in items a), e), f), g), h), i), j), l) and m), the Risk Committee analysed and reviewed matters that required it to issue a recommendation for subsequent approval by the Board of Directors, including notably the Global Risk Framework, the Risk Appetite Framework (RAF), Risk Appetite Statement (RAS) and IFRS 16, as well as the Risk Policies. In this same area, as part of the development of the Global Risk Framework, the Risk Committee also analysed, and subsequently submitted to the Board of Directors for approval, the risk policies relating to credit, concentration and operational risk, IRRBB, CSRBB and liquidity, market, counterparty, exchange rate, actuarial, model and compliance risk, which set out the core principles and procedures governing the management and control of all the Group's material risks, incorporating the requirements established by the regulations.

Additionally, in 2019 the Risk Committee reviewed: the capital adequacy and liquidity adaptation processes (ICAAP and ILAAP reports), which assess the Group's capital and liquidity situation; it participated in the analysis of risks associated with the new preliminary projections for 2020-2024 and reviewed the Recovery Plan, as well as the internal crisis management framework.

In connection with its function of assessing the recommendations by internal and external auditors, the Risk Commission is informed about the results of the various audits and oversight of proper implementation of the recommendations.

Regarding the functions referred to in items b), c) and k) of the list of functions, the Risk Committee regularly monitored the Risk Appetite Statement during the year, including the following actions:

- Regularly reviewing a scorecard that reflects trends in the main metrics and variables associated with material risks in accordance with the existing risk taxonomy, and ensuring that they conform to the established risk appetite.
- Monographic analyses of market, operational, country and financial institution risk and certain portfolio risks, among others.
- Reporting and proposing the appropriate action (activating protocols, changing guidelines, etc.) as a result of analysing risk trends.
- Tracking risk-adjusted pricing trends and the degree to which prices conform to the related risks.
- Monitoring exposure to large groups that are reviewed by the Delegated Committee.
- Monitoring quarterly NPA performance.

Additionally, the Risk Committee took action in connection with the risk models. In this regard, during 2019 the Risk Committee reviewed the risk management and control model that covers IRB (Internal Rating Based), provisioning models, models for projecting fees, revenues and expenses, credit risk management models and models affecting the Interest Rate Risk in the Banking Book (IRRBB), in order to propose that the Board of Directors approve them.

Regarding the function of informing the Compensation Committee about the coherence of the employee remuneration programmes with the Bank's risk, capital and liquidity levels, as indicated in item d), the Risk Committee reviewed the analysis carried out on the composition of the Group's identified staff and the alignment of its objectives with the Bank's risk, capital and liquidity levels, and issued a favourable report to the Remuneration Committee. Finally, the Risk Committee reviewed the appropriateness of the Group's remuneration policies, verifying that they comply with the regulatory parameters applicable to credit institutions and that they are aligned to risk.

C.2.2 Complete the following table with information on the number of female directors in the Board sub-committees at the end of the last four years:

| | Number of female directors | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | | 2016 | |
| | Number | % | Number | % | Number | % | Number | % |
| Delegated Committee | | 0.00 | | 0.00 | | 0.00 | | 0.00 |
| Audit and Control Committee | 1 | 25.00 | 1 | 25.00 | 1 | 20.00 | 1 | 33.33 |
| Appointments Committee | 2 | 50.00 | 2 | 50.00 | 2 | 66.67 | 1 | 33.33 |
| Remuneration Committee | 1 | 25.00 | 2 | 50.00 | 2 | 50.00 | 2 | 66.66 |
| Risk Committee | 1 | 33.33 | 1 | 25.00 | 1 | 25.00 | 1 | 33.33 |

C.2.3 Indicate if there are any Board sub-committee regulations, where they can be consulted, and amendments made in the year. Also, indicate if an annual report on each committee's activities has been drafted voluntarily.

Section C.2.1 details the articles of the Articles of Association and the Board of Directors Regulation that contain the rules governing the workings and competencies of the Board's sub-committees.

The current texts of the Articles of Association and Board of Directors Regulation, and the terms of reference of the Board Committees, are available on the website (www.grupobancosabadell.com) in the section on "Corporate governance and remuneration policy".

The Audit and Control Committee has an Internal Regulation setting out its functions and procedures. This Regulation has been filed with the Mercantile Register and is accessible on the website (www.grupobancosabadell.com – in the section entitled "Corporate governance and remuneration policy" - Board of Directors Regulation).

All Board sub-committees draw up an annual self-assessment report on their activities, which is submitted to the Bank's Board of Directors for evaluation. Additionally, the Audit and Control Committee, Appointments Committee, Remuneration Committee and Risk Committee draw up annual reports on their functions and activities, which are available on the website (www.grupobancosabadell.com) in the section on "Corporate governance and remuneration policy".

## D. RELATED-PARTY AND INTERCOMPANY TRANSACTIONS

D.1. State, where applicable, the procedure for the approval of related-party and intercompany transactions, and the bodies empowered for this purpose.

The Audit and Control Committee vets any related-party transaction before it is approved by the Board of Directors.

D.2. Give details of any transactions that are material, because of their size or nature, between the company or any group undertakings and significant shareholders of the company:

| Name of significant shareholder | Name of group company or institution | Nature of relationship | Type of transaction | Amount (thousand euro) |
|---|---|---|---|---|
| No data | | | | N.A. |

D.3. Give details of any transactions that are material, because of their size or nature, between the company or any group undertakings and the company's directors or executives:

| Name of director or executive | Name of related party | Relationship | Nature of transaction | Amount (thousand euro) |
|---|---|---|---|---|
| No data | | | | N.A. |

D.4. Detail the material transactions between the company and other companies in the group, except those that are eliminated in consolidation and do not form part of the company's normal operations with regard to their purpose and conditions:

In any event, provide details of any intercompany transactions carried out with organisations based in countries or territories that are considered to be tax havens:

| Name of the group institution | Brief description of transaction | Amount (thousand euro) |
|---|---|---|
| No data | | N.A. |

D.5. Give details of any material transactions between the company or any group undertakings and other related parties that are not disclosed in the preceding sections:

| Name of related party | Brief description of transaction | Amount (thousand euro) |
|---|---|---|
| No data | | N.A. |

D.6. Detail the 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.

1. The General Policy on Conflicts of Interest of the Banco Sabadell Group and of Banco Sabadell are internal regulations approved by the Board of Directors of Banco Sabadell, which were adapted in 2019 to the EBA's Guidelines on Internal Governance, and their purpose is to be effective in identifying, evaluating, managing, mitigating, preventing or, ultimately, revealing potential or actual conflicts of interest. The Compliance Department is responsible for correctly applying those policies and, when necessary, it will urge the other departments in the group to which they apply to take the necessary action.

2. The Policy on Conflicts of Interest of Directors and Senior Executives, approved by the Board of Directors on 28 January 2016 and amended by the Board of Directors on 8 March 2018, establishes the necessary measures for managing conflicts of interest of directors and senior executives and their related parties in connection with corporate transactions or non-bank activities and also with ordinary banking business.

The Credit Transactions Committee analyses all credit operations carried out by directors, senior executives and their related parties and makes proposals to the Board of Directors for their approval.

Royal Decree 84/2005, implementing Act 10/2014, of 26 June, on Ordering, 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. The Banco Sabadell Group's Code of Conduct provides a set of rules for the guidance of all persons employed by the group and its stakeholders (customers, suppliers, shareholders, authorities and the local community) based on principles which we consider fundamental to carrying on our business.

It expressly contemplates rules applicable to possible conflicts of interest with customers and suppliers and sets out guidelines for such cases.

4. Banco Sabadell Group’s Internal Rules of Conduct in connection with the securities markets (IRC), approved by the Board of Directors on 24 May 2018, are applicable to the members of the Bank’s Board of Directors, and to all executives and employees whose work is directly or indirectly related to activities and services in the field of the stock markets or who have frequent or habitual access to price-sensitive

information related to the Bank itself or group companies.

Section 4 of the IRC sets out the mechanisms for identifying, preventing and resolving possible conflicts of interest that are detected by bound persons, 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. The 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 to the corporate and business units on decisions involving issues that might lead to conflicts of interest.

The Committee is also responsible for overseeing the group's compliance with its obligations as set out in the Code of Conduct and in the Internal Rules of Conduct in connection with the securities market.
To achieve its objectives, the Corporate Ethics Committee can call upon the resources of the Compliance Department, and has been given extensive powers by the Board to gain access to all the documents and information it requires to perform its supervisory function.

6. Under the Board of Directors Regulation, all Board members are bound by a duty of loyalty and confidentiality and are required to disclose any interest they may have in the company itself or in other companies outside the group.

Specifically, Article 25 of the Regulation states that a director may not provide professional services to Spanish companies whose corporate purpose coincides wholly or partly with that of the company. An exception is made for offices they hold in companies in the group. Directors must notify the Appointments Committee before accepting any executive appointment in another company or institution.

Article 27 of the Board of Directors Regulation states that directors must inform the company of any company shares which they own directly or through companies in which they hold a significant stake.

It is also necessary to disclose any shares held, directly or indirectly, by their close relatives. Directors must also inform the company of all positions that they hold and activities that they perform in other companies or entities and, generally, of any fact or situation that may be material in connection with their performance as directors of the company.

7. The Capital Companies Act 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.

D.7. Is more than one company in the Group listed in Spain?

[ ] Yes
[ √ ] No

## E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1. Describe the scope of the company’s Risk Control and Management System, including that relating to tax risks:

For risk management and control, the Banco Sabadell Group has defined a Global Risk Framework that is formalised in the form of a set of principles, embodied in policies and deployed in procedures, strategies and processes that seek to increase the likelihood of achieving the strategic goals of the Group's various activities by facilitating management in a context of uncertainty.

The Group's Global Risk Framework includes, among other aspects, all those actions associated with the identification, decision-making, measurement, evaluation, monitoring and control of the risks to which the Group is exposed, including tax risk. These activities include the functions performed by the overall Group's areas and business units.

The Global Risk Framework comprises the Global Risk Framework Policy, the Risk Appetite Framework (RAF), the Risk Appetite Statement (RAS) and the set of policies for each of the risks, together with the operating and conceptual Procedures and Manuals that make up the regulations of the Group and its subsidiaries.

The Board of Directors of Banco Sabadell has approved the group's tax strategy. That strategy is governed by the principles of efficiency, prudence, transparency and minimisation of tax risk, it is broadly aligned with the Banco Sabadell Group's business strategy, and it is applied in all the companies controlled by the group, regardless of their geographical location.

E.2. Identify the bodies of the company responsible for drawing up and executing the Risk Control and Management System, including tax risk:

The functions of Banco Sabadell's Board of Directors include identifying the Group's main risks and implementing and monitoring the appropriate internal control and information systems, including challenges and tracking and strategic planning of the Group and oversight of management of the material risks and their alignment with the profile defined by the Group. To this end, it participates directly (or through the Bank's Risk Committee) in monitoring the risk strategy, including the definition of risk appetite, RAF, RAS and policies; in monitoring the implementation of the risk culture throughout the organisation, and in reviewing the adequacy of the organisational structure to that strategy.

The Board of Directors is the body responsible for establishing the general guidelines on the organisational distribution of the risk management and control functions and for determining the main lines of strategy in this respect, ensuring their consistency with the Group's short- and long-term strategic objectives, as well as with the business plan, capital and liquidity planning, risk capacity and remuneration programs and policies.

The Board of Directors has indelegable responsibility for: (i) determining the tax strategy; (ii) approving investments or operations considered strategic by virtue of their amount or special characteristics, strategic nature or particular tax risks, unless their approval corresponds to the General Meeting; (iii) approving the creation of special-purpose vehicles or entities resident in jurisdictions considered tax havens, or the acquisition of shares in such undertakings; and (iv) the approval of any other transactions or operations of a comparable nature whose complexity might impair the transparency of Banco Sabadell and its group.

Additionally, the Delegated Committee, the Risk Committee, the Remuneration Committee and the Audit and Control Committee are involved in the Group's Global Risk Framework and, therefore, in risk management and control. Moreover, a number of Committees and Departments have a significant involvement in the risk function.

Specifically, the following committees have been created and have risk control and management functions within the Global Risk Appetite Framework:

- Technical Risk Committee (CTR), which holds meetings on a monthly basis and has the following functions: (i) supporting the Risk Committee in performing its functions (including the determination, proposal, review and monitoring of the body of regulations related to risk, the Risk Appetite Statement and the frameworks associated with each portfolio and/or risk, global monitoring of material risks, monitoring of the RAS tolerance threshold metrics according to established governance and of adaptation plans, where appropriate); (ii) tracking, analysing and, as appropriate, approving matters in the Committee's remit (approving the limits of certain RAS metrics according to the established governance, making proposals to the Risk Committee regarding material changes in internal models for referral to the Board for approval, and approving asset allocation); (iii) tracking management of doubtful assets and foreclosed assets that together make up the Non-Performing Assets (NPAs), and reporting on this to the Risk Committee; (iv) analysing specific ad-hoc issues for specific portfolios or risk classes, for referral and inclusion in risk management.

- Credit Transactions Committee (COC), which holds meetings on a weekly basis and has the following functions: (i) approval of credit 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 in accordance with the established delegation of powers, monitoring their use, and referring proposals for changes to the Delegated Committee; and (iii) monthly reporting to the Delegated Committee of the transactions approved and performed in the previous month.

- Asset and Capital Transactions Committee (COAC), which holds meetings every two weeks and has the following functions: (i) approval of asset management transactions in accordance with the established delegation of powers; (ii) monthly reporting to the Delegated Committee of the transactions approved and performed in the previous month.

- 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 Banco Sabadell Group's structural risks; (ii) approving and tracking management of the structural risks in the balance sheet by the Balance Sheet Management unit at BS Spain (UGB BS) and the Group, including liquidity risk, IRRBB, CSRBB and currency risk; (iii) optimising the balance sheet structure vis-à-vis those structural risks in accordance with the guidelines, goals and policies defined by the Board of Directors; (iv) monitoring and defining management guidelines in relation to the structural liquidity position, securities issues, interest rate risk, the ALCO portfolio and the structural currency position; (v) 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);(vi) activating and, as appropriate, closing down the Liquidity Contingency Plan, with the possibility of delegating management of a liquidity crisis situation to the Investment and Liquidity Committee.

- Internal Control Body (OCI): The management body responsible for implementing the policies and procedures established in the Law on the prevention of money laundering and terrorist finance, with the following functions: (i) deciding whether to notify the Spanish government's anti-money laundering agency (SEPBLAC) of transactions or events likely to be related to money laundering or terrorist financing; (ii) approving files arising from alerts raised by employees which, after analysis by DPBCFT, it is decided not to notify to SEPBLAC; (iii) approving or rejecting proposals for responses to requests by SEPBLAC for information about customers and/or transactions; (iv) deciding on whether to maintain or terminate business relationships with customers that are analysed, on the basis of the established procedure; (v) authorising or rejecting proposals for the establishment of commercial relations with financial institutions resident in high-risk countries and/or sanctioned countries and the establishment and/or maintenance of commercial relations with politically exposed persons or their related parties; (vi) approving or rejecting requests to create exceptions for certain customers with respect to sending alerts of unusual transactions, requests from customers that operate with countries where there are certain international restrictions, requests to exempt customers with transactions that require prior authorisation, and proposals for corporate transactions, in accordance with the section of Group manual 4815 on Money Laundering Prevention; (vii) approving the annual training plan on the prevention of money laundering and terrorist financing; (viii) approving updates to the internal regulation manuals on the prevention of money laundering and terrorist financing of the bank and the domestic group companies that are subject to the Law; (ix) designating the members of the internal control body (OCI) to perform the functions delegated to them with respect to any decision that cannot wait until the OCI's next schedule 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.

E.3. Describe the main risks, including tax risks, and corruption-related risks, to the extent that they are material (within the scope of Royal Decree-Act 18/2017), that may affect attainment of the business targets:

The Group has established a taxonomy of risks that includes the risks to which it is exposed in the performance of its activities. Specifically, it identifies the following first-tier and second-tier risks:

Strategy risk

Risk of losses (or negative impacts in general) as a result of the adoption or subsequent implementation of strategic decisions. It also includes the inability of the Group's business model to adapt to changes in the environment in which it operates. This risk includes:

- Solvency risk: the risk of not having sufficient capital, in terms of quality or quantity, to achieve the strategic and business objectives, withstand operating losses or fulfil regulatory requirements and/or the expectations of the market where it operates.
- Business risk: the possibility of incurring losses as a result of adverse events with a negative impact on the capacity, strength and recurrence of the income statement, whether its viability (short term) or its sustainability (long term).
- Reputational risk: the risk of losses derived from failures in processes, operations, strategy or corporate governance that produce a negative perception among customers, counterparties, shareholders, investors or regulators that can negatively affect the Group's capacity to maintain its business relationships or establish new ones, and to continue accessing funding sources.
- Environmental risk: the risk associated with either factors in the physical environment related to adverse climate events (such as floods or heat waves) or long-term changes in climate (such as rising sea levels) or environmental transition factors derived from the transition towards a low-emission economy (such as regulatory changes, the emergence of disruptive technologies, etc.).

Credit risk:

the possibility that losses may be incurred as a result of borrowers failing to meet their obligations or through losses in value due simply to deterioration in borrower quality. This risk includes:

- Borrower default risk: the risk that borrowers fail to honour their payment obligations in a timely manner; it also includes the risk of fraud in applications for credit.
- Concentration risk: complementary to credit risk, concentration risk refers to exposures that can potentially generate losses large enough to threaten the institution's financial solvency or the viability of its ordinary business activity.
- Counterparty risk: exposure to certain financial contracts (derivatives and repos) where the exposure does not match the notional value of the contract. A distinction is made between counterparty risk, settlement risk and delivery risk.
- Country risk: the risk arising in the debts of a country, taken as a whole, as a result of reasons inherent to the country's sovereignty and economic and political situation, i.e. for circumstances other than regular credit risk. It manifests itself in a debtor's potential inability to honour their foreign currency payment obligations to external creditors due, among other reasons, to the country preventing access to foreign currency, the inability to transfer it, or the non-enforceability of legal action against borrowers for reasons of sovereignty, war, expropriation or nationalisation. Country risk affects not only debts contracted with a State or entities guaranteed by it but also all private debtors that belong to such State and who, for reasons outside their control and not at their volition, generally find themselves unable to honour debts.
- Non-performing asset (NPA) risk: the risk of incurring higher costs or losses associated with managing doubtful assets and/or foreclosed assets.
- Equity risk: the risk of incurring losses as a result of adverse changes in the value of an equity instrument. It refers basically to the Group's portfolio of unlisted equity holdings and the portfolio of listed shares.

Finance risk:

The possibility of obtaining insufficient returns or having insufficient liquidity such as to prevent compliance with requirements and future expectations. This risk includes:

- Liquidity risk: the possibility of incurring losses as a result of the Bank being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or of it being unable to access the markets to obtain finance at a reasonable price. This risk may be associated with factors of a systemic nature or specific to the institution itself.
- Exchange rate risk: risk arising from changes in exchange rates between different currencies and the possibility that these movements may result in losses in the P&L on financial investments and on permanent investments in foreign branches and subsidiaries.
- Interest Rate Risk in the Banking Book (IRRBB): the risk of incurring losses as a result of the impact caused by interest rate fluctuations on the income statement (revenues and expenses) and on an entity's equity structure (current value of assets, liabilities and off-balance sheet positions sensitive to interest rates).
- Market risk: arising from the possibility of loss in the market value of financial asset positions due to variations in risk factors with an impact on their market prices or volatility or the correlation between them.
- Insurance risk: arising from the institution's equity holdings in insurance companies, basically from actuarial risks as well as other risks (market, counterparty, operational, etc.).
- Credit Spread Risk in the Banking Book (CSRBB): any credit spread risk on credit instruments not attributable to structural interest rate risk or default risk.

Operational risk

Operational risk is defined as the risk of loss resulting from failures or inadequacies in people, processes, and systems or from unforeseen external events. This risk includes:

- Fraud risk: the possibility of losses arising from actions, performed by employees or by third parties, with the intent to defraud, usurp ownership or evade regulations, laws or company policies.
- Conduct risk: the possibility of losses derived from inadequate provision of financial services, including cases of malice or negligence.
- Process risk: the possibility of incurring losses due to failures in process management, execution or delivery.
- Technology risk: current or future risk of losses due to the inadequacy or failures in the hardware and software of technical infrastructures that may compromise the availability, integrity, accessibility and security of the infrastructures and data.
- Outsourcing risk: the risk of losses arising from the use of a third party's resources on a normalised stable, permanent basis to perform processes of the principal, which inherently entails exposure to a series of underlying risks, such as: reputational, compliance, operational (including technology and business continuity risk), legal, supplier replacement strategic risks, as well as counterparty, country, access and concentration risk.
- Talent/management risk: the risk of incurring losses due to events with an impact on employees, e.g. non-availability of suitable profiles, staff rotation and replacement, dissatisfaction among employees, etc.
- Property risk: the risk of incurring material losses on buildings and other tangible assets.
- Model risk: risk of losses derived from errors in the use of models for decision making, such as product pricing, valuation of financial instruments (or their hedges), measurement of credit risk and the monitoring of risk limits.
- Data aggregation risk: the risk associated with the accuracy, preparation, dissemination and, where appropriate, publication of internal and external reporting, including regulatory and financial reporting.
- Compliance risk: the current or future risk of losses arising from legal or administrative penalties, significant financial losses or an impairment of reputation due to a breach of laws, regulations, rules, self-regulation codes or codes of conduct applicable to the banking business.
- Legal risk: the risk of incurring losses or other negative consequences due to being sanctioned, fined, convicted or obliged to pay damages as a result of a breach of rules or regulations, directly or due to derivative liability. This risk also includes crime risk, including that arising from corruption. To this end, for the purposes of identifying and controlling corruption-related risk, the institution has a Criminal Liability Prevention Programme with a specific section related to combating corruption, and it also has a specific anti-corruption policy.
- Tax risk: the probability of failing to comply with the objectives set out in the institution's tax strategy from a dual perspective due to either internal or external factors:

1) On one hand, the probability of failing to comply with tax obligations that may result in a failure to pay taxes that are due or the occurrence of any other event that impairs attainment of the institution's goals.

2) On the other hand, the probability of paying taxes not actually due under tax obligations, thus impairing the position of shareholders or other stakeholders.

E.4. Identify whether the institution has levels of tolerance to risk, including tax risk:

The Group has a Risk Appetite Framework (RAF) that establishes the structure and mechanisms associated with the governance, definition, disclosure, management, measurement, monitoring and control of the group's Risk Appetite. In addition to the Group's RAF, each subsidiary has a Local RAF which, based on the principle of proportionality, is adapted to the local situation but is aligned at all times with the Group RAF.

The Group also has a Risk Appetite Statement, which is a written declaration of the level of risk that the Group is willing to accept, or wishes to avoid, in order to achieve its business objectives. Therefore, depending on the nature of each risk, the RAS includes both qualitative and quantitative metrics. Consequently, the RAF is a key element in setting the risk strategy, since it determines the scope.

In addition to the Group's RAF, each subsidiary has a Local RAF which, based on the principle of proportionality, is adapted to the local situation but is aligned at all times with the Group RAF.

As for tax risk, one of the main principles of the tax strategy referred to in section E1 above is to minimise tax risk.

This statement applies to all risks identified in section E3 above.

E.5. State what risks, including tax risks, materialised during the year:

The Group provides detailed information of the risks in the Annual Report, which is available on the corporate website (www.grupobancosabadell.com – section Information for shareholders and investors – Financial information – Annual Reports), specifically under section 4 of the consolidated directors' report.

E.6. Describe the response and supervision plans for the company's main risks, including tax risks, as well as the procedures applied by the company to ensure that the Board of Directors responds to emerging challenges:

In accordance with the provisions of the Risk Appetite Framework (RAF), the Group's Risk Appetite Statement (RAS) has a solid governance process which ensures its proper deployment to all participants in the decision-making process. Consequently, the RAS follows a set of guidelines for approval/review, regular monitoring and oversight (including notification of breaches) and deployment to Group subsidiaries.

Specifically, the mechanisms for regular tracking of the RAS ensure a high degree of involvement at all times by the Group's governing bodies, which must have an updated vision of compliance and adaptation to the Risk Appetite defined for the Group, making it possible to make informed decisions. Accordingly, depending on their nature and hierarchy, the metrics in the Group RAS are reported regularly to different echelons (including the Board of Directors and the Risk Committee) and committees, and there is a procedure for giving notice of breaches.

In the event of a breach, the RAF identifies the Governing Bodies and Committees that must receive notice of the breach, as well as the need to define an Adaptation Plan, and defines its main characteristics, such as the parties responsible for approving it, deadlines, and mandatory content.

The main mechanisms implemented by the Group for monitoring and supervising risks are the following:

- Risk governance through the definition of the Risk Appetite in the RAS (through quantitative metrics and qualitative aspects) and the set of risk policies.
- Evaluation of the risk profile through a systematic process that provides a holistic view of the risks and risk tracking.
- Regular reporting of risks (including tax risk), mainly via the Risk Committee scorecard, which facilitates risk

tracking. Specifically, that reporting covers at least the principal risks, maintaining a balance between qualitative data and comments, and, where possible, it incorporates prospective measures, information on risk appetite limits and emerging risks. It also exercises oversight to ensure a homogeneous vision that provides an integrated perspective at Group level, without prejudice to including the local perspective.

• Forward-looking risk management by using stress scenarios in cases where this is considered to be meaningful, which also makes it possible to identify new risks.

More information regarding the systems for controlling the risks to which the group is exposed can be found in the Annual Report, available on the corporate website: www.grupobancosabadell.com – Shareholder and Investor Information – Financial Information – Annual Reports.

## F. INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that comprise the systems for Internal Control over Financial Reporting (ICFR).

### F.1. The organisation's control environment.

Provide details, highlighting the main characteristics of, at least:

F.1.1 Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective ICFR system; (ii) its implementation; and (iii) its supervision.

The Group's Finance Department contributes to implementing the general framework of the internal control systems that are rolled out across the entire organisation.
Part of that contribution materialises in responsibility for designing and implementing internal control systems for financial information that ensure the accuracy of the financial information that is generated.
Article 5 of the Board of Directors Regulation states that the Board of Directors is an instrument of supervision and control whose responsibility is identifying the company's and the consolidated group's main risks and implementing and monitoring suitable internal control and reporting systems, as well as setting policies on the reporting and disclosure of information to shareholders, the markets and the general public.
In addition, as provided in Article 13 of its Regulation, the Board of Directors delegates supervision of internal control systems to the Audit and Control Committee.
The functions of the group's Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design and implementation and effective functioning of the risk management and control systems, which include ICFR.

F.1.2 The following elements, if any, with regard to the process in which the financial reporting is formulated:

· Departments and/or mechanisms entrusted with: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) ensuring that there are sufficient procedures for proper dissemination within the institution:

The design and review of the organisational structure is the responsibility of the Global Organisation and Corporate Projects Department which, based on the Banco Sabadell Group Master Plan, analyses each Division's needs and assesses the need to modify the structure to facilitate attainment of the established priorities and goals. This review is carried out periodically and modifications to the organisation structure of members of the Management Committee are submitted to the Delegated Committee for approval, while modifications 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 Department showing all the modifications that have been made, so as to equip them with the resources considered necessary to perform their duties.

The organisation chart of the Banco Sabadell Group arising from the above process addresses all the departments, areas and divisions into which the Banco Sabadell Group is divided. This organisation chart is complemented by the policies, procedures and functions of each Division, which determine the framework for action and the responsibilities of each unit of the Bank.

- Code of Conduct, approval body, degree of distribution and instruction, principles and values (indicating whether there are specific references to the recognition of transactions and production of financial information), the body entrusted with analysing non-compliance and with proposing corrective actions and sanctions.

The Banco Sabadell Group has a Code of Conduct, approved by the Board of Directors and available via the corporate intranet, whose fundamental principles include a commitment to transparency and, in particular, a commitment to place all the financial and corporate information at shareholders' disposal. The purpose is to comply strictly with the Banco Sabadell Group’s obligation to offer reliable financial reporting prepared in accordance with the regulations so as to present a true and fair view of the company. It also includes the responsibilities of its employees and executives to ensure this is so, via both proper discharge of their duties and notification to the governing bodies of any circumstance which might affect this commitment.

There is a Corporate Ethics Committee, whose functions include fostering ethical behaviour throughout the organisation, making proposals and advising both the Board of Directors and the various corporate and business units in connection with decisions that refer to issues that may lead to conflicts of values.

Among the tasks carried out by the Corporate Ethics Committee is the analysis of compliance with the Code of Conduct or any other code or self-regulation that exists. In order to perform its functions, it has access to the human and material resources of the Compliance Department. If, as a consequence of exercising its functions, it detects any non-compliance, it must advise the Human Resources Department for the application of corrective actions and sanctions.

- A whistle-blower channel, that allows reporting to the audit committee of any irregularities of a financial or accounting nature, as well as cases of non-compliance with the code of conduct and irregular activities in the organisation, indicating if the matter is of a confidential nature.

The Banco Sabadell Group has, and encourages the use of, a whistleblower channel to report all types of irregularities, particularly possible 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 0901CEC@bancsabadell.com.

- Training programmes and regular updating for staff involved in the preparation and review of financial information, as well as in the evaluation of ICFR, and which cover at least accounting standards, auditing, internal control and risk management.

As regards training and refresher programmes and particularly regarding the financial reporting process, the Banco Sabadell Group's Finance Department has an on-site training plan that basically addresses areas such as the company's internal accounting/finance procedures, analysis of current regulations and drafts of new domestic and international accounting standards, analysis of the domestic and international economic situation, together with training in the use of software to facilitate management and oversight of the financial reporting process.

These training sessions are programmed based on two criteria:

- Sessions scheduled at the start of the year by selecting the areas considered of greatest interest by the Finance Department.

- Sessions scheduled during the current year when an issue arises that is believed to warrant prompt distribution (drafts of new accounting standards, changes in the economic situation, etc.).

The on-site training is taught chiefly by internal professionals of the Banco Sabadell Group and by external experts who are specialists in the subject area.

In addition, the Human Resources Department places at the disposal of Banco Sabadell Group employees a series of financial training courses which they can take online. The most notable courses refer to IFRS (International Financial Reporting Standards), financial mathematics, financial analysis, Spain's General Accounting Plan and general tax matters.

The Internal Audit Department has a training plan in place for all management professionals which includes a University Specialist Programme in Bank Internal Auditing (PSAI) at a prestigious academic institution. The course covers areas such as accounting principles and financial reporting, the basics of auditing, and financial risk monitoring and management. In the 2019-2020 academic year, eight audit professionals were taking this programme, and 74 members of the Internal Audit Department hold PSAI certificates. Additionally, during 2019, the members of the Internal Audit Department participated in workshops on new regulatory impacts, including new accounting and financial reporting, and 50 of them obtained certification in the COSO Integrated Framework for Internal Control.

## F.2. Evaluation of financial reporting risks.

Provide information on, at least:

F.2.1 What are the chief characteristics of the process for identifying risk, including error or fraud, in relation to:

· Whether the process exists and is documented:

The Banco Sabadell Group's process of identifying the risk of error or the probability of fraud in financial reporting is documented in a procedure which sets out the frequency, methods, types of risks and other basic features of the process.

· Whether the process covers all the financial reporting objectives (existence and occurrence; integrity; valuations; presentation, itemisation and comparability; and rights and obligations), and if it is updated and how often:

The process covers all the financial reporting objectives (existence and occurrence; integrity; valuation; presentation, itemisation and comparability; and rights and obligations) and focuses on identifying risks of material error based on transaction complexity, quantitative and qualitative materiality, complexity of the calculations and application of judgements and estimations, updated on an annual basis. If (i) circumstances not previously identified reveal possible errors in the financial information, or (ii) material changes to the operations of the Banco Sabadell Group arise during the year, the Finance Department evaluates the risks to be added to those already identified.

The process is structured such that, on a half-yearly basis, an analysis is conducted to identify in which areas or processes material transactions arise and in which 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.

· The existence of a process for identifying the consolidation scope, taking into account, among others, whether there are complex corporate structures, instrumentality companies or special purpose vehicles:

The process for identifying the scope of consolidation is described in section F.3.1. of this document.

· If the process takes into account the effects of other types of risks (operational, technology, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements:

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, the Banco Sabadell Group has the control activities described in section F.3.1. 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.

· What governing body of the institution supervises the process:

The aforementioned process is conducted and documented by the Banco Sabadell Group's Finance Department and is supervised ultimately by the Audit and Control Committee.

### F.3. Control activities.

State whether the company has at least the following, and describe their characteristics:

F.3.1 Review and authorisation procedures for financial reporting and description of the ICFR, to be published in the securities markets, indicating those responsible, together with documentation describing the flows of activities and controls (including those related to the risk of fraud) of the various types of transactions that may have a significant effect on the financial statements, including the accounting close procedure and specific review of the judgements, estimations, evaluations and major projections.

The procedure for reviewing and authorising the Banco Sabadell Group's financial reporting to the markets commences with a review by the Finance Department. In accordance with the Board of Directors Regulation, the separate and consolidated financial statements and half-yearly summary consolidated financial statements are reviewed by the Audit and Control Committee prior to being authorised by the Board of Directors. In accordance with the provisions of its terms of reference, the Audit and Control Committee reads and discusses the information with the heads of the Finance and Internal Audit departments and with the external auditors prior to submission to the Board of Directors.

Once the Audit and Control Committee has vetted the information and either approved it or attached its comments, the CFO, the Chairman and the Managing Director of the Banco Sabadell Group sign the accounts and submit them to the Board of Directors for authorisation. Although it is not obligatory, the mid-year summary consolidated financial statements are audited by the external auditor.

The Audit and Control Committee reviews the quarterly financial disclosures (income statement and trend of the main balance sheet items) before they are submitted to the Board of Directors.

With regard to the activities and controls directly relating to transactions that may have a significant impact on the financial statements, the 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 the Banco Sabadell Group, special emphasis is placed on developing solid descriptions of the flows of activities and controls, which cover, among others:

- Loans and advances
- Fixed-income portfolio and issuance
- Equity securities
- Customer deposits
- Derivatives
- Foreclosed real estate

These descriptions contain information on what form the control activity should take, its purpose (risk to be mitigated), the party responsible for executing it and the frequency. The descriptions cover controls on the proper accounting, measurement, presentation and disclosure of these areas.

The Banco Sabadell Group also has procedures for mitigating the risk of error in processes not related to specific transactions. In particular, there are procedures defined for the accounting close which include the consolidation process and specific review procedures for material judgements and estimates, which are escalated to senior management when appropriate.

With regard to the consolidation process within the accounting close, procedures have been implemented to ensure proper identification of the consolidation scope. In particular, for example, the Banco Sabadell Group conducts a monthly analysis of the consolidation scope, requesting the necessary information from all the 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 the Banco Sabadell Group describes the most important areas in which judgements and estimates are made, together with the key assumptions made in this connection. It also has procedures for reviewing accounting estimates. The main estimates relate to impairment losses on certain financial assets, actuarial calculations of pension liabilities and obligations, the useful life of tangible and intangible assets, measurement of goodwill, and the fair value of unlisted financial assets and of real estate.

F.3.2 Internal control policies and procedures on security, the information systems (among others, access control, change control, operation, operational continuity and segregation of functions) that support the institution's major processes with regard to the formulation and publication of financial reporting.

The 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, the 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 IT Risk & Security Department and the Banco Sabadell Group Business Continuity Department have policies aimed at covering access security by segregating functions and defining virtual roles and resources, and the continuity of operations by creating BRS centres, and performing periodic operating tests.

F.3.3 Internal control policies and procedures for managing outsourced activities, and measurement, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The 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, the Banco Sabadell Group has not outsourced processes with a material impact on financial reporting. However, the Banco Sabadell Group regularly uses reports from independent experts for measuring transactions that may materially affect the financial statements.

In 2019, the activities outsourced to third parties (appraisals and calculations by independent experts) were connected with real estate valuations, measuring post-employment benefits for employees, and reviewing goodwill.

The units of the 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 section F.3.1.

**F.4. Information and reporting.**

State whether the company has at least the following, and describe their characteristics:

F.4.1 A specific function responsible for defining the accounting policies and keeping them up to date (accounting policies department or area) and for resolving doubts or conflicts arising from their interpretation, maintaining regular communication with the persons responsible for operations within the organisation, together with an updated accounting policies manual distributed to all the bank's operating units.

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 the Banco Sabadell Group and for responding to queries concerning accounting from the subsidiaries and business units.

The Financial Reporting Department is responsible for informing Senior Management of the Banco Sabadell Group regarding new accounting standards, the results of their implementation and their impact on the financial statements of the Banco Sabadell Group.

The functions of the Technical Committee on Accounting and Financial Disclosures include identifying transactions that, in accordance with established procedures, must be cross-checked by an independent accounting expert, determining accounting issues to be referred to the Audit and Control Committee for approval, approving accounting procedures, and overseeing and checking the conclusions provided by the work groups that analyse one-off transactions, as well as any accounting treatment that has a material impact and involves a significant judgement and estimate component.

The Banco Sabadell Group has guides on accounting procedure that conform to the needs, requirements and dimension of the Banco Sabadell Group; they set out and explain the rules for preparing financial reporting and describe how to apply the rules to the bank's specific operations. These documents not only explicitly refer to the standards applied to each type of transaction but also elaborate upon and interpret them so as to adapt exactly to each transaction type.

These documents are updated regularly, and at least once per year. Significant modifications are notified to the dependent companies to which they are applicable.

F.4.2 Mechanisms using standard forms for gathering and preparing financial information, for application and use by all units in the bank or group, to support the main financial statements and notes as well as detailed disclosures on ICFR.

The chief IT systems and applications used in generating financial reporting by the Banco Sabadell Group are centralised and interconnected. There are procedures and controls that ensure proper development and maintenance of those systems, as well as their proper performance, continuity and security.

During the consolidation and preparation of the financial reporting, inputs such as the financial statements issued by the 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.

The 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.

The Banco Sabadell Group also has a computer application for producing full-year and mid-year accounts. The application makes it possible to add checks to ensure that the information in the accounts is internally coherent and that the arithmetic totals of the financial statements and the tables contained in the notes to financial statements are correct.

## F.5. Supervision of system operation.

Report on at least the following, giving details of their main features:

F.5.1 Supervision of ICFR by the Audit Committee, and whether the institution has an internal audit function with the duty of supporting the committee in supervising the internal control system, including ICFR. Also provide information on the scope of the evaluation of ICFR carried out during the year and the procedure by which the person assigned to perform the assessment reports the results, whether the institution has an action plan setting out corrective measures and whether its impact on financial reporting has been considered.

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 Department 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, identifying the risks associated with them and designing controls to mitigate them; it also reviews the criticality of the controls and the changes in the materiality of processes with an accounting impact.

In accordance with the Board of Directors Regulation, the Audit and Control Committee is entrusted with oversight of Internal Audit. Additionally, the Audit and Control Committee's functions include approving the Internal Audit plan, assessing the outcome of each audit, and prioritising and tracking corrective measures.

The Bank's Internal Audit Department reports directly to the Audit and Control Committee, which grants it hierarchical and functional independence from the rest of the institution's departments and positions the function at an appropriate level of the organisation.

On the basis of its policy, which was approved by the Board of Directors, the functions of the Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design, implementation, and effective functioning of the risk management and control systems.

The Overall Audit Plan that the Board of Directors Committee approved at a meeting on 31 January 2019, based on a favourable report by the Audit and Control Committee, set out, inter alia, the actions to be implemented with respect to the areas or processes considered to have the highest residual risk on the basis of a risk assessment exercise. The actions set out in the plan were performed in 2019; in some cases, the control environment was reviewed and, in particular, the proper identification of risks in processes was assessed, along with the sufficiency, design, implementation and effective functioning of existing controls. The general controls on reporting systems indicated in section F.3.2 are reviewed every year.

In addition to the aforementioned supervisory activities carried out by the ICFR Department, the Audit and Control Committee and the Internal Audit Department, in 2019 the external auditor reviewed the information relating to the ICFR, with no adverse findings.

F.5.2 Is there a discussion procedure through which the auditor (in accordance with the provisions of the Audit Technical Standards), the internal audit function and other experts can report to senior management and to the audit committee or company directors on any significant internal control weaknesses identified during the review of the financial statements, or any other entrusted to them? Also report on whether there is an action plan to remedy or mitigate identified weaknesses.

The Audit and Control Committee meets at least once every three months (prior to the publication of the regulated disclosures) in order to obtain and analyse the necessary information to fulfil the functions entrusted to it by the Board of Directors in connection with supervision of the process of producing and presenting the mandatory financial disclosures.

These meetings carry out an in-depth review of the annual and half-yearly accounts and the interim financial statements of the company together with the rest of the information made available to the market. To carry out this process, the Audit and Control Committee first receives all the documentation and meets with the Director - General Manager, the Internal Audit Department and the external auditor (in the case of the annual and half-yearly accounts) in order to ensure proper application of the current accounting standards and the reliability of the financial reporting. In addition, this discussion process assesses any ICFR weaknesses that were identified, the proposals to correct them and the status of any actions that have been taken.

The group’s auditor has direct access to the group’s senior management and holds regular meetings to obtain the necessary information and to report on control weaknesses detected during the audit. With regard to the latter, each year the external auditor submits a report to the Audit and Control Committee detailing any internal control weaknesses that were detected or certifying that there were none. This report incorporates comments by group management and any action plans implemented to remedy internal control weaknesses.

## F.6. Other material information

The Banco Sabadell Finance Department has implemented a software application that includes and formalises all the ICFR controls, 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).

## F.7. External auditor report.

Report on:

F.7.1 State whether the ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, give the reasons for the absence of this review.

The Banco Sabadell Group submitted the ICFR information supplied to the markets for 2019 to the external auditor for review. The report by the external auditor (PricewaterhouseCoopers) will be attached as an annex to this annual report on corporate governance once it is available.

The scope of the auditor's review is determined by "Guía de Actuación y Modelo de Informe del Auditor referidos a la Información relativa al Sistema de Control Interno sobre la Información Financiera (SCIIF) de las Entidades Cotizadas", issued by means of Circular E14/2013, dated 19 July 2013, of the Instituto de Censores Jurados de Cuentas de España.

## G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of compliance by the company with the recommendations of the Unified Good Governance Code for Listed Companies.

If any recommendation is not followed or is followed only in part, give a detailed explanation of the reasons so that shareholders, investors and the market in general have sufficient information to be able to evaluate the company's course of action. Explanations of a general nature will not be sufficient.

1. The Articles of Association of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

   Complies [ X ]  Explain [ ]

2. When a dominant and a subsidiary company are both listed, the two should provide detailed disclosure on:

   a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

   b) The mechanisms in place to resolve possible conflicts of interest.

   Complies [ ]  Partially complies [ ]  Explain [ ]  Not applicable [ X ]

3. During the Annual General Meeting, in addition to the written corporate governance annual report, the Chairman of the Board of Directors should verbally inform the shareholders, providing sufficient detail, of the most significant aspects of the company's corporate governance and, in particular:

   a) Any changes since the last ordinary General Meeting.

   b) The specific reasons for which the company does not follow one or more of the recommendations of the Code of Corporate Governance and, if any, alternative rules that are of application in this matter.

   Complies [ X ]  Partially complies [ ]  Explain [ ]

4. The company defines and promotes a communication and contact policy with shareholders, institutional investors and proxy advisors that fully complies with the standards to combat market abuse and that gives similar treatment to shareholders in the same position.

   This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those entrusted with its implementation.

   Complies [ X ]  Partially complies [ ]  Explain [ ]

5. The Board of Directors should not submit proposals to the General Meeting to grant powers to issue shares or convertible securities while overriding pre-emptive subscription rights for an amount greater than 20% of capital at the time of granting of these powers.

   Whenever the Board of Directors approves an issue of shares or convertible securities that overrides pre-emptive subscription rights, the company should immediately publish on its website the reports required in company law in connection with overriding pre-emptive rights.

   Complies [ X ]  Partially complies [ ]  Explain [ ]

6. Although not expressly required by company law, listed companies that have prepared the reports listed below, either obligatorily or voluntarily, should publish them on their website sufficiently in advance of the Ordinary General Meeting:

a) Report on the auditor's independence.

b) Reports on the operation of the Audit Committee and the Appointments and Remuneration Committees.

c) Report by the Audit Committee on related-party transactions.

d) Report on the company's corporate social responsibility policy.

Complies [ X ] Partially complies [ ] Explain [ ]

7. The company should broadcast its general meetings live on the corporate website.

Complies [ X ] Explain [ ]

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies [ X ] Partially complies [ ] Explain [ ]

9. The company should disclose its conditions and procedures for accrediting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies [ X ] Partially complies [ ] Explain [ ]

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Re-issue the attendance card or proxy appointment or remote voting form in a duly modified form so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [ X ]

12. The Board of Directors should perform its duties with unity of purpose and independence, granting the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself in accordance with principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies [ X ] Partially complies [ ] Explain [ ]

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is between five and fifteen members.

Complies [ X ] Explain [ ]

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published upon convening the general meeting that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The appointments committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies [ X ] Partially complies [ ] Explain [ ]

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be as low as is practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies [ X ] Partially complies [ ] Explain [ ]

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies [ X ] Explain [ ]

17. Independent directors should account for at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, one-third of board places.

Complies [ X ] Explain [ ]

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Professional experience and background.

b) Directorships held in other companies, listed or otherwise, and other remunerated activities they engage in, of any type.

c) Statement of the director category to which they belong, indicating, in the case of proprietary directors, the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on same.

Complies [ X ] Partially complies [ ] Explain [ ]

19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the instances of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others who applied successfully for a proprietary directorship.

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [ X ]

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. The appropriate number of such shareholders should also resign if that shareholder reduces its stake to a level requiring a reduction in the number of its proprietary directors.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the articles, except where there is just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them from allocating sufficient time to their duties as board members, or are in breach of their fiduciary duties or come under one of the cases enumerated in the applicable legislation that disqualify a person from being classified as independent.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership arise from the proportionality criterion set out in recommendation 16.

Complies [ X ] Explain [ ]

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's good name or reputation and, in particular, to inform the board if they are investigated by the police and, and the progress of any subsequent court proceedings.

As soon as a director is indicted or arraigned for any of the offences listed in company law, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not the director should be called on to resign. The Board of Directors should give a reasoned report on this in the annual report on corporate governance.

Complies [ X ] Partially complies [ ] Explain [ ]

23. Directors should express clear opposition when they feel a proposal submitted for the board's approval might be detrimental to the company's interests. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that might harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [ X ]

24. Directors who step down before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed in the form of a regulatory disclosure, the reasons should be set out in the annual corporate governance report.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

25. The appointments committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should establish the maximum number of company boards on which directors can serve.

Complies [ X ] Partially complies [ ] Explain [ ]

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies [ X ] Partially complies [ ] Explain [ ]

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of unavoidable absence, directors should grant proxy with the appropriate instructions.

Complies [ X ] Partially complies [ ] Explain [ ]

28. When directors or the secretary express concerns about a motion or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be entered in the minute book if the person expressing them so requests.

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [ X ]

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies [ X ]   Partially complies [ ]   Explain [ ]

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies [ X ]   Explain [ ]   Not applicable [ ]

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so that they can study the matter or gather the material they need beforehand.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies [ X ]   Partially complies [ ]   Explain [ ]

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies [ X ]   Partially complies [ ]   Explain [ ]

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's articles, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular assessments of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues; and approve and review refresher courses for each director, when circumstances so advise.

Complies [ X ]   Partially complies [ ]   Explain [ ]

34. When a lead independent director has been appointed, the articles or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice-chairmen; give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially related to the company's corporate governance; and coordinate the chairman's succession plan.

Complies [ ]   Partially complies [ X ]   Explain [ ]   Not applicable [ ]

In line with Recommendation 34 of the Good Governance Code, article 54 of the Articles of Association and article 8 of the Board of Directors Regulation expressly give the Lead Independent Director the power to convene a meeting of the Board of Directors, add items to the agenda of meetings, coordinate and arrange meetings of the non-executive directors, convey the opinions of the external directors, direct the regular performance review of the Chairman and Vice-Chairman, and chair the Board of Directors.

Banco Sabadell considers that the wording of article 54 of the Articles of Association and article 8 of the Board of Directors Regulation is not restrictive and that the powers established therein are complemented by those that the Lead Independent Director has in practice and that do not require specific empowerment, such as those expressly established in the Succession Plan for the Chairman and Managing Director, which is published on the Banco Sabadell website.

In relation to contacts with investors and shareholders, in addition to regular contacts when necessary, the Lead Independent Director headed the annual corporate governance roadshow held with institutional investors and proxy advisors in both 2018 and 2019. In 2018, the roadshow was held in London and Barcelona (with telephone links to New York and Brussels) on 6 and 7 February. The Lead Independent Director reported to the Appointments Committee and the Board of Directors, as evidenced in the minutes dated 8 March 2018.

The Succession Plan for the Chairman and Managing Director assigns the Lead Independent Director functions of planning, promoting and coordinating the process for the succession of the Chairman and of the Managing Director.

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the recommendations of the Good Governance Code that are applicable to the company.

Complies [ X ]  Explain [ ]

36. The board in full should conduct an annual assessment, adopting, where necessary, an action plan to correct weaknesses detected in:

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competences.

d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairs of board committees.

The evaluation of board committees should start from the reports they send to the board of directors, while that of the board itself should start from the report of the appointments committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies [ X ]  Partially complies [ ]  Explain [ ]

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary of the executive committee.

Complies [ ]  Partially complies [X ]  Explain [ ]  Not applicable [ ]

In accordance with article 59 of the Articles of Association, the Delegated Committee will comprise at most 6 directors. At the end of 2019, the Delegated Committee comprised 2 executive directors and 3 independent directors. The Chairman of the Board of Directors is a member of the Delegated Committee and also its Chairman, and the Secretary, who is not a member of the Delegated Committee, is an executive director and Vice-Secretary of the Board of Directors, with the same powers as the Secretary of the Board of Directors.

The Appointments Committee has sought to ensure that the composition of the Delegated Committee is similar to that of the Board of Directors, with both executive directors and independent directors. Consequently, Banco Sabadell understands that the composition of the Delegated Committee in terms of the categories of directors who are represented is similar to that of the Board of Directors itself, in line with the principles of the Code of Good Governance.

Independent directors account for 53.33% of the Board of Directors and 60% of the Delegated Committee.

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

39. All members of the audit committee, particularly its chairman, should be appointed on the basis of their knowledge and experience in accounting, auditing and risk management. A majority of committee places should be held by independent directors.

Complies [ X ] Partially complies [ ] Explain [ ]

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies [ X ] Partially complies [ ] Explain [ ]

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation, and submit an activities report at the end of each year.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

42. The audit committee should have the following functions over and above those assigned to it by law:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information relating to the company and, as appropriate, the group, checking for compliance with legal provisions, accurate demarcation of the consolidation scope, and proper application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) In the event of resignation by the external auditor, investigate the reasons.

b) Ensure that the remuneration of the external auditor does not compromise their quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a regulatory disclosure, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for same.

d) Ensure that the external auditor holds an annual meeting with the full Board of Directors to report on the work carried out and on the evolution of the accounting situation and the company's risks.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies [ X ]  Partially complies [  ]  Explain [ ]

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another executive.

Complies [ X ]  Partially complies [  ]  Explain [ ]

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so that the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the proposed exchange ratio.

Complies [ X ]  Partially complies [  ]  Explain [  ]  Not applicable [ ]

45. Risk control and management policy should identify at least:

a) The types of financial and non-financial risk the company is exposed to (including operational, technology, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) Measures in place to mitigate the impact of risk events should they occur.

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies [ X ]  Partially complies [  ]  Explain [ ]

46. Companies should establish a risk control and management function and assign it to one of the company's internal department or units, reporting directly to the audit committee or another dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies [ X ]  Partially complies [  ]  Explain [ ]

47. Appointees to the nomination and remuneration committee — or the nomination committee and remuneration committee, if separate — should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies [ X ]  Partially complies [  ]  Explain [ ]

48. Large cap companies should have separate nomination and remuneration committees.

Complies [ X ]  Explain [  ]  Not applicable [ ]

49. The appointments committee should advise company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

Complies [ X ] Partially complies [ ] Explain [ ]

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior executive contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior executives in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advisory services engaged by the committee.

e) Verify the information on director and senior executive remuneration contained in corporate documents, including the annual report on director remuneration.

Complies [ X ] Partially complies [ ] Explain [ ]

51. The remuneration committee should advise the company's chairman and chief executive, especially on matters relating to executive directors and senior executives.

Complies [ X ] Partially complies [ ] Explain [ ]

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) Committees should be chaired by an independent director.

c) The board should appoint the members of such committees on the basis of the directors' knowledge, skills and experience and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary meeting following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, such as the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a dedicated committee

established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of the other stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess the degree of compliance.

f) Monitor and evaluate the company's interaction with its stakeholders.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technology, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies [ X ]   Partially complies [ ]   Explain [ ]

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Specific practices in matters relating to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and engagement.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies [ X ]   Partially complies [ ]   Explain [ ]

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies [ X ]   Partially complies [ ]   Explain [ ]

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate

the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independence of non-executive directors.

Complies [ X ] Explain [ ]

57. Variable remuneration linked to the company's and the director’s performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider share-based remuneration for non-executive directors provided that they must retain such shares until the end of their mandate. The above will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies [ X ] Partially complies [ ] Explain [ ]

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company’s industry, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company’s long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

59. A major part of variable remuneration components should be deferred for long enough to ensure that predetermined performance criteria have effectively been met.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor’s report.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

61. A major part of executive directors’ variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the stock options or other rights on shares, for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies [ X ] Partially complies [ ] Explain [ ] Not applicable [ ]

## H. OTHER INFORMATION.

1. If there is any material issue relating to corporate governance at the company or any of the group companies that has not been disclosed in other sections of this report but whose disclosure is necessary to provide a more comprehensive and fully reasoned picture of the institution's governance structure and practices, describe it briefly.

2. This section may be used to provide further information, clarifications or reservations in relation to the preceding sections of this report, which should be significant and not repetitive.

   Specifically, indicate if the company is subject to corporate governance legislation of any jurisdiction other than Spain, and, if so, include the obligatory disclosures that differ from those required in this report.

3. The company may also indicate whether it has voluntarily adopted any other codes of ethics or good practices, whether international, industry-wide or otherwise. Identify any such code and the date on which it was adopted. In particular, disclose whether the company has adopted the Code of Good Tax Practices of 20 July 2010:

A.2
The information provided is based on communications sent by shareholders to the CNMV or directly to the bank.

A.9
See table.

B.6
In accordance with article 38 of the Articles of Association of Banco de Sabadell, S.A., in order to attend and vote at a General Meeting, shareholders must accredit that they possess or hold proxies for one thousand (1,000) shares. Shareholders whose holdings fail to reach that minimum may group together to attain the minimum and grant proxy to one of their number or to another shareholder who is entitled to attend in accordance with the provisions of the Articles of Association.

C.1.2
Mr. Miquel Roca i Junyent was appointed as Secretary of the Board of Directors (not a director) on 13 April 2000.

C.1.13
The amount of pension rights vested in directors includes the amounts accumulated since 2000 and, therefore, does not refer only to the amount contributed in the year.

C.1.14
In application of the standard, this section includes the 9 members of senior management, plus the Internal Auditor.

There were changes in the composition of senior management in 2019 due to the inclusion of the Deputy General Manager, Mr. Jaime Matas Vallverdú.

The total remuneration of senior management does not include the combined contributions to pension plans, structured through insurance policies, in the year 2019, which amounted to 2,333 thousand euro.

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This annual corporate governance report was approved by the company's Board of Directors at a meeting on:

30/01/2020

Indicate whether any board members voted against or abstained with respect to the approval of this report.

[ ] Yes
[ √ ] No

A.9 See table

| Date of disclosure | Total number of direct shares acquired | Total number of indirect shares acquired | Total % of share capital |
|---|---|---|---|
| 04/02/2019 | 95.406.123 | 10.155.636 | 1,876 |
| 09/05/2019 | 83.274.219 | 10.155.636 | 1,66 |
| 08/07/2019 | 92.770.392 | 10.155.636 | 1,829 |
| 08/10/2019 | 95.764.987 | 10.155.636 | 1,882 |
| 24/12/2019 | 5.552.105 | 10.155.636 | 0,279 |

At a meeting of the administrators of Banco de Sabadell, S.A. on 30 January 2020, and in compliance with the requirements set forth in Article 253.2 of the Spanish Capital Companies Act and Article 37 of the Spanish Commercial Code, the Annual financial statements and the Directors' report for the period from 1 January 2019 to 31 December 2019 of Banco de Sabadell, S.A., have been prepared, presented on the 411 pages preceding this brief, printed, together with the latter, on the 207 consecutively numbered pages of class 8 series State paper.

| | | |
|---|---|---|
| José Oliu Creus<br>Chairman | José Javier Echenique Landiribar<br>Vice Chairman | Jaime Guardiola Romojaro<br>Chief Executive Officer |

| | | |
|---|---|---|
| Anthony Frank Elliott Ball<br>Director | Aurora Catá Sala<br>Director | Pedro Fontana García<br>Director |

| | | |
|---|---|---|
| María José García Beato<br>Director Secretary General | Maria Teresa Garcia-Milà Lloveras<br>Director | George Donald Johnston<br>Director |
| David Martínez Guzmán<br>Director | José Manuel Martínez Martínez<br>Director | José Ramón Martínez Sufrategui<br>Director |
| José Luis Negro Rodríguez<br>Director – General Manager | Manuel Valls Morató<br>Director | David Vegara Figueras<br>Director - General Manager |
| Miquel Roca i Junyent<br>Non-Director Secretary | | |

**BANCO DE SABADELL, S.A.**

Auditor´s report on “Information regarding the
Internal Control System over Financial Reporting (ICSFR)”
of Banco de Sabadell, S.A. for the 2019 financial year

*This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

# Auditor's report on "Information Regarding the Internal Control System over Financial Reporting (ICSFR)" of Banco de Sabadell, S.A. for the 2019 financial year

To the Board of Directors of Banco de Sabadell, S.A.,

In accordance with the request of the Board of Directors of Banco de Sabadell, S.A. and its subsidiaries ("the Group") and our engagement letter dated 14 November 2019, we have applied certain procedures in respect of the attached "Information regarding the Internal Control System over Financial Reporting" ("ICSFR"), included in Annual Corporate Governance Report in section F for listed companies of Group Banco de Sabadell for the 2019 financial year, which includes a summary of the Group's internal control procedures relating to its annual financial information.

The Board of Directors is responsible for adopting the necessary measures to reasonably ensure the implementation, maintenance and supervision of an appropriate internal control system, and for developing improvements to that system and preparing and establishing the content of the accompanying Information regarding the ICSFR.

In this regard, it should be borne in mind that, regardless of the quality of the design and operating efficiency of the internal control system used by the Group in relation to its annual financial information, only a reasonable, but not absolute, degree of assurance may be obtained in relation to the objectives it seeks to achieve, due to the limitations inherent in any internal control system.

In the course of our audit work on the consolidated annual accounts and in accordance with Spanish Auditing Standards, the sole purpose of our evaluation of the Group's internal control system is to enable us to establish the scope, nature and timing of our audit procedures in respect of the Group's annual accounts. Accordingly, our internal control evaluation, performed for the purposes of our audit, is not sufficient in scope to enable us to issue a specific opinion on the effectiveness of such internal control over the regulated annual financial information.

For the purposes of the present report, we have exclusively applied the specific procedures described below, as indicated in the "*Guidelines concerning the auditor's Report on the Information regarding the Internal Control System over Financial Reporting for listed entities*" published by the National Securities Market Commission on its web site, which sets out the work to be performed, the scope of such work and the content of this report. In view of the fact that, in any event, the scope of the work resulting from these procedures is reduced and substantially less than the scope of an audit or review of the internal control system, we do not express an opinion on the effectiveness thereof, its design or operational efficiency, in relation to the Group's annual financial information for the 2019 financial year described in the accompanying Information regarding the ICSFR. Had we applied additional procedures to those determined by the aforementioned Guidelines, or had we performed an audit or review of the internal control system in relation to the regulated annual financial information, other matters could have come to light in respect of which you would have been informed.

*PricewaterhouseCoopers Auditores, S.L., C/ Ausó y Monzó, 16, 03006 Alicante, España*
*Tel.: +34 965 980 350 / +34 902 021 111, Fax: +34 965 208 933, www.pwc.es*



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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

In addition, provided that this special work neither constitutes an account audit it is not even submitted to the Law of Account audit, we do not express an opinion of audit in the terms foreseen in the mentioned regulation.

The procedures applied were as follows:

1. Reading and understanding the information prepared by the Group in relation to the ICSFR – as disclosed in the Directors' Report – and the evaluation of whether such information includes all the information required as per the minimum content set out in Section F regarding the description of the ICSFR, in the model of the Annual Corporate Governance Report, as established in Circular nº 7/2015 of the National Securities Market Commission dated December 22, 2015 and in Circular nº 2/2018 of the National Securities Market Commission dated June 12, 2018.

2. Making enquiries of personnel in charge of preparing the information mentioned in point 1 above in order to: (i) obtain an understanding of the preparation process; (ii) obtain information that enables us to assess whether the terminology used is in line with the framework of reference; (iii) obtain information as to whether the control procedures described have been implemented and are functioning in the Group.

3. Review of supporting documentation explaining the information described in point 1 above and which mainly comprises the information made directly available to the persons responsible for preparing the information on the ICSFR. Such documentation includes reports prepared by the internal audit function, senior management and other internal and external specialists in support of the functions of the audit committee.

4. Comparison of the information described in point 1 above with our knowledge of the Group´s ICSFR, obtained by means of the application of the procedures performed within the framework of the audit engagement on the consolidated annual accounts.

5. Reading the minutes of meetings of the board of directors, audit committee and other committees of the Group, for the purposes of evaluating the consistency between the matters dealt with therein in relation to the ICSFR and the information described in point 1 above.

6. Obtaining a representation letter concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in point 1 above.

As a result of the procedures applied in relation to the Information regarding the ICSFR, no inconsistencies or incidents have been identified which could affect such information.

This report has been prepared exclusively within the framework of the requirements of article 540 of the revised Spanish Companies Act and Circular nº 5/2013 of the National Securities Market Commission, dated June 12, 2013, as modified by Circular nº 7/2015 of the National Securities Market Commission, dated December 22, 2015 and by Circular nº 2/2018 of the National Securities Market Commission dated June 12, 2018, for the purposes of describing the ICSFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by
Raúl Ara Navarro

30 January, 2020