

Consolidated directors' report



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Organisational structure

Banco de Sabadell, S.A. ("Banco Sabadell", the "Bank" or the "company") with registered office at Avenida Óscar Esplá, 37, in Alicante, has as its object to engage in banking and it is subject to the standards and regulations governing banking institutions operating in Spain. It has been subject to prudential supervision on a consolidated basis by the European Central Bank (ECB) since November 2014.

The Bank is the parent company of a group of institutions which it controls directly or indirectly and which, with it, comprise Banco Sabadell Group. Banco Sabadell offers a full range of financial services through its financial institutions, brands, subsidiaries and affiliates, 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 General Meeting of Shareholders, 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.

Board composition

Chairman

José Oliu Creus

Vice Chairman

José Javier Echenique Landiribar

Chief Executive Officer

Jaime Guardiola Romojaro

Director General Manager

José Luis Negro Rodríguez

Director Secretary General

María José García Beato

Directors

Anthony Frank Elliott Ball
Aurora Catá Sala
Pedro Fontana García
Maria Teresa Garcia-Milà Lloveras
George Donald Johnston
David Martínez Guzmán
José Manuel Martínez Martínez
José Ramón Martínez Sufrategui
Manuel Valls Morató
David Vegara Figueras

Non – Director Secretary

Miquel Roca i Junyent

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 directors and, generally, that it 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 that was adopted in 2016 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 the new Lead Independent Director.

To ensure better and more diligent performance of its general supervisory duties, the Board undertakes to directly discharge the responsibilities provided by law, including:

- approving the Company's general strategies;
- appointing and, as necessary, removing directors of the Company's subsidiaries;
- identifying the Company's main risks and implementing and monitoring suitable internal control and reporting systems;
- setting policy on the reporting and disclosure of information to shareholders, the markets and the general public;
- setting policy on treasury stock in accordance with any guidelines laid down by the Shareholders' Meeting;

- approving the Annual Corporate Governance Report;
- authorising transactions between the Company and directors or significant shareholders which may lead to conflicts of interest; and
- 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.

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 to and report directly to the Board of Directors and its committees — the Audit and Control Committee and Board Risk Committee, respectively.

The Bank publishes an Annual Report on Corporate Governance, which contains detailed information on corporate governance, and the Non-Financial Disclosures Report, both of which are part of the 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.

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 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.

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.

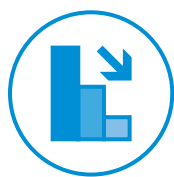
The goal of Banco Sabadell for 2020 is to maximise the value of its franchise in the three main markets in which it operates (Spain, the United Kingdom and Mexico), and to grow organically by means of a clear, differentiated strategy in each geography.

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,



Resilience in banking revenues



Continue to manage non-performing assets



Execute TSB's new strategic plan



Maintain an adequate level of capital



Create value for shareholders

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.

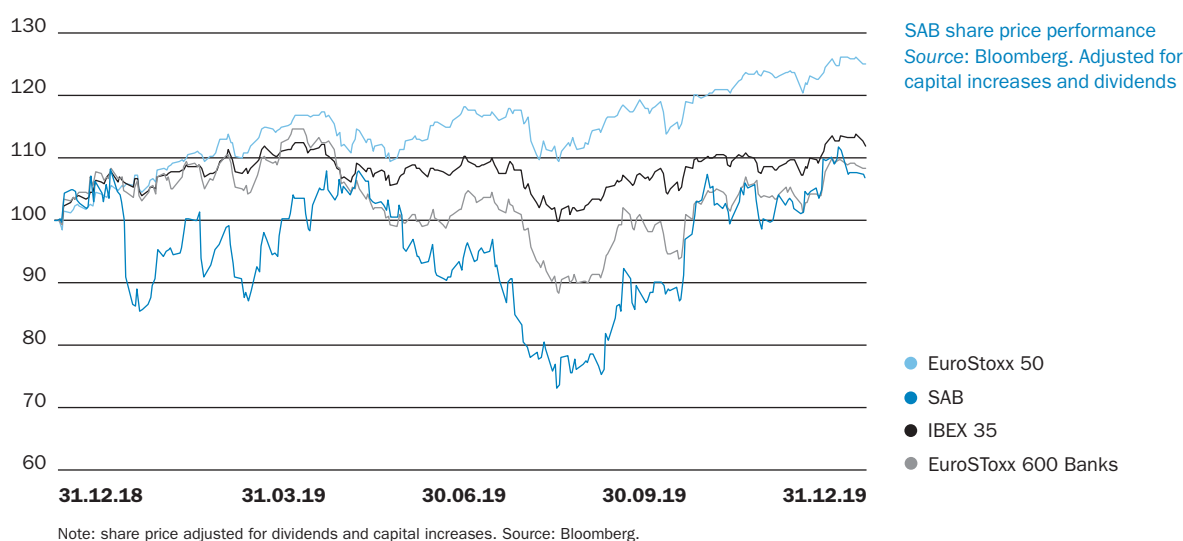
Share performance and share ownership

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.

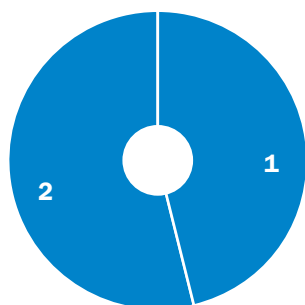
The main factors impacting Sabadell's share performance in 2019 were the improvement in its capital position during the year, the announcement of TSB's business plan, and the steady improvement in asset quality through institutional sales of non-performing portfolios.

In parallel, at the end of 2019, more than 89% of analysts covering Banco Sabadell had a buy or hold recommendation on the stock.



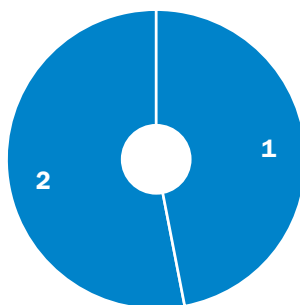
The percentage of Banco Sabadell's capital owned by institutional investors increased slightly, from 53.0% at 2018 year-end to 53.8% at the end of 2019.

Banco Sabadell's market capitalisation stood at 5,760 million euros at year-end, with a price-to-book ratio of 0.44.



Ownership structure
31.12.2019 (%)

1	Retail investors	46.2
2	Institutional investors	53.8



Ownership structure
31.12.2018 (%)

1	Retail investors	47.0
2	Institutional investors	53.0

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 2019

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	100.00 %

Analysis of shareholdings
at 31 December 2018

	Million	Million euros	Euros	Million euros	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

Earnings and book value
per share 2016-2019

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 euros)	5,760	5,568	—
Stock market multiples			
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	—

Share performance

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 euros per share entirely in cash. This distribution consisted of an interim dividend of 0.02 euros per share and a supplementary dividend of 0.01 euros 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 euros gross per share (net of 0.0162 euros 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 euros 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.

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.

Agency	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

Credit rating. Ratings and date of last update

(*) Senior debt and deposits, respectively.

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.

Customers

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.

Banco Sabadell uses connectivity and data to transform the customer experience by redefining products and services and enabling customers to interact with them in different ways.

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.

Moments of truth make 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.

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.

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.

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:

- Understanding consumers' concerns, worries and attitudes and their current and future needs.
- Identifying the most emotional and least explicit part of consumer decision-making.
- Listening in depth, actively and constantly to the customer's voice, which enables us to ascertain how they experience their relationship with the bank at a range of touch points.

The methodologies we use range from conventional in-depth interviews and focus groups to more innovative approaches based on neuroscience and emotion detection.

Ideas shared



30,077

Challenges



18

Innovators



6,269

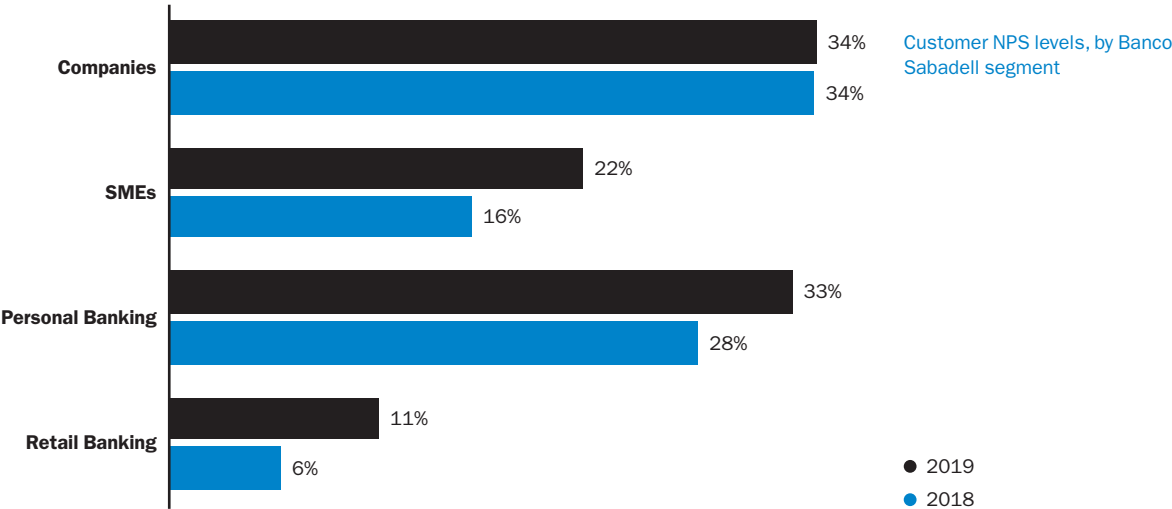
Quantitative research

Banco Sabadell also analyses the customer experience by quantitative methods. Some address the traditional concept of satisfaction, while others deal with more emotional aspects:

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.



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.

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.

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.

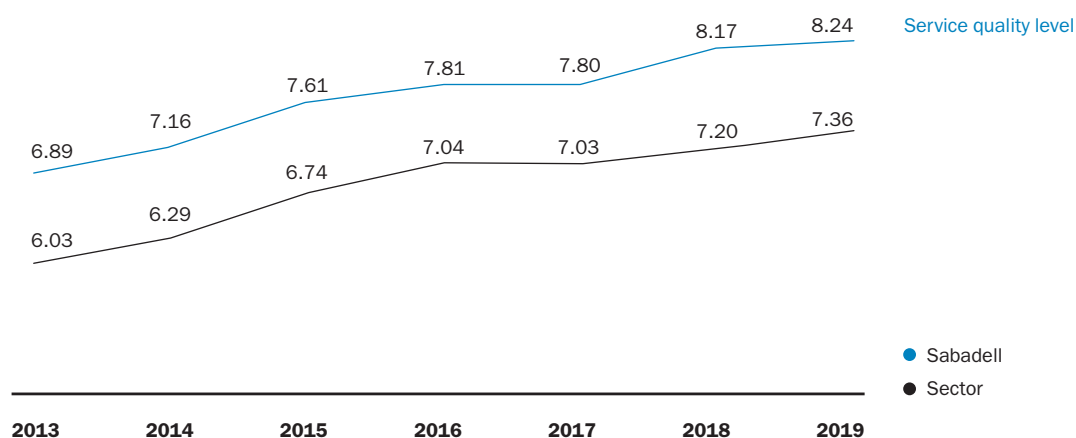
Banco Sabadell listens to its customers by conducting over 300,000 surveys per year and analysing more than 20 touch points.

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.

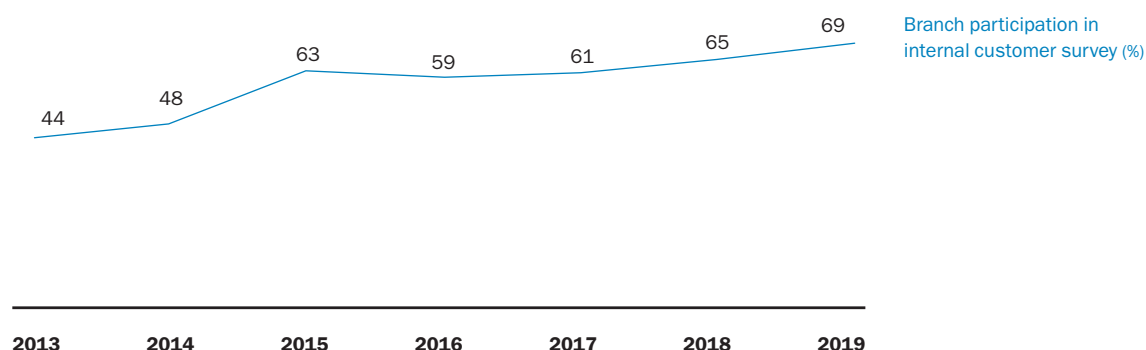
EQUOS RCB (Stiga), the benchmark survey of bank service quality, is conducted using the mystery shopper technique. Banco Sabadell achieved one of the top scores in 2019, exceeding the industry average (+0.88 points), and it ranked first among Spain's big banks in terms of sales performance, which is the key feature of the survey.



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.



Accolades

Banco Sabadell stands out in Spain for its strong track record in management quality and excellence.

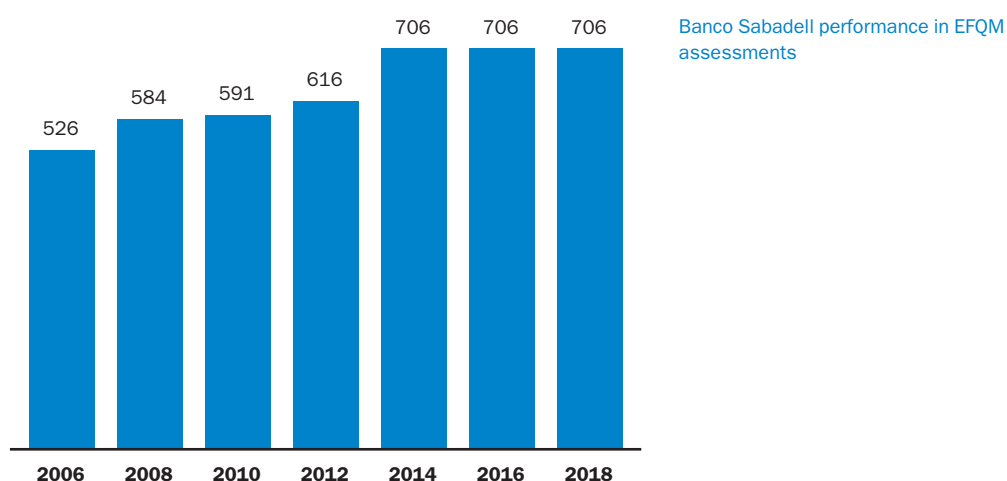
It is the only Spanish credit institution with 100% of its financial operations certified to the ISO 9001 standard, evidencing its customer-centric philosophy and the rigour with which it addresses its risks and processes.

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.

Sabadell 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.



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.

The digital transformation is giving rise to new spending habits among our customers, driving growth and evolution of our customer relationship channels.

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 SabadellGallego (including 3 business branches); 133 under the SabadellHerrero brand in Asturias and León (3 business branches); 108 as SabadellGuipuzcoano (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.



● **Subsidiaries and affiliates**
Andorra
Mexico City (Mexico)
London (UK)

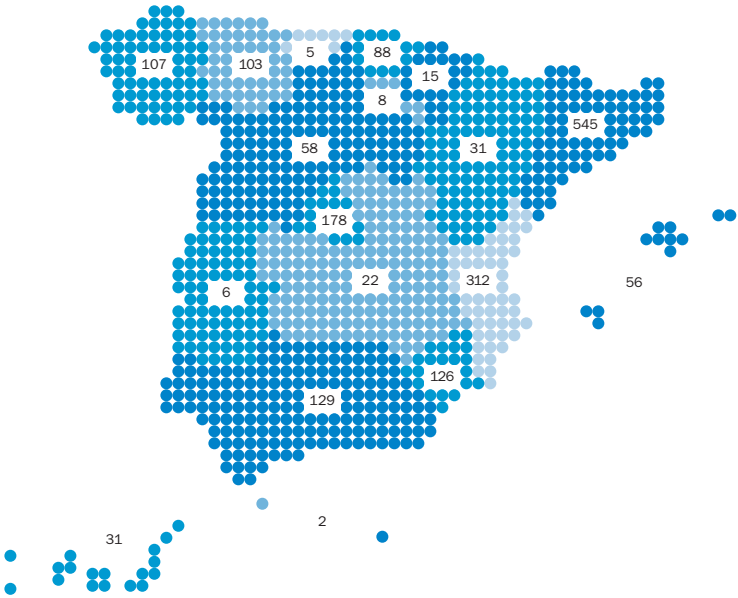
● **Branches**
Miami (USA)
Paris (France)
Casablanca (Morocco)
Lisbon (Portugal)
London (United Kingdom)

● **Representative offices**
Algiers (Algeria)
Sao Paulo (Brazil)
Beijing (China)

Shanghai (China)
Bogotá (Colombia)
Dubai (UAE)
New York (USA)
New Delhi (India)

Warsaw (Poland)
Lima (Peru)
Santo Domingo (DR)
Singapore (Singapore)
Istanbul (Turkey)

Distribution of branches
by region



ATM network

At the end of 2019, the Group's network of self-service machines in Spain totalled 2,982 ATMs and 339 pass-book updating machines. Those figures are similar to the numbers at 2018 year-end (2,924 ATMs and 345 pass-book updaters in December 2018).

The number of transactions fell slightly in 2019, by 2%, as some transactions types are in decline; notably passbook updates, mobile phone top-ups and cheque deposits fell by around 20%. There were a total of 113,210,579 transactions with our ATM network.

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 devices, BSOonline 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 BSOonline 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.

Increase in servicing transactions

+7%

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.

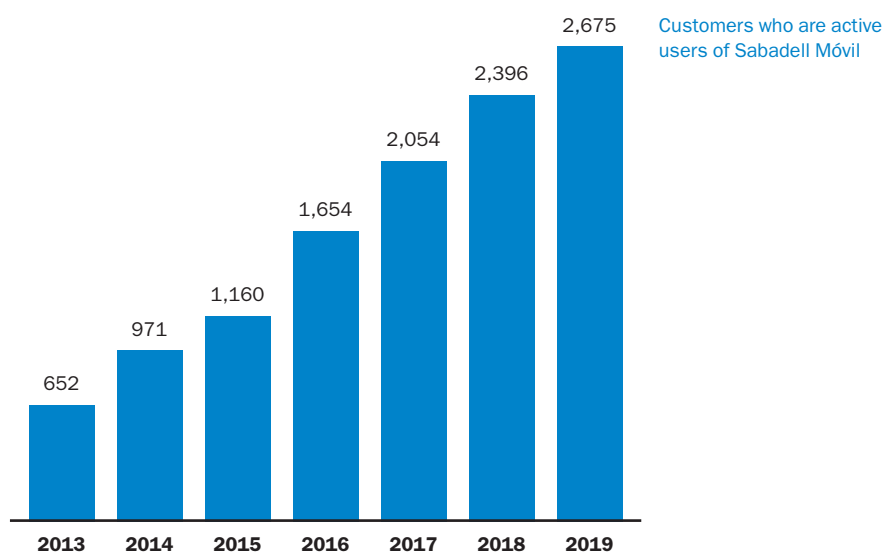
The Bizum service for sending money between mobile devices tripled transaction numbers with respect to 2018; more features were added as well as the option of repeating the most frequent transaction, and it was incorporated into the transfer section of BSM.

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.



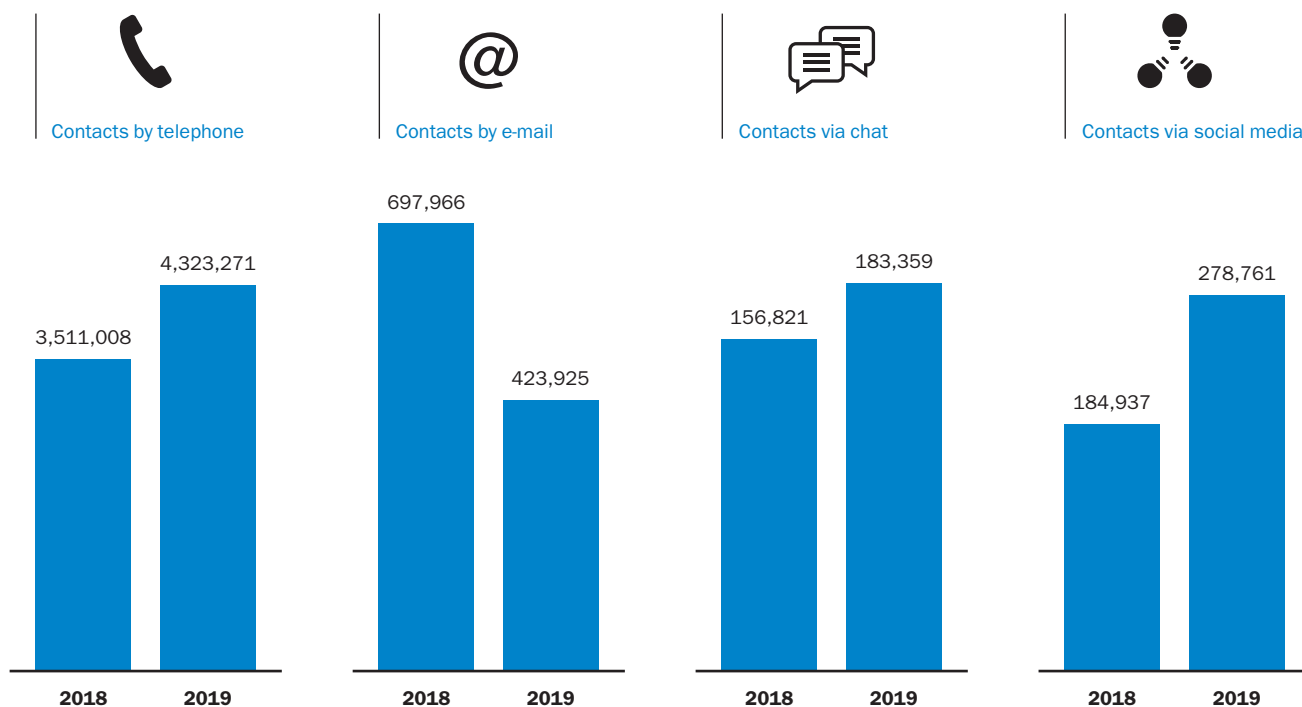
Direct Branch

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 has been active in social media for 13 years. 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 the 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.

InnoCells is Banco Sabadell's hub for digital business and corporate venturing.

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

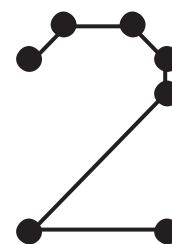
InnoCells has contributed to Banco Sabadell's digital offer and to improving the customer experience both by developing projects from scratch and by adapting existing processes or exploring new environments.

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.

Economic, business and regulatory environment



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49	Banking sector
49	Regulatory environment
51	Outlook for 2020
51	Executive summary

The global economy posted the slowest growth since the financial crisis and inflation was contained.

The leading economies' central banks resumed monetary stimulus measures.

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.

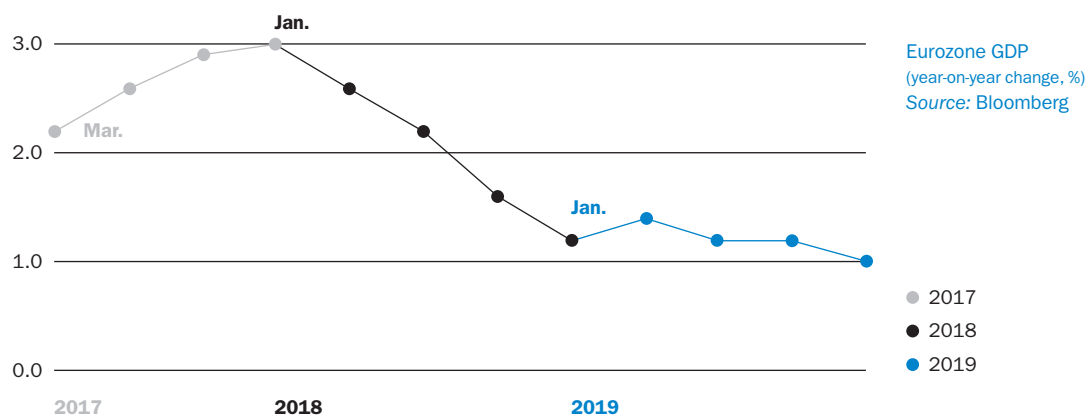
Brexit and the successive postponements of Britain's exit from the EU shaped the UK economy and politics in the year. Theresa May's failure to persuade the House of Commons to approve her withdrawal agreement with the EU culminated in her resignation, and Boris Johnson's rise to power. Johnson managed 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.

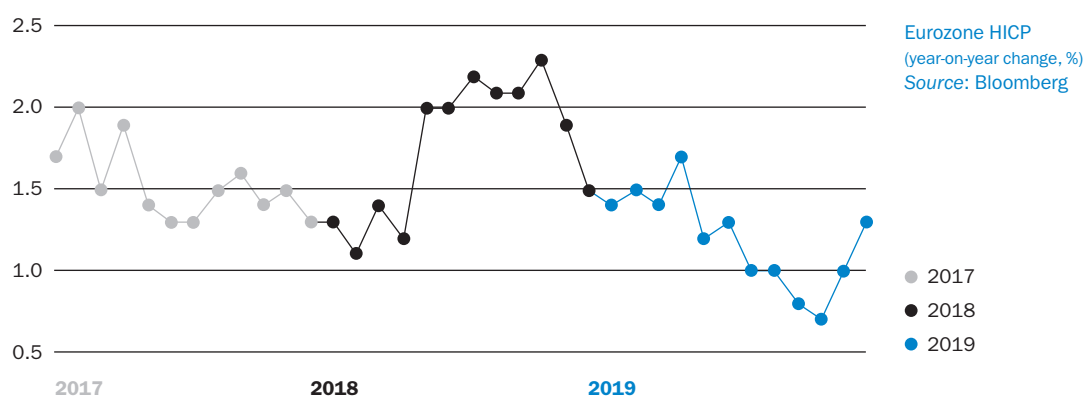
In the developed economies, the Eurozone showed vulnerability to the global context (trade tensions and Brexit) and continued to decelerate, hampered by export performance. The European economy was also weighed down by the conjunction of certain idiosyncratic elements, such as the new environmental regulations 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.



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.

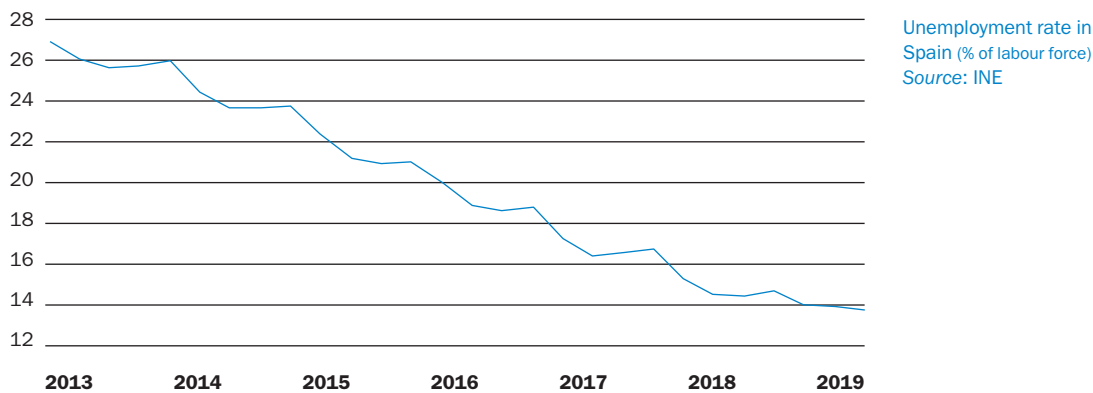


Spain logged growth in line with that of the previous year, of around 2% year-on-year.

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.



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.

The trade war and Brexit continued to shape the global economic and financial context.



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

Eurozone banks strengthened their capital position and asset quality. Profitability is still under pressure in a context of low interest rates.

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

The impact of climate change on the banking sector increasingly captured the attention of central banks and supervisors.

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.

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.

Financial information



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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)
Group net profit	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 (thousand euros)	6,141	6,554	
Total NPAs (million euros)	7,326	8,279	
NPL ratio (%)	3.83	4.22	
Coverage ratio of stage 3 exposures (%) (*)	49.6	54.1	
NPA coverage ratio (%) (*)	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	

(*) Excluding floor clauses.

(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).

Earnings performance

Strong growth by Group earnings, including notable resilience in banking revenues.

Million euros

	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
Group net profit	768	328	134.0
Memorandum item:			
Average total assets	223,470	217,168	2.9
Earnings per share (euros)	0.13	0.05	—

Profit & loss account

The average exchange rate used for TSB's income statement is 0.8782. The accumulated exchange rate in December 2018 was 0.8851.

Net interest income

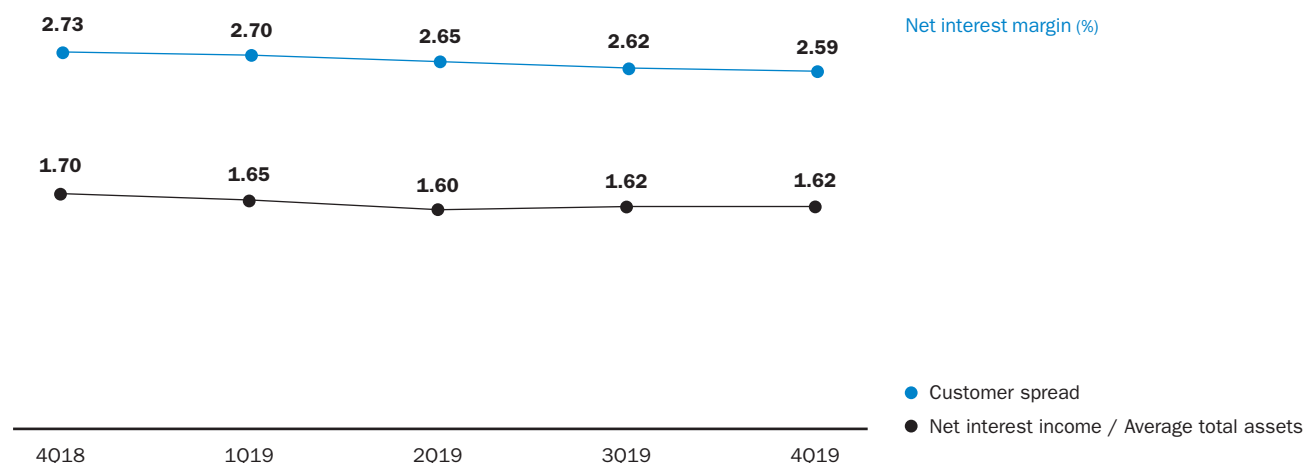
Net interest income amounted to 3,622 million euros in 2019, 1.4% less than in 2018, mainly as a result of the impact of IFRS 16, lower interest rates and the effect of securitising consumer loans in 2019.

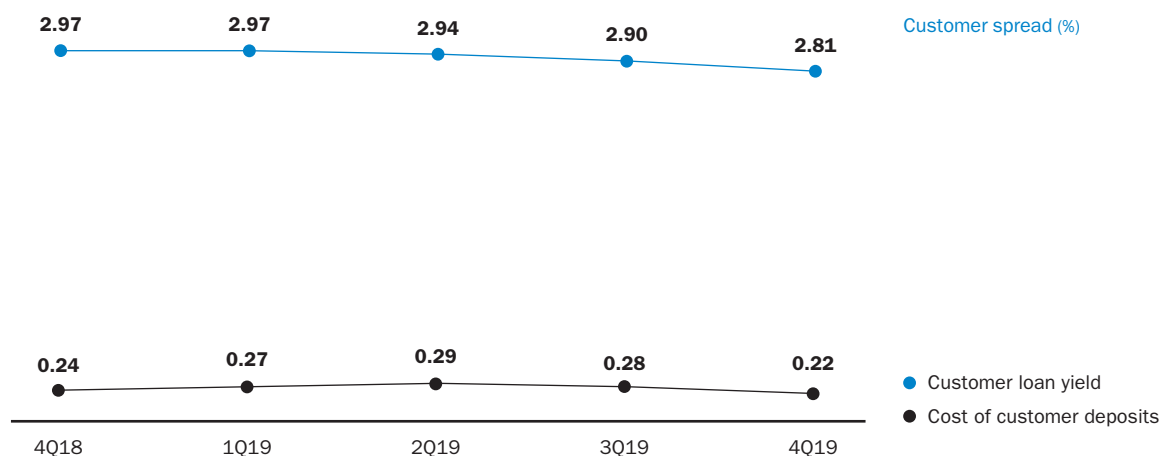
As a result, the return on average total assets was 1.62% in 2019 (1.69% in 2018).

Average total assets

Thousand euros											
	2019			2018			Change		Effect		
	Average balance	Results	Rate %	Average balance	Results	Rate %	Average balance	Results	Rate	Volume	
Cash on hand and at central banks and credit institutions	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 customers	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 securities	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 securities	879,843	—	—	933,848	—	—	(54,005)	—	—	—	
Property, plant and equipment and intangible assets	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 market	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).euros

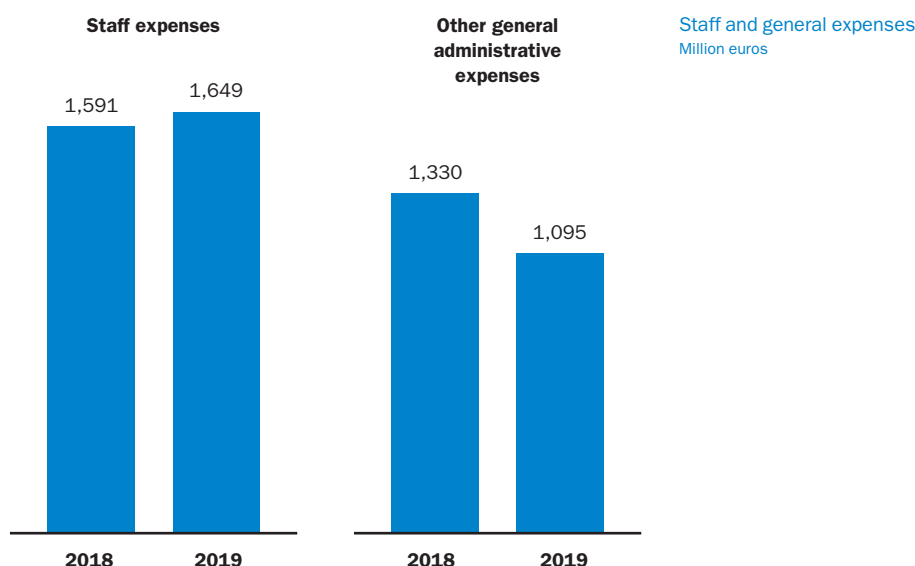
Pre-provisions income

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.

**Dynamic commercial performance
in all geographies, including a notable
recovery at TSB.**

**Sound risk profile and decline
in non-performing assets.**

Balance sheet

Million euros

Balance sheet

	2019	2018	% 19/18
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 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 at fair value through profit or loss	—	—	—
Financial liabilities 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 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.

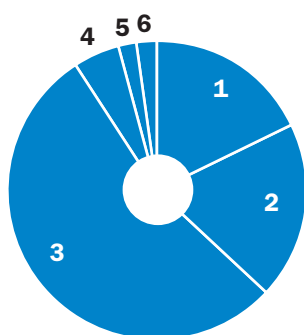
Million euros

	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)
Accrual adjustments	18	(13)	—
Loans and advances to customers, gross, excluding repos	150,513	145,824	3.2
Repos	236	596	(60.4)
Loans and advances to customers, gross	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 as at 31 December 2019

Loans and receivables

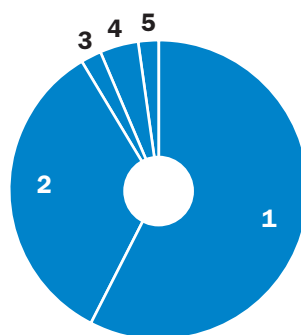
The breakdown of customer loans and advances by customer profile and product type, excluding stage 3 assets and accrual adjustments, is shown in the following graphics:



Loans and advances to customers, by customer profile
31.12.2019 (%) (*)

1	Companies	18
2	SMEs	19
3	Individuals	54
4	Public sector	5
5	Real estate developers	2
6	Other	2

(*) Excluding non-performing assets and accrual adjustments.

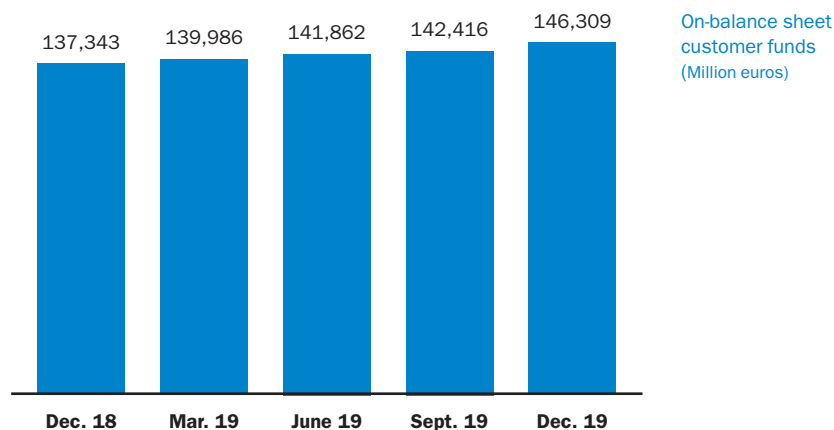


Loans and advances to customers, by product type
31.12.2019 (%) (*)

1	Mortgage loans & credit	58
2	Overdrafts, etc.	34
3	Loans and credit secured with other collateral	2
4	Commercial loans	4
5	Finance leases	2

(*) Excluding non-performing assets and accrual adjustments.

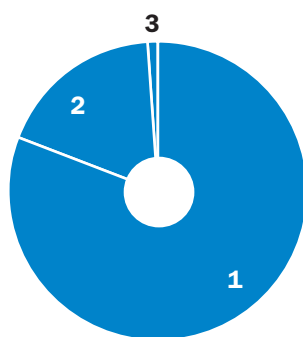
At 2019 year-end, customer funds on the balance sheet amounted to 146,309 million euros, a 6.5% increase on the figure of 137,343 million euros registered at the end of 2018.



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:



Customer deposits 31.12.2019 (%)

1	Sight accounts	81
2	Deposits with agreed maturity	18
3	Repos	1

(*) Excluding accrual adjustments and hedging derivatives.

Total funds under management amounted to 213,095 million euros as at 31 December 2019, an increase of 3.6% with respect to the balance of 205,711 million euros as at 2018 year-end.

Million euros

	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

Customer funds

(*) 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 euros

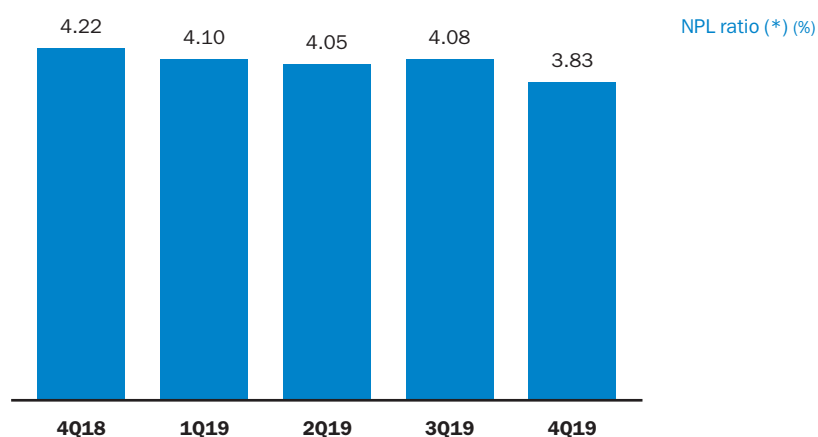
	2019				2018			
	1T	2T	3T	4T	1T	2T	3T	4T
Net ordinary increase in balance of stage 3 assets	(12)	86	80	(81)	(58)	(243)	(14)	(699)
Change in real estate assets	77	70	(841)	152	23	(244)	(136)	(5,497)
Ordinary net increase in NPAs + real estate	65	156	(761)	71	(35)	(487)	(150)	(6,196)
Write-offs	182	76	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)

Non-performing assets

Net variation, including as a non-performing exposure the 20% of exposure retained under the asset protection scheme (APS) and not transferred to the DGF.

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.

As 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.



* 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:

Million euros

	2018					2019			
	1Q	2Q	3Q	4Q 20% EPA	4Q 100% EPA	1Q	2Q	3Q	4Q
Stage 3 exposures	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
NPA coverage ratio(%)	55.2	56.3	56.6	52.9	52.1	50.7	50.1	49.1	46.9

Includes contingent exposures. In 4Q18, institutional portfolios were reclassified as non-current assets available for sale; accordingly, those assets are excluded from the data.

Group coverage ratios

The Banco Sabadell Group has a sound liquidity position and a balanced retail funding structure.

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 (LMUs) amply exceed that requirement. At Group level, the LCR remained well above 100% on a stable basis at all times during the year. As 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

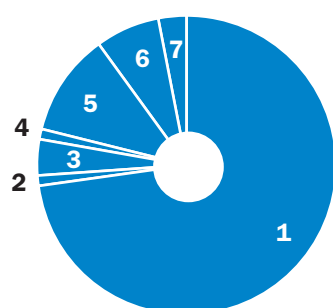
Million euros

	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

Liquidity ratios

The EUR/GBP exchange rate used for the balance sheet is 0.8508 at 31.12.19 and 0.8945 at 31.12.18.

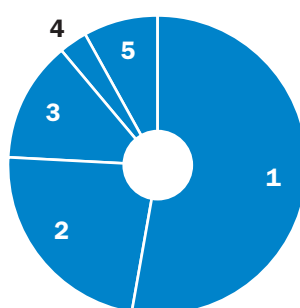
The breakdown of the main sources of funding by instrument and counterparty at 2019 year-end is as follows (%):



Funding structure
31.12.2019 (%)

1	Deposits	73
2	Retail issues	1
3	Repos	4
4	ICO finance	1
5	Wholesale market	11
6	ECB	7
7	Bank of England	3

Excluding accrual adjustments and hedging derivatives.



Institutional issues
31.12.2019 (%)

1	Mortgage covered bonds	53
2	Senior debt	23
3	Subordinated and AT1	13
4	ECP + institutional commercial paper	3
5	ABS	8

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.

Capital management

Key capital figures and ratios

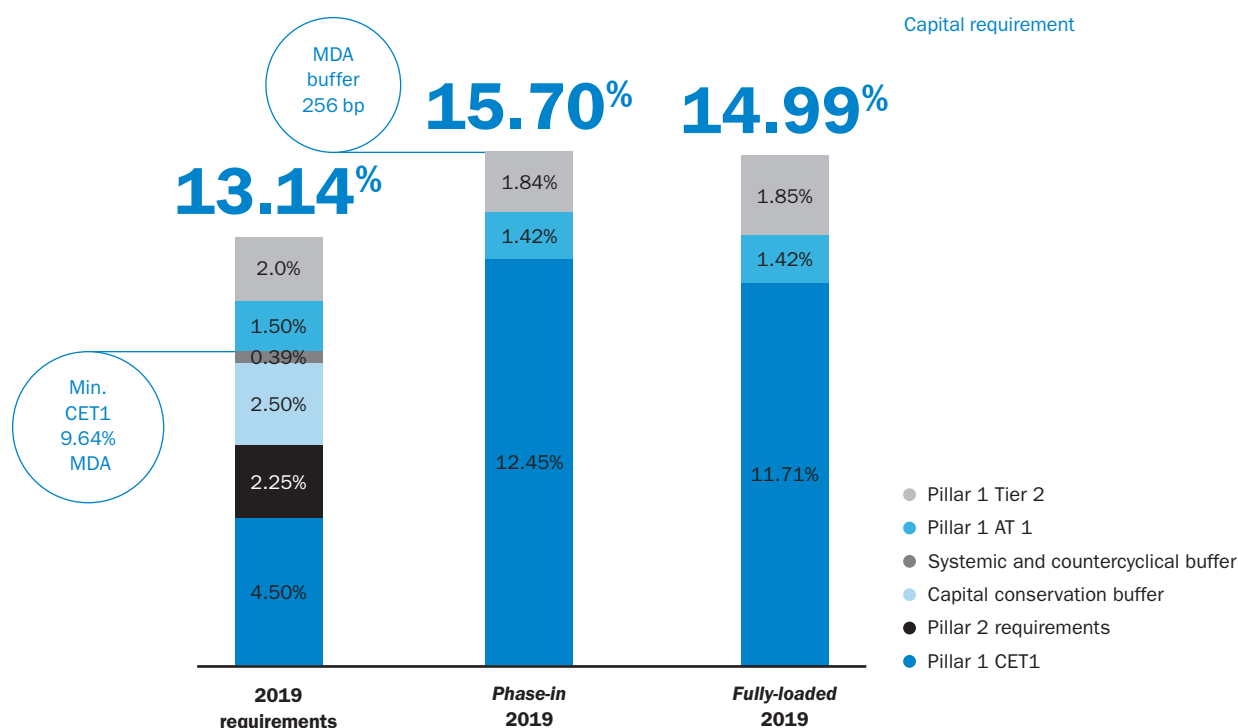
Thousand euros

	Fully-loaded		Phase-In	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
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 capital (Tier 1 + Tier 2)	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%

Capital adequacy

As at 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.

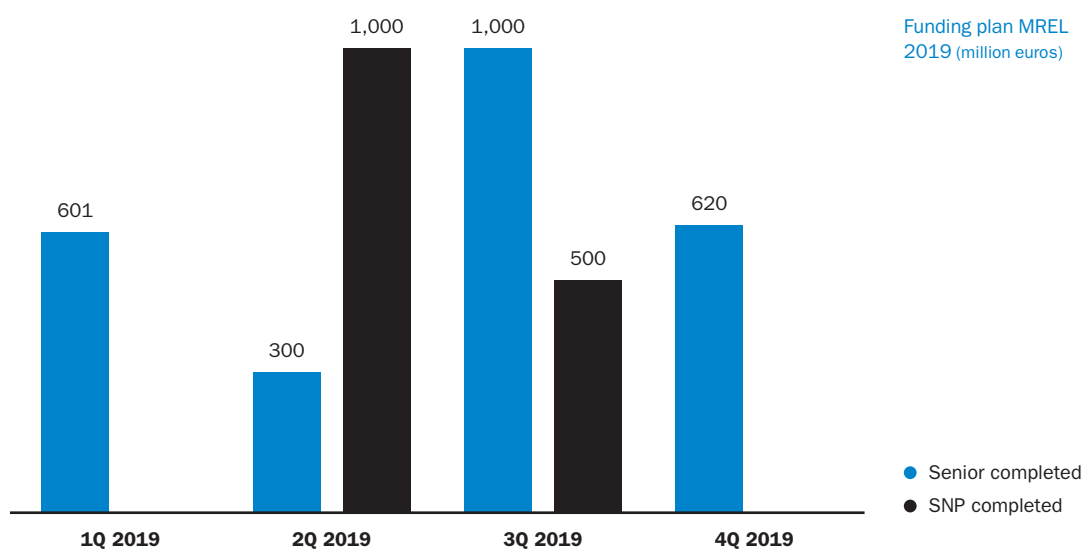
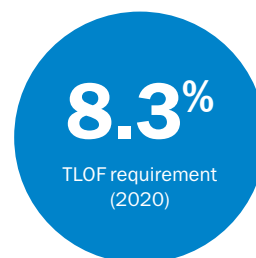
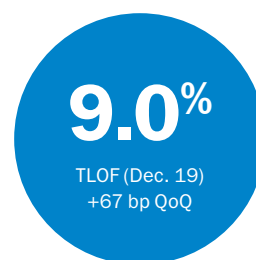
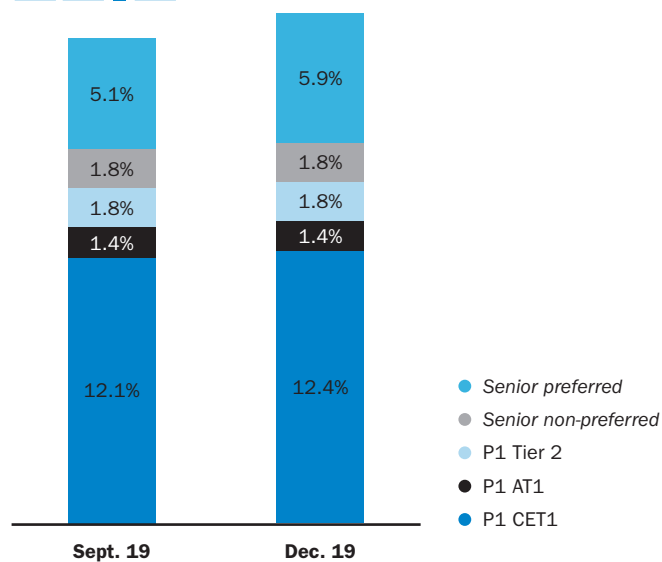
During 2019, the Group increased its fully-loaded capital by over 566 million euros organically. Additionally, it issued 500 million euros of subordinated debt in 2018 which the European Central Bank authorised it to classify as Tier 2 capital in February 2019. Risk-weighted assets also reflect the impact 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.

22.2% 23.4% Group MREL



Businesses



69	Banking business Spain
91	Banking business UK
94	Banking business Mexico

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

Banking business Spain

Key figures

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

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

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

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

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

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

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

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

Million euros

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

[Banking business Spain income statement summary](#)

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

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

Million euros

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

[Banking business Spain balance sheet summary](#)

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

Commercial Banking

Highlights

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

Business overview

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

Earnings before taxes

1,098M€

Commercial Banking

Customer segments

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

Corporate segment specialists

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

Commercial Products

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

Sabadell Consumer finance

Management priorities in 2019

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

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

Key figures

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

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

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

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

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

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

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

Million euros

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

Commercial Banking
income statement summary

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

Million euros

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

[Commercial Banking balance sheet summary](#)

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

Customer segments

Large corporates

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

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

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

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

SMEs

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

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

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

Businesses

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

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

Retail Banking

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

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

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

Personal Banking

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

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

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

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

Banking for Expatriates

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

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

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

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

Private Banking

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

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

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

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

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

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

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

Sabadell Colaboradores

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

Corporate segment specialists

Institutional Businesses

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

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

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

Public Institutions

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

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

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

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

financial Institutions and Insurers

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

Religious Institutions

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

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

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

Professional Associations, Partnership Agreements and Associate Banking

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

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

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

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

Tourism

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

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

The value proposition is aimed at financing for hotel acquisition, international expansion by chains, refurbishment projects, rebranding and energy efficiency.

In 2019, Banco Sabadell's Tourism Business Division increased its presence in Spain through a team of 12 territorial managers focused on this area.

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

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

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

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

Agriculture

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

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

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

Employer Providential Schemes

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

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

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

Real estate

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

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

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

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

BStartup

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

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

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

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

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

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

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

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

Companies Hub

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

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

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

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

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

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

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

Commercial Products

Financial services

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

Digital Services

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

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

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

the Bank are more complex and also new customers.

Payment

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

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

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

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

Cash Management Service

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

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

Savings and Investment

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

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

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

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

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

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

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

Asset Management

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

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

It also ensures investors obtain healthy returns based on

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

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

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

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

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

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

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

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

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

Funding Solutions

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

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

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

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

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

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

Leases (finance or operating)

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

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

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

Bancassurance

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

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

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

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

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

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

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

BanSabadell Seguros
Generales

Premiums in 2019 (YoY change)

279M€
(+6%)

International solutions

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

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

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

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

As a differentiating factor, in 2019 the Bank arranged information sessions for companies concerning the changes in Incoterms 2020 in order to enable them to be aware of the requirements ahead of time; the Bank provided advice and support in order to provide optimal outcomes in international purchases and sales. Along the same lines, and continuing the success of previous editions, the third cycle of Sabadell International Business Program commenced; this training programme is focused on helping companies to devise a plan to nurture their international business; all places were filled for the third year running.

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

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

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

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

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

Sabadell Consumer finance

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

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

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

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

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

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

Funding of mobility in buildings and condominium refurbishments also expanded.

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

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

Corporate & Investment Banking

Business overview

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

Management priorities in 2019

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

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

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

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

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

Key figures

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

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

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

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

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

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

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

Million euros

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

[Corporate & Investment Banking income statement summary](#)

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

Million euros

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

[Corporate & Investment Banking balance sheet summary](#)

Corporate Banking

Business overview

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

Management priorities in 2019

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

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

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

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

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

Treasury and Capital Markets

Business overview

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

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

Management priorities in 2019

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

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

Trading, Custody and Research

Business overview

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

Management priorities in 2019

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

Structured finance

Business overview

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

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

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

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

Structured finance business

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

Structured finance ranked first in the Spanish project finance market.

Management priorities in 2019

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

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

Syndicated loan MLA
— Spanish market
2019

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

Project finance MLA
— Spanish market
2019

Capital markets

Business overview

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

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

Management priorities in 2019

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

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

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

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

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

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

Banco Sabadell Capital

Business overview

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

Management priorities in 2019

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

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

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

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

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

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

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

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

Sabadell Miami Branch

Business overview

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

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

Sabadell Securities USA, Inc.

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

Management priorities in 2019

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

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

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

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

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

Key figures

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

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

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

Asset Transformation

Key events in 2019:

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

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

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

Business overview

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

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

its activity and leadership in reducing non-performing exposures.

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

Management milestones in 2019

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

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

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

Management priorities

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

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

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

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

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

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

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

Key figures

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

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

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

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

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

Million euros

	2019	2018	Year-on-year change (%)
Net interest income	(49)	(18)	169.9
Fees and commissions (net)	2	1	57.0
Net banking revenues	(47)	(17)	179.0
Net trading income and exchange differences	31	5	—
Equity-accounted affiliates and dividends	—	—	—
Other operating income/expense	34	119	(71.4)
Gross income	18	107	(82.9)
Operating expenses and depreciation and amortisation	(80)	(129)	(38.2)
Pre-provisions income	(62)	(22)	181.4
Provisions and impairments	(341)	(520)	(34.3)
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:income (general administrative expenses / gross income)	—	—	—
NPL ratio	33.8%	33.5%	—
NPL coverage ratio	42.7%	83.4%	—

[Asset Transformation income statement summary](#)

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

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

Million euros

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

[Asset Transformation balance sheet summary](#)

Banking business UK

Business overview

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

Management priorities in 2019

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

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

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

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

Customer focus

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

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

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

Simplification and efficiency

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

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

Operational Excellence

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

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

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

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

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

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

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

Key figures

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

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

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

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

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

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

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

Million euros

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

[Banking Business UK income statement summary](#)

Million euros

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

[Banking Business UK balance sheet summary](#)

Banking business Mexico

Business overview

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

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

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

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

Management priorities in 2019

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Key figures

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

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

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

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

Million euros

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

[Banking Business Mexico income statement summary](#)

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

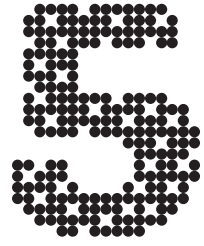
Customer funds on the balance sheet expanded by 60.2% year-on-year to 1,996 million euros.

Million euros

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

[Banking Business Mexico balance sheet summary](#)

Risks



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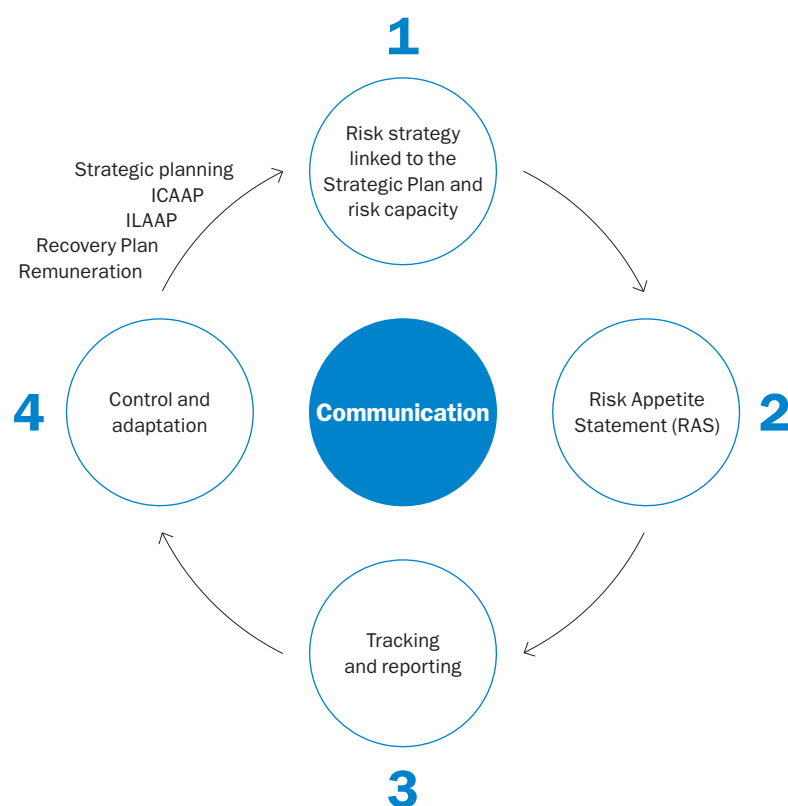
The Group's Global Risk Framework was strengthened with solid governance processes, deployment to the geographies and portfolio-based risk management and control frameworks.

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 4.8% 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.

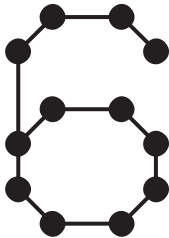
New organisation in the Risk Management Division

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.

Other material information



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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 increase 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 (360° 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.

Trading in own shares

See note 23 to the consolidated financial statements.

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.

Non-Financial
Disclosures Report



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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 (ESG) 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

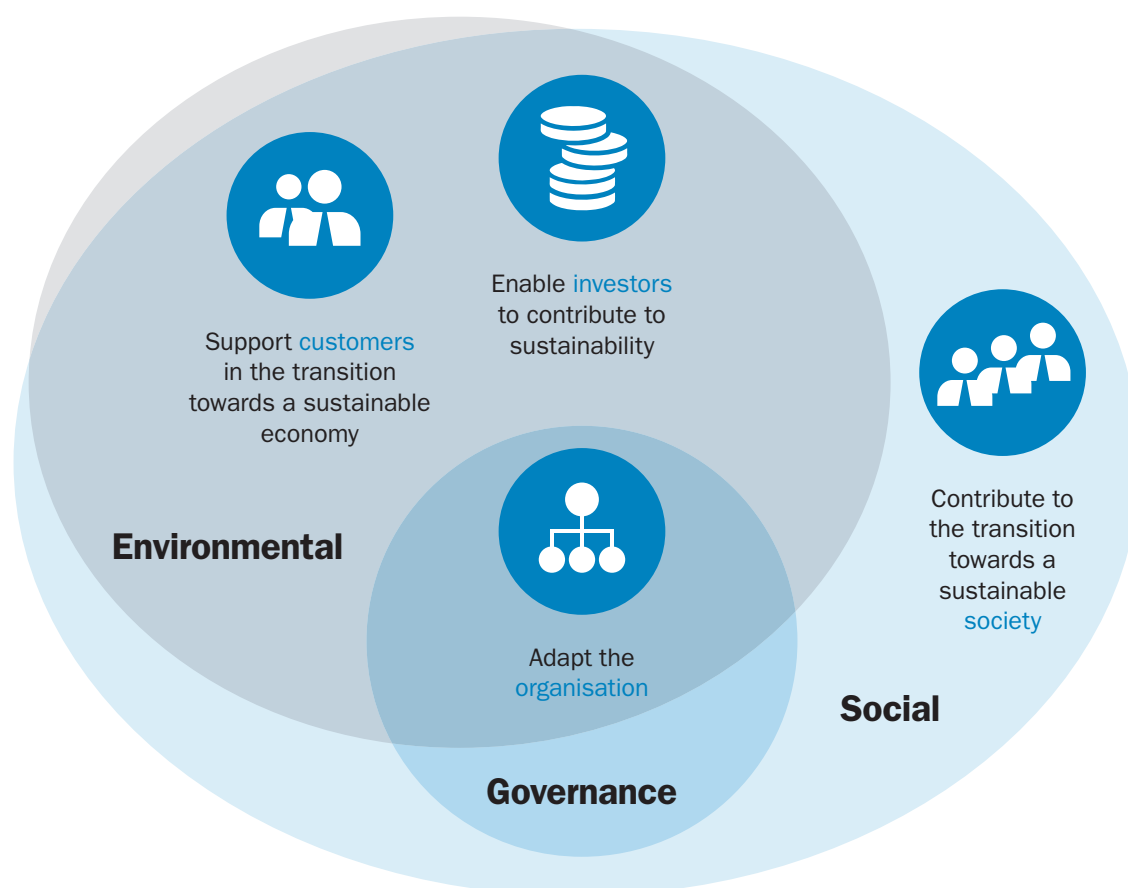
Banco Sabadell has made the Sustainable Development Goals (SDGs) the focal point of its strategy in the coming years.



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

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.

In terms of business, Banco Sabadell fosters the development of a sustainable energy model through financing and direct investment in renewable energy projects.

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 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 Navarra 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 panels). 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 investing

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, S.I.C.A.V., 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 11, SDG 13)

In 2019, Banco Sabadell signed a total of 25 energy projects which incorporate the Equator Principles, 96% of which relate to renewable energy projects.

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.

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

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

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.

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	—	—
Brazil	—	7	—	—
Bahamas	(54)	(40)	—	—
Luxembourg	(319)	122	58	108
Portugal	(850)	(2,241)	3	—
France	(9,465)	18,034	7,030	7,019
Total	951,077	418,865	264,500	38,930

Consolidated profit before tax and Corporate income tax paid in each country.

Subsidies received in Spain in 2019 (Training) of 2,595,256 euros.

1.4. Transparency and digitalisation



(SDG 16)

1.4.1. Transparency

Before a product or service is brought to market, the product approval committee verifies that it complies with the standards on 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.

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.

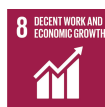
1.4.2. Digitalisation

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).

Professionals

24,454

Staff outside Spain



36%

Women



55.9%

Total number and distribution of employees of Banco Sabadell Group

	2019			2018		
	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	16,991
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

Professional category

'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		
	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

Age range

	2019			2018		
	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

Country

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		
	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

Type of contract
Gender

Group data as at 31/12/2019.

	2019			2018		
	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	16,991
Administrative staff	3,851	12	3,863	4,596	31	4,627
Total	24,317	137	24,454	25,973	208	26,181

Type of contract
Professional
category

'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		
	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

Type of contract
Age range

Number of departures from the Group due to dismissal

	2019			2018		
	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

Professional
category

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		
	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

Age range

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).

	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.

	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. '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.

Training

Total training hours and average by professional category

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 Mánager) programme, which brings 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 Mánager)

“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.

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%

Breakdown of Group employees by gender

Promotions given to women

 **53.01%**

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 managers 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.

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 executives (>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 executives and upcoming executives)

— **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 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.

Age Range	2019		2018	
	Directors	Remuneration	Directors	Remuneration
Men	12	153,492	12	146,693
Women	3	140,167	3	176,000
Total	15	150,827	15	150,880

Diversity and average remuneration of Board Members at Banco Sabadell

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.

Professional category	2019			2018		
	Men	Women	Total	Men	Women	Total
Management staff	9	4	13	3	—	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

Employees with disabilities in the Group

In 2019, actions have been taken to support functional diversity both inside and outside the Bank:

- Project Taskforce: 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

Professional category	2019						2018					
	Employees			Remuneration			Employees			Remuneration		
	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. '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.

Age range	2019						2018					
	Employees			Remuneration			Employees			Remuneration		
	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

Professional category	2019						2018					
	Employees			Remuneration			Employees			Remuneration		
	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

Age Range	2019						2018					
	Employees			Remuneration			Employees			Remuneration		
	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.

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

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 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

Indicators of
absence from work

Workplace accidents

	2019			2018		
	Men	Women	Total	Men	Women	Total
Work centre	42	65	107	44	75	119
<i>In itinere</i>	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

Types of accident
in Spain

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		
	Men	Women	Total	Men	Women	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

Accident rate
in Spain

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 listen to its employees. In 2019, these tools were enhanced and a Listen to Employees Division was created that

regulates 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 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 CO₂ emissions.

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.

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. CO₂ 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 CO₂ 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 CO₂ emissions generated by the Group in Spain	7,403 ⁽³⁾	10,152 ⁽³⁾	4,122	4,179	7,783	16,585
Total CO₂ 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 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 CO₂, 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 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 CO₂ as a result of the use of water, paper and plastic amounted to 845 tn CO₂, compared to 1,475 tn CO₂ in 2018. Other waste was identified in Banco Sabadell in 2019 but, as its total volume is less than 0.10 tonnes, it was 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 CO₂ in 2019 and 102 tn CO₂ in 2018. In 2019, materials made of single-use plastics were 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 CO₂ emissions. Car-pooling is encouraged for commuting, 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.

3.3.1. 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).

	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%

Total electricity consumption

Compared to 2014, CO₂ 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.

3.3.2. Water consumption

The Group's water consumption in Spain was 396,260 m³. 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.

3.3.3. 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 was 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.

	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%

Paper consumption

Simplification

In 2019, Banco Sabadell 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.

- £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.

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	(%)	3%

Energy consumption and use of resources in TSB

The main indicators and actions taken by TSB in 2019 are shown below.

	Base unit	Annual consumption
Electricity	MWh	28,312
Natural gas	MWh	13,917
Water	m ³	93,370

Consumption

Figures estimated for November and December 2019 based on actual data from the previous year.

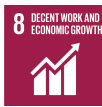
In addition to the consumption shown above, around 10,000 litres of fuel were used for heating.

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).

Note ⁽¹⁾: Exchange rate as at 31/12/2019: GBP 0.8508 = EUR 1

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 connection with 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 extortion 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 Board down. 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, 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, 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.

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.

The institution also has a communication channel that is easily accessible all employees, where they can make queries, suggestions or complaints, even anonymously. The institution's Corporate Ethics Committee is informed of the how all such communications are handled and their outcome.

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

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.

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 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 had 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 was taught in more than 400 schools, and Banco Sabadell 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.

The awards are among the most prestigious 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 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).

Noteworthy initiatives in this area include:

- 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 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 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 bank 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 the year,

other campaigns were 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 east coast 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 children's scholarships for children of families living below the poverty line. A total of 32,700 euros was raised.

Meanwhile, in 2019 the Corporate Ethics Committees of Sabadell Urquijo Cooperación, S.I.C.A.V., S.A. 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. A total of 447,172.19 euros were granted to charitable organisations and projects during the year.

In relation to housing management, the Bank 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 a storm in the Valencian Community in September, and it 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'.

Social integration

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 Emalca 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. Ten women volunteers with management profiles from the Bank 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 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.

Medical research and health

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 Barcelona Institute of Science and Technology (BIST), with which the Science

and Engineering Award has been awarded since 2017. It is also worth mentioning programmes such as “Intensificat 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.

Economic development

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.

Ethics and artificial intelligence

Banco Sabadell has sought to promote the ethical use of artificial intelligence in projects with social impact through the ‘We The Humans’ think tank. The Bank 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

6.2.1. Consumers



(SDG 5, SDG 8, SDG 13)

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.

	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

Suppliers.
Key figures.

Average time taken
to pay suppliers (days
payable outstanding)

30.86%

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.

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 FTS-E4Good 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)

Business model / Policies / Results of KPI policies

Area	Content	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	102-4	Location of operations
		DR 1.2 Business model, main objectives achieved and actions implemented		
		DR 1.1 Organisational structure	102-6	Markets served
		DR 1.2 Business model, main objectives achieved and actions implemented		
		DR 1.1 Organisational structure	102-7	Size of the organisation
		DR 1.2 Business model, main objectives achieved and actions implemented		
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, 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. CO ₂ emissions; 3.3. Sustainable use of resources; 6. Society.	103	Management approach disclosures for each area

Short-, medium- and long-term risks

Non-financial key performance indicators

Area	Content	Response/Section	GRI Standards	GRI Description
Short-, medium- and long-term risks	<p>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</p> <ul style="list-style-type: none"> * the way in which the Group manages these risks, * 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. * 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. 	<p>1.2. Risk assessment with ESG criteria;</p> <p>DR.4 Risks</p>	102-15	Key impacts, risks and opportunities
Non-financial key performance indicators	Relevant indicators in relation to the existing corporate diversity and which meet comparability, materiality, significance and reliability criteria.	<p>1.1 Sustainable finance:</p> <p>(1.1.1. Financing and investment in sustainable projects;</p> <p>1.1.2. Financing solutions;</p> <p>1.1.3. Sustainable bonds, 1.1.4. Ethical and charitable investing)</p> <p>1.2. Risk assessment with ESG criteria;</p> <p>3.1. CO₂ emissions;</p> <p>3.3. Sustainable use of resources;</p> <p>6.1.1. Commitment to education.</p>	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)

Environmental matters

Area	Content	Response/Section	GRI Standards	GRI Description
Environmental 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;	3. Environment (introduction)	103	Management approach disclosures for each area
	2.) Resources dedicated to environmental risk prevention;	3. Environment (introduction)	102-11	Precautionary principle or approach
	3.) Application of the precautionary principle, the amount of provisions and guarantees for environmental risks.	1.2. Risk assessment with ESG criteria; 3.1. CO ₂ emissions; 3.3. Sustainable use of resources.		
	Pollution			
	1.) Measures to prevent, reduce or remedy carbon emissions that severely affect the environment;	3.1. CO ₂ emissions; 3.3. Sustainable use of resources.	103	Management approach disclosures – Emissions
	2.) Taking into account any form of atmospheric pollution caused by a specific activity, including noise and light pollution.			
	Circular economy and waste management & prevention			
	Waste: Measures on the prevention, recycling, reuse and other forms of recovery and disposal of waste;	3.1. CO ₂ emissions; 3.2. Circular economy and waste management and prevention; 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

Environmental matters

Area	Content	Response/Section	GRI Standards	GRI Description
Environmental 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. CO ₂ emissions;	103	Management approach disclosures –Emissions
		3.1. CO ₂ emissions;	305-1	Direct emissions of GHG (scope 1)
		3.1. CO ₂ emissions;	305-2	Indirect emissions Energy indirect GHG emissions (scope 2).
		3.1. CO ₂ emissions;	305-3	Other indirect GHG emissions (scope 3)
		3.1. CO ₂ emissions;	305-4	GHG emissions intensity
		3.1. CO ₂ emissions;	305-5	Reduction of GHG emissions
	The measures adopted to adapt to the consequences of climate change;	3.1. CO ₂ 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); 3.1. CO ₂ emissions; 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

Corporate and staff related matters

Area	Content	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; 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; 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

Corporate and staff related matters

Area	Content	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. Disabled persons	405-1	Diversity of governance bodies and employees
	Organisation of working hours	2.5. Workplace environment and organisation 2.5.1. Work-life balance 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

Corporate and staff related matters

Area	Content	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. Disabled persons	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	103	Management approach disclosures – Diversity and equal opportunity + Non-discrimination
	Policy against all forms of discrimination and, where applicable, gender diversity management.	2.3.1. Gender	103	Management approach disclosures – Diversity and equal opportunity + Non-discrimination

Human rights

Area	Content	Response/Section	GRI Standards	GRI Description
Human rights	Application of due diligence procedures in relation to human rights	4. Information regarding human rights	103	Human rights screening + Freedom of association and collective bargaining + Child labour + Forced or compulsory labour
		4. Information regarding human rights 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	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 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

Corruption and bribery

Area	Content	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 1.1.4 Ethical and charitable investment 1.1.5 Social housing management	408-1	Activities involving the local community, impact assessments and development schemes

Area	Content	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	103	Management approach disclosures – Local communities + Indirect economic impacts
		6.1.1. Commitment to education		
		6.1.2. Solidarity		
		1.1.5. Social housing management	203-1	Infrastructure investments and services supported.
		6.1.1. Commitment to education		
		6.1.2. Solidarity		
		1.1.5. Social housing management	203-2	Significant indirect economic impacts
		6.1.1. Commitment to education		
		6.1.2. Solidarity		
		1.1.5. Social housing management	413-1	Activities involving the local community, impact assessments and development schemes
		6.1.1. Commitment to education		
		6.1.2. Solidarity		
SOCIETY	The impact of the company's activities on local communities and in the area	1.1.5. Social housing management	203-1	Infrastructure investments and services supported
		6.1.1. Commitment to education		
		6.1.2. Solidarity		
		1.1.5. Social housing management	413-1	Activities involving the local community, impact assessments and development schemes
		6.1.1. Commitment to education		
		6.1.2. Solidarity		
	The relationships with key members of local communities and the different forms of dialogue with the same	1.1.5. Social housing management	102-43	Approaches to encourage the involvement of stakeholders
		6.1.1. Commitment to education		
		6.1.2. Solidarity		
		1.1.5. Social housing management	413-1	Activities involving the local community, impact assessments and development schemes
		6.1.1. Commitment to education		
		6.1.2. Solidarity		
	Association and sponsorship activities	6.1.1. Commitment to education	102-12	External initiatives
		6.1.2. Solidarity		
		Annex 1. Corporate standards and institutional commitments		
		6.1.1. Commitment to education	102-13	Membership of associations
		6.1.2. Solidarity; Annex 1. Corporate standards and institutional commitments		

Society

Area	Content	Response/Section	GRI Standards	GRI Description
Society	Outsourcing and suppliers			
	* Inclusion in the procurement policy of social, gender equality and environmental matters;	6.2.2. Outsourcing and suppliers	102-9	Supply chain
	* Consideration in relationships with suppliers and subcontractors of their social and environmental responsibilities;	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. 1.4.2 Digitalisation 6.1.1. Commitment to education	103	Customer health and safety + Marketing and labelling + Customer privacy
	Whistle-blowing systems, complaints received and their resolution.	6.2.1. Consumers 1.5 The customer Consolidated Annual Financial Statements, Note 42	103	Customer health and safety + Marketing and labelling + Customer privacy
	Tax information			
	Country-by-country earnings obtained	1.3. Tax information	103	Economic performance + Quantitative data on taxes and earnings
	Corporate income tax paid	1.3. Tax information	103	Economic performance + Quantitative data on taxes and earnings
	Public subsidies received	1.3. Tax information	201-4	Financial assistance received from government

**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

Annual Corporate Governance Report





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
[v] 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
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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.

[v] 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

[v] 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

[v] 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

[v] 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

[v] 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
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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

		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. 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'Economia 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 acknowledged commercial and professional fitness, have suitable knowledge and experience to perform the duties of the office, and be willing to exercise good governance of the Bank. In particular, they must have proven experience in the financial sector and/or in senior management functions, have sufficient technical training in the fields of finance and/or business management and administration for the performance of the executive functions inherent to their position, and they must accredit a professional career that demonstrates leadership and/or entrepreneurship, in addition to meeting the conditions of suitability required of a director of a credit institution in accordance with the applicable regulations.

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.

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
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Number of Board meetings held without the chairman	
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Indicate the number of meetings held by the lead director with the other directors, without any executive director being present.

Number of meetings	2
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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, AND DIRECTOR-SECRETARY GENERAL, DIRECTOR - CHIEF RISK OFFICER, OTHER BENEFICIARIES	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

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, policies 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 determination 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. María Teresa García-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, CSRRB 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 scheduled meeting; any actions they take must be reported to the next meeting; (x) approving special analysis files arising from court orders; and (xi) approving reports regarding material information on possible breaches of the law for the prevention of money laundering and terrorist financing that have been communicated by the bank's employees, executives or agents, including anonymous reports.

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 ☒ 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 ☒

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 ☒ 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 ☒ 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 ☒ 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.

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
[v] 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

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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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