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

Consolidated financial statements and
consolidated directors' report
for the year ended 31 December 2020

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Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2020 and 2019

Thousand euro

Assets	Note	2020	2019 (*)
Cash, cash balances at central banks and other demand deposits (**)	7	**35,184,902**	**15,169,202**
Financial assets held for trading		**2,678,836**	**2,440,866**
Derivatives	10	2,364,595	1,840,245
Equity instruments	9	1,115	3,701
Debt securities	8	313,126	596,920
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		*15,792*	*38,709*
Non-trading financial assets mandatorily at fair value through profit or loss		**114,198**	**171,056**
Equity instruments		12,516	-
Debt securities	8	101,682	171,056
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		-	-
Financial assets designated at fair value through profit or loss		**-**	**-**
Debt securities		-	-
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		-	-
Financial assets at fair value through other comprehensive income		**6,676,801**	**7,802,025**
Equity instruments	9	169,983	212,074
Debt securities	8	6,506,818	7,589,951
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		*1,091,719*	*1,179,026*
Financial assets at amortised cost		**174,488,258**	**181,422,646**
Debt securities	8	18,091,189	19,218,721
Loans and advances	11	156,397,069	162,203,925
Central banks		134,505	112,923
Credit institutions		7,079,088	14,275,501
Customers		149,183,476	147,815,501
Memorandum item: loaned or pledged as security with sale or pledging rights		*4,950,813*	*5,133,513*
Derivatives – Hedge accounting	12	**549,550**	**468,516**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**458,849**	**249,552**
Investments in joint ventures and associates	14	**779,859**	**733,930**
Joint ventures		-	-
Associates		779,859	733,930
Assets under insurance or reinsurance contracts		**-**	**-**
Tangible assets	15	**3,200,379**	**3,462,399**
Property, plant and equipment		2,852,287	2,947,770
For own use		2,579,002	2,638,484
Leased out under operating leases		273,285	309,286
Investment properties		348,092	514,629
Of which: leased out under operating leases		*348,092*	*514,629*
Memorandum item: acquired through finance leases		*1,007,727*	*1,078,240*
Intangible assets	16	**2,596,083**	**2,564,983**
Goodwill		1,026,105	1,031,824
Other intangible assets		1,569,978	1,533,159
Tax assets		**7,151,681**	**7,008,327**
Current tax assets		506,943	492,395
Deferred tax assets	39	6,644,738	6,515,932
Other assets	17	**908,356**	**1,495,936**
Insurance contracts linked to pensions		133,757	133,960
Inventories		194,264	868,577
Rest of other assets		580,335	493,399
Non-current assets and disposal groups classified as held for sale	13	**975,540**	**764,203**
TOTAL ASSETS		235,763,292	223,753,641

(*) Shown for comparative purposes only.

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

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated balance sheet as at 31 December 2020.

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2020 and 2019

Thousand euro

Liabilities	Note	2020	2019 (*)
Financial liabilities held for trading		**2,653,849**	**2,714,365**
Derivatives	10	2,437,919	1,842,553
Short positions		215,930	871,812
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss		**-**	**-**
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Memorandum item: subordinated liabilities		-	-
Financial liabilities at amortised cost		**217,390,766**	**205,636,018**
Deposits		193,234,442	178,898,181
Central banks	18	31,881,351	20,064,641
Credit institutions	18	10,083,381	11,471,187
Customers	19	151,269,710	147,362,353
Debt securities issued	20	20,413,398	22,569,896
Other financial liabilities	21	3,742,926	4,167,941
Memorandum item: subordinated liabilities		*2,923,190*	*3,088,538*
Derivatives – Hedge accounting	**12**	**782,657**	**728,769**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**371,642**	**234,537**
Liabilities under insurance or reinsurance contracts		**-**	**-**
Provisions	**22**	**983,512**	**430,434**
Pensions and other post employment defined benefit obligations		99,690	99,346
Other long term employee benefits		3,971	6,938
Pending legal issues and tax litigation		114,097	66,889
Commitments and guarantees given		195,879	110,746
Other provisions		569,875	146,515
Tax liabilities		**206,206**	**240,803**
Current tax liabilities		39,689	42,637
Deferred tax liabilities	39	166,517	198,166
Share capital repayable on demand		**-**	**-**
Other liabilities		**883,022**	**784,154**
Liabilities included in disposal groups classified as held for sale	**13**	**-**	**10,155**
TOTAL LIABILITIES		223,271,654	210,779,235

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated balance sheet as at 31 December 2020.

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2020 and 2019

Thousand euro

Equity	Note	2020	2019 (*)
Shareholders' equity	23	12,943,594	13,171,806
Capital		703,371	703,371
Paid up capital		703,371	703,371
Unpaid capital which has been called up		-	-
Memorandum item: capital not called up		-	-
Share premium		7,899,227	7,899,227
Equity instruments issued other than capital		-	-
Equity component of compound financial instruments		-	-
Other equity instruments issued		-	-
Other equity		20,273	39,742
Retained earnings		5,444,622	4,858,681
Revaluation reserves		-	-
Other reserves		(1,088,384)	(977,687)
Reserves or accumulated losses of investments in joint ventures and associates		264,484	223,975
Other		(1,352,868)	(1,201,662)
(-) Treasury shares		(37,517)	(8,533)
Profit or loss attributable to owners of the parent		2,002	767,822
(-) Interim dividends		-	(110,817)
Accumulated other comprehensive income	24	(523,590)	(266,746)
Items that will not be reclassified to profit or loss		(64,419)	(44,677)
Actuarial gains or (-) losses on defined benefit pension plans		(693)	(2,361)
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		(63,726)	(42,316)
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		-	-
Items that may be reclassified to profit or loss		(459,171)	(222,069)
Hedge of net investments in foreign operations [effective portion]		211,841	114,237
Foreign currency translation		(737,073)	(445,169)
Hedging derivatives. Cash flow hedges reserve [effective portion]		39,798	89,845
Fair value changes of debt instruments measured at fair value through other comprehensive income		(871)	(2,137)
Hedging instruments [not designated elements]		-	-
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		27,134	21,155
Non-controlling interests	25	71,634	69,346
Accumulated other comprehensive income		541	242
Other items		71,093	69,104
TOTAL EQUITY		12,491,638	12,974,406
TOTAL EQUITY AND TOTAL LIABIITIES		235,763,292	223,753,641

Memorandum item: off-balance sheet exposures			
Loan commitments given	26	29,295,155	27,563,836
Financial guarantees provided	26	2,035,638	2,107,412
Other commitments provided	26	7,594,720	10,398,913

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated balance sheet as at 31 December 2020.

Consolidated income statements of Banco Sabadell Group

For the years ended 31 December 2020 and 2019

Thousand euro

	Note	2020	2019 (*)
Interest income	28	4,323,802	4,984,891
Financial assets at fair value through other comprehensive income		63,095	119,888
Financial assets at amortised cost		3,924,913	4,429,106
Other interest income		335,794	435,897
(Interest expenses)	28	(924,686)	(1,362,495)
(Expenses on share capital repayable on demand)		-	-
Net interest income		**3,399,116**	**3,622,396**
Dividend income		1,018	4,516
Profit or loss of entities accounted for using the equity method	14	35,926	56,427
Fee and commission income	29	1,538,377	1,628,892
(Fee and commission expenses)	29	(188,049)	(190,151)
Gains or (-) losses on financial assets and liabilities, net	30	1,226,417	37,947
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		782,143	152,483
Financial assets at amortised cost		728,200	65,277
Other financial assets and liabilities		53,943	87,206
Gains or (-) losses on financial assets and liabilities held for trading, net		444,354	(111,151)
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		444,354	(111,151)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		(9,544)	(2,470)
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		(9,544)	(2,470)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		-	-
Gains or (-) losses from hedge accounting, net		9,464	(915)
Exchange differences [gain or (-) loss], net		(426,777)	88,309
Other operating income	31	225,220	234,240
(Other operating expenses)	32	(509,093)	(550,822)
Income from assets under insurance or reinsurance contracts		-	-
(Expenses on liabilities under insurance or reinsurance contracts)		-	-
Gross income		**5,302,155**	**4,931,754**

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated profit and loss account for 2020.

Consolidated income statements of Banco Sabadell Group

For the years ended 31 December 2020 and 2019

Thousand euro

	Note	2020	2019 (*)
(Administrative expenses)		(2,938,134)	(2,743,459)
(Staff expenses)	33	(1,884,576)	(1,648,836)
(Other administrative expenses)	33	(1,053,558)	(1,094,623)
(Depreciation and amortisation)	15, 16	(523,247)	(469,656)
(Provisions or (-) reversal of provisions)	22	(275,408)	(26,595)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	34	(1,745,014)	(667,025)
(Financial assets at fair value through other comprehensive income)		288	3,748
(Financial assets at amortised cost)		(1,745,302)	(670,773)
Profit/(loss) on operating activities		**(179,648)**	**1,025,019**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)		(495)	6,605
(Impairment or (-) reversal of impairment on non-financial assets)	35	(40,401)	(86,236)
(Tangible assets)		7,692	4,717
(Intangible assets)		(2,025)	(6,964)
(Other)		(46,068)	(83,989)
Gains or (-) losses on derecognition of non-financial assets, net	36	(2,867)	41,357
Negative goodwill recognised in profit or loss		-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	37	102,582	(35,668)
Profit or (-) loss before tax from continuing operations		**(120,829)**	**951,077**
(Tax expense or (-) income related to profit or loss from continuing operations)	39	123,839	(174,199)
Profit or (-) loss after tax from continuing operations		**3,010**	**776,878**
Profit or (-) loss after tax from discontinued operations		-	-
Profit or loss for the year		**3,010**	**776,878**
Attributable to minority interest [non-controlling interests]	25	1,008	9,056
Attributable to owners of the parent		2,002	767,822
Earnings (or loss) per share (euros)	**3**	**(0.01)**	**0.13**
Basic (in euro)		(0.01)	0.13
Diluted (in euro)		(0.01)	0.13

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated profit and loss account for 2020.

Consolidated statements of changes in equity of Banco Sabadell Group

Consolidated statements of recognised income and expenses

For the years ended 31 December 2020 and 2019

Thousand euro

	Note	2020	2019 (*)
Profit or loss for the year		**3,010**	**776,878**
Other comprehensive income	**24**	**(256,545)**	**224,848**
Items that will not be reclassified to profit or loss		(19,742)	7,888
Actuarial gains or (-) losses on defined benefit pension plans		2,383	(2,902)
Non-current assets and disposal groups held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		(17,986)	193
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		-	-
Income tax relating to items that will not be reclassified		(4,139)	10,597
Items that may be reclassified to profit or loss		(236,803)	216,960
Hedge of net investments in foreign operations [effective portion]		97,604	(98,793)
Valuation gains or (-) losses taken to equity		97,604	(98,793)
Transferred to profit or loss		-	-
Other reclassifications		-	-
Foreign currency translation		(291,902)	195,549
Translation gains or (-) losses taken to equity		(291,902)	195,549
Transferred to profit or loss		-	-
Other reclassifications		-	-
Cash flow hedges (effective portion)		(67,603)	122,152
Valuation gains or (-) losses taken to equity		69,626	77,343
Transferred to profit or loss		(137,951)	40,326
Transferred to initial carrying amount of hedged items		722	4,483
Other reclassifications		-	-
Hedging instruments [not designated elements]		-	-
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Debt instruments at fair value through other comprehensive income		1,392	28,654
Valuation gains or (-) losses taken to equity		170,382	205,422
Transferred to profit or loss		(168,990)	(176,768)
Other reclassifications		-	-
Non-current assets and disposal groups held for sale		-	-
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Share of other recognised income and expense of investments in joint ventures and associates		5,976	13,721
Income tax relating to items that may be reclassified to profit or (-) loss		17,730	(44,323)
Total comprehensive income for the year		**(253,535)**	**1,001,726**
Attributable to minority interest [non-controlling interests]		1,307	9,180
Attributable to owners of the parent		(254,842)	992,546

(*) Shown for comparative purposes only.

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

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated statement of changes in equity for 2020.

Consolidated statements of changes in equity of Banco Sabadell Group

Consolidated statements of total changes in equity

For the years ended 31 December 2020 and 2019

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Opening balance 31/12/2019	**703,371**	**7,899,227**	**-**	**39,742**	**4,858,681**	**-**	**(977,687)**	**(8,533)**	**767,822**	**(110,817)**	**(266,746)**	**242**	**69,104**	**12,974,406**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance 01/01/2020	**703,371**	**7,899,227**	**-**	**39,742**	**4,858,681**	**-**	**(977,687)**	**(8,533)**	**767,822**	**(110,817)**	**(266,746)**	**242**	**69,104**	**12,974,406**
Total comprehensive income for the period	-	-	-	-	-	-	-	-	2,002	-	(256,844)	299	1,008	(253,536)
Other changes in equity	-	-	-	(19,469)	585,941	-	(110,697)	(28,984)	(767,822)	110,817	-	-	981	(229,233)
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or shareholder remuneration) (*)	-	-	-	-	(112,539)	-	-	-	-	-	-	-	-	(112,539)
Purchase of treasury shares	-	-	-	-	-	-	-	(145,769)	-	-	-	-	-	(145,769)
Sale or cancellation of treasury shares	-	-	-	-	-	-	591	116,785	-	-	-	-	-	117,376
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	657,005	-	-	-	(767,822)	110,817	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	1,004	-	-	-	-	-	-	-	-	-	1,004
Other increase or (-) decrease in equity	-	-	-	(20,473)	41,475	-	(111,288)	-	-	-	-	-	981	(89,305)
Closing balance 31/12/2020	**703,371**	**7,899,227**	**-**	**20,273**	**5,444,622**	**-**	**(1,088,384)**	**(37,517)**	**2,002**	**-**	**(523,590)**	**541**	**71,093**	**12,491,638**

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

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated statement of changes in equity as at 31 December 2020.

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

Consolidated statements of changes in equity of Banco Sabadell Group

Consolidated statements of total changes in equity

For the years ended 31 December 2020 and 2019

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Opening balance 31/12/2018	**703,371**	**7,899,227**	**-**	**35,487**	**-**	**-**	**3,832,935**	**(143,452)**	**328,102**	**(110,739)**	**(491,470)**	**118**	**63,421**	**12,117,000**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance 01/01/2019	**703,371**	**7,899,227**	**-**	**35,487**	**-**	**-**	**3,832,935**	**(143,452)**	**328,102**	**(110,739)**	**(491,470)**	**118**	**63,421**	**12,117,000**
Total comprehensive income for the period	-	-	-	-	-	-	-	-	**767,822**	-	**224,724**	**124**	**9,056**	**1,001,726**
Other changes in equity	-	-	-	**4,255**	**4,858,681**	-	**(4,810,622)**	**134,919**	**(328,102)**	**(78)**	-	-	**(3,373)**	**(144,320)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or shareholder remuneration)	-	-	-	-	(56,270)	-	-	-	-	(110,817)	-	-	-	**(167,087)**
Purchase of treasury shares	-	-	-	-	-	-	-	(210,624)	-	-	-	-	-	**(210,624)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	(39,868)	345,543	-	-	-	-	-	**305,675**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	217,363	-	-	-	(328,102)	110,739	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	11,767	-	-	-	-	-	-	-	-	-	**11,767**
Other increase or (-) decrease in equity	-	-	-	(7,512)	4,697,588	-	(4,770,754)	-	-	-	-	-	(3,373)	**(84,051)**
Closing balance 31/12/2019	**703,371**	**7,899,227**	**-**	**39,742**	**4,858,681**	**-**	**(977,687)**	**(8,533)**	**767,822**	**(110,817)**	**(266,746)**	**242**	**69,104**	**12,974,406**

Shown for comparative purposes only.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated statement of changes in equity as at 31 December 2020.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2020 and 2019

Thousand euro

	Note	2020	2019 (*)
Cash flows from operating activities		**20,421,390**	**(10,395,460)**
Profit or loss for the year		3,010	776,878
Adjustments to obtain cash flows from operating activities		2,373,743	1,438,317
Depreciation and amortisation		523,247	469,656
Other adjustments		1,850,496	968,661
Net increase/decrease in operating assets		5,570,590	(11,821,101)
Financial assets held for trading		(237,970)	(395,901)
Non-trading financial assets mandatorily at fair value through profit or loss		56,859	(29,743)
Financial assets designated at fair value through profit or loss		-	-
Financial assets at fair value through other comprehensive income		1,105,368	5,479,518
Financial assets at amortised cost		4,301,447	(16,457,905)
Other operating assets		344,886	(417,070)
Net increase/decrease in operating liabilities		12,509,147	(522,824)
Financial liabilities held for trading		(60,517)	976,011
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities measured at amortised cost		11,903,622	(1,570,415)
Other operating liabilities		666,042	71,580
Income tax receipts or payments		(35,100)	(266,730)
Cash flows from investment activities		**237,644**	**2,232,503**
Payments		(706,336)	(793,531)
Tangible assets	15	(394,647)	(445,174)
Intangible assets	16	(288,371)	(333,321)
Investments in joint ventures and associates	14	(23,318)	(14,653)
Subsidiaries and other business units	Schedule I	-	(383)
Non-current assets and liabilities classified as held for sale		-	-
Other payments related to investment activities		-	-
Collections		943,980	3,026,034
Tangible assets	15, 36	189,957	252,844
Intangible assets		-	-
Investments in joint ventures and associates	14	70,106	114,615
Subsidiaries and other business units		-	-
Non-current assets and liabilities classified as held for sale		683,917	2,658,575
Other collections related to investment activities		-	-

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated cash flow statement for 2020.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2020 and 2019

Thousand euro

	Note	2020	2019 (*)
Cash flows from financing activities		**(460,482)**	**(261,814)**
Payments		(877,858)	(477,854)
Dividends		(112,539)	(56,270)
Subordinated liabilities		(424,600)	-
Amortisation of own equity instruments		-	-
Acquisition of own equity instruments		(145,769)	(210,624)
Other payments related to financing activities		(194,950)	(210,960)
Collections		417,376	216,040
Subordinated liabilities		300,000	-
Issuance of own equity instruments		-	-
Disposal of own equity instruments		117,376	216,040
Other collections related to financing activities		-	-
Effect of exchange rate fluctuations		**(182,852)**	**99,494**
Net increase (decrease) in cash and cash equivalents		**20,015,700**	**(8,325,277)**
Cash and cash equivalents at the beginning of the year	7	**15,169,202**	**23,494,479**
Cash and cash equivalents at the end of the year	7	**35,184,902**	**15,169,202**
Memorandum item			
CASH FLOWS CORRESPONDING TO:			
Interest received		4,426,825	4,939,689
Interest paid		(980,300)	(1,329,782)
Dividends received		1,018	4,516
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Cash	7	749,608	897,745
Cash equivalents in central banks	7	33,842,492	13,587,274
Other demand deposits	7	592,802	684,183
Other financial assets		-	-
Less: bank overdrafts repayable on demand		-	-
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		35,184,902	15,169,202
Of which: held by Group entities but which cannot be drawn by the Group		-	-

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated cash flow statement for 2020.

Note 1 – Activity, accounting policies and practices

1.1 Activity

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

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

1.2 Basis of presentation

The Group's consolidated annual financial statements for 2020 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union applicable at the end of 2020, taking into account Bank of Spain Circular 4/2017 of 27 November as well as other provisions of the financial reporting regulations applicable to the Group, in order to fairly present the Group's equity and consolidated financial situation as at 31 December 2020 and the results of its consolidated operations, changes in equity and cash flows in 2020.

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

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

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

Standards and interpretations issued by the International Accounting Standards Board (IASB) entering into force in 2020

During 2020 the following standards have entered into force and have been adopted by the European Union:

Standards	Titles
Amendments to IAS 1 and IAS 8	Definition of material
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (*)	Interest Rate Benchmark Reform (Phases 1 and 2)
Amendments to IFRS 3	Business combinations
Amendments to IFRS 16	Covid-19-related rent concessions

(*) The amendments corresponding to Phase 2 have been approved for implementation in the EU after the year 2020, but the Group has opted to implement it ahead of time, in 2020.

Amendments to IAS 1 and IAS 8 “Definition of material”

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform (Phases 1 and 2)”

The Phase 1 amendments aim to ensure that companies can continue providing useful information during the period of uncertainty arising from the phased replacement of interest rate benchmarks, in particular interbank offered rates (IBORs).

In accordance with the foregoing, some specific hedge accounting requirements have been amended to provide relief from the potential negative impacts of the benchmark rate reform which could mean that entities may have to discontinue their hedging relationships. These amendments allow entities to apply hedge accounting under the assumption that the benchmark rate on which the cash flows of hedging instruments and hedged items are based will not be affected by the uncertainty arising as a result of benchmark rate reform.

On the other hand, the Phase 2 amendments are intended to address the problems that affect financial information when changes are made to the cash flows of financial instruments or hedging relationships as a result of the IBOR reform. A summary of the main new features is set out below:

- As a practical solution, the amendment of financial assets, financial liabilities and lessees’ lease liabilities is permitted when required as a direct result of the IBOR reform, on an economically equivalent basis, recognised through a forward-looking update of the effective interest rate. If the amendment does not meet the requirements of the aforesaid practical solution, the general requirements of IFRS 9 and IFRS 16 should be applied.

- Additionally, specific temporary exceptions are made for accounting hedge relationships in circumstances where changes arise in hedged items and in hedging instruments as a result of the IBOR reform. The amendments allow the designation and documentation of a hedging relationship to be modified to reflect those changes, with no need to interrupt the hedging relationship or designate a new one. The permitted changes include redefining the hedged risk to refer to an alternative benchmark rate (whether specified contractually or not), modifying the description of the hedged item and the hedging instrument to reflect the alternative benchmark rate, as well as the description of how the effectiveness of the hedge will be evaluated. Furthermore, additional exceptions will be made for specific hedge accounting requirements if certain conditions are met.

The Group has chosen to apply the Phase 2 amendments early in 2020, applying them retrospectively to its hedging relationships.

In addition, the Group initially chose to apply IAS 39 to the hedging relationships, so the IFRS 9 amendments in this regard are not applicable.

The impact of these amendments on hedging relationships in Spain has not been significant. Most hedging relationships in Spain are based on Euribor, which has not been replaced but has simply been modified in terms of its calculation methodology and, as such, the entry into force of this regulation has not had a significant impact on these hedging relationships.

For its part, during the 2020 financial year, TSB began replacing interest rate swaps (IRS) indexed to the London Interbank Offered Rate (LIBOR) with equivalent instruments indexed to SONIA. The Phase 2 amendments permit continuation of the hedging relationship with IRS indexed to SONIA, as the replacement is carried out as a result of the IBOR reform and the IRSs indexed to SONIA are economically equivalent to the original IRSs linked to LIBOR. During 2020, TSB has amended the terms of certain fixed income instruments in the amount of GBP 500 million, for which interest was calculated using LIBOR until September 2020, whereupon the SONIA reference rate was applied instead. In addition, TSB has replaced LIBOR-indexed IRSs with a notional of GBP 1,518 million with IRSs indexed to SONIA. The remaining LIBOR-indexed IRSs have a notional of GBP 25,981 million, of which GBP 8,188 million correspond to hedging derivatives, and these will be replaced during the 2021 financial year. At the present time, the Group is evaluating the changes that will need to be made to these instruments, having assumed that the modification of LIBOR as their applicable benchmark rate will not have an impact on the hedging relationship.

Amendments to IFRS 3 “Business combinations”

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

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

Amendments to IFRS 16 "COVID-19-related rent concessions"

These amendments introduce a practical expedient to simplify how lessees should account for any rent concessions received as a result of COVID-19, such as rent waivers or reductions, allowing these concessions to be accounted for in the same way as they would if they were not lease modifications. The practical expedient will only apply to COVID-19-related concessions that entail a reduction in lease payments due on or before 30 June 2021. These amendments do not affect how lessors should account for any rent concessions.

Standards and interpretations issued by the IASB not yet in force

As at 31 December 2020, the most significant standards and interpretations for the Group that have been published by the IASB but which have not been applied when preparing these consolidated annual financial statements, either because their effective date is subsequent to the date thereof or because they have not yet been endorsed by the European Union, are as follows:

Standards and Interpretations	Title	Mandatory for years beginning:
Approved for application in the EU		
Amendments to IFRS 4	Temporary exemption from applying IFRS 9	1 January 2021
Not approved for application in the EU		
Amendments to IAS 16, IAS 37 and IFRS 3 and annual improvements to IFRS 2018-20	Narrow-scope amendments	1 January 2022
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1	Presentation of financial statements: classification of liabilities as current or non-current	1 January 2023

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

Approved for implementation in the EU

Amendments to IFRS 4 "Extension of the temporary exemption to apply IFRS 9"

These amendments of the previous Standard on insurance contracts, IFRS 4, allow insurers to opt to defer the first application of IFRS 9 "Financial instruments" to 1 January 2023.

Not approved for their implementation in the EU

Narrow-scope amendments to IAS 16, IAS 37 and IFRS 3 and annual improvements to IFRS 2018-20

On one hand, these are amendments made in relation to proceeds received before the intended use of an asset governed by IAS 16 "Property, plant and equipment", the cost of fulfilling an onerous contract pursuant to IAS 37 "Provisions" and references made in IFRS 3 "Business combinations" to the Conceptual Framework for Financial Reporting. The annual improvements to IFRS 2018-20 have also entailed making minor amendments to IFRS 1 "First-time adoption of IFRS", IFRS 9 "Financial instruments", IFRS 16 "Leases" and IAS 41 "Agriculture".

IFRS 17 "Insurance contracts"

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

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

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

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

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

Furthermore, in 2020 some amendments to IFRS 17 were incorporated with the aim of reducing implementation costs, by simplifying the requirements of this Standard, and to simplify the explanations required in relation to the operating results of entities and ease transition to this new Standard, by deferring the effective date of its introduction to 1 January 2023 and by reducing the requirements to apply the Standard for the first time.

The insurance undertakings associated with the Group are working on the implementation of the new regulatory framework for insurance contracts arising from IFRS 17.

Amendments to IAS 1 "Presentation of financial statements: classification of liabilities as current or non-current"

These amendments are designed to make clear how institutions should classify debts and other liabilities as current and non-current, in particular liabilities with no fixed maturity and those that may be converted to equity. The early application of these amendments is permitted.

Impacts arising from COVID-19

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

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

Spain

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

Statutory and sector moratoria

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

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

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

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

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

The Group's subsidiary Sabadell Consumer Finance, S.A.U. has signed up to the sector moratorium agreement of 27 April 2020, arranged by the National Association of Specialised Lending Institutions (*Asociación Nacional de Establecimientos Financieros de Crédito*, or ASNEF), whose beneficiaries, moratorium periods and duration are similar to those of the sector moratorium arranged by the AEB. This sector moratorium was modified on 21 December 2020 under terms similar to those incorporated on 14 December 2020 in the AEB sector agreement.

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

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

COVID-19 ICO-guaranteed loans

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

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

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

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

Support measures for customers

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

United Kingdom

A series of government and regulatory measures have been put in place in the UK to support the economy and protect customers affected by COVID-19, including plans to protect employees and self-employed workers, the establishment of payment holidays and government-backed loans, among other things.

Payment holidays

In March and April 2020, the Financial Conduct Authority (FCA) published guidelines requiring banks to offer customers experiencing temporary payment difficulties due to COVID-19 a three-month payment holiday of capital and interest on mortgage loans, unsecured loans and credit card debt. At the end of the payment holiday period, entities and customers should agree how they intend to repay the remaining instalments, including interest, generally by increasing the remaining monthly instalments or by extending the term of the loan. Furthermore, repossessions of mortgaged properties were stopped during the payment holiday period.

In June 2020, the FCA updated its guidelines in relation to mortgage loans, allowing customers who had received a payment holiday but who were still struggling financially to have their payment holiday extended by a further three months. The period for applying for a payment holiday and the ban on lender repossessions of mortgaged properties were also extended to 31 October 2020.

In November 2020, as a result of the announcement concerning new restrictions imposed by the UK Government in response to the second wave of COVID-19, the FCA once again updated its guidance concerning mortgages and consumer loans, allowing customers who had already received a three-month payment holiday to apply for an additional payment holiday of up to three additional months and those who had not already requested a payment holiday to sign up for two consecutive payment holidays for a total maximum six-month duration. In addition, the deadline for payment holiday applications was extended to 31 March 2021 and the ban on lender repossessions of mortgaged properties and mortgage-backed assets was extended to 31 January 2021.

State guarantees channelled through the banking industry

- Coronavirus Business Interruption Loan Scheme (CBILS)

  SMEs with an annual turnover of less than 45 million pounds can submit an application to participating lenders for up to 5 million pounds in loans, overdrafts, invoice finance facilities and asset finance facilities, with a maximum term of 6 years. The UK government guarantees 80% of each loan and pays interest and any fees for the first 12 months. Additionally, TSB offers customers arranged overdrafts under CBILS terms. In September 2020, under the Winter Economy Plan to support the economy, the maximum term of the guarantee was extended to 10 years.

- Bounce Back Loan Scheme (BBLS)

  This is an accelerated loan scheme for SMEs that allows them to apply for loans of between 2,000 and 50,000 pounds, capped at 25% of their turnover. The UK government provides a full (100%) guarantee and pays interest for the first 12 months, with a grace period of 12 months. The interest rate of these transactions after that 12-month period will be 2.5% per annum. In September 2020, under the Winter Economy Plan to support the economy, the term of bounce back loans may be extended from 6 to 10 years and, for a period of up to six months, may repay on an interest-only basis or may suspend repayments in full.

Support measures for customers

The subsidiary TSB Bank plc (TSB) has supported retail customers and companies by applying the measures established by the UK regulator, offering interest-free overdrafts or refunds of any overdraft interest charged, as well as a series of improvements in its customer care service.

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

Details of how COVID-19 has affected the main risks to which the Group is exposed are provided in Note 4 to these consolidated annual financial statements.

Best judgement and estimates

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

The main judgements and estimates relate to the following:

- The determination of the business models under which financial assets are managed (see Notes 1.3.3, 8 and 11).

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

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

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

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

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

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

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

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

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

- The duration of lease contracts and the discount rate used in the valuation of the lease liability (see notes 1.3.11 and 15).

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

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

1.3 Accounting principles and policies and measurement criteria

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

1.3.1 Consolidation principles

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

Subsidiaries

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

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

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

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

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

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

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

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

Joint ventures

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

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

The Group has not held investments in joint ventures during 2020.

Associates

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

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

Structured entities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.3.2 Business combinations

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

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

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

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

- the fair value of recognised assets and liabilities.

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

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

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

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

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

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

In general, all financial instruments are initially recognised at fair value (see definition in Note 6) which, unless evidence to the contrary is available, coincides with the transaction price. For financial instruments not recognised at fair value through profit or loss, the fair value is adjusted either by adding or deducting the transaction costs directly attributable to their acquisition or issue. In the case of financial instruments at fair value through profit or loss, the directly attributable transaction costs are recognised immediately in the consolidated income statement. As a general rule, conventional sales and purchases of financial assets are recognised in the Group's consolidated balance sheet using the settlement date.

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

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

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

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

- The characteristics of contractual cash flows from financial assets.

Business model

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

The business models used by the Group are indicated below:

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

- Sale of financial assets.

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

Characteristics of contractual cash flows of financial assets

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

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

- All other financial assets.

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

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

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

Portfolios of financial instruments classified for the purpose of their valuation

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

Financial assets at amortised cost

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

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

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

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

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

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

Financial assets at fair value through other comprehensive income

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

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

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

These financial assets primarily correspond to debt securities.

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss

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

This portfolio is in turn subdivided into:

- *Financial assets held for trading*

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

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

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

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

Financial liabilities held for trading

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

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

Financial liabilities designated at fair value through profit or loss

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

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

Financial liabilities measured at amortised cost

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

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

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

<u>Hybrid financial instruments</u>

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

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

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

The fair value of the Group's financial instruments as at 31 December 2020 and 2019 is indicated in Note 6.

1.3.4 Impairment of financial assets

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

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

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

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

<u>Debt instruments and off-balance sheet exposures</u>

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

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

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

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

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

Accounting classification on the basis of credit risk attributable to insolvency

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

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

Definition of classification categories

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

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

- Stage 2: this category includes all transactions which, although they do not meet the criteria to be classified individually as Stage 3 or a write-off, show significant increases in credit risk since initial recognition. Transactions with amounts more than 30 days past due are included in this category. Refinanced and restructured transactions classified in this category shall be classified into a lower risk category when they meet the criteria for such reclassification.

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

    - As a result of borrower default: transactions with any amount of overdue principal, interest or contractually agreed expenses more than 90 days past due, unless they should be classified as write-offs. This category also includes guarantees given if the guaranteed party has fallen into in arrears for the guaranteed transaction.

    - For reasons other than borrower default: transactions which are not classifiable as write-offs or Stage 3 as a result of borrower default, but for which there are reasonable doubts as to the likelihood of obtaining the estimated cash flows of the transaction, as well off-balance sheet exposures not classified as Stage 3 as a result of borrower default whose payment by the Group is likely and whose recovery is doubtful. Transactions that were classified as stage 3 as a result of borrower default will be reclassified at the normal risk category under special watch (stage 2) once they have passed a 3-month trial period at stage 3 for reasons other than borrower default.

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

- Write-off:

  The Group derecognises from the consolidated balance sheet transactions for which the possibility of full or partial recovery is concluded to be remote following an individual assessment. It also includes transactions which, despite not being in any of the previous situations, are undergoing a manifest and irreversible deterioration of their solvency.

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

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

Purchased or originated credit-impaired transactions

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

Transaction classification criteria

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

- Automatic criteria;
- Specific criteria for refinancing transactions; and
- Criteria based on indicators (triggers).

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

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

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

Individual assessment

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

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

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

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

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

For example:

- Stage 2 triggers:

    - Adverse changes in the financial situation, such as a significant increase in debt levels, sharp drops in turnover, or a significant tightening of operating margins.

    - Adverse changes in the economy or market indicators, such as a significant decline in share prices or a reduction in the price of debt issues. In the case of sovereign debt issues, price spreads with respect to the benchmark German bond (share premium) are also analysed.

    - Significant actual or expected downgrade of the internal credit rating assigned to the transaction or borrower, or a reduction in the behavioural score assigned during the internal credit risk monitoring process.

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

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

- Stage 3 triggers:

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

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

    - Increase in the borrower’s leverage ratios.

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

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

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

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

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

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

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

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

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

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

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

<u>Collective assessment</u>

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

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

- Systemic: macroeconomic characteristics shared by all exposures.

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

- Idiosyncratic: aspects specific to each transaction or borrower.

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

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

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

<u>Refinancing and restructuring operations</u>

Credit risk management policies and procedures applied by the Group ensure that borrowers are carefully monitored, identifying cases where provisions need to be allocated as there is evidence that their solvency is declining (see Note 4). To this end, the Group allocates loan loss provisions for the transactions that require them given the borrower's circumstances, before formally executing any refinancing/restructuring arrangements, which should be understood as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Modifications of financial assets

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

Measurement of allowances

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Multiple scenarios: in order to estimate expected losses, the Group applies different scenarios to identify the effect of the non-linearity of losses. To this end, the provisions required are estimated in the various different scenarios for which a probability of occurrence is established. Specifically, the Group has considered three macroeconomic scenarios: a baseline scenario, the most likely of all (60%), an alternative 1 scenario which considers the end of the pandemic (EA1) (15%) and an alternative 2 scenario which forecasts a further outbreak of COVID-19 (EA2) (25%). To carry out the forecasts of these scenarios, 5-year time horizons are used. The main variables considered are changes in GDP, the unemployment rate and house prices.

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

  Following COVID-19, low or negative interest rates will persist for longer, governments will place greater emphasis on prioritising national security and social stability above performance and efficiency, there will be more interventionism and the financial risks will be higher. Consequently, the potential for economic growth will be reduced.

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

  <u>Baseline scenario</u>

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

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

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

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

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

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

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

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

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

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

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

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

- The baseline scenario considers an orderly Brexit.

<u>Alternative scenario 1: End of the pandemic</u>

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

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

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

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

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

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

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

<u>Alternative scenario 2: Significant outbreaks of COVID-19 in 2021</u>

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

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

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

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

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

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

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

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

%

	SPAIN					United Kingdom				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
GDP growth										
Baseline scenario	7.2	4.5	2.0	1.5	1.4	6.1	5.8	1.5	1.4	1.4
Alternative scenario 1	10.6	5.6	2.5	1.9	1.6	9.3	6.7	1.7	1.6	1.6
Alternative scenario 2	3.0	1.7	2.0	1.8	1.6	3.5	4.9	1.3	1.4	1.4
Unemployment rate										
Baseline scenario	17.5	15.5	14.6	13.6	12.9	6.9	5.8	4.6	4.3	4.1
Alternative scenario 1	15.7	13.0	12.5	11.8	11.1	5.1	3.7	3.3	3.3	3.3
Alternative scenario 2	21.4	20.0	18.7	18.0	16.8	8.0	7.0	5.8	5.2	5.0
House price growth (*)										
Baseline scenario	0.0	4.5	3.5	3.5	3.0	-4.8	0.1	6.2	5.0	4.4
Alternative scenario 1	6.0	5.3	4.0	3.5	3.5	-2.6	2.2	4.6	5.0	4.4
Alternative scenario 2	-3.5	0.0	2.0	3.0	3.0	-5.3	-5.2	6.2	5.0	4.4

(*) For Spain, the price variation at year-end is calculated and, for the UK, the average price variation over the year is calculated.

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

In the Bank, macroeconomic scenarios have been incorporated into the impairment calculation model. For its part, the subsidiary TSB has introduced a number of adjustments to the results of its expected loss models (post-model adjustments or PMAs) in order to address situations where the results of the models are not sufficiently sensitive to the current economic conditions. The PMAs are fundamentally based on models whose methodology and results are subject to continuous monitoring.

The most significant PMAs reflect judgements made on risks related to mortgages where interest is paid on an interest-only basis, the ability of customers to service their loans in a higher interest rate scenario, and the estimation of discount rates used in the valuation of collateral. With respect to "interest-only" mortgages, PMAs are allocated to 4the various stages based on the relative proportion of risk-weighted assets.

TSB's expected loss models are still under development and it is anticipated that the proportion of allowances for impairment arising from PMAs will be reduced in the future.

The Group applies the criteria described below to calculate credit loss allowances.

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

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

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

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

12-month expected credit losses are defined as:

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

Where:

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

Lifetime expected credit losses are defined as:

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

Where:

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

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

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

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

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

Individual allowance estimates

The following must be estimated individually:

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

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

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

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

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

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

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

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

Collective allowance estimates

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

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

- The impairment estimation process takes all credit exposures into account. The Group recognises an impairment loss equal to the best estimate available from internal models, taking into account all of the relevant information which the Group holds on the existing conditions at the end of the reported period. For some types of exposures, including sovereign risk with general governments of European Union countries and countries classified as group 1 for country risk purposes in accordance with Bank of Spain Circular 4/2017, the Group does not use internal models. These exposures are considered to have negligible risk given that, based on the information available as at the date of signing off the consolidated annual financial statements, the impairment allowance that these exposures are estimated to require is not significant as long as they are not reclassified into Stage 3.

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

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

<table>
<tr><td></td><td colspan="4">Observed credit impairment since initial recognition</td></tr>
<tr><th>Credit risk category</th><th>Stage 1</th><th>Stage 2</th><th>Stage 3</th><th>Write-off</th></tr>
<tr><td rowspan="2">Criteria for classification into stages</td><td rowspan="2">Transactions in which there has been no significant increase in credit risk since initial recognition and which do not meet the requirements for classification into other categories</td><td rowspan="2">Transactions which show a significant increase in credit risk since initial recognition</td><td>Transactions whose full recovery is considered doubtful, even if no amounts are more than ninety days past due</td><td rowspan="2">Transactions whose possibility of recovery is considered remote due to a manifest and irreversible deterioration of the solvency of the transaction or the borrower</td></tr>
<tr><td>Transactions with amounts more than 90 days past due</td></tr>
<tr><td>Calculation of allowance</td><td>12-month expected credit loss</td><td colspan="2">Lifetime expected credit loss</td><td>Write-off from balance sheet and recognition of the loss in the income statement, at the carrying amount of the transaction</td></tr>
<tr><td>Accrual of interest</td><td colspan="2">Calculated by applying the effective interest rate to the gross carrying amount of the transaction</td><td>Calculated by applying the effective interest rate to the amortised cost (adjusted to account for any impairment allowances)</td><td>Not recognised in the income statement</td></tr>
<tr><td rowspan="3">Transactions included, by stage</td><td rowspan="3">Initial recognition</td><td>Transactions which show a significant increase in credit risk since initial recognition</td><td>Transactions classified as Stage 3 as a result of borrower arrears:
Amount of debt instruments with one or more amounts more than 90 days past due</td><td>Transactions whose possibility of recovery is considered remote</td></tr>
<tr><td>Forborne, refinanced and restructured transactions that do not meet the conditions for classification as Stage 3</td><td rowspan="2">Transactions classified as Stage 3 for reasons other than borrower arrears:
• Transactions with no amounts more than 90 days past due but whose full recovery is considered doubtful
• Forborne, refinanced and restructured transactions that do not meet the conditions for classification as Stage 2
• Purchased or originated credit-impaired (POCI) transactions</td><td rowspan="2">Transactions partially deemed to be irrecoverable even though debt collection rights have not yet been terminated (write-downs)</td></tr>
<tr><td>Transactions with amounts more than 30 days past due</td></tr>
</table>

<u>Guarantees</u>

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

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

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

- Real estate guarantees applied as first mortgage liens:
  - Completed buildings and completed component parts:
    - Housing units.
    - Offices, commercial premises and multi-purpose industrial buildings.
    - Other buildings, such as non-multi-purpose industrial buildings and hotels.
  - Urban land and regulated building land.
  - Other real estate.

- Collateral in the form of pledged financial instruments:

  - Cash deposits.

  - Equity instruments in listed entities and debt securities issued by creditworthy issuers.

- Other collateral:

  - Personal property received as collateral.

  - Subsequent mortgages on properties.

- Personal guarantees such that direct and joint liability to the customer falls to the new guarantors, who are persons or entities whose solvency is sufficiently verified to ensure the full redemption of the transaction under the terms set forth.

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

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

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

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

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

Backtesting of allowances for loan losses and real estate asset impairment

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

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

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

Investments in joint ventures and associates

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

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

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

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

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

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

1.3.5 Hedging transactions

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

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

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

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

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

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

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

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

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

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

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

- Measurement differences in hedging instruments relating to the ineffective portion of cash flow hedges and net investments in foreign operations are recognised under the heading *"Gains or (-) losses on financial assets and liabilities, net*" of the consolidated income statement.

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

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

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

1.3.6 Financial guarantees

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

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

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

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

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

1.3.7 Transfers and derecognition of financial instruments from the balance sheet

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

Note 4 provides details of asset transfers in effect at the end of 2020 and 2019, indicating those that did not involve the derecognition of the asset from the consolidated balance sheet.

1.3.8 Offsetting of financial instruments

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

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

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

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

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

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

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

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

The appraisal value of real estate assets recognised in this heading is obtained following the policies and criteria described in the section entitled "Guarantees" in Note 1.3.4. The main appraisal firms and agencies used to obtain market values are listed in Note 6.
Gains and losses arising from the disposal of assets and liabilities classified non-current assets or liabilities held for sale, as well as impairment losses and their reversal, where applicable, are recognised under the heading "*Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations*" in the consolidated income statement. The remaining income and expenses relating to these assets and liabilities are disclosed based on their nature.

Discontinued operations are components of the Institution that have been disposed of or classified as held for sale and which (i) represent a business line or region that is significant and separate from the rest or is part of a single coordinated plan to dispose of that business or region, or (ii) are subsidiaries acquired solely in order to be resold. Income and expenses of any kind generated by discontinued operations during the year, including those generated before they were classified as discontinued operations, are presented net of the tax effect as a single amount under the heading *"Profit or (-) loss after tax from discontinued operations"* in the consolidated income statement, regardless of whether the business has been derecognised from or remains on the asset side of the balance sheet as at year-end. This heading also includes the profit or loss obtained from their sale or disposal.

1.3.10 Tangible assets

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

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

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

The annual depreciation charge on tangible assets is reflected in the consolidated income statement and calculated based on the estimated remaining years of useful life, on average, of the different groups of items:

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

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

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

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

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

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

1.3.11 Leases

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

Leases in which the Group acts as lessee

The Group recognises, for leases in which it acts as lessee, which mostly correspond to lease contracts for real estate and office spaces linked to its operating activity, a right-of-use asset of the leased asset and a liability for payments outstanding at the date on which the leased asset was made available to the Group for use.
The lease term is the non-revocable period established in the contract, plus the periods covered by an extension option (if the exercise of that option by the lessee is reasonably certain) and the periods covered by a termination option (if the lessee is reasonably certain not to exercise that option).

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

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

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

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

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

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

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

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

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

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

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

Sale and leaseback

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

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

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

Leases in which the Group acts as lessor

Finance leases

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

Operating leases

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

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

1.3.12 Intangible assets

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

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

Goodwill

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

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

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

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

- Estimates of macroeconomic variables and other financial parameters.

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

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

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

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

Other intangible assets

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

These intangible assets have a finite useful life and are amortised based on their useful lives, applying similar criteria to those used for tangible assets. The useful life of brands and contractual rights arising from relationships with customers of the acquired businesses varies between 5 and 15 years, while for computer software the useful life ranges from 3 to 15 years. In particular, the sub-systems corresponding to the infrastructure, communications, architecture and corporate functions of the banking platforms used by Group entities to carry out their activity generally have a useful life of between 10 and 15 years, while the useful life of sub-systems corresponding to channels and data & analytics ranges from 7 to 10 years. The base platform implemented in 2018 that TSB uses to carry out its activity has a useful life of 15 years.

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

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

1.3.13 Inventories

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

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

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

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

For inventories comprising land and buildings, the net realisable value is calculated based on the appraisal carried out by an independent expert, entered in the Bank of Spain Special Register of Appraisal Firms and performed in accordance with the criteria established in Order ECO/805/2003 on rules for the appraisal of real estate and particular rights for specific financial purposes, which is then adjusted in line with the internal methodology developed by the Group, taking into account its experience in selling assets that are similar in terms of prices, the period during which each asset remains on the consolidated balance sheet and other explanatory factors.

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

1.3.14 Own equity instruments

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

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

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

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

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

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

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

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

1.3.15 Remuneration in equity instruments

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

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

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

1.3.16 Provisions, contingent assets and contingent liabilities

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

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

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

As set forth in IAS 37.92, if the disclosure of some or all of the information required regarding provisions and contingent liabilities can be expected to seriously undermine the position of the Group in disputes with third parties in relation to the situations that consider these provisions and contingent liabilities (such as those linked to litigation or arbitration issues), the Group can choose not to disclose this information.

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

1.3.17 Provisions for pensions

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

Defined contribution plans

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

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

Defined benefit plans

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

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

1. The pension plan

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

- Additional commitments due to early retirement, as set out in Article 43 of the Collective Bargaining Agreement.
- Disability or incapacity arising in certain circumstances.
- Widowhood and orphanhood benefits arising from the death of a retired member of staff who began their employment in the entity after 8 March 1980.

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

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

2. Insurance contracts

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

- Commitments that are expressly excluded from the Banco Sabadell employee pension plan (listed in the previous section).
- Serving employees covered by a collective bargaining agreement of Banco Atlántico.
- Pension commitments in respect of some serving employees not provided for under the collective bargaining agreement.
- Commitments towards employees on extended leave of absence who are not entitled to benefits under the Banco Sabadell employee pension plan.
- Commitments towards early retirees. These may be partly financed with benefits accrued under the Banco Sabadell employee pension plan.

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

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

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

4. Internal funds

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

Accounting record of defined benefit obligations

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

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

- They are not owned by the Group but by a legally separate third party not qualifying as a related party.

- They are available only to pay or fund employee benefits and are not available to creditors of the Group, even in the event of insolvency.

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

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

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

Pension commitments are recognised as follows:

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

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

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

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

Actuarial assumptions

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

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

In 2020 and 2019, the technical interest rate on all commitments has been determined by reference to the return on AA-rated corporate bonds (iBoxx € Corporates AA 10+), with an average duration of 12.60 years in 2020 and 12.50 years in 2019.

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

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

1.3.18 Foreign currency transactions and exchange differences

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

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

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

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

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

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

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

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

1.3.19 Recognition of income and expense

Interest income and expense and other similar items

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

Commissions, fees and similar items

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

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

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

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

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

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

Non-financial income and expense

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

Deferred payments and collections

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

Levies

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

Deposit guarantee schemes

The Bank is a member of the Deposit Guarantee Fund. In 2020, the Management Committee of the Deposit Guarantee Fund of Credit Institutions, in accordance with that established in Royal Decree Law 16/2011 and Royal Decree 2606/1996, set the contribution for all entities covered by the Fund's deposit guarantee at 0.18% of the amount of the deposits guaranteed as at 30 June 2020 (0.18% of the amount of deposits guaranteed as at 30 June 2018 in 2019). Each entity's contribution is calculated based on the amount of deposits guaranteed and its risk profile, taking into account indicators such as capital adequacy, asset quality and liquidity, which have been defined in Bank of Spain Circular 5/2016 of 27 May. Furthermore, the contribution to the securities guarantee offered by the Fund has been set at 0.2% of 5% of the amount of the securities guaranteed as at 31 December 2020 (0.2%f 5% of the amount of the securities guaranteed as at 31 December 2019 in 2019). In accordance with that set forth by IFRIC 21, the transaction is recognised whenever there is a payment obligation, recorded as at 31 December each year (see Note 32).

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

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

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

Single Resolution Fund

Law 11/2015 of 18 June, together with its implementing regulation through Royal Decree 1012/2015, entailed the transposition into Spanish law of Directive 2014/59/EU. This Directive established a new framework for the resolution of credit institutions and investment firms, and it is also one of the standards that have contributed to the establishment of the Single Resolution Mechanism, created through Regulation (EU) 806/2014. This regulation sets out standard rules and procedures for the resolution of credit institutions and investment firms within the framework of a Single Supervisory Mechanism and a Single Resolution Fund at European level.

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

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

1.3.20 Corporation tax

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

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

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

Deferred tax assets and deferred tax liabilities relate to taxes expected to be payable or recoverable arising from differences between the carrying amount of the assets and liabilities appearing in the financial statements and the related tax bases ("tax value"), as well as tax losses carried forward and unused tax credits that might be offset or applied in the future. They are calculated by applying to the relevant timing differences or tax credits the tax rate at which they are expected to be recovered or settled (see Note 39).

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

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

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

The "*Tax assets*" and "*Tax liabilities*" on the consolidated balance sheet include all tax assets and tax liabilities, differentiating between current tax assets/liabilities (to be recovered/paid in the next 12 months, for example, a corporation tax payment made to the tax authority (Hacienda Pública)) and deferred tax assets/liabilities (to be recovered/paid in future years).

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

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

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

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

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

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

1.3.21 Consolidated statement of changes in equity

Consolidated statement of recognised income and expenses

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

As such, this statement shows:

- Consolidated profit or loss for the year

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

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

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

  - Total consolidated recognised income and expenses, calculated as the sum of the two previous points, showing separately the amount allocated to the controlling entity and the amount corresponding to minority interest (non-controlling interests).

Consolidated statement of total changes in equity

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

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

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

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

1.3.22 Consolidated cash flow statement

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

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

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

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

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

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

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

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

1.4 Comparability

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

Note 2 – Banco Sabadell Group

Subsidiaries and associates as at 31 December 2020 and 2019 are listed in Schedule I, along with their registered offices, primary activities, the Bank’s percentage shareholding in each, key financial data and the consolidation method used (full consolidation or equity method) in each case.

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

The following section provides a description of the business combinations, acquisitions and sales or liquidations which are most representative of investments in the capital of other entities (subsidiaries and/or investments in associates) performed by the Group during 2020 and 2019. Schedule I also includes a detailed list of the companies consolidated for the first time and those no longer consolidated for each year.

Changes in the scope of consolidation in 2020

Additions to the scope of consolidation:

There were no significant additions to the scope of consolidation in 2020.

Exclusions from the scope of consolidation:

- On 21 January 2020, Banco Sabadell and Amundi Asset Management (Amundi) entered into a long-term strategic partnership to distribute Amundi products through the retail network of Banco Sabadell in Spain. The agreement included the sale of 100% of the share capital of Sabadell Asset Management, S.A., S.G.I.I.C, Sociedad Unipersonal (SabAM) for an amount of 430 million euros and an earn-out of up to 30 million euros, payable in 2024, depending on the assets under management pertaining to customers of Banco Sabadell on such date.

  As at the end of 2019, SabAM’s assets under management amounted to approximately 21.8 billion euros, excluding third party funds, and it earned net profit of 34 million euros (including, among other items, 65 million euros in net fee income and 17 million euros of operating and staff expenses). The sale of SabAM included its subsidiary Sabadell Asset Management Luxembourg, S.A. but did not include Sabadell Urquijo Gestión, S.A., S.G.I.I.C., Sociedad Unipersonal, which remains part of Banco Sabadell Group.

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

This transaction will generate a capital gain amounting to 349 million euros net of taxes for Banco Sabadell and will strengthen Banco Sabadell's capital position by adding 43 basis points to the fully-loaded Common Equity Tier 1 (CET1) ratio. Of this capital gain, 56 million euros (corresponding to 7 basis points of fully-loaded CET1) are subject to specific guarantees in effect over the length of the distribution agreement and will therefore be accrued proportionally over the 10 years after the transaction has been closed. The remaining amount of the capital gain, 293 million euros, has been recognised under the heading "*Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations*" of the income statement for the year 2020 (see Note 37).

- On 5 February 2019, the Bank began a competitive bidding process to sell 100% of the share capital of Solvia Desarrollos Inmobiliarios, S.L.U. (SDIn), together with a pool of plots and real estate developments managed by this company and owned by Banco Sabadell. SDIn is the result of the divestiture and transfer in share blocks of part of the equity of Solvia Servicios Inmobiliarios, S.L.U., a company engaging in the provision of real estate development services.
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  On 3 August, the Bank transferred 100% of the share capital of this investee company, together with the aforementioned plots and real estate developments, to an entity controlled by funds managed and/or advised by Oaktree Capital Management. The total amount of the transaction, referenced to the existing pool as at 1 January 2019, amounted to 882 million euros. As at 31 December 2019, the book value of assets subject to this transaction amounted to 824 million euros, of which 766 million euros were recognised under the "*Inventories*" heading of the consolidated balance sheet, being subject to closing the transaction and obtaining the necessary authorisations.

  The Bank, after obtaining the necessary authorisations, completed this transaction on 21 September 2020.

  The closing of this transaction has generated a capital gain of 8 million euros after tax, and it has strengthened the Bank's capital position by adding 5 basis points to the fully-loaded CET1 ratio. Including previous transactions involving the initially established asset pool, this transaction has generated an overall capital gain of 21 million euros after tax and has added 7 basis points of fully-loaded CET1.

With the exception of the transactions described above, there have been no significant changes in the scope of consolidation in 2020.

Changes in the scope of consolidation in 2019

Additions to the scope of consolidation:

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

Exclusions from the scope of consolidation:

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

  In addition, on 2 August 2019 Banco Sabadell reached an agreement to sell a portfolio of real estate assets called Rex to Cerberus. The overall net book value of the real estate assets involved in the transaction amounted to approximately 342 million euros as at the date of the agreement, while sale price was 314 million euros.

  On 20 December 2019, the Bank executed the transfer of the majority of the real estate assets included in these three portfolios to companies wholly owned by a subsidiary of Cerberus called Promontoria Challenger I, S.A., in which Cerberus holds an 80% interest and Banco Sabadell holds the remaining 20%, resulting in the derecognition of the aforesaid assets from the balance sheet of Banco Sabadell Group.

  The transferred real estate assets comprised approximately 46,000 units with a total gross book value of approximately 6,414 million euros; this amount did not include the assets that had been marketed and sold to third parties up to that date. At the end of 2019, the liquidation of the approximately 15,000 remaining real estate asset units, worth 1,149 million euros, was pending the possible exercise of pre-emptive rights.

The price of the transactions amounted to approximately 3,430 million euros. Upon closing the transactions, the application of certain contractual clauses to the entire portfolio of assets involved in the transactions required additional provisions of 52 million euros net of tax to be recognised in the consolidated income statement for 2019.

In addition, in the fourth quarter of 2019, 20 million euros net of tax were recognised in costs related to the assets being transferred but not attributable to the sale. The closing of these transactions contributed to improving the profitability of Banco Sabadell Group and added 16 basis points to Banco Sabadell's (fully-loaded) Common Equity Tier 1 capital ratio in the fourth quarter of 2019.

As at 2020 year-end, the Group had an account receivable with Cerberus amounting to 641 million euros in relation to this divestment, which matures in December 2021.

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

  The transaction price amounted to 241 million euros, which was in line with Solvia's share capital of 300 million euros.

  The transaction generated profit of 133 million euros and added 15 basis points to the fully-loaded Common Equity Tier 1 capital ratio.

With the exception of the transactions described above, there were no significant changes in the scope of consolidation in 2019.

Other significant transactions in 2020

On 28 March 2020, the Bank and BNP Paribas Securities Services S.C.A., Sucursal en España (BP2S) entered into an agreement by virtue of which BP2S has undertaken to acquire, subject to certain conditions, the institutional depositary business of Banco Sabadell for an amount of 115 million euros.

The agreement foresees additional collections after closing, subject to the achievement of certain objectives linked to the volume of the assets under deposit of BP2S and revenues from their fees.

As at 2020 year-end, Banco Sabadell's institutional depository business includes approximately 21 billion euros under deposit. The transaction is expected to close in the second quarter of 2021, once the relevant authorisations have been obtained.

The transaction will generate a net capital gain of 75 million euros, of which 58 million euros will be recognised upon closing (corresponding to 7 basis points of CET1), the remaining 17 million euros being accrued proportionally during the following financial years.

Other significant transactions in 2019

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

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

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

Asset Protection Scheme

As a result of the acquisition of Banco CAM on 1 June 2012, the Asset Protection Scheme (hereinafter, APS) envisaged in the protocol on financial assistance measures for the restructuring of Banco CAM came into force with retroactive effect from 31 July 2011. Under the scheme, which covers a specified portfolio of assets that had a gross value of 24,644 million euros as at 31 July 2011, the Deposit Guarantee Fund (hereinafter, DGF) bears 80% of the losses on the portfolio for a period of ten years, once impairment allowances in respect of those assets, which amounted to 3,882 million euros at the aforementioned date, have been fully applied.

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

Million euro

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

Movements in the balance drawn from the customer lending portfolio protected by the APS, from its entry into force until 31 December 2020, were as follows:

Million euro

Balance as at 31 July 2011	**18,460**
Acquisition of real estate assets	(7,892)
Collections and subrogation	(7,344)
Increase in write-offs	(2,076)
Credit drawdowns	354
Balance at 31 December 2020	**1,503**

Movements in the balance of the real estate asset portfolio protected by the APS, from its entry into force until 31 December 2020, were as follows:

Million euro

Balance as at 31 July 2011	**4,663**
Acquisition of real estate assets	6,000
Sales of real estate assets	(10,352)
Balance at 31 December 2020	**311**

The portfolio of assets protected by the APS as at 31 December 2020 breaks down as follows:

Million euro

	2020		2019	
	Balance	Provision	Balance	Provision
Loans and advances, guarantees and contingent liabilities	1,509	87	1,986	134
Of which, amount drawn not classified as Stage 3	*1,327*	*18*	1,625	12
Of which, amount drawn classified as Stage 3	*176*	*69*	355	122
Of which: commitments and guarantees not classified as Stage 3	*3*	-	3	-
Of which: commitments and guarantees classified as Stage 3	*3*	-	3	-
Real estate exposures	102	43	167	64
Non-current assets held for sale for which a transfer agreement has been reached	403	267	222	122
Of which loans and advances	*194*	*133*	-	-
Of which real estate exposure	*209*	*134*	222	122
Investments in joint ventures and associates	39	27	*39*	*27*
Write-offs	529	529	*513*	*513*
Total	**2,582**	**953**	**2,927**	***860***

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

%	2020
NPL ratio	11.87
NPL coverage ratio of Stage 3	48.63

Million euro	On Group balance sheet		*Of which, Stage 3*	
	Balance	Provision	*Balance*	*Provision*
Loans and advances - amount drawn	1,503	87	*176*	*69*
Of which, lending to construction and real estate development sector (business in Spain)	*218*	*37*	*68*	*31*
Total	**1,503**	**87**	***176***	***69***

For all of the losses that have been recognised in the accounts (those deriving from loan loss provisions, loan reductions, impairment allowances for real estate assets and losses on the disposal of these assets), the Group keeps an account receivable classed under the "*Financial assets at amortised cost – Loans and advances - Customers*" heading of the income statement, in order to reflect the right of collection from the DGF as a result of its guarantee. The cumulative value recorded as at 31 December 2020 amounts to 1,761 million euros (3,092 million euros as at 31 December 2019).

Note 3 – Shareholder remuneration and earnings per share

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

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

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

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

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

Earnings per share

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

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

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

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

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

Note 4 – Risk management

4.1 Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Brexit

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

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

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

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

4.2 Key milestones during the year

4.2.1 The Group's risk profile during the year

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

(i) Reduction of non-performing assets:

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

(ii) Lending performance

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

(iii) Concentration

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

(iv) Strong capital position:

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

(v) Sound liquidity position:

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

4.2.2 Strengthened credit risk management and control environment

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

Main solutions offered in Spain

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

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

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

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

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

Main solutions offered in the UK

In the UK, the main solutions offered to individuals have been payment holidays and arranged overdrafts. The main features are as follows:

- Government payment holidays for mortgages, personal loans and credit cards (see Note 1 section entitled "Impacts arising from COVID-19").

- Overdrafts: first 500 pounds of all arranged overdrafts interest and fee free. Interest rates have been temporarily reduced for all customers. Arrangements to remain in place for up to 3 months. They applied to all customers (no application needed) until 9 July. Between that date and 31 October customers could apply to benefit from these arrangements.

To date, TSB has granted around 114,000 payment holidays, amounting to 5.1 billion pounds. Additionally, TSB was one of the first banks to implement the UK government's schemes designed to provide support for businesses, and it has already granted more than 0.6 billion pounds worth of Bounce Bank Loans (BBLs).

4.3 General principles of risk management

Global Risk Framework

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

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

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

- Facilitate the decision-making process.

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

- Understand the risk environment in which it operates.

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

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

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

4.3.1 Global Risk Framework Policy

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

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

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

Global Risk Framework Principles

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

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

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

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

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

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

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

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

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

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

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

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

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

- Alignment with the interests of stakeholders

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

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

4.3.2 Risk Appetite Framework (RAF)

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

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

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

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

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

4.3.3 Risk Appetite Statement (RAS)

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

Qualitative aspects of the RAS

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

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

Quantitative aspects of the RAS

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

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

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

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

4.3.4 Specific policies for the different material risks

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

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

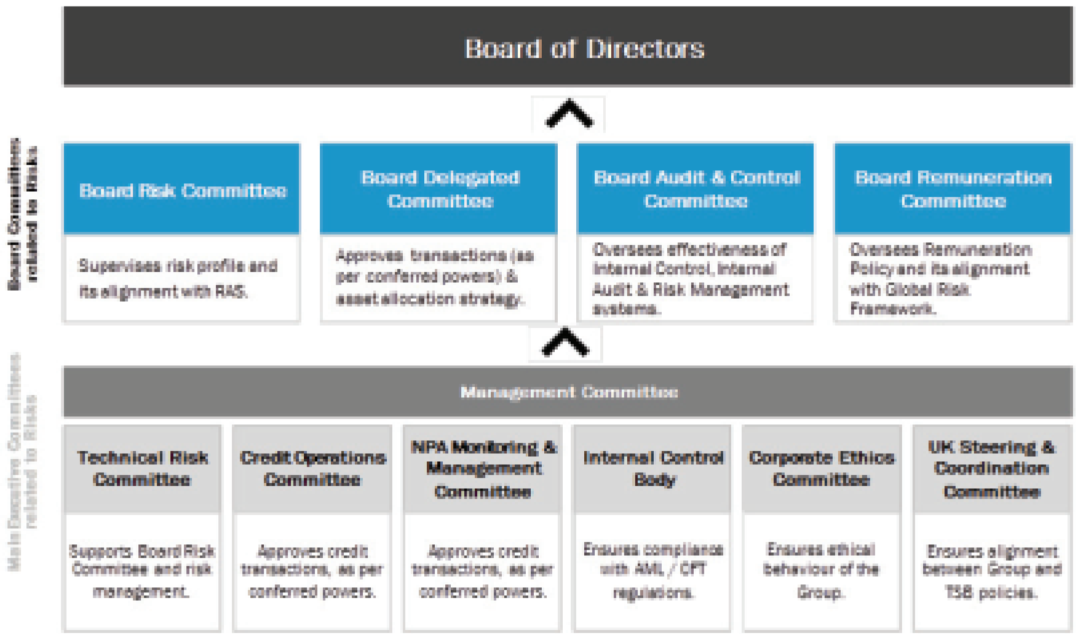
4.3.5 Overall organisation of the risk function

Governance structure

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

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

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



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

- The participation and involvement of the Group's governing bodies and Senior Management in decisions regarding risks, and also in their supervision and control.

- The alignment of objectives at all levels, monitoring of their achievement and implementing corrective measures where necessary.

- The existence of an adequate management and control environment for all risks.

Organisation

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

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

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

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

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

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

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

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

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

- Overseeing the implementation of risk management processes and controls.
- Participating in decision-making processes, providing an overview in terms of risk.
- Ensuring and monitoring compliance with the established risk appetite.
- Verifying compliance with the regulations applicable to the Group in the course of its business activities.
- Analysing and comparing existing and potential incidents by reviewing available information.
- Ensuring that the models work as expected and that the results obtained from them are appropriate to their various uses, both internal and regulatory.
- Promoting and pursuing the highest possible levels of compliance with current legislation and professional ethics within the Group.
- Endeavouring to uphold processes for the operational continuity of ordinary business activities and the security of the information on which such activities are based.

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

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

4.4 Management and monitoring of the main material risks

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

4.4.1 Strategic risk

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

The Group prepares a Strategic Business Plan which sets out the Institution's strategy over a certain period of time (currently 2018-2020). In 2021, Banco Sabadell will define a new Strategic Business Plan, under which to seize the opportunity to consolidate its position as a major domestic bank over the next few years.
In addition, the Plan is periodically monitored in order to study the Group's most recent performance and changes in the environment, as well as the risks taken. This projection is carried out on the basis of the most likely economic scenario for the key regions (baseline scenario), and it is also included in the ICAAP as a baseline scenario. The economic scenario is described in terms of the key risk factors impacting the Group's income statement and balance sheet.

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

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

Strategic risk includes the management and control of four risks:

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

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

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

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

4.4.1.1 Solvency risk

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

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

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

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

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

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

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

4.4.1.2 Business risk

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

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

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

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

4.4.1.3 Reputational risk

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

Additionally, in the last few months of the year the Group has actively managed the impacts of a number of important strategic initiatives, which notably include the agreement with union representatives to arrange voluntary redundancy packages (see Note 33), the analysis and negotiations regarding a potential merger with BBVA, and the announcement of its main strategies going forward.

4.4.1.4 Environmental risk

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

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

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

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

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

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

4.4.2. Credit risk

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

4.4.2.1 Credit risk management framework

Acceptance and monitoring

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

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

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

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

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

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

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

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

NPA risk management

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

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

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

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

- A maximum length is applied to grace periods.

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

Internal risk models

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

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

- Effective management of changes to internal models.

- Ongoing monitoring of internal models.

- Regular reporting, both internal and external.

- Management tools for internal models.

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

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

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

Real estate credit risk management

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

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

- New lending: real estate development business

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

To this end, the Bank has:

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

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

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

- Management of non-performing real estate exposures

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

- The customer.

- The guarantees.

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

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

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

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

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

- Management of foreclosed assets

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

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

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

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

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

4.4.2.2. Risk management models

Credit ratings

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

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

%

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

Credit scores

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

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

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

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

%

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

Excluding transactions relating to TSB.

Warning tools

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

This warnings system enables:

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

4.4.2.3. Credit risk exposure

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

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

The tables below show the breakdown, by headings of the consolidated balance sheet, of the Group's maximum gross credit risk exposure as at 31 December 2020 and 2019, without deducting collateral or credit enhancements received in order to ensure the fulfilment of payment obligations, broken down by portfolios and in accordance with the nature of the financial instruments:

Thousand euro

Maximum credit risk exposure	Note	2020	2019
Financial assets held for trading		**314,241**	**600,621**
Equity instruments	9	1,115	3,701
Debt securities	8	313,126	596,920
Non-trading financial assets mandatorily at fair value through profit or loss		**114,198**	**171,056**
Equity instruments		12,516	-
Debt securities	8	101,682	171,056
Financial assets at fair value through other comprehensive income		**6,825,501**	**7,972,968**
Equity instruments	9	318,563	382,903
Debt securities	8	6,506,938	7,590,065
Financial assets at amortised cost		**177,571,171**	**184,356,525**
Debt securities	8	18,091,366	19,218,841
Loans and advances	11	159,479,805	165,137,684
Derivatives	10, 12	**2,914,145**	**2,308,761**
Total credit risk due to financial assets		187,739,256	195,409,931
Loan commitments provided	26	29,295,155	27,563,836
Financial guarantees provided	26	2,035,638	2,107,412
Other commitments provided	26	7,594,720	10,398,913
Total off-balance sheet exposures		**38,925,513**	**40,070,161**
Total maximum credit risk exposure		**226,664,769**	**235,480,092**

The Group has also given borrowers guarantees and loan commitments, materialising in the establishment of guarantees given or commitments inherent in credit agreements up to an availability level or limit that ensures that customers can access funding when required. These facilities also require the Group to take on credit risk and they are subject to the same management and monitoring systems described above. For further information, see Note 26.

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

4.4.2.4. Credit risk mitigation

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

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

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

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

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

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

The Group has not received any significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of the referred guarantees, except for those intrinsic in treasury activities, which are mostly repos with maturities of no more than three months, therefore their fair value does not differ substantially from their carrying value (see Note 6). The fair value of the assets sold in connection with repos is included under the heading "*Financial liabilities held for trading*" as part of the short positions of securities.

Assets assigned under the same transactions amounted to 491,891 thousand euros and are included by type under the repos heading in Notes 18 and 19.

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

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

Thousand euro

	2020	2019
Value of collateral	91,329,442	93,600,477
Of which: securing Stage 2 loans	*6,552,027*	*5,277,168*
Of which: securing Stage 3 loans	*2,054,278*	*2,745,459*
Value of other guarantees	16,514,989	10,146,890
Of which: securing Stage 2 loans	*2,045,347*	614,257
Of which: securing Stage 3 loans	*416,685*	*356,153*
Total value of guarantees received	**107,844,431**	**103,747,367**

The main risk concentration in relation to all of these types of collateral and credit enhancements corresponds to the use of mortgage guarantees as a credit risk mitigation technique in exposures of loans intended for the financing or construction of housing or other types of real estate. On a like-for-like basis, exposures secured with mortgages represent 57.4% of total gross lending.

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

4.4.2.5. Credit quality of financial assets

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

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

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

Million euro

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

Million euro

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

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

Million euro

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

Million euro

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

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

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

%

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

%

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

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

%

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

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

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

%	Proforma 2020 (*)	2020	Proforma 2019 (*)	2019
Real estate development and construction	8.14	8.10	10.96	10.91
Non-real estate construction	13.28	13.26	6.11	6.10
Corporates	2.20	2.20	1.45	1.45
SMEs and self-employed	6.75	6.72	6.73	6.69
Individuals with 1st mortgage guarantee	3.27	2.36	5.33	3.43
Banco Sabadell Group NPL ratio	**4.28**	**3.60**	**4.62**	**3.83**

(*) Corresponds to the NPL ratio excluding TSB.

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

4.4.2.6. Concentration risk

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

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

Concentration risk can be caused by two risk subtypes:

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

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

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

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

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

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

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

Consistency with the Global Risk Framework

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

Establishment of limits and metrics for concentration risk control

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

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

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

Risk control monitoring and regular reporting

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

Action plans and mitigation techniques

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

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

Exposure to customers or significant risks

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

Country risk: geographical exposure to credit risk

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

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

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

The main component of the procedure for the acceptance of country risk and financial institution risk is the structure of limits for different metrics. This structure is used to monitor the various risks and it is also used by Senior Management and the delegated bodies to establish the Group's risk appetite.

Different indicators and tools are used to manage country risk: credit ratings, credit default swaps, macroeconomic indicators, etc.

Schedule VI includes quantitative data relating to the breakdown of the concentration of risks by activity and on a global scale.

Exposure to sovereign risk and exposure to the construction and real estate development sector

Schedule VI includes quantitative data relating to sovereign risk exposures and exposures to the construction and real estate development sector.

4.4.2.7. Counterparty credit risk

This heading considers credit risk associated with activities in financial markets involving specific transactions that have an associated counterparty credit risk. Counterparty credit risk is a type of credit risk that refers to the risk of a counterparty defaulting before definitively settling cash flows of either a transaction with derivatives or a transaction with a repurchase commitment, with deferred settlements or collateral financing.

The amount exposed to a potential default by the counterparty does not correspond to the notional amount of the contract, instead, it is uncertain and depends on market price fluctuations until the maturity or settlement of the financial contracts.

Exposure to counterparty credit risk is mainly concentrated in customers, financial institutions and central counterparty clearing houses.

The following two tables show the breakdown of exposures by credit rating and by the regions in which the Group operates.

%

2020															
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	Rest	**TOTAL**
0.0%	0.3%	10.1%	28.8%	21.9%	13.1%	5.0%	3.4%	5.1%	3.2%	1.5%	1.9%	2.1%	0.4%	3.2%	**100.0%**

%

2019															
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	Rest	**TOTAL**
0.0%	0.0%	7.2%	38.7%	18.1%	11.7%	6.3%	5.7%	3.5%	1.8%	1.0%	3.1%	1.4%	0.3%	1.3%	**100.0%**

%

	2020	2019
Euro Zone	65.6%	73.8%
Rest of Europe	25.7%	18.9%
U.S.A. and Canada	6.3%	5.6%
Rest of the world	2.5%	1.7%
Total	**100.0%**	**100.0%**

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

In 2016, under the European Market Infrastructure Regulation (EMIR) (Regulation 648/2012), the obligation to settle and clear certain over-the-counter derivatives through central counterparty clearing houses (CCPs) has been applicable to the Group. For this reason, the derivatives subscribed by the Group and subject to the foregoing are channelled via these agents. At the same time, the Group has improved the standardisation of OTC derivatives with a view to fostering the use of CCPs. The exposure to risk with CCPs largely depends on the value of the deposited guarantees.

With regard to derivative transactions in organised markets (OMs), based on management criteria, it is considered that there is no exposure, given that there is no risk as the OMs act as counterparties in the transactions and a daily settlement and guarantee mechanism is in place to ensure the transparency and continuity of the activity. In OMs the exposure is equivalent to the deposited guarantees.

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

Million euro

	2020	2019
Transactions with organised markets	4,992	3,779
OTC transactions	157,596	169,533
Settled through clearing houses	*92,775*	*88,444*
Total	**162,588**	**173,312**

There are currently no transactions that meet the accounting criteria for offsetting transactions involving financial assets and financial liabilities on the balance sheet. The netting of derivative and repo transactions is only material when calculating the amount pending collateralisation, and it is not material in terms of their presentation on the balance sheet.

The following table shows the aggregate amount reflected on the balance sheet for the financial instruments subject to a master netting and collateral agreement for 2020 and 2019:

Thousand euro

	2020				
	Financial assets subject to collateral agreements				
			Guarantee received		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net value
Financial assets	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	2,258,947	2,024,304	298,048	-	(63,405)
Repos	5,485,382	-	13,901	5,844,055	(372,574)
Total	**7,744,329**	**2,024,304**	**311,949**	**5,844,055**	**(435,979)**

Thousand euro

	2020				
	Financial liabilities subject to collateral agreements				
			Guarantee given		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net value
Financial liabilities	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	3,140,883	2,024,304	1,283,589	12,244	(179,254)
Repos	6,785,687	-	33,087	6,782,288	(29,688)
Total	**9,926,570**	**2,024,304**	**1,316,676**	**6,794,532**	**(208,942)**

Thousand euro

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

Thousand euro

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

The values of derivative financial instruments which are settled through a clearing house as at 31 December 2020 and 2019 are indicated hereafter:

Thousand euro

	2020	2019
Derivative financial assets settled through a clearing house	1,363,111	929,918
Derivative financial liabilities settled through a clearing house	1,727,778	1,241,254

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

The approach for quantifying counterparty credit risk exposure takes into account current and future exposure. Current exposure represents the cost of substituting a transaction at market value in the event of a default by a counterparty. To calculate it, the current or Mark to Market (MtM) value of the transaction is required. The future exposure represents the risk that a transaction could potentially represent over a certain period of time, given the characteristics of the transaction and the market variables on which it depends. In the case of transactions carried out under a collateral agreement, the future exposure represents the possible fluctuation of the MtM between the time of default and the replacement of such transactions in the market. If the transaction is not carried out under a collateral agreement, it represents the possible changes in MtM throughout the life of the transaction.

Each day at close of business, all of the exposures are recalculated in accordance with the transaction inflows and outflows, changes in market variables and risk mitigation mechanisms established by the Group. Exposures are thus subjected to daily monitoring and controlled in accordance the limits approved by Senior Management. This information is included in risk reports for disclosure to the departments and units responsible for their management and monitoring.

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

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

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

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

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

In order to operate in derivatives or repos with financial institutions, the Group has established the requirement of having variation margin collateral agreements. Furthermore, for derivative transactions with these institutions, the Group is required to exchange variation margin collateral with financial counterparties pursuant to Delegated Regulation (EU) 2251/2016. The Group's standard variation margin collateral agreement, which complies with the aforementioned regulation, is bilateral (i.e. both parties are obliged to deposit collateral) and includes a daily exchange of guarantees in the form of cash and in euros.

4.4.2.8 Assets pledged in financing operations

As at the end of 2020 and 2019, there were certain financial assets pledged in financing operations, i.e. offered as collateral or guarantees for certain liabilities. These assets correspond mainly to loans linked to the issuance of mortgage covered bonds, public sector covered bonds and long-term asset-backed securities (see Note 20, Schedule III for transactions linked to the Spanish Mortgage Market and Schedule IV for details of issues). The remaining pledged assets are debt securities which are submitted in transactions involving assets sold under repurchase agreements, pledged collateral (loans or debt instruments) to access certain financing operations with central banks and all types of collateral provided to secure derivatives transactions.

Information on mortgage-secured loans granted in Spain, included in "*Loans and advances – Customers*" and linked to the issuance of covered bonds pursuant to the Spanish Mortgage Market Law, is included in Schedule III on "Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register", a special accounting record of the issuing entity Banco Sabadell, as required by Bank of Spain Circular 5/2011, applying Royal Decree 716/2009 of 24 April (implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market).

The Group has used part of its portfolio of loans and similar credit in fixed-income securities by transferring assets to various securitisation funds created for this purpose. Under current regulations, securitisations in which there is no substantial risk transfer cannot be derecognised from the balance sheet.

The balance of the financial assets securitised under these programmes by the Group, identifying those in which the risks and associated rewards of ownership have been transferred, is as follows:

Thousand euro

	2020	2019
Fully derecognised from the balance sheet:	**752,548**	**1,069,492**
Securitised mortgage assets	113,369	165,572
Other securitised assets	632,599	896,022
Other transferred financial assets	6,580	7,898
Fully retained on the balance sheet:	**8,176,528**	**13,246,466**
Securitised mortgage assets	7,730,400	12,526,632
Other securitised assets	446,128	719,834
Other transfers to credit institutions	-	-
Total	**8,929,076**	**14,315,958**

The assets and liabilities associated with securitisation funds of assets originated after 1 January 2004, and for which inherent risks and rewards of ownership have not been transferred to third parties, have been maintained in the consolidated balance sheet. In terms of the assets shown, the risk is not transferred as some form of subordinated loan or credit enhancement has been granted to the securitisation funds. As at 31 December 2020, there was no significant financial aid from the Group for unconsolidated securitisations.

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

4.4.3. Financial risks

Financial risk is defined as the possibility of obtaining inadequate returns or insufficient levels of liquidity that prevent an institution from meeting future requirements and expectations.

4.4.3.1. Liquidity risk

Liquidity risk refers to the possibility of losses being incurred as a result of the Institution being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or unable to access the markets to refinance debts at a reasonable cost. This risk may be associated with factors of a systemic nature or specific to the Institution itself.

In this regard, the Group aims to maintain a liquid asset base and a funding structure that, in line with its strategic objectives and based on its Risk Appetite Statement, allows it to honour its payment commitments normally and at a reasonable cost, both under business-as-usual conditions and under a stress situation caused by systemic and/or idiosyncratic factors.

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

Liquidity management

Banco Sabadell's liquidity management seeks to ensure funding for its business activity at an appropriate cost and term while minimising liquidity risk. The institution's funding policy focuses on maintaining a balanced funding structure, based mainly on customer deposits, and it is supplemented with access to wholesale markets that allows the Group to maintain a comfortable liquidity position at all times.

The Group follows a structure based on Liquidity Management Units ("UGLs", for their acronym in Spanish) to manage its liquidity. Each UGL is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, working together with the Group's corporate functions. At present, these UGLs are Banco Sabadell (includes Banco Sabadell, S.A., which incorporates activity in foreign branches, as well as the business in Mexico of Banco de Sabadell, S.A., I.B.M. (IBM) and Sabcapital S.A. de C.V., SOFOM, E.R. (SOFOM), which will generally have financial autonomy and manage their own risk), BancSabadell d'Andorra (BSA) and TSB.

In order to achieve these objectives, the Group's current liquidity risk management strategy is based on the following principles and pillars, in line with the UGLs' retail business model and the defined strategic objectives:

- Risk governance and the involvement of the Board of Directors and Senior Management in the management and control of liquidity risk. The Board of Directors has the highest level of responsibility for the oversight of liquidity risk.

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

- Clear separation of responsibilities and duties between the organisation's various units and bodies, with a clear identification of the three lines of defence, ensuring the involvement of the governing bodies and Senior Management.

- Implementation of best practices in liquidity risk management and control, ensuring not only compliance with regulatory requirements but also, under a criterion of prudence, the availability of sufficient liquid assets to overcome possible stress events.

- Decentralised liquidity management system for the more significant units but with a centralised risk oversight and management system.

- Sound identification, measurement, management, control and reporting processes for the different liquidity sub-risks to which the Group is exposed.

- Existence of a funds transfer pricing system to transfer the cost of funding.

- Balanced funding structure largely based on customer deposits.

- Ample base of unencumbered liquid assets that can be accessed immediately to generate liquidity and which comprise the Group's first line of liquidity.

- Diversification of sources of funding, with controlled use of short-term wholesale funding without having to depend on individual fund suppliers.

- Self-funding by the main banking subsidiaries outside of Spain.

- Monitoring of the balance sheet volume being used as collateral in funding transactions.

- Maintenance of a second line of liquidity that includes the capacity to issue covered bonds.

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

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

- Availability of a Liquidity Contingency Plan.

In 2020, the main aspects that have had a negative impact on the Group's liquidity position as a result of the COVID-19 crisis have been the substantial increases in lending, particularly loans given to SMEs and corporations to make them better able to deal with the crisis, and high levels of market volatility. Nevertheless, the mitigating actions taken by central banks, which offered greater flexibility in relation to liquidity, making it easier to access central bank funding, the asset purchase programmes designed to inject liquidity into the market, and the support put in place for bank lending, allowing banks to accept a larger number of loans as collateral and reducing the deduction from the market value of collateral pledged for loans, have all helped to offset the impact that granting loans to customers has had on liquidity.

Tools/metrics for monitoring and controlling liquidity risk management

Banco Sabadell Group has a system of metrics and thresholds which are provided in the RAS and which define the appetite for liquidity risk that has been previously approved by the Board of Directors. The system enables liquidity risk to be assessed and monitored, ensuring the achievement of strategic objectives, adherence to the risk profile, as well as compliance with regulations and supervisory guidelines. Within the Group level monitoring of liquidity metrics, there are metrics that have been established at the Group level and which are calculated on a consolidated basis, metrics established at the Group level and rolled out to each Group UGL, as well as metrics established at the UGL level to reflect specific local characteristics.

Both the metrics defined in the Banco Sabadell Group RAS and those defined in the local RAS of subsidiaries are subject to governance arrangements relating to the approval, monitoring and reporting of threshold breaches, as well as remediation plans established in the RAF on the basis of the hierarchical level of each metric (these are classified into three levels).

It should be mentioned that the Group has designed and implemented a system of early warning indicators (EWIs) at the UGL level, which includes market and liquidity indicators adapted to the funding structure and business model of each UGL. The deployment of these indicators at the UGL level complements the RAS metrics and allows tensions in the local liquidity position and funding structure to be detected early, thereby facilitating the implementation of corrective measures and actions and reducing the risk of contagion between the different management units.

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

The reporting and control framework involves, among other aspects:

- Monitoring the RAS metrics and their thresholds on a consolidated basis, as well as those established for each UGL, in line with the established monitoring frequency.
- Reporting to the relevant committees, governing bodies and management bodies depending on the tiers into which those metrics have been classified and in line with the overall vision of liquidity risk.
- In the event a threshold breach is detected, activating the communication protocols and necessary plans for its resolution.

Within the Group's overall budgeting process, Banco Sabadell plans its liquidity and funding requirements over different time horizons, which it aligns with the Group's strategic objectives and risk appetite. Each UGL has a 1-year and 5-year funding plan in which they set out their potential funding needs as well as their management strategy, and they regularly analyse compliance with that plan, any deviations from the projected budget and the adequacy of the plan in terms of the market environment.

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

Lastly, Banco Sabadell has a Liquidity Contingency Plan (LCP) in place, which sets forth the strategy for ensuring that the Institution has sufficient management capabilities and measures in place to minimise the negative impacts of a crisis situation on its liquidity position and to allow it to return to a business-as-usual situation. The LCP also aims to facilitate operational continuity in the management of liquidity, particularly in the event a crisis is caused by a subpar performance of one or more financial market infrastructures. The LCP can be invoked in response to different crisis situations affecting either the markets or the Institution itself. The key components of the LCP include: measures available to generate liquidity in business-as-usual situations or in a crisis situation linked to the activation of the LCP and a communication plan (both internal and external) for the LCP.

Residual maturity periods

The tables below show the breakdown by contractual maturity, excluding, in some cases, value adjustments and impairment losses, of certain pools of items on the consolidated balance sheet as at 31 December 2020 and 2019, under business-as-usual market conditions:

Thousand euro

	2020									
Time to maturity	**On demand**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	686,001	35,610,081	2,167,386	648,771	311,993	-	-	-	-	**39,384,332**
Loans and advances	611,640	2,791,832	5,053,402	15,332,890	13,986,456	16,244,015	12,454,253	9,270,716	71,050,798	**146,796,010**
Debt securities	-	131,986	279,697	606,337	808,598	2,096,323	1,832,083	1,583,921	16,188,692	**22,526,637**
Other assets	-	11	128	160	459	576	6,100	-	-	**7,434**
Total assets	**1,297,731**	**38,533,910**	**7,600,623**	**16,588,166**	**15,107,506**	**18,339,914**	**14,292,436**	**10,854,637**	**86,239,490**	**208,714,413**
Money Market	231	6,172,131	2,022,359	2,096,640	1,222,132	27,067,223	73,483	62,900	142,840	**38,760,319**
Of which: Repos	-	4,722,060	1,374,497	510,550	195,900	-	-	-	-	**6,803,015**
Customer deposits	126,725,560	5,302,495	2,510,793	9,460,571	2,512,954	684,537	614,051	342,246	50,139	**148,203,346**
Issues of marketable securities (*)	-	24,887	822,536	2,411,476	4,129,336	2,988,603	5,154,980	2,761,172	3,771,297	**22,064,267**
Of which: Secured senior debt	-	13,388	436,261	1,826,262	1,797,121	1,499,603	2,772,314	939,472	2,756,272	**11,843,673**
Of which: Unsecured senior debt	-	8,149	22,508	346,775	1,182,215	989,000	2,382,667	1,521,700	500,000	**6,963,014**
Of which: Subordinated liabilities	-	-	-	428,239	1,150,000	500,000	-	300,000	515,025	**2,893,264**
Other liabilities	-	36,707	128,683	305,799	288,769	232,672	199,362	163,360	941,911	**2,297,263**
Total liabilities	**126,725,791**	**11,596,200**	**6,384,371**	**14,274,786**	**8,153,191**	**30,973,035**	**6,041,876**	**3,329,748**	**4,906,187**	**212,385,185**
Of which:										
Secured liabilities	-	4,735,420	2,811,037	3,602,500	2,382,330	1,499,603	1,936,001	939,472	2,756,272	**20,665,521**
Unsecured liabilities	125,772,142	6,132,957	3,383,011	10,409,273	5,690,993	20,499,209	4,030,313	2,337,404	2,807,076	**189,768,479**
Trading and Hedging Derivatives										
Receivable	-	23,059,291	21,820,479	14,450,698	10,964,620	12,171,348	16,417,300	5,825,214	34,534,819	**139,273,769**
Payable	-	16,281,187	19,588,410	18,236,030	15,186,698	11,639,502	16,059,618	6,194,162	36,316,279	**139,501,886**
Net	**-**	**6,778,104**	**2,232,069**	**(3,785,332)**	**(4,222,078)**	**531,846**	**357,682**	**(368,948)**	**(1,781,460)**	**(228,117)**
Contingent risks										
Financial guarantees	14,076	43,202	71,718	323,101	134,456	80,794	45,525	34,534	1,288,232	**2,035,638**

(*) For details of maturities of issues aimed at institutional investors, see the section entitled "Funding strategy and liquidity trends in 2020" in this note.

Thousand euro

	2019									
Time to maturity	**On demand**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	-	21,517,880	1,965,459	1,977,159	517,913	-	-	-	-	**25,978,397**
Loans and advances	619,417	7,632,828	5,972,617	14,418,127	11,924,479	13,576,561	10,769,445	8,886,124	69,080,634	**142,880,223**
Debt securities	-	285,610	385,221	1,363,200	601,538	564,037	315,855	1,718,607	18,350,303	**23,585,179**
Other assets	-	-	-	3	29	-	741	799	8,570	**10,142**
Total assets	**619,417**	**29,436,312**	**8,323,298**	**17,758,489**	**13,043,959**	**14,141,397**	**11,086,042**	**10,605,530**	**87,439,507**	**192,453,941**
Money Market	-	7,591,949	2,612,807	4,950,600	15,188,075	1,043,966	42,903	44,105	111,193	**31,585,596**
Of which: Repos	-	4,756,408	1,610,530	1,801,130	393,765	-	-	-	-	**8,561,841**
Customer deposits	118,205,321	2,593,782	2,675,573	12,745,397	2,048,587	1,086,362	275,780	934,616	9,536	**141,574,973**
Issues of marketable securities (*)	-	94,440	1,378,856	3,338,512	2,987,088	3,659,325	2,890,734	5,201,593	4,753,880	**24,404,477**
Of which: Secured senior debt	-	15,426	311,100	2,462,637	2,176,389	1,827,710	1,501,734	2,819,259	2,717,164	**13,829,721**
Of which: Unsecured senior debt	-	-	497,122	9,975	358,284	682,215	989,000	2,383,333	1,521,700	**6,439,630**
Of which: Subordinated liabilities	-	-	-	424,600	452,515	1,150,000	500,000	-	515,025	**3,042,140**
Other liabilities	-	46,145	93,012	383,876	355,660	271,468	216,377	184,644	1,017,406	**2,568,588**
Total liabilities	**118,205,321**	**10,326,296**	**6,960,287**	**21,418,384**	**21,379,411**	**6,061,180**	**3,825,882**	**6,365,018**	**5,892,025**	**200,133,738**
Of which:										
Secured liabilities	-	4,771,824	1,921,639	3,852,916	6,725,597	2,238,468	1,501,734	1,936,736	2,717,164	**25,677,107**
Unsecured liabilities	118,205,444	5,554,340	5,038,649	17,564,478	14,643,814	3,822,692	2,024,068	4,428,282	3,174,867	**174,456,627**
Trading and Hedging Derivatives										
Receivable	-	15,501,712	20,397,410	20,038,070	14,462,384	9,437,524	10,583,364	16,415,371	34,057,369	**140,893,204**
Payable	-	16,619,346	21,167,793	22,977,713	15,608,687	9,603,503	9,297,872	16,207,859	36,059,617	**147,542,390**
Net	**-**	**(1,117,634)**	**(770,383)**	**(2,939,644)**	**(1,146,303)**	**(165,979)**	**1,285,492**	**207,512**	**(2,002,248)**	**(6,649,187)**
Contingent risks										
Financial guarantees	37,479	22,339	111,565	260,912	181,908	85,041	41,396	34,637	1,332,135	**2,107,412**

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

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

With regard to the information included in this table, it is worth highlighting that the table shows the residual term to maturity of the asset and liability positions on the balance sheet, broken down into different time brackets.

The information provided is static and does not reflect foreseeable funding requirements.

It should also be noted that cash flow breakdowns in the parent company have not been deducted.

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

- For any transaction that includes flows corresponding to repayments (regular or irregular), each capital flow is shown in the time bracket in which the payment/collection is expected to take place (in accordance with the contractual repayment schedule).
-

  Demand liabilities are included in the “on demand” tranche, without taking into account their type (stable vs. unstable).

- There are also contingent commitments which could lead to changes in liquidity requirements. These are fundamentally credit facilities with amounts undrawn by the borrowers as at the balance sheet date. The Board of Directors also establishes limits in this regard for control purposes.

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

- Financing in the capital markets via instruments which include clauses that could lead to accelerated repayment (puttables or instruments with clauses linked to a credit rating downgrade) is reduced in line with the Group's financial liabilities. It is for this reason that the estimated impact on the parent company would not be significant.

- As at 31 December 2020, the Group has no instruments in addition to those regulated by master agreements associated with the acquisition of derivatives and repos/reverse repos.

- The Group does not have any instruments which allow the Institution to decide whether to settle its financial liabilities using cash (or another financial asset) or through the submission of its own shares as at 31 December 2020.

Funding strategy and evolution of liquidity in 2020

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

On-balance sheet customer funds

As at 31 December 2020 and 2019, on-balance sheet customer funds by maturity were as follows:

Million euro / %

	Note	2020	3 months	6 months	12 months	>12 months	No mat.
Total on-balance sheet customer funds (*)		**150,778**	**4.1%**	**2.4%**	**3.8%**	**3.2%**	**86.5%**
Deposits with agreed maturity		19,358	31.7%	17.2%	29.7%	21.4%	-
Sight accounts	19	130,295	-	-	-	-	100.0%
Retail issues		1,125	5.5%	28.4%	4.9%	61.2%	-

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

Million euro / %

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

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

The downward trend of interest rates in financial markets has caused a shift in the composition of on-balance sheet customer funds from term deposits to demand deposit accounts.

Off-balance sheet customer funds managed by the Group and those sold but not under management are shown in Note 27 to these consolidated annual financial statements.

The Group's deposits are sold through the following business units/companies of the Group (Commercial Banking, Corporate Banking and Global Businesses, Private Banking, TSB and Mexico). Details of the volumes of these business units are included in the "Businesses" section of the Consolidated Directors' Report.

In 2020, the positive trend in terms of the generation of a customer funding gap observed in recent years has continued, which has allowed the Group to continue reducing its Loan-to-Deposit (LtD) ratio (from 147% as at 2010 year-end to 97.6% as at 2020 year-end).

Capital Markets

In 2020, the level of funding in capital markets remained steady because of the need to meet MREL (Minimum Requirement for own funds and Eligible Liabilities), focusing on products that have a lower cost for a given term given the Bank's credit rating. The outstanding nominal amount of funding in capital markets, by type of product, as at 31 December 2020 and 2019, is shown below:

Million euro

	2020	2019
Outstanding nominal balance	**20,788**	**22,480**
Covered Bonds	10,862	11,951
Of which: TSB	*1,390*	*1,469*
Commercial paper and ECP	-	633
Senior debt	4,621	3,626
Senior non-preferred debt	1,451	1,451
Subordinated debt and preference shares	2,888	3,025
Of which: TSB	*428*	*453*
Securitisation bonds	953	1,779
Of which: TSB	-	*501*
Other	13	14

Maturities of issues (excluding securitisations and commercial paper), by type of product and considering their legal maturity, aimed at institutional investors as at 31 December 2020 are analysed below:

Million euro

	2021	2022	2023	2024	2025	2026	>2026	Balance
Covered bonds (*)	1,808	1,696	1,388	2,684	836	390	2,060	10,862
Senior Debt (**)	294	25	1,473	729	1,600	-	500	4,621
Senior non-preferred debt (**)	-	-	-	951	500	-	-	1,451
Subordinated Debt and Preferred Securities (**)	-	-	-	-	-	923	1,965	2,888
Other medium/long term financial instruments (**)	10	-	-	3	-	-	-	13
Total	**2,112**	**1,721**	**2,861**	**4,367**	**2,936**	**1,313**	**4,525**	**19,835**

(*) Secured issues.

(**) Unsecured issues.

The Group is an active participant in capital markets and has a number of funding programmes in operation, with a view to diversifying its different funding sources.

In terms of short-term funding, as at year-end the Bank only had one corporate commercial paper programme in operation, which governs issues of commercial paper and is aimed at institutional and retail investors. The Banco Sabadell 2020 Commercial Paper Programme was registered with the CNMV on 14 May 2020 and had an issuance limit of 7 billion euros, which can be extended to 9 billion euros. The outstanding balance of the commercial paper programme has been declining over the course of the year. As at 31 December 2020, the outstanding balance of the programme was 374 million euros (net of commercial paper subscribed by Group companies), compared with 790 million euros as at 31 December 2019.

27 October 2020 marked the end of the Euro Commercial Paper (ECP) programme aimed at institutional investors, whereby short-term securities were issued in different currencies (EUR, USD and GBP).

Regarding medium and long-term funding, the Institution has the following programmes in operation:

- Programme for the issuance of non-equity securities ("Fixed Income Programme") registered with the CNMV on 16 June 2020, with an issuance limit of 10 billion euros: this programme regulates the issuance of ordinary, non-convertible, non-preferred, subordinated or structured bonds and debentures, in addition to mortgage covered bonds, public sector covered bonds and mortgage bonds issued under Spanish law through the CNMV and aimed at institutional and retail investors, both domestic and foreign. The limit available for new issues under the Banco Sabadell programme for the issue of non-equity securities for 2020, as at 31 December 2020, was 8,500 million euros (as at 31 December 2019, the limit available under the Fixed Income Programme for 2019 was of 13,080 million euros).

  Banco Sabadell's public issuance volume under the Fixed-Income Programme in 2020 amounted to a total of 1,000 million euros. Throughout the year, Banco Sabadell has issued the following:

Million euro

	ISIN Code	Type of investor	Issue Date	Amount	Term
Covered Bonds 1/2020	ES0413860745	Institutional	January-20	1,000	8

- Euro Medium Term Notes (EMTN) programme, registered with the Irish Stock Exchange on 26 May 2020, and supplemented on 13 July, 27 August and 03 November 2020. This programme allows senior debt (preferred and non-preferred) and subordinated bonds to be issued in various currencies, with a maximum limit of 15 billion euros.

  Banco Sabadell's total issuance volume under the EMTN Programme in effect during 2020 amounted to 1,420 million euros and included the 6 non-call 5 year inaugural green senior preferred debt issuance of 500 million euros on 11 September 2020, and a 10 non-call 5 year Tier 2 subordinated debt issuance with a nominal value of 300 million euros on 17 January 2020. Throughout the year, Banco Sabadell has issued the following:

Million euro

	ISIN Code	Type of investor	Issue Date	Amount	Term
Subordinated Bonds 1/2020	XS2102931677	Institutional	January-20	300	10NC5
Senior bond 1/2020	XS2193960668	Institutional	June-20	500	3NC2
Senior bond 2/2020	XS2228245838	Institutional	September-20	500	6,5NC5,5
Senior bond 3/2020	XS2243903510	Institutional	October-20	120	4,5NC3,5

In relation to asset securitisation:

- Since 1993, the Group has been a very active participant in this market and it takes part in a number of securitisation programmes, in some cases in conjunction with other institutions, awarding mortgage loans, SME loans, consumer loans and finance lease receivables.
- There are currently 18 outstanding asset securitisation transactions fully recognised on the balance sheet. Although part of the bonds issued were retained by the Institution as liquid assets eligible for access to the European Central Bank's funding operations, the rest of the bonds were placed in capital markets. As at the end of 2020, the nominal value of asset-backed securities placed in the market stood at 952.7 million euros.
- Banco Sabadell called the fund GC Sabadell 1, FTH early in March, on the date of the clean-up call. It also called early, due to the clean-up call in December, the multi-seller fund TDA 15 mixto, FTA. In July and September, TSB called its two securitisation funds early, calling Duncan Funding 2016 as there were no more outstanding bonds in the market and Duncan Funding 2015 as it had reached its step-up call date. At present, TSB has no outstanding balances in securitisation funds.

In March 2016, the European Central Bank announced new economic stimulus measures through a new targeted longer-term refinancing operations programme (TLTRO II), consisting of four 4-year liquidity auctions taking place between June 2016 and March 2017. Banco Sabadell took part in TLTRO II, withdrawing a total amount of 20.5 billion euros (10 billion euros in the first auction of June 2016 and 10.5 billion euros in the last auction of March 2017). In 2019 it made two early repayments of the balance drawn: one amounting to 5 billion euros on 26 June and another amounting to 2 billion euros on 25 September. The remaining 13.5 billion euros were repaid on 24 June 2020.

In light of current circumstances, the European Central Bank announced measures designed to mitigate the impact arising from COVID-19, which included easing the conditions for TLTRO III. Specifically, TLTRO III ensures an interest rate that will be no higher than the average deposit facility rate (currently -0.50%) for the period between 24 June 2020 and 23 June 2022. An interest rate of up to 50 basis points below the aforesaid rate will be applied on all TLTRO III operations outstanding over the period from 24 June 2020 to 23 June 2021, for counterparties whose eligible net lending between 1 March 2020 and 31 March 2021 reaches the benchmark, and on all TLTRO III operations outstanding over the period from 24 June 2021 to 23 June 2022, for counterparties whose eligible net lending between 1 October 2020 and 31 December 2021 reaches the lending performance threshold, and in any case not higher than -1%. From 23 June 2022 onwards, if the aforesaid benchmark has been achieved, the interest rate applied to operations up to March 2021 will be the average deposit facility rate. Similarly, if the lending performance threshold mentioned above is reached, the interest rate applied to operations between June 2021 and December 2021 will be the average deposit facility rate. If the aforesaid benchmark or threshold is not achieved, the interest rate will be no higher than the current legal interest rate (currently 0%).

For this reason, and coinciding with the repayment of TLTRO II, on 24 June 2020 Banco Sabadell requested a withdrawal of 27 billion euros from TLTRO III.

Pursuant to the criteria set out in IAS 20, the Group believes that the possible reduction of the interest rate by 50 basis points at which the European Central Bank lends money under TLTRO III qualifies as a grant, as it sets the interest rate on the loan below market rates. This grant is recognised as net interest income, provided that there is reasonable certainty that the conditions linked to the grant will be met and that the amount of that grant will be received. Given that the growth of the Group's eligible net lending since 1 March 2020 has been significant, and as this growth trend is expected to continue until 31 March 2021, the Group has assumed that it will benefit from the -1% interest rate up to 23 June 2021, having recognised 143,250 thousand euros in interest income on TLTRO III during 2020.

In 2016, the Bank of England also implemented a package of measures to support economic growth. Among other things, this package introduced the Term Funding Scheme (TFS), a scheme to incentivise lending which was implemented in August 2016 by the Bank of England, through which British banks could carry out 4-year drawdowns in exchange for the provision of collateral eligible as consideration. TSB, as a member of the Sterling Monetary Framework (SMF), made use of the TFS throughout 2017, withdrawing 6,251 million euros, and also in February 2018, with an additional drawdown of 945 million euros. In 2019, TSB made early repayments of the amounts withdrawn from the TFS amounting to a total value of 2,225 million euros. On 25 June 2020, it repaid 1,563 million euros withdrawn from the aforesaid scheme, meaning that the amount owing to the Bank of England as at the end of December 2020 amounted to 3,409 million euros, which in 2021 will likely be rolled over into the Bank of England's new TFSME facility, designed to incentivise lending to small and medium-sized enterprises.

Liquid assets

In addition to these sources of funding, the Group maintains a liquidity buffer in the form of liquid assets to meet potential liquidity needs.

Million euro

	2020	2019
Cash(*) + Net Interbank Position	29,560	7,044
Funds available in Bank of Spain facility	7,728	7,633
ECB eligible assets not pledged in facility	3,387	21,335
Other non-ECB eligible marketable assets (**)	3,710	3,518
Memorandum item:		
Balance drawn from Bank of Spain facility(***)	*27,978*	*14,613*
Balance drawn from Bank of England Term Funding Scheme	*3,409*	*5,254*
Total Liquid Assets Available	**44,385**	**39,530**

(*) Excess reserves at Central Banks.

(**) Market value, and after applying the Liquidity Coverage Ratio (LCR) haircut. Includes Fixed Income qualifying as a high quality liquid asset according to LCR (HQLA) and other marketable assets from different Group entities.

(***) Includes TLTRO-III and borrowing of USD 1,200 million from the ECB for a period of 3 weeks.

With regard to 2019, the Group's first line of liquidity (available liquid assets) increased over the year by 4,855 million euros, mainly reflecting the positive impact of the measures introduced by the European Central Bank as a result of COVID-19 to reduce haircuts on eligible assets and the increased range of credit transactions eligible as collateral in its operations. The balance of central bank reserves and the net interbank position increased by 22,516 million euros, mainly related to access to TLTRO III. There is also a volume of ECB eligible liquid assets, whose balance as at 31 December 2020 has decreased by 17,853 million euros, while available non-ECB eligible assets have increased by 192 million euros.

In the case of TSB, the first line of liquidity as at 31 December 2020 comprised 2,718 million euros of liquid assets (2,578 million euros as at 31 December 2019), mainly gilts, and a surplus of reserves in the Bank of England amounting to 5,084 million euros (4,803 million euros as at 31 December 2019).

In addition to the first line of liquidity, a buffer is maintained comprising mortgage loans and loans to general governments eligible as collateral for mortgage covered bonds and public sector covered bonds, respectively, which as at 31 December 2020 contributed a cash value of 9,791 million euros in terms of capacity to issue new own covered bonds eligible as collateral in return for access to the ECB facility (4,640 million euros as at 2019 year-end). As at 31 December 2020, available liquidity amounted to 54,176 million euros in cash equivalent, corresponding to the amount of the first line of liquidity plus the issuing capacity of the Institution's mortgage covered bonds and public sector covered bonds as at that date adjusted by the average valuation haircut applied by the ECB to covered bonds (44,170 million euros in cash equivalent as at 31 December 2019).

It should be noted that the Group follows a decentralised liquidity management model. This model tends to limit the transfer of liquidity between the various subsidiaries involved in liquidity management, thereby limiting intra-group exposures beyond any restrictions imposed by local regulators on each subsidiary. Thus, the subsidiaries involved in liquidity management determine their liquidity position by considering only those assets in their possession that meet the eligibility, availability and liquidity criteria set forth both internally and in regulations in order to comply with regulatory minima.

There are no significant amounts of cash or cash equivalents that are unavailable for use by the Group.

Compliance with regulatory ratios

As part of its liquidity management approach, Banco Sabadell Group monitors the short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) and reports the necessary information to the regulator on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of liquidity risk control arrangements in UGLs.

In terms of the LCR, since 1 January 2018, the regulatory required minimum LCR is 100%, a level which is amply surpassed by all of the Institution's UGLs. At the Group level, throughout the year, the LCR has consistently been well above 100%. As at 31 December 2020, the LCR was 219% excluding TSB and 201% at TSB.

As for the NSFR, it is due to come into force in June 2021. However, the Group has already started to monitor this ratio as a liquidity metric for UGLs.

Given the Group's funding structure, with a preponderance of customer deposits, and as the majority of its market funding is in the medium/long term, the Group has maintained stable levels consistently well over 100%.

4.4.3.2. Market risk

Market risk is defined as the risk of financial asset positions losing their market value due to changes in risk factors affecting their quoted price or market performance, their volatility, or the interconnections that exist between them.

Positions that generate market risk are usually held in connection with trading activity, which consists of hedging transactions arranged by the Bank to provide services to its customers as well as discretionary proprietary positions.

Market risk can also arise from the mere maintenance of overall (also known as structural) balance sheet positions that in net terms are left open. This risk is described in the sections on structural risks.

The items of the consolidated balance sheet as at 31 December 2020 and 2019 are shown below, making a distinction between positions included in trading activity and other positions. In the case of items not included in trading activity, their main risk factor is indicated:

Thousand euro

12/31/2020				
	On-balance sheet balance	Trading activity	Rest	Main risk factor for balance sheet under "Rest"
Assets subject to market risk	**235,763,292**	**2,495,230**	**233,268,061**	
Cash, cash balances at central banks and other demand deposits	35,184,902	-	35,184,902	Interest rate
Financial assets held for trading	2,678,836	2,412,144	266,692	Interest rate; credit spread
Non-trading financial assets mandatorily at fair value through profit or loss				
Financial assets designated at fair value through profit or loss	114,198	10,566	103,631	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	6,676,801	72,520	6,604,281	Interest rate; credit spread
Financial assets at amortised cost	174,488,258	-	174,488,258	Interest rate
Derivatives – Hedge accounting	549,550	-	549,550	Interest rate
Investments in joint ventures and associates	779,859	-	779,859	Equity; Exchange rate
Other financial assets	458,849	-	458,849	Interest rate
Other non-financial assets	14,832,039	-	14,832,039	-
Liabilities subject to market risk	**223,271,654**	**2,308,943**	**220,962,711**	
Financial liabilities held for trading	2,653,849	2,308,943	344,906	Interest rate
Derivatives – Hedge accounting	782,657	-	782,657	Interest rate
Financial liabilities measured at amortised cost	217,390,766	-	217,390,766	Interest rate
Provisions	983,512	-	983,512	Interest rate
Other financial liabilities	371,642	-	371,642	Interest rate
Other non-financial liabilities	1,089,228	-	1,089,228	-
Equity	**12,491,638**	**-**	**12,491,638**	

Thousand euro

	12/31/2019			
	On-balance sheet balance	Trading activity	Rest	Main risk factor for balance sheet under "Rest"
Assets subject to market risk	**223,753,641**	**1,757,516**	**221,996,125**	
Cash, cash balances at central banks and other demand deposits	15,169,202	-	15,169,202	Interest rate
Financial assets held for trading	2,440,866	1,665,843	775,023	Interest rate; credit spread
Non-trading financial assets mandatorily at fair value through profit or loss	171,056	-	171,056	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	7,802,025	91,673	7,710,352	Interest rate; credit spread
Financial assets at amortised cost	181,422,646	-	181,422,646	Interest rate
Derivatives – Hedge accounting	468,516	-	468,516	Interest rate
Investments in joint ventures and associates	733,930	-	733,930	-
Other financial assets	249,552	-	249,552	Interest rate
Other non-financial assets	15,295,848	-	15,295,848	-
Liabilities subject to market risk	**210,779,235**	**2,012,614**	**208,766,621**	
Financial liabilities held for trading	2,714,365	2,012,614	701,751	Interest rate
Derivatives – Hedge accounting	728,769	-	728,769	Interest rate
Financial liabilities measured at amortised cost	205,636,018	-	205,636,018	Interest rate
Provisions	430,434	-	430,434	Interest rate
Other financial liabilities	234,537	-	234,537	Interest rate
Other non-financial liabilities	1,035,112	-	1,035,112	-
Equity	**12,974,406**	**-**	**12,974,406**	

The market risk acceptance, management and oversight system is based on managing positions expressly assigned to different trading desks and establishing limits for each one, in such a way that the trading desks have the obligation to manage their positions within the limits established by the risk unit.

Trading activity

The main market risk factors considered by the Group in its trading activity are:

- Interest rate risk: risk associated with the possibility of interest rate fluctuations adversely affecting the value of a financial instrument. This is reflected, for example, in transactions involving interbank deposits, fixed income and interest rate derivatives.

- Credit spread risk: this risk arises from fluctuations in the credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This risk occurs mainly in fixed-income instruments.

- Foreign exchange risk: risk associated with the fluctuation of exchange rates with respect to the functional currency. In the case of Banco Sabadell, the functional currency is the euro. This risk occurs mainly in currency exchange transactions and currency derivatives.

- Equity price risk: risk arising from fluctuations in the value of capital instruments (shares and quoted indices). This risk is reflected in the market prices of the securities and their derivatives.

Changes in commodities prices have not had an impact in the year, as the Group has residual (both direct and underlying) exposures.

Market risk in trading activities is measured using the VaR and stressed VaR methodologies. This allows for risks to be standardised across different types of financial market transactions.

VaR provides an estimate of the maximum potential loss associated with a position due to adverse, but normal, movements of one or more of the identified parameters generating market risk. This estimate is expressed in monetary terms and refers to a specific date, a particular level of confidence and a specific time horizon. A 99% confidence interval is used. Due to the low complexity of the instruments and the high level of liquidity of the positions, a time horizon of 1 day is used.

The methodology used to calculate VaR is historical simulation. The advantages of this methodology are that it is based on a full revaluation of transactions under recent historical scenarios, and that no assumptions need to be made as regards the distribution of market prices. The main limitation to this methodology is its reliance on historical data, given that, if a possible event has not materialised within the range of historical data used, it will not be reflected in the VaR information.

The reliability of the VaR methodology used can be checked using backtesting techniques, which serve to verify that the VaR estimates fall within the confidence level considered. Backtesting consists of comparing daily VaR against daily results. If losses exceed the level of VaR, an exception occurs. In 2020, three exceptions occurred in the backtesting exercise due to the impact of COVID-19 on sovereign bond spreads in the European periphery during the first quarter.

Stressed VaR is calculated in the same way as VaR but with a historical insight into variations of the risk factors in stressed market conditions. This stress situation is determined on the basis of currently outstanding transactions, and it can vary if the portfolios' risk profile changes. The methodology used for this risk metric is historical simulation.

Its supervision is supplemented with additional measurements such as risk sensitivities, which refer to a change in the value of a position or portfolio in response to a change in a specific risk factor, and also with the calculation of management results, which are used to monitor stop-loss limits.

Furthermore, specific simulation exercises are carried out applying extreme market scenarios (stress testing), which analyse the impacts of different historical and theoretical scenarios on the portfolios.

Market risk is monitored on a daily basis and reports are made to the supervisory bodies on the existing risk levels and on the compliance with the limits set forth by the Board Risk Committee for each management unit (limits based on nominal, VaR and sensitivity, as applicable). This makes it possible to keep track of changes in exposure levels and measure the contribution of market risk factors.

The market risk incurred on trading activity in terms of 1-day VaR with a 99% confidence interval for 2020 and 2019 was as follows:

Million euro

	2020			2019		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest rate risk	1.42	2.71	0.60	0.63	1.23	0.42
Currency risk-trading	0.46	3.22	0.01	0.04	0.13	0.01
Equities	0.19	0.23	0.08	0.43	1.36	0.13
Credit spread	1.10	2.14	0.20	0.54	1.27	0.08
Aggregate VaR	**3.17**	**5.05**	**1.26**	**1.64**	**2.32**	**0.97**

During 2020, particularly in the first six months of the year, the VaR figures for trading activity increased, mainly driven by the interest rate and credit spread, as a result of more volatile markets due to COVID-19 and despite the absence of any significant increase in the portfolio's size. High levels of foreign exchange volatility were also recorded, along with declines in equity prices, which mainly occurred during the first quarter and whose effect on portfolios was not significant given the limited exposure to these risk factors during this period.

Structural interest rate risk

Structural interest rate risk is inherent in banking activity and is defined as the current or future risk to both the income statement (income and expenses) and the economic value of equity (present value of assets, liabilities and off-balance sheet positions) arising from adverse interest rate fluctuations affecting interest rate-sensitive instruments in non-trading activities (also known as IRRBB, Interest Rate Risk in the Banking Book).

The Group identifies three interest rate sub-risks:

- Mismatch risk refers to the gap that arises as a result of the different rate at which assets and liabilities renew their interest rate. It covers both parallel and non-parallel changes in the interest rate curve (i.e. changes in the slope and shape of the curve).

- Basis risk arises from having financial instruments with similar repricing periods but based on different benchmarks.
- Optionality risk arises from explicit or implicit options on assets and liabilities, in which the Institution or the customer or counterparty may alter the level and/or timing of their flows. Automatic options related to the behaviour of interest rates, and those related to the behaviour of customers that do not only depend on interest rates, are considered.

The Group's management of this risk pursues two fundamental objectives:

- To stabilise and protect the net interest margin, preventing interest rate movements from causing excessive variations in the budgeted margin.
- To minimise the volatility of the economic value of equity, this perspective being complementary to that of the margin.

Interest rate risk is managed through a Group-wide approach on the basis of the RAS, approved by the Board of Directors. A decentralised model is followed based on Balance Sheet Management Units (UGBs, for their acronym in Spanish). In coordination with the Group's corporate functions, each UGB has the autonomy and capacity to carry out risk management and control duties.

The Group's current interest rate risk management strategy is based particularly on the following principles, in line with the business model and the defined strategic objectives:

- Each UGB has appropriate tools and processes and robust systems in order to properly identify, measure, manage, control and report on IRRBB. Thus, the Group obtains information about all of the identified sources of IRRBB, assesses their effect on the net interest margin and the economic value of equity and measures the vulnerability of the Group/UGB in the event of potential losses arising from IRRBB under different stress scenarios.
- At the corporate level, a set of limits are established for overseeing and monitoring the exposure to IRRBB that are appropriate to its internal risk tolerance policies. However, each UGB has the autonomy and structure required to properly manage and control IRRBB and CSRBB. Specifically, each UGB has sufficient autonomy to choose the management target that it will pursue, although all UGBs should follow the principles and critical parameters set by the Group, adapting them to the specific characteristics of the region in which they operate.
- The existence of a funds transfer pricing system.
- The set of systems, processes, metrics, limits, reporting arrangements and governance arrangements included within the IRRBB strategy must comply with regulatory requirements at all times.

As defined in the IRRBB management and control policy, the first line of defence is undertaken by the various Balance Sheet Management Units (UGBs), which report to the various local Asset and Liability Committees. Their main role is to manage interest rate risk, ensuring it is assessed on a recurrent basis through management and regulatory metrics, taking into account the modelling of the various balance sheet totals and the level of risk taken.

The metrics developed to control and monitor the Group's structural interest rate risk are aligned with the market's best practices and are implemented consistently across all UGBs and by each of the local asset and liability committees. The diversification effect between currencies and UGBs is taken into account when presenting overall figures.

The metrics that the Group calculates monthly are as follows:

- Interest rate gap: static metric showing the breakdown of maturities and repricing of sensitive balance sheet items. This metric compares the values of assets that are due to be revised or that mature in a given period and the liabilities that mature or reprice in that same period.
- Net interest margin sensitivity: dynamic metric that measures the short and medium-term impact of interest rate fluctuations. It is obtained by comparing the net interest margin over 1 year in the baseline scenario, which would be the one obtained from implied market interest rates, and the one obtained in a scenario of instant disruption, always considering the result obtained in the most unfavourable scenario.

- Economic value of equity sensitivity: static metric that measures the long-term impact of interest rate fluctuations. It is obtained by comparing the economic value of the balance sheet in the baseline scenario against the one obtained in a scenario of instant disruption, always considering the result obtained in the most unfavourable scenario. This is done by calculating the present value of interest rate-sensitive items as an update in the risk-free yield curve, on the reference date, of future payments of principal and interest without taking account of the profit margins, in line with the way in which IRRBB is managed.

In the quantitative interest rate risk estimations made by each UGB, a series of interest rate scenarios are designed which allow the different sources of risk mentioned above to be identified. These scenarios include, for each significant currency, parallel movements and non-parallel movements in the yield curve. Based on these, sensitivity is calculated as the difference resulting from:

- Baseline scenario: market interest rate movements based on implied interest rates.
- Stressed scenario: a shift in interest rates in relation to the baseline scenario, with the extent of this shift varying depending on the scenario to be calculated. A minimum post-disruption interest rate is applied, starting at -100 bps for current maturities and increasing by 5 bp intervals to 0% after 20 years.

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

The following table gives details of the Group's interest rate gap as at 31 December 2020 and 2019:

Thousand euro

	2020								
Time to maturity	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	36,288,648	2,262,392	647,395	195,900	-	-	-	-	**39,394,333**
Loans and advances	21,548,366	19,361,922	41,528,676	17,350,167	14,266,266	9,924,226	7,287,614	15,528,774	**146,796,010**
Debt securities	703,271	846,318	517,188	412,999	1,914,820	1,599,902	1,467,462	15,064,677	**22,526,637**
Other assets	8	247	3,310	2,969	891	9	-	-	**7,434**
Total assets	**58,540,290**	**22,470,879**	**42,696,570**	**17,962,035**	**16,181,976**	**11,524,137**	**8,755,075**	**30,593,450**	**208,724,413**
Money Market	34,558,562	4,227,133	753,612	197,063	2,094	7,071	11,606	3,178	**39,760,319**
Customer deposits	107,918,360	3,617,491	13,193,029	5,607,265	3,719,182	3,600,881	3,378,151	7,228,987	**148,263,346**
Issues of marketable securities	1,226,472	3,548,787	2,090,214	3,026,659	2,539,000	3,510,000	2,658,110	3,465,026	**22,064,268**
Of which: Subordinated liabilities	-	-	*428,239*	*1,150,000*	*500,000*	-	*300,000*	*515,025*	**2,893,265**
Other liabilities	85,539	202,717	468,804	221,647	183,456	159,018	129,675	846,396	**2,297,254**
Total liabilities	**143,788,934**	**11,596,129**	**16,505,659**	**9,052,635**	**6,443,732**	**7,276,969**	**6,177,543**	**11,543,587**	**212,385,187**
Hedging Derivatives	**8,066,166**	**(1,588,206)**	**(400,383)**	**(3,255,101)**	**(185,892)**	**1,684,739**	**(38,988)**	**(4,282,334)**	**-**
Interest rate gap	**(85,248,644)**	**10,874,750**	**26,190,910**	**8,909,401**	**9,738,244**	**4,247,168**	**2,577,533**	**19,049,864**	**(3,660,774)**

Thousand euro

	2019								
Time to maturity	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	21,543,319	1,954,473	1,962,692	517,913	-	-	-	-	**25,978,397**
Loans and advances	27,264,599	21,283,491	43,205,289	12,641,452	11,260,049	7,310,346	6,420,801	13,494,195	**142,880,223**
Debt securities	1,061,383	479,475	923,979	514,499	421,461	245,479	1,644,314	18,294,589	**23,585,179**
Other assets	988	3,968	4,885	-	-	-	13	289	**10,142**
Total assets	**49,870,288**	**23,721,407**	**46,096,845**	**13,673,865**	**11,681,510**	**7,555,825**	**8,065,128**	**31,789,073**	**192,453,941**
Money Market	12,966,939	2,882,156	4,826,662	10,894,996	2,064	3,020	5,724	4,135	**31,585,695**
Customer deposits	49,578,257	8,212,963	22,966,153	12,377,149	8,905,463	6,977,402	5,704,302	26,853,284	**141,574,973**
Issues of marketable securities	3,235,822	3,182,537	2,543,807	2,408,516	2,526,659	2,539,000	3,630,000	4,338,136	**24,404,477**
Of which: Subordinated liabilities	-	-	*424,600*	*452,515*	*1,150,000*	*500,000*	-	*515,025*	**3,042,140**
Other liabilities	114,192	193,420	605,057	257,827	203,178	166,437	143,618	884,860	**2,568,589**
Total liabilities	**65,895,211**	**14,471,076**	**30,941,679**	**25,938,488**	**11,637,363**	**9,685,859**	**9,483,645**	**32,080,414**	**200,133,735**
Hedging Derivatives	**2,428,864**	**1,720,442**	**(1,612,692)**	**(1,398,947)**	**408,036**	**1,608,952**	**1,716,271**	**(4,818,364)**	**52,562**
Interest rate gap	**(13,596,059)**	**10,970,773**	**13,542,474**	**(13,663,570)**	**452,183**	**(521,082)**	**297,755**	**(5,109,704)**	**(7,627,231)**

The following table shows the interest rate risk levels in terms of the sensitivity of the Group's main currencies, as at 2020 year-end, to the most frequently used interest rate scenarios in the sector.

	Instant and parallel increase of 100 bps	
Interest rate sensitivity	Impact on net interest margin	Impact on economic value of equity
EUR	3.4%	(2.5%)
GBP	2.2%	0.7%
USD	0.6%	0.1%

In addition to the impact on the net interest margin within the time horizon of one year shown in the previous table, the Group calculates the impact on the margin over a time horizon of two years, the result of which is notably more positive for all of the currencies. In particular, the net interest margin's sensitivity for the second year is calculated considering the Group's main currencies, with a high "pass through", i.e. most of the percentage increase of benchmark interest rates is transferred to customers' term deposits and interest-bearing sight accounts, and the results obtained are shown in the following table:

	Instant and parallel increase of 100 bps	
Impact on net interest margin 2nd year	High "Pass Through"	Medium "Pass Through"
Total	8.3%	10.6%
Of which EUR	*4.3%*	*5.3%*
Of which GBP	*3.3%*	*4.6%*

The calculation of the metrics takes into account the assumptions regarding the performance of items with no contractual maturity and those whose expected maturity is different from the maturity established in the agreements, in order to obtain a view that is more realistic and therefore more effective for management purposes. The most significant of these include:

- Prepayment of the loan portfolio and early cancellation of term deposits (implicit optionality): in order to reflect customers' reactions to interest rate movements, prepayment/cancellation assumptions are defined, broken down by type of product. To this end, the Institution uses historical data to ensure it is in line with the market's best practices.
- Modelling of sight deposits and other liabilities with no contractual maturity: a model has been defined on the basis of historical monthly data in order to reproduce customer behaviour, establishing stability parameters, the percentage of interest rate movements that is passed through to the interest paid on the deposit and the delay with which this occurs, depending on the type of product and the type of customer, enabling the Institution to meet current regulatory requirements.
- Modelling of non-performing loans: a model has been defined that enables the expected flows associated with non-performing exposures (net of provisions), i.e. those expected to be recovered, to be included in pools of interest rate-sensitive balance sheet items. To this end, both existing balances and expected recovery periods have been incorporated.

The process to approve and update IRRBB models is part of the corporate governance arrangements for models, whereby these models are reviewed and validated by a Division that is always separate from the division that created them. This process is included in the corresponding model risk policy and establishes both the duties of the different areas involved in the models and the internal validation framework to be followed.

As for the measurement systems and tools used, all sensitive transactions are identified and recorded taking into account their interest rate characteristics, the sources of information being the official ones of the Institution. These transactions are aggregated according to predefined criteria, so that calculations can be made faster without undermining the quality or reliability of the data. The entire data process is subject to the requirements of information governance and data quality, to ensure compliance with the best practices in this area. Additionally, a regular process is carried out to reconcile the information uploaded onto the measurement tool against accounting information. The calculation tool includes sensitive transactions, and its parameters are also set to reflect the result of the behavioural models described above, the volumes and prices of the new business, defined according to the Business Plan, and the yield curves on which the aforesaid scenarios are built.

Based on the balance sheet position and the market situation and outlooks, mitigation techniques are proposed and agreed upon to adapt this position to the one desired by the Group. Interest rate instruments additional to the natural hedges of balance sheet items are used to act as mitigation techniques, such as fixed-income bond portfolios or hedging derivatives that enable metrics to be placed at levels appropriate to the Institution's risk appetite. In addition, proposals can be put forward to redefine the interest rate characteristics of commercial products or the creation of new products.

Derivatives, mainly interest rate swaps (IRS), which qualify as hedges for accounting purposes, are arranged in financial markets to be used as risk hedging instruments. Two separate types of macro-hedges are used:

- Cash flow macro-hedges of interest rate risk, the purpose of which is to reduce the volatility of the net interest margin due to changes in interest rates over one-year time horizon.
- Fair value macro-hedges of interest rate risk, the purpose of which is to maintain the economic value of the hedged items, consisting of fixed-rate assets and liabilities.

For each type of macro-hedge, there is a framework document that includes the hedging strategy, defining it in terms of management and accounting and establishing its governance.

In Banco Sabadell, as part of the continuous improvement process, structural interest rate risk management and monitoring activities are implemented and regularly updated, aligning the Institution with best market practices and current regulations.

The COVID-19 crisis has resulted in a series of elements that can alter the structure of the Group's balance sheet and have an impact on net interest income and/or the economic value of equity, both in absolute terms and relative to sensitivity. Specifically, in the Bank the crisis has had an impact on customer lending positions due, on one hand, to the Spanish Government's measures related to ICO guarantees or moratoria on the repayment of loan principal and interest and, on the other hand, because of the credit facilities granted by the Bank to its customers to help them cope with financial difficulties stemming from the crisis. On the liabilities side, the main change was access to TLTRO III amounting to 27 billion euros, having made early repayment of 10.5 billion euros on TLTRO II, as the financial conditions of the new TLTRO III differ from those of the previous one (see 4.3.3.1).

TSB, on the other hand, has recorded an impact on its lending positions, due to the application of payment holidays to loans and the Government measures introduced to support businesses through the Bounce Bank Loan Scheme. In 2021, TSB plans to access funding from the Bank of England through the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME), created as a mechanism to fund SMEs in the United Kingdom. The cost of this funding is indexed to the Bank of England's official base rate.

In terms of interest rates, these have remained low throughout 2020. To provide support during the crisis, the Bank of England lowered the base rate from 0.25% to 0.10%, while the European Central Bank's marginal deposit rate was maintained at -0.50%. Interbank rates on the three currencies relevant to the Group have fallen since the onset of the crisis, increasing the probability of a slower recovery of interest rates.

In other respects, the Group pays close attention to possible changes in customer behaviour deriving from the COVID-19 crisis that could become more widespread over time, in order to keep the behaviour assumptions used to measure and manage IRRBB in line with expectations. This concerns customer behaviour related to non-maturing items (changes in the stability of sight deposits) and items with an expected maturity that may be different to the contractually established maturity (due to early repayment of loans, early termination of term deposits or recovery time and balance of non-performing exposures).

Balance sheet management has enabled the Group to keep its IRRBB metrics within its risk appetite, taking into consideration the structural changes outlined previously as well as the episodes of market volatility and interest rate variations.

4.4.3.3. Structural foreign exchange risk

Structural foreign exchange risk occurs when changes in market exchange rates between different currencies generate losses on financial investments and on permanent investments in foreign branches and subsidiaries with functional currencies other than the euro.

The purpose of managing structural foreign exchange risk is to minimise the impact on the value of the portfolio/the Institution's equity in the event of any adverse movements in currency markets. The foregoing takes into account the potential impacts on the capital (CET1) ratio and on the net interest margin, subject to the risk appetite defined in the RAS. Furthermore, the levels set for the established risk metrics must be complied with at all times.

Foreign exchange risk is monitored regularly, and reports on existing risk levels and on compliance with the limits set forth by the Board Risk Committee are sent to the risk control bodies. The main monitoring metrics are, on one hand, currency exposure (measured as a percentage of Tier 1), which measures the sum of the net open position (assets less liabilities) maintained by the Institution in each currency through any type of financial instrument (FX spots, forwards and options), valued in euros and in relation to Tier 1. Also, on the other hand, Stressed VaR, understood as the maximum potential loss on a foreign currency open position with a time horizon of 20 business days and a confidence interval of 99%, calculated using a range of historical changes in market risk factors at times of market stress. This last metric is calculated in a manner consistent with Stressed VaR and market risk.

Compliance with, and the effectiveness of, the Group's objectives and policies are monitored and reported on a monthly basis to the Board Risk Committee and to the Audit and Control Committee, respectively.

The Bank's Financial Division, through the ALCO, designs and executes strategies to hedge structural FX positions in order to achieve its objectives in relation to the management of structural foreign exchange risk.

The most significant permanent investments are denominated in US dollars, pounds sterling and Mexican pesos.

As regards permanent investments in US dollars, the structural position in this currency has gone from 1,051 million US dollars as at 31 December 2019 to 1,108 million US dollars as at 31 December 2020. With regard to this structural position, as at 31 December 2020, a hedge is in place for 14% of the total investment (see Note 12, section on *"Hedges of net investments in foreign operations"*).

With regard to permanent investments in Mexican pesos, volumes of business in Mexico and changes in the EUR/MXN currency pair are monitored. This has enabled the capital buffer to go from 10,418 million Mexican pesos as at 31 December 2019 (of a total exposure of 14,069 million Mexican pesos) to 9,003 million Mexican pesos as at 31 December 2020 (of a total exposure of 14,651 million Mexican pesos), representing 61% of the total investment made (see Note 12, section on "*Hedges of net investments in foreign operations*").

As for the structural position in pounds sterling, the Group has been implementing a hedging policy that seeks to mitigate any negative effects on capital ratios and on revenue generated by its business in pounds sterling that may result from fluctuations in the aforementioned EUR/GBP exchange rate. The Bank has continuously monitored the political situation in the United Kingdom and its impact on the exchange rate. Considering the foregoing, during 2020 the capital buffer has gone from 573 million pounds as at 31 December 2019 to 213 million pounds as at 31 December 2020, representing 12% of the total investment made (excluding intangibles) (see Note 12, section on "*Hedges of net investments in foreign operations*").

Currency hedges are continuously monitored in light of market movements.

The exchange value in euros of assets and liabilities in foreign currencies maintained by the Group as at 31 December 2020 and 2019, classified in accordance with their nature, is as follows:

Thousand euro

	2020			
	USD	GBP	Other currencies	Total
Assets denominated in foreign currency:	**9,509,570**	**48,726,489**	**3,074,872**	**61,310,931**
Cash, cash balances at central banks and other demand deposits	313,503	5,652,619	546,958	6,513,080
Debt securities	1,062,537	2,939,234	220,186	4,221,957
Loans and advances	7,849,982	38,765,206	2,087,589	48,702,777
Central banks and Credit institutions	110,579	209,854	136,045	456,478
Customers	7,739,403	38,555,352	1,951,544	48,246,299
Other assets	283,548	1,369,430	220,139	1,873,117
Liabilities denominated in foreign currency:	**7,316,619**	**45,321,362**	**2,302,968**	**54,940,949**
Deposits	6,986,825	42,119,071	2,225,313	51,331,209
Central banks and Credit institutions	2,362,537	3,458,680	361,626	6,182,843
Customers	4,624,288	38,660,391	1,863,687	45,148,366
Other liabilities	329,794	3,202,291	77,655	3,609,740

Thousand euro

	2019			
	USD	GBP	Other currencies	Total
Assets denominated in foreign currency:	**10,166,192**	**47,844,236**	**3,098,367**	**61,108,795**
Cash, cash balances at central banks and other demand deposits	552,780	5,417,198	674,941	6,644,919
Debt securities	1,331,485	2,536,718	132,003	4,000,206
Loans and advances	8,076,877	39,060,902	2,076,900	49,214,679
Central banks and Credit institutions	130,837	583,399	49,496	763,732
Customers	7,946,040	38,477,503	2,027,404	48,450,947
Other assets	205,050	829,418	214,523	1,248,991
				-
Liabilities denominated in foreign currency:	**9,957,441**	**44,310,409**	**2,276,797**	**56,544,647**
Deposits	9,688,145	41,133,452	2,218,839	53,040,436
Central banks and Credit institutions	2,278,017	5,312,836	264,517	7,855,370
Customers	7,410,128	35,820,616	1,954,322	45,185,066
Other liabilities	269,296	3,176,957	57,958	3,504,211

The net position of foreign currency assets and liabilities includes the structural position of the Institution, valued at the closing exchange rate of 31 December 2020, which amounted to 2,777 million euros, including 1,721 million euros corresponding to permanent equity holdings in pounds sterling, 780 million euros corresponding to permanent equity holdings in US dollars and 231 million euros to permanent equity holdings in Mexican pesos. Net assets and liabilities valued at historic exchange rates are hedged with forwards and options denominated in foreign currencies in line with the Group's risk management policy.

As at 31 December 2020, the equity exposure sensitivity to a 2.6% exchange rate depreciation in the main currencies to which the Bank is exposed, against the euro, amounted to 72 million euros, of which 62% corresponded to the pound sterling, 28% to the US dollar and 8% to the Mexican peso. This potential depreciation is in line with historical quarterly volatility in recent years.

During 2020 the US dollar depreciated by 8.5%, the pound sterling depreciated by 5.4% and the Mexican peso depreciated by 13.1% against the euro. The Bank's strategy, which has consisted of protecting the capital ratio against exchange rate movements during this period, has remained unchanged from the pre-crisis situation.

4.4.4. Operational risk

Operational risk is defined as the risk of incurring losses due to inadequacies or failures of processes, staff or internal systems or due to external events. This definition includes but is not limited to legal risk, model risk and information and communication technology (ICT) risk and excludes strategic risk and reputational risk.

The management of operational risk is decentralised and devolved to process managers throughout the organisation. The processes that they manage are indicated in the corporate process flowchart, which facilitates the integration of data according to the organisational structure. The Group has a central unit that specialises in the management of operational risk, whose main duties are to coordinate, oversee and promote the identification, assessment and management of risks by the process managers, based on the management model adopted by Banco Sabadell Group.

Senior Management and the Board of Directors are directly involved and effectively take part in managing this risk by approving the management framework and its implementation as proposed by the Board Risk Committee. The latter is formed of Senior Management members from different functional areas within the Institution. The management of this risk also requires regular audits to be carried out of the application of the management framework and the reliability of the information provided, as well as internal validation tests of the operational risk model. Operational risk is managed with two lines of approach:

The first line of approach is based on the analysis of processes, the identification of risks associated with those processes that may result in losses, and a qualitative assessment of the risks and the associated controls. The foregoing are carried out jointly between process managers and the central operational risk unit. This provides an assessment of the future exposure to the risk in terms of expected and unexpected loss and also allows trends to be foreseen and the corresponding mitigating actions to be adequately planned.

This is complemented by the identification, monitoring and active management of the risk through the use of key risk indicators. These allow warnings to be established, which alert the Bank to any increase in this exposure, and also enable the Bank to identify the causes of that increase and measure the effectiveness of the implemented controls and improvements.

At the same time, the Bank checks that specific business continuity plans have been defined and implemented for processes identified as being highly critical in the event of any service disruption. In terms of the identified risks, a qualitative estimate is made of the reputational impact that these risks could cause in the event of their occurrence.

The second line of approach is based on experience. It consists of recording all losses incurred by the Institution in a database, which provides information about operational risks encountered by each business line as well as their causes, so that action may be taken to minimise these risks and detect potential weaknesses in the processes that require action plans to be drawn up aimed at mitigating the associated risks. Also included are the recoveries that make it possible to reduce the level of loss either as a result of direct management or by having an insurance policy that covers all or part of the resulting impacts.

Additionally, this information allows the consistency between estimated losses and actual losses to be determined, in terms of both frequency and severity, iteratively improving the estimates of exposure levels.

Within operational risk, the following risks are also managed and controlled:

- Conduct risk is defined as the current or future risk of incurring losses as a result of the inadequate provision of financial services, including cases of wilful misconduct or negligence. It is comprehensively managed using the elements defined in the methodological framework for operational risk and through the governance arrangements and lines of defence provided in the same document.

- Technology risk: Technology risk (or ICT (information and communication technology) risk) is defined as the current or future risk of incurring losses due to inadequacies or failures of technical infrastructures' hardware and software, which could compromise the availability, integrity, accessibility and security of these infrastructures and data, or make it impossible for IT platforms to be changed at a reasonable cost and within a reasonable time frame to respond to changes in the needs of the environment or of the business.

  It also includes security risks resulting from inadequacies or failures of internal processes or external events, including cyberattacks or inadequate physical security in data centres.

- Outsourcing risk: the possibility of incurring losses as a result of suppliers failing to provide subcontracted services or discontinuing their provision, weaknesses in their systems' security, disloyal employees or a breach of applicable regulations. It also includes other related risks such as concentration risk, country risk, legal risk and compliance risk.

- Model risk: the possibility of incurring losses due to decisions made using inadequate models.

- Tax risk: the probability of failing to achieve the objectives set out in Banco Sabadell's tax strategy from a dual perspective and due to either internal or external factors:

  - On one hand, the probability of failing to fulfil tax obligations, potentially resulting in an undue shortfall of income, or the occurrence of any other event that could be detrimental to the Bank in terms of meeting its objectives.

  - On the other hand, the probability of receiving an undue surplus of income as a result of failing to fulfil tax obligations, thus negatively affecting shareholders and other stakeholders.

- Compliance risk: the risk of incurring legal or administrative sanctions, significant financial losses or a loss or damage to the Institution's reputation as a result of an infringement of laws, regulations, internal procedures or codes of conduct applicable to the Group's activity.

Reputational risk, understood as the possibility of incurring losses as a result of negative publicity related to the Institution's practices and business, is also managed and controlled according to the methodological framework for operational risk, as this is a potentially significant source of reputational risk. This risk also considers the loss of trust in the Institution, which could affect its solvency.

In response to the emergency brought about by COVID-19, Group entities in all regions activated their various protocols and plans intended for use in pandemics and contingencies, which had been reviewed and updated once monitoring of the developments and spread of COVID-19 had begun. This activation enabled the pre-emptive management of potential operational risks that could potentially arise from the situation and helped to prepare Group entities to adapt their systems, processes and activities to the new situation, ensuring that they work properly and minimising, to the extent possible, the exposure to operational risks, as well as facilitating the introduction of new activities, products and services developed and implemented due to the COVID-19 crisis, such as the assistance measures introduced by official bodies, government bodies, or by other bodies in the sector or the Bank itself.

Senior Management and, in particular, the Board Risk Committee, have closely monitored the Group's risk profile through specific reports containing information and indicators associated with the main operational risks (including technology, human error, conduct, process, security and fraud risk) and reputational impacts that could potentially affect the Group's different stakeholders (employees and partners, customers, suppliers, supervisors), without finding impacts of particular note.

4.4.4.1 Technology risk

In relation to technology risk, it should be noted that this has become a key focus area for Banco Sabadell Group's risk management for different reasons:

- Increase in the significance, complexity and use of technology in banking processes.
- Increase in external threats (cybercrime) and their potential impacts on institutions and the financial system in general.
- Implementation of new business models based on data and new technology which bring with them new risks (emerging risks) that could potentially alter the risk profile.

Additionally, this risk is not only applicable to the Bank's own systems, but it is also applicable to suppliers, given the widespread use of third parties for support in technological and business processes, and this therefore represents a significant risk when it comes to managing outsourcing.

4.4.4.2 Tax risk

Banco Sabadell Group's tax risk policies aim to set out principles and guidelines in order to ensure that any tax risks that may affect the Group's tax strategy and fiscal objectives are systematically identified, assessed and managed so as to comply with the new requirements of the Spanish Capital Companies Act and of Banco Sabadell Group stakeholders.

In terms of tax risk, Banco Sabadell Group aims to fulfil its tax obligations at all times, adhering to the existing legal framework in matters relating to taxation.

Banco Sabadell Group's tax strategy reflects its commitment to promoting responsible taxation, promoting preventive measures and developing key transparency schemes in order to gain the confidence and trust of its various stakeholders.

The tax strategy is governed by the principles of efficiency, prudence, transparency and mitigation of tax risk, and it is generally aligned with the business strategy of Banco Sabadell Group.

The Board of Directors of Banco Sabadell, under the mandate set out in the Spanish Capital Companies Act for the improvement of corporate governance, is responsible, and cannot delegate such responsibility, for the following:

- Setting the Institution's tax strategy.
- Approving investments and operations of all types which are considered strategic or to have a particular tax risk due to their amounts or particular characteristics, except when such approval corresponds to the Annual General Meeting.
- Approving the creation and acquisition of shareholdings in special purpose entities or entities domiciled in countries or territories classified as tax havens.
- Approving any transaction which, due to its complexity, might undermine the transparency of the Institution and its Group.

As such, the duties of the Board of Directors of Banco Sabadell include the obligation to approve the corporate tax policy and ensure compliance therewith by implementing an appropriate control and oversight system, which is enshrined in the general risk management and control framework of the Group.

4.4.4.3 Compliance risk

As regards compliance risk, one of the essential aspects of Banco Sabadell Group's policy, and the basis of its organisational culture, is strict compliance with all legal provisions, meaning that the achievement of business objectives must be compatible, at all times, with adherence to the law and the established legal system.

To this end, the Group has a Compliance Division whose mission is to seek the highest levels of compliance with existing legislation and ensure that professional ethics are present in all areas of the Group's activity.

This Division assesses and manages compliance risk in order to minimise the possibility of any failure to comply with such legislation, and to ensure that any instances of non-compliance are identified, reported and diligently resolved. It does this by:

- Monitoring and overseeing the adaptation to new regulations through proactive management to ensure regular and systematic monitoring of legal updates.

- Identifying and periodically assessing compliance risks in the different areas of activity and contributing to their management in an efficient manner. To this end, establishing, applying and maintaining appropriate procedures to prevent, detect, correct and minimise any compliance risk.

- Establishing, in accordance with the above, an updated oversight and control programme, with the appropriate tools and methodologies for control.
-
- Supervising the risk management activities carried out by the 1st line of defence to ensure that they are aligned with the established policies and procedures.

- Keeping, for at least the period of time established by the legislation in force at any given time, the documentary justification of the controls carried out by the Compliance Division, as well as any other policies and procedures implemented for the best possible fulfilment of regulatory obligations.

- Submitting to the administrative and management bodies the regular or ad-hoc reports on compliance that are legally required at any given time.

- Reporting to the administrative and management bodies on any information relevant to compliance arising from all areas and activities of each Group entity.

- Assisting the Board of Directors and Senior Management in compliance matters.

- Acting as a spokesperson before the relevant regulatory bodies, overseeing the responses to requirements and inspections by official or supervisory bodies, as well as compliance with their recommendations, in relation to anti-money laundering and counter-terrorist financing (SEPBLAC, Bank of Spain, etc.), and in relation to securities markets (CNMV), insurance distribution (DGS) and data protection (AEPD).

- Assigning functional responsibilities for compliance where necessary.

- Intervening in the process for establishing remuneration policies and practices.

- With regard to Anti-Money Laundering, Counter-Terrorist Financing (AML/CTF) and International Sanctions, implementing, managing and updating policies and procedures; carrying out the classification of the AML/CTF risk of customers, both at the time of onboarding and during the business relationship; applying due diligence measures in accordance with the risk level assigned to customers, paying particular attention to those classified as high risk to whom enhanced measures will be applied for onboarding purposes so that they can be accepted beforehand and updated as required; managing tracking alerts and detecting matches against lists of designated persons and transactions of countries subject to international sanctions; performing special analyses of suspicious activities and reporting them as necessary; preparing training plans; approving new products, services, channels and business areas and preparing a periodic risk assessment of internal control procedures in the area of AML/CTF and international sanctions, providing support to the Internal Control Body (ICB) responsible for compliance in these matters.

- Promoting a culture of compliance and appropriate conduct in each of the Group entities, adopting measures that will enable employees to obtain the training and experience they need to carry out their duties properly.

- Collaborating in the development of training programmes in order to advise and make employees aware of the importance of complying with the established internal procedures.

- Informing, reviewing or proposing corrective measures and/or responses to incidents detected in matters of conduct or to queries submitted to the Corporate Ethics Committee (CEC), whose mission is to promote the Group's ethical conduct to ensure compliance with the action principles set forth in Banco Sabadell Group Code of Conduct, the Banco Sabadell Group Internal Code of Conduct relating to the securities market, the Banco Sabadell Group General Policy on Conflicts of Interest and the Banco Sabadell Group Corporate Crime Prevention Policy.

Note 5 – Minimum own funds and capital management

Regulatory framework

The Group calculates minimum capital requirements based on Directive 2013/36/EU (CRD-IV) and Regulation (EU) 575/2013 (hereinafter, CRR), which regulates the minimum capital to be held by credit institutions. This framework came into force on 1 January 2014 and was enacted in Spain through the following regulations:

(i) Royal Decree-Law 14/2013 on urgent measures for adapting Spanish law to European Union regulations in terms of supervision and solvency of financial institutions;

(ii) Law 10/2014 on the regulation, supervision and solvency of credit institutions;

(iii) Royal Decree 84/2015 that implements the previous Law 10/2014, as well as other lower-ranking provisions; and

(iv) Bank of Spain Circulars 2/2014 and 2/2016.

The new regulatory framework amending the previous one was published on 7 June 2019 and entered into force on 27 June. Its implementation will be carried out in successive stages from that date, although most of the provisions will be implemented from 28 June 2021:

- Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempt entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (hereinafter, CRD V); and

- Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) 648/2012 (hereinafter, CRR II).

The health crisis caused by COVID-19 has resulted in competent institutions in Europe temporarily lowering liquidity, capital and operational requirements applicable to banks, to ensure that they can continue carrying out their role of providing funding to the real economy.

In particular, the European Commission, the European Central Bank and the EBA have provided clarity regarding the application of the flexibility already embedded in Regulation (EU) 575/2013 by issuing interpretations and guidance on the application of the prudential framework in the context of COVID-19. The most significant publications are:

- Statement on actions to mitigate impact of COVID-19 on banks. EBA. 12/3/2020.
- ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus. SSM 12/3/2020
- Further flexibility on NPLs and IFRS 9. SSM. 20/03/2020
- Clarity to banks and consumers on the application of the prudential framework in light of COVID-19 measures. EBA. 25/03/2020.
- EBA Guidelines on public and private moratoria. EBA. 02/04/2020.
- EBA statement on additional supervisory measures in the COVID-19 pandemic. EBA. 22/04/2020.

Such guidance includes the interpretative communication of the Commission of 28 April 2020 on the application of the accounting and prudential frameworks to facilitate EU bank lending – Supporting businesses and households amid COVID-19. 24 June 2020 saw the publication, based on the aforesaid communication, of Regulation 2020/873 amending Regulations (EU) 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic.

The new Regulation is applicable immediately and includes the following measures:

- Guarantees provided in the context of the COVID-19 pandemic by national governments or other public entities are given the same favourable treatment as guarantees provided by official export credit agencies.

- Leverage ratio: the regulation establishes the possibility of temporarily excluding (until 27 June 2021) certain exposures to central banks from the calculation of an institution's total exposure measure. It also brings forward the more favourable treatment introduced in Regulation (EU) 2019/876 for the calculation of the leverage ratio exposure value of regular-way purchases and sales awaiting settlement.

- The Basel Committee on Banking Supervision agreed on 3 April 2020 to allow more flexibility in the implementation of the transitional arrangements that phase in the impact of IFRS 9. Specifically, to mitigate the potential impact that a sudden increase in expected credit loss provisions could have on institutions' capacity to lend to customers in the context of COVID-19, the transitional arrangements are extended by two years, allowing institutions to fully add back to their Common Equity Tier 1 capital any increase in new expected credit loss provisions that they recognise in 2020 and 2021 for their financial assets that are not credit-impaired.

- The regulation brings forward by one year the more favourable treatment of loans granted by credit institutions to pensioners or employees with a permanent contract, the SME supporting factor and the infrastructure supporting factor. Furthermore, the implementation of the RTS of the EBA (*Regulatory Technical Standards on the prudential treatment of software assets under Article 36 of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR) amending Delegated Regulation (EU) 241/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for own funds requirements for institutions*) on the prudential treatment (non-deductibility of CET1) of certain software assets with value in the event of resolution, already provided for in Regulation (EU) 2019/876, is brought forward by 12 months. The Commission Delegated Regulation (EU) 2020/2176 of 12 November 2020 amending Delegated Regulation (EU) No. 241/2014 as regards the deduction of software assets from Common Equity Tier 1 has been published with an entry into force date of 23 December 2020.

- Public financing through the issuance of government bonds denominated in the domestic currency of another Member State might be necessary to support measures to fight the consequences of the COVID-19 pandemic, therefore transitional arrangements are reintroduced for exposures to central governments and central banks, where those exposures are denominated in the domestic currency of another Member State.

- Prudential filters. Furthermore, institutions may temporarily remove from the calculation of their CET1 the increase in value adjustments made to the fair value portfolio since 31 December 2019, corresponding to exposures to central governments, regional governments or local authorities referred to in Art. 115(2) (includes autonomous communities) and to public sector entities referred to in Art. 116(4) recognised by the competent authority.

In addition, in July 2020, the European Commission presented a proposal for capital markets recovery known as the Capital Markets Recovery Package (CMRP). The package proposes, inter alia, the amendment of CRR and of Regulation 2017/2402 on securitisation.

According to the above framework, credit institutions must comply with a total capital ratio of 8% at all times. However, regulators may exercise their authority and require institutions to maintain additional capital.

On 4 December 2019, Banco Sabadell received a notification from the European Central Bank with regard to the minimum prudential requirements applicable to the Bank for 2020 as a result of the Supervisory Review and Evaluation Process (SREP). The requirement, applicable on a consolidated basis, requires Banco Sabadell to keep a phase-in Common Equity Tier 1 (CET1) ratio of at least 9.50% and a phase-in Total Capital ratio of at least 13%. These ratios include the minimum required by Pillar 1 (4.50%) and Pillar 2R (2.25%), the capital conservation buffer (2.50%) and the requirement applicable due to the Bank's status as an 'other systemically important institution' (0.25%). Following that decision, the capital requirement remained unchanged relative to 2019.

Additionally (and this is also included in SREP requirements, being 0.14% at the time of the notification), the Group must meet the requirement resulting from the calculation of the specific counter-cyclical capital buffer which, as at 31 December 2020, stands at 0% as a consequence of the measures taken to deal with the COVID-19 crisis, which have led different countries to lower their capital requirements, including this buffer's requirement. More specifically, on 11 March 2020, the Bank of England's Financial Policy Committee (FPC) announced that the counter-cyclical buffer rate (which had been 1% and had been due to reach 2% by December 2020) was being reduced to 0% with immediate effect. The FPC expects to maintain the 0% rate for at least 12 months, so that any subsequent increase in the counter-cyclical buffer would not take effect until March 2022 at the earliest.
It should be noted that the ECB, in the wake of the COVID-19 crisis, has allowed banks to operate temporarily below the capital level defined by Pillar 2 guidance (P2G) and the capital conservation buffer (2.5%) until at least the end of 2022.

Moreover, from 12 March 2020, part of Pillar 2R can be met using AT1 (18.75%) and Tier 2 (25%) instruments; therefore, on a consolidated basis, the minimum phase-in Common Equity Tier 1 (CET1) capital that Banco Sabadell is required to meet under the new framework is 8.52%.

As at 23 November 2020, Banco Sabadell has received an Operational Letter from the European Central Bank regarding the minimum prudential requirements that will be applicable by 2021 and in which it is informed that those of 2020 will be kept. The consolidated requirement required Banco Sabadell to maintain a minimum phase-in Common Equity Tier I (CET1) ratio of 9.50%, but as previously mentioned, as of 12 March 2020, part of Pillar 2R can be met with AT1 and Tier 2 instruments and, as a result, the CET1 requirement stands at 8.52%; therefore, the 2021 requirement is actually 8.52%. The minimum requirement for the phase-in Total Capital ratio is 13%. These ratios include the minimum required under Pillar 1 (4.50%), the Pillar 2R requirement (2.25%), the capital conservation buffer (2.50%), the requirement arising from the Institution's perceived status as an "other systemically important institution" (0.25%) and the counter-cyclical buffer (0%). Following this decision, the Total Capital requirement remained unchanged relative to 2020.

As at 31 December 2020, the Group's CET1 capital ratio stood at 12.55% (12.45% as at 31 December 2019); therefore, with regard to the capital requirements indicated in the preceding points, they are comfortably met.

The following table sets out the minimum prudential requirements applicable to Banco Sabadell following the Supervisory Review and Evaluation Process (SREP) for the years 2018-2021:

	2021	2020	2019
Pillar 1 CET1	4.50%	4.50%	4.50%
Pillar 2 Requirement	1.27%	2.25%	2.25%
Capital conservation buffer	2.50%	2.50%	2.50%
Systemic buffer	0.25%	0.25%	0.25%
Contracyclical buffer	0.00%	0.00%	0.14%
Common Equity Tier 1 ratio (CET 1)	8.52%	9.50%	9.64%
Dates of communication of the SREP outcome	11/23/2020	12/4/2019	2/8/2019

On an individual basis, the requisite Common Equity Tier 1 (CET1) ratio resulting from the 2020 SREP process was 9.25% (as previously mentioned at the consolidated level, as of 12 March it is modified to 8.27%) and the phase-in Total Capital ratio was 12.75%. This requirement included the minimum required by Pillar 1 (4.50%), the Pillar 2 requirement (P2R) (2.25%, although as of 12 March 2020 only 1.27% has to be met with CET1), the capital conservation buffer (2.50%) and the requirement arising from the calculation of the counter-cyclical capital buffer which, as at December 2019, was 0%. The notification received for 2021, with regard to the capital requirements, on both an individual and a consolidated basis, remains unchanged relative to 2019.

As at 31 December 2020, Banco Sabadell's CET1 capital ratio stood at 14.30%, and its phase-in Total Capital ratio stood at 17.51%; consequently, with regard to the individual capital requirements, it also comfortably exceeds the SREP requirements.

On 15 May 2014, the Directive 2014/59/EU was published in the Official Journal of the European Union, which establishes a framework for the restructuring and resolution of credit institutions and investment firms, known by its acronym BRRD (Bank Recovery and Resolution Directive).

Through the publication of the Royal Decree 1012/2015, of 6 November 2015, whereby Law 11/2015, of 18 June 2015, on the recovery and resolution of credit institutions and investment firms is developed, the BRRD was adopted in Spain.

The BRRD arises from the need to establish a framework that grants authorities a series of credible instruments to intervene early and quickly enough in an organisation with liquidity problems, in order to ensure the continuity of the essential financial and economic activities of the organisation, to avoid significant negative repercussions on its financial stability and to adequately protect public funds, while minimising dependence on extraordinary public financial aid. Likewise, covered depositors enjoy special treatment.

The framework proposed by the BRRD is based on the principle that traditional insolvency proceedings are not, in many cases, the best alternative to achieve the aforementioned objectives. Therefore, the BRRD introduces the resolution procedure, whereby the relevant resolution authorities obtain administrative powers to manage an insolvency situation of a given organisation.

The preamble of Law 11/2015 defines a resolution process as a unique administrative process, which would manage the insolvency of those credit institutions and investment firms that cannot be undertaken through bankruptcy liquidation for reasons of public interest and financial stability. In order to achieve the aforementioned objectives, the BRRD envisages a series of instruments available to the competent resolution authority, including a bail-in tool. The BRRD introduces for this purpose a minimum requirement of own funds and eligible liabilities (MREL) that organisations must comply with at all times in order to ensure the existence of a sufficient capacity to absorb losses that guarantees the effective implementation of the resolution mechanisms and that, under the current regulatory environment, would be expressed as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and equity of the organisation.

Similarly, in 2015 the FSB defined the TLAC (Total Loss Absorbing Capacity) requirement, with the same aim of guaranteeing that banks are able to absorb losses and execute a bail-in in the event of resolution. It should be noted that this requirement only applies to global systemically important banks (G-SIBs); therefore, it does not apply to Banco Sabadell Group.

In June 2019, after more than 2.5 years of negotiations, a reform of the bank resolution framework was agreed with the approval of the new resolution directive, BRRDII (Directive 2019/879), which implements the international TLAC standard in Europe. Member States had until 28 December 2020 to transpose the Directive, but in the case of Spain, it has not yet been transposed.

Responsibility for determining MREL falls to the Single Resolution Board (SRB), pursuant to that set forth in Regulation (EU) 806/2014, also revised in 2019 and replaced by Regulation (EU) 2019/877. Thus, the SRB, after consulting with the competent authorities, including the ECB, shall establish MREL for each bank, taking into account aspects such as the size, funding model, risk profile and potential contagion effect for the financial system.

The SRB published in May 2020 the MREL Policy under the Banking Package, which integrates the regulatory changes of the aforementioned reform of the resolution framework. The new SRB decisions will be based on balance sheet data as at December 2019 (except for capital buffers, which will be taken into account as at June 2020) and will set two binding MREL targets: the final MREL target to be binding on 1 January 2024 and an interim target to be met by 1 January 2022. The latter corresponds to an intermediate level that allows for a linear construction of the MREL capacity of institutions. Therefore, its calibration depends on the Institution's MREL capacity at the time of calibration and its final target. In addition, in the intermediate level calibration, the SRB may make an adjustment due to the impact of the COVID-19 crisis on banks' balance sheets as long as this has been material.

Banco Sabadell received a notification from the Bank of Spain of the decision taken by the Single Resolution Board (SRB) concerning the minimum requirement for own funds and eligible liabilities (MREL) and the subordination requirement on a consolidated basis applicable to the Institution.

The requirements to be met as of 1 January 2024 are as follows:

- The minimum MREL requirement is 21.75% of the total risk exposure amount (TREA) and 6.22% of the leverage ratio exposure (LRE).

- The subordination requirement is 14.45% of TREA and 6.22% of LRE.

The decision has set the following intermediate requirements to be met as of 1 January 2022:

- MREL requirement is 21.05% of TREA and 6.22% of LRE.

- The subordination requirement is 14.45% of TREA and 6.06% of LRE.

The own funds that the Bank uses to meet the combined buffer requirement (CBR, comprising the capital conservation buffer, the systemic risk buffer and the counter-cyclical buffer) will not be eligible to meet MREL and subordination requirements expressed in TREA.

Banco Sabadell already meets the requirements as of 1 January 2024, which coincide with Banco Sabadell's expectations and are in line with its funding plans. In 2020, the Bank issued 1.3 billion euros of MREL-eligible issues, 1 billion euros of senior preferred and 300 million euros of Tier 2.

	MREL Requirement		Subordination Requirement	
	% TREA	% LRE	% TREA	% LRE
Requirement 1 January 2022	21.05%	6.22%	14.45%	6.06%
Requirement 1 January 2024	21.75%	6.22%	14.45%	6.22%
MREL 30 September 2020 (*)	22.46%	9.22%	15.48%	6.66%

(*) The % TREA does not include capital used to meet the CBR (2.75% TREA).

Capital management

The management of capital funds is the result of the ongoing capital planning process. This process takes into account the evolution of the economic, regulatory and sectoral environment. It takes into account the expected capital consumption in different activities, under the various envisaged scenarios, and the market conditions that could determine the effectiveness of the various actions that could be considered for implementation. The process is enshrined within the strategic objectives of the Bank and aims to achieve an attractive return for shareholders, whilst also ensuring that its own funds are appropriate in terms of the inherent risks of banking activity.

As regards capital management, as a general policy, the Group aims to adjust its overall available capital to the incurred risks.

The Group follows the guidelines set out in CRD-IV and associated regulations, as well as their successive updates, in order to establish own funds requirements that are inherent to the risks that have been incurred by the Group, based on internal risk measurement models that have been previously validated by independent parties. To this end, the Group has been authorised by the supervisor to use the majority of its internal models in place to calculate regulatory capital requirements.

The following table outlines the status of credit rating models developed by Banco Sabadell Group with regard to the authorisation by the supervisor for their usage when calculating own funds requirements.

Breakdown of portfolios authorised by the Supervisor for the use or gradual application of the internal ratings-based (IRB) approach.					
Bank	Regulatory Exposure Portfolio	Internal Portfolio	Internal Estimates Used	Internal Ratings Based approach	Status
BSab	Corporates	Portfolios subject to rating models ranging from corporate banking customers to SMEs, RE Developers and holding companies	PD LGD CCF	Advanced IRB	Authorised on 06/2008
BSab	Retail	Mortgages	PD LGD	Advanced IRB	Authorised on 06/2008
BSab	Retail	Consumer loans	PD LGD	Advanced IRB	Authorised on 06/2008
BSab	Corporates	Project finance	PD	Supervisory Slotting Criteria	Authorised on 12/2009
BSab	Retail	Retailers and Self-Employed	PD LGD CCF	Advanced IRB	Authorised on 12/2010
BSab	Retail	Credit cards	PD LGD CCF	Advanced IRB	Authorised on 12/2011
BSab	Retail	Loans	PD LGD CCF	Advanced IRB	Authorised on 12/2011
BSab	Institutions	Financial institutions	PD	Foundation IRB	Authorised on 12/2012
TSB	Retail	Mortgages	PD LGD CCF	Advanced IRB (PRA) Waiver SSM	Authorised on 06/2014 (PRA)
TSB	Retail	Consumer loans	PD LGD CCF	Advanced IRB (PRA) Waiver SSM	Authorised on 10/2014 (PRA)
TSB	Retail	Credit cards	PD LGD CCF	Advanced IRB (PRA) Waiver SSM	Authorised on 06/2015 (PRA)
TSB	Retail	Current accounts	PD LGD CCF	Advanced IRB (PRA) Waiver SSM	Authorised on 06/2015 (PRA)

Data of models approved by the Supervisor, as at 31 December 2020.
The date of authorisation refers to the date on which the Supervisor authorised the use of IRB models for each specific portfolio.

The Group carries out frequent backtesting exercises on its IRB models, at least once a year. These backtesting exercises are independently reviewed by the Internal Validation unit and reported for their monitoring to the internal governing bodies, such as the Technical Risk Committee and the Board Risk Committee (delegated Board committees). Additionally, the backtesting results that affect the risk parameters, and the main conclusions from these results, taking into account the criteria established by the EBA in its Disclosure Guidelines, are included in the annual Pillar III Disclosures report.

The Group has a model in place that comprehensively measures its risks using an internal measurement of allocated capital, and this model is based on the risk measurements provided by the new methodologies.

As part of the Group's Global Risk Framework (detailed in Note 4), the Group has defined a risk taxonomy that encompasses the relevant risks to which it is exposed. First-tier risks are credit risk, strategic risk, financial risk and operational risk. From each of these first-tier risks stem second-tier risks (or even lower level risks depending on the nature of the risk). All risks are assessed internally in the self-assessment exercise, thereby determining whether they represent a high, medium or low risk. In the case of important risks representing a significant risk, the Group has a complex capital measurement system using internal models, calculating capital under stress situations. In this way, internal methods ensure that capital needs are consistent with the risk inventory.

Each year, the Group carries out an internal capital adequacy assessment process. This process, as mentioned in the previous paragraph, starts from a broad spectrum of previously identified risks and a qualitative internal assessment of policies, procedures and systems for accepting, measuring and controlling each type of risk, as well as the corresponding mitigation techniques.

The next stage involves a comprehensive quantitative assessment of the necessary capital based on internal parameters and using the Group's own models (such as borrower credit rating and scoring systems) and other internal estimates appropriate to each type of risk. The assessments for each type of risk are then integrated and a figure is calculated to be used as an indicator in terms of allocated capital. In addition, the Institution's business and financial plans and stress testing exercises are taken into account to determine whether certain business developments or extreme scenarios could endanger its solvency when compared to its available own funds.

Assessing risks in terms of the capital that needs to be allocated enables the risk to be linked to the profitability obtained at both transaction and customer level, all the way up to business unit level. The Group has implemented a risk adjusted return on capital (RaRoC) system which provides this assessment, enabling uniform comparisons to be made and included in the transaction pricing process.

The level and quality of capital are first-tier metrics of the Group's Risk Appetite Statement and its management and control is governed by the Group's Risk Appetite Framework (RAF).

For more information on capital management, see the Pillar III Disclosures report, published annually, which is available on the Bank's website (www.grupobancsabadell.com), in the section on Information for shareholders and investors / Financial information.

Eligible capital and capital ratios

As at 31 December 2020, the Group's eligible capital amounted to 12,708 million euros (12,750 million euros as at 31 December 2019), representing a surplus of 6,406 million euros (6,256 million euros as at 31 December 2019), as shown below:

Thousand euro

	2020	2019	Year-on-year change (%)
Capital	703,371	703,371	-
Reserves	12,277,741	12,364,431	(0.70)
Convertible bonds	-	-	-
Minority interests	8,778	18,163	(51.67)
Deductions	(3,101,980)	(2,981,119)	4.05
CET1 resources	**9,887,909**	**10,104,845**	**(2.15)**
CET1 (%)	12.6	12.4	0.84
Preference shares, convertible bonds and deductions	1,153,414	1,153,033	-
Additional Tier 1 resources	**1,153,414**	**1,153,033**	**-**
AT1 (%)	1.5	1.4	3.08
Tier 1 resources	**11,041,323**	**11,257,878**	**(1.92)**
Tier 1 (%)	14.0	13.9	1.07
Tier 2 resources	**1,666,928**	**1,492,357**	**11.70**
Tier 2 (%)	2.1	1.8	15.10
Capital base	**12,708,251**	**12,750,235**	**(0.33)**
Minimum capital requirement	6,302,302	6,494,460	(2.96)
Capital surplus	**6,405,949**	**6,255,775**	**2.40**
Total capital ratio (%)	**16.1**	**15.7**	**2.71**
Risk weighted assets (RWAs)	**78,778,773**	**81,180,752**	**(2.96)**

Common Equity Tier 1 (CET1) capital accounted for 77.81% of eligible capital. Deductions are mainly comprised of goodwill and intangible assets.

Tier 1 capital is comprised, in addition to CET1 funds, by items that largely make up Additional Tier 1 capital (9.08% of own funds), which are capital items comprised of preference shares.

Tier 2 capital provides 13.21% of the total capital ratio and is made up largely of subordinated debt.

In the year 2020, the issuance of 300 million euros of subordinated debt (Obligaciones Subordinadas I/2020), which began to qualify as Tier 2 instruments in February, was taken into account to calculate own funds, as was the capital gain of 293 million euros, recognised upon closing the transaction, received on the sale of 100% of the share capital of SabAM to Amundi, which from June qualifies as CET1. The second half of the year saw the entry into force and implementation of the EBA's RTS (Regulatory Technical Standards on the prudential treatment of software assets under Article 36 of Regulation (EU) No 575/2013 [Capital Requirements Regulation – CRR] amending Delegated Regulation (EU) 241/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for own funds requirements for institutions) which implies the non-deductibility from CET1 of certain software assets with value in the event of resolution. As they are not deducted from CET1, it is necessary to take into account the parallel effect, albeit of a different amount in the denominator of the ratio, as they are computed in terms of risk-weighted assets with a 100% weighting.

It is also necessary to add the impact of applying Regulation 2020/873 from June onwards in the context of COVID-19. This regulation extends the transitional arrangements designed to mitigate the impact of IFRS 9 by two years, allowing institutions to fully add back to their Common Equity Tier 1 capital any increase in new expected credit loss provisions that they recognise in 2020 and 2021 for their financial assets that are not credit-impaired.

In terms of risk-weighted assets, it is worth highlighting the impact of the synthetic securitisation originated in the first semester (see Note 11). Other significant impacts are due to the implementation of the new definition of default, the measures resulting from the implementation of Regulation 2020/873, already mentioned and which include the new SME supporting factor and the infrastructure supporting factor (project finance) and the implementation of the new definition of the high risk category. The aforementioned effect of the entry into force of Commission Delegated Regulation (EU) 2020/2176 of 12 November 2020 amending Delegated Regulation (EU) 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items, the completion of the implementation of the Asset Protection Scheme (APS), as well as, among others, concerning models, the impact of the results of the TRIM (Targeted Review of Internal Models) for the Large Corporate portfolio of Banco Sabadell, and the approval of the models for the mortgage portfolio and the supervisory add-on of the unsecured portfolio of the subsidiary TSB. And finally, the impact on the balance sheet arising from new transactions associated with the various payment holidays and government-guaranteed loans (see Note 1).

In its strategic business plan, the Group expects to continue managing capital in such a way as to maintain the same comfortable capital position of recent years, as demonstrated by the results of the Supervisory Review and Evaluation Process (SREP), which are given in the first section of this Note.

With reference to phase-in capital, all of these actions and events, both in terms of available capital and in terms of risk-weighted assets, have enabled Banco Sabadell to reach a phase-in Common Equity Tier 1 (CET 1) ratio of 12.55%, and a Total Capital ratio of 16.13% as at 31 December 2020, substantially above regulatory minima.

The following table shows movements in the various regulatory capital components during 2020:

Thousand euro

CET1 balance as at 31 December 2019	**10,104,846**
Profit attributable to the Group, net of dividends	(542,464)
Reserves	455,773
Minority interests	(9,385)
Valuation adjustments	(207,229)
Deductions and transition effects	86,368
CET1 balance as at 31 December 2020	**9,887,909**

Thousand euro

Additional Tier 1 balance as at 31 December 2019	**1,153,033**
Eligible instruments	-
Minority interests	(268)
Deductions and transition effects	648
Additional Tier 1 balance as at 31 December 2020	**1,153,414**

Thousand euro

Tier 2 balance as at 31 December 2019	1,492,357
Eligible instruments	174,063
Credit risk adjustments	220,360
Minority interests	108
Deductions and transition effects	(219,961)
Tier 2 balance as at 31 December 2020	**1,666,928**

The table below shows the reconciliation of equity and regulatory capital as at 31 December 2020 and 2019:

Thousand euro

	2020	2019
Shareholders' equity	12,943,594	13,171,806
Accumulated other comprehensive income	(523,589)	(266,746)
Minority interests	71,634	69,346
Total equity	**12,491,638**	**12,974,406**
Goodwill and intangibles	(2,208,258)	(2,594,020)
Other adjustments	(395,472)	(275,541)
Regulatory accounting adjustments	**(2,603,730)**	**(2,869,561)**
Common Equity Tier 1 capital	**9,887,909**	**10,104,845**
Additional Tier 1 capital	**1,153,414**	**1,153,033**
Tier 2 capital	**1,666,928**	**1,492,357**
Total regulatory capital	**12,708,251**	**12,750,235**

As at 31 December 2020 and 2019, there is no significant difference between the public scope of consolidation and the regulatory scope of consolidation.

Risk-weighted assets (RWAs) for the period stand at 78,779 million euros as at 31 December 2020, which represents a variation of 2.96% relative to the previous period.

The following table shows the reasons for changes in credit RWAs occurring during 2020.

Thousand euro

	RWA	Capital requirements (*)
Balance as at 31 December 2019	**69,871,601**	**5,589,728**
Change in business volume	(2,067,536)	(165,403)
Asset quality	(42,424)	(3,394)
Changes in models	1,659,991	132,799
Methodology, parameters and policies	(95,244)	(7,620)
Acquisitions and disposals	(725,778)	(58,062)
Exchange rate	(1,271,641)	(101,731)
Other	-	-
Balance as at 31 December 2020	**67,328,969**	**5,386,318**

Excludes credit valuation adjustment (CVA) requirements and contributions to the default guarantee fund of CCPs.

(*) Calculated as 8% of RWAs.

The breakdown of risk-weighted assets by type of risk, as at 31 December 2020 and 2019, is shown below, with credit risk accounting for the largest proportion.

%

	2020	2019
Credit risk (*)	88.45%	89.05%
Operational risk	10.84%	10.09%
Market risk	0.70%	0.87%
Total	**100%**	**100%**

(*) Includes counterparty credit risk and other risk exposure amounts.

The tables below show risk-weighted assets for the most significant risk in terms of volume (credit risk), broken down by region and sector, as at 31 December 2020 and 2019:

%	2020	2019
Spain	68.03%	76.76%
United Kingdom	14.75%	13.24%
Rest of European Union	5.04%	3.93%
Americas	10.94%	5.10%
Rest of the world	1.24%	0.98%
Total	**100%**	**100%**

Includes counterparty credit risk.

%	2020	2019
Finance, retailers and other services	38.97%	40.14%
Individuals	29.26%	26.56%
Transportation, distribution and hospitality	10.76%	11.08%
Energy production and distribution	6.73%	6.41%
Real estate	6.68%	7.67%
Manufacturing industries	5.07%	5.47%
Construction	1.63%	1.76%
Agriculture, livestock and fishing	0.58%	0.65%
Mining and quarrying	0.32%	0.27%
Total	**100%**	**100%**

Includes counterparty risk. Not includes equity.

The table below sets out regulatory exposures and risk-weighted assets, broken down by segment and by calculation approach, as at 31 December 2020 and 2019:

%	2020					
	EAD	IRB	STDA	RWA	IRB	STDA
Public sector	26.66%	-	100.00%	0.82%	-	100.00%
Financial institutions	1.51%	27.38%	72.62%	1.42%	40.13%	59.87%
Corporates	12.80%	83.70%	16.30%	24.38%	85.42%	14.58%
SMEs (Business banking)	7.17%	75.26%	24.74%	9.22%	85.29%	14.71%
SMEs (Retail banking)	5.88%	71.03%	28.97%	5.35%	86.09%	13.91%
Retailers and self-employed	1.44%	72.61%	27.39%	1.39%	79.35%	20.65%
Mortgage loans	31.51%	79.52%	20.48%	19.19%	52.81%	47.19%
Loans	2.06%	61.71%	38.29%	5.70%	66.04%	33.96%
Other retail banking customers	3.24%	79.65%	20.35%	3.38%	71.95%	28.05%
Other	7.25%	-	100.00%	25.78%	-	100.00%
Equities	0.48%	92.22%	7.78%	3.37%	100.00%	-
Total	**100%**			**100%**		

Includes counterparty credit risk.

En porcentaje

	2019					
	EAD	IRB	STDA	RWA	IRB	STDA
Public sector	22.80%	-	100.00%	0.63%	-	100.00%
Financial institutions	2.17%	27.05%	72.95%	1.86%	38.83%	61.17%
Corporates	12.53%	90.60%	9.40%	22.49%	89.46%	10.54%
SMEs (Business banking)	7.84%	81.26%	18.74%	11.87%	85.75%	14.25%
SMEs (Retail banking)	5.91%	90.08%	9.92%	6.17%	89.73%	10.27%
Retailers and self-employed	1.44%	80.83%	19.17%	1.45%	77.87%	22.13%
Mortgage loans	32.46%	76.81%	23.19%	17.55%	49.67%	50.33%
Loans	1.97%	59.51%	40.49%	4.99%	65.36%	34.64%
Other retail banking customers	3.51%	78.42%	21.58%	3.29%	72.79%	27.21%
Other	8.99%	-	100.00%	26.87%	-	100.00%
Equities	0.39%	100.00%	-	2.82%	100.00%	-
Total	**100%**			**100%**		

Includes counterparty credit risk.

The leverage ratio aims to reinforce capital requirements by providing a supplementary measure that is not linked to the level of risk. The leverage ratio is the ratio of eligible Tier 1 capital to exposures, calculated according to the criteria set forth for this ratio in Commission Delegated Regulation (EU) 62/2015, with the amendments set out in Regulation 2020/873.

Part seven of the CRR sets forth calculation and reporting requirements, and the disclosure requirements for the ratio are set out in Article 451 of part eight. A minimum requirement is not specified, although Article 92 of the recently published CRR II already sets forth a mandatory requirement of 3%. At present, the Bank reports to the supervisor on a quarterly basis.

The leverage ratio as at 31 December 2020 and 2019 is shown below:

Thousand euro

	2020	2019
Tier 1 capital	11,041,323	11,257,878
Exposure	211,203,595	224,713,387
Leverage ratio	**5.23%**	**5.01%**

In 2018, following the entry into force of IFRS 9, the Group opted to apply the transitional arrangements established in Regulation (EU) 2017/2395.

The following table shows the impact that the application of the transitional arrangements in force in 2020 has had on the various capital ratios compared to the impact if the IFRS 9 rules had been applied in full (in fully-loaded terms):

Thousand euro

	2020
Available capital	
Common Equity Tier 1 (CET1) capital	9,887,909
Common Equity Tier 1 (CET1) capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	9,471,764
Tier 1 (T1) capital	11,041,323
Tier 1 (T1) capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	10,625,178
Total capital	12,708,251
Total capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	12,526,154
Risk weighted assets	
Total risk weighted assets	78,778,773
Total risk weighted assets if the IFRS 9 or analogous ECL transitional arrangements had not been applied	78,782,342
Capital ratios	
Common Equity Tier 1 (CET1) capital (expressed as percentage of risk exposure amount)	12.55%
Common Equity Tier 1 (CET1) capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	12.02%
Tier 1 (T1) capital (expressed as percentage of risk exposure amount)	14.02%
Tier 1 (T1) capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	13.49%
Total capital (expressed as percentage of risk exposure amount)	16.13%
Total capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	15.90%
Leverage ratio	
Total exposure measure corresponding to leverage ratio	211,203,595
Leverage ratio	5.23%
Leverage ratio if the IFRS 9 or analogous ECL transitional arrangements had not been applied	5.04%

The main impact arising from the application of these transitional arrangements has been the inclusion of 416 million euros in CET1, which partly mitigates the decrease in equity resulting from the entry into force of IFRS 9, due to the increase in accounting provisions. The impact generated a reduction of risk-weighted assets by 3.6 million euros.

For more information on capital ratios and the leverage ratio, their composition, details of parameters and their management, see the Pillar III Disclosures report, which is published annually and is available on the Bank’s website (www.grupobancsabadell.com), in the section “Information for shareholders and investors / Financial information”.

Note 6 – Fair value of assets and liabilities

Financial assets and financial liabilities

The fair value of a financial asset or financial liability at a given date is understood as the amount at which it could be sold or transferred, respectively, as at that date, between two independent and knowledgeable parties acting freely and prudently and without coercion, under market conditions. The most objective and commonly used reference for the fair value of a financial asset or financial liability is the price that would be paid in an organised, transparent and deep market ("quoted price" or "market price").

When there is no market price for a particular financial asset or financial liability, the fair value is estimated from the values established for similar instruments in recent transactions or, alternatively, by using mathematical valuation models that have been suitably tested by the international financial community. When using these models, the particular characteristics of the financial asset or financial liability to be valued are taken into account, particularly the different types of risk that may be associated therewith. The above notwithstanding, the limitations inherent in the valuation models that have been developed and possible inaccuracies in the assumptions and parameters required by these models may result in the estimated fair value of a financial asset or financial liability not precisely matching the price at which the asset or liability could be delivered or settled on the valuation date.

The fair value of financial derivatives quoted on an active market is the daily quoted price.

In the case of instruments for which quoted prices cannot be determined, prices are estimated using internal models developed by the Bank, most of which take data based on observable market parameters as significant inputs. Otherwise, the models make use of other inputs which rely on internal assumptions based on generally accepted practices within the financial community.

For financial instruments, the fair values disclosed in the financial statements are classified according to the following fair value levels:

- Level 1: Fair values are obtained from the (unadjusted) prices quoted on active markets for that instrument.

- Level 2: Fair values are obtained from the prices being quoted on active markets for similar instruments, the prices of recent transactions, expected flows or other valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

- Level 3: Fair values are obtained through valuation techniques in which some significant inputs are not based on observable market data.

Set out below are the main valuation methods, assumptions and inputs used when estimating the fair value of financial instruments classified in Levels 2 and 3, according to the type of financial instrument concerned:

Level 2 financial instruments	Valuation techniques	Main assumptions	Main inputs used
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account: - An estimate of pre-payment rates - Issuers' credit risk.	- Issuers’ credit spreads - Observable market interest rates
Equity instruments	Sector multiples (P/BV)	Based on the NACE code that best represents the company's primary activity, the price-to-book value (P/BV) ratio obtained from peers is applied.	- NACE codes - Share price listings in organised markets
Simple derivatives (a)	Net present value method	Implicit curves calculated based on quoted market prices.	- Observable yield curve - FX swaps curve and spot curve
Rest of derivatives (a)	For equity derivatives, currencies and commodities: Black-Scholes model (analytic/semi-analytic formulae)	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term.	- Forward structure of the underlying asset, given by market data (dividends, swap points, etc.) - Volatility surfaces of options. - For forex derivatives Probability of default for the calculation of CVA and DVA (b)
	For equity derivatives, currencies and commodities: - Monte Carlo simulations - SABR	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term. - SABR: stochastic volatility model.	
	For interest rate derivatives: - Standard Model - Shifted Libor Market Model	These models assume that: - The standard and shifted models allow negative interest rates. - Forward rates in the term structure of the interest rate curve are fully correlated.	- Term structure of interest - Volatility surfaces of Libor rate options (caps) and swap rates (swaptions) Probability of default to calculate CVA and DVA (b).
	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates.	- Price listings of Credit Default Swaps (CDS) - Historic volatility of credit spreads

(a) Given the small net position of Banco Sabadell, the funding value adjustment (FVA) is estimated to have a non-material impact on the valuation of derivatives.

(b) To calculate CVA and DVA, levels of severity fixed at 60% have been used, which corresponds to the market standard for senior debt. Average future, positive and negative exposures have been estimated using market models, Libor for interest rates and the Black-Scholes model for currencies, using market inputs. The probability of default of customers with no quoted debt instruments or CDS have been obtained using the IRB model and for Banco Sabadell those obtained from the CDS stock prices have been assigned.

Level 3 financial instruments	Valuation techniques	Main assumptions	Main non-observable inputs
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account in each case: - An estimate of pre-payment rates - Issuers' credit risk - Other estimates for variables that affect future cash flows: claims, losses, amortisations.	- Estimated credit spreads of the issuer or a similar issuer. - Rates of claims, losses and/or amortisations.
Equity instruments	Cash flow discount method	Calculation of the present value of future cash flows discounted at current market interest rates adjusted for risk (CAPM method), taking into account: - An estimate of the company's estimated cash flows - Risk in the company's sector - Macroeconomic inputs	- Entity's business plans - Risk premiums of the company's sector. - Adjustment for systemic risk (Beta Parameter)
Derivatives (a)	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates.	For credit derivatives: - Estimated credit spreads of the issuer or a similar issuer. - Historic volatility of credit spreads

(a) Given the small net position of Banco Sabadell, the funding value adjustment (FVA) is estimated to have a non-material impact on the valuation of derivatives.

(b) To calculate CVA and DVA, levels of severity fixed at 60% have been used, which corresponds to the market standard for senior debt. Average future, positive and negative exposures have been estimated using market models, Libor for interest rates and the Black-Scholes model for currencies, using market inputs. The probability of default of customers with no quoted debt instruments or CDS have been obtained using the IRB model and for Banco Sabadell those obtained from the CDS stock prices have been assigned.

Determination of the fair value of financial instruments

A comparison between the value at which the Group's financial assets and liabilities are recognised on the accompanying consolidated balance sheets and their corresponding fair values is shown below:

Thousand euro

		2020		2019	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Cash, cash balances at central banks and other demand deposits	7	35,184,902	35,184,902	15,169,202	15,169,202
Financial assets held for trading	8, 9, 10	2,678,836	2,678,836	2,440,866	2,440,866
Non-trading financial assets mandatorily at fair value through profit or loss	8	114,198	114,198	171,056	171,056
Financial assets designated at fair value through profit or loss		-	-	-	-
Financial assets at fair value through other comprehensive income	8, 9	6,676,801	6,676,801	7,802,025	7,802,025
Financial assets at amortised cost	8, 11	174,488,258	181,743,524	181,422,646	188,332,900
Derivatives – Hedge accounting	12	549,550	549,550	468,516	468,516
Fair value changes of the hedged items in portfolio hedge of interest rate risk		458,849	458,849	249,552	249,552
Total assets		**220,151,394**	**227,406,660**	**207,723,863**	**214,634,117**

Thousand euro

	Note	2020 Carrying amount	2020 Fair value	2019 Carrying amount	2019 Fair value
Liabilities:					
Financial liabilities held for trading	10	2,653,849	2,653,849	2,714,365	2,714,365
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Financial liabilities measured at amortised cost	18, 19, 20, 21	217,390,766	218,442,668	205,636,018	204,760,043
Derivatives – Hedge accounting	12	782,657	782,657	728,769	728,769
Fair value changes of the hedged items in portfolio hedge of interest rate risk		371,642	371,642	234,537	234,537
Total liabilities		**221,198,914**	**222,250,816**	**209,313,689**	**208,437,714**

In relation to financial instruments whose book value differs from their fair value, the latter has been calculated as follows:

– The fair value of the heading *"Cash, cash balances at central banks and other demand deposits"* has been likened to its book value, as these are mainly short-term balances.

– The fair value of the headings *"Financial assets at amortised cost"* and *"Financial liabilities measured at amortised cost"* has been estimated using the discounted cash flow method, applying market interest rates at the end of each year, with the exception of debt securities, for which it has been estimated using year-end market prices. The majority of the valuations of these financial assets are considered as Level 2.

– Under the heading "*Fair value changes of the hedged items in portfolio hedge of interest rate risk*" of the accompanying consolidated balance sheets, (positive or negative) adjustments are recorded measured at the fair value of the financial assets or financial liabilities included in the amortised cost portfolio, which correspond exclusively to hedged interest rate risk. Fair value is calculated using internal models and observable market data variables.

The following tables show the main financial instruments recognised at fair value in the accompanying consolidated balance sheets, broken down according to the valuation method used to estimate their fair value:

Thousand euro

	Note	2020 Level 1	2020 Level 2	2020 Level 3	2020 Total
Assets:					
Financial assets held for trading		275,021	2,398,827	4,988	2,678,836
Derivatives	10	-	2,364,595	-	2,364,595
Equity instruments	9	290	825	-	1,115
Debt securities	8	274,731	33,407	4,988	313,126
Loans and advances – Customers		-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		22,048	36,025	56,125	114,198
Equity instruments		12,481	35	-	12,516
Debt securities	8	9,567	35,990	56,125	101,682
Loans and advances		-	-	-	-
Financial assets designated at fair value through profit or loss		-	-	-	-
Debt securities		-	-	-	-
Loans and advances – Credit institutions		-	-	-	-
Financial assets at fair value through other comprehensive income		6,407,496	169,812	99,493	6,676,801
Equity instruments	9	5,914	80,715	83,354	169,983
Debt securities	8	6,401,582	89,097	16,139	6,506,818
Loans and advances		-	-	-	-
Derivatives – Hedge accounting	12	-	549,550	-	549,550
Total assets		**6,704,565**	**3,154,214**	**160,606**	**10,019,385**

Thousand euro

	Note	2020 Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		215,930	2,437,919	-	2,653,849
Derivatives	10	-	2,437,919	-	2,437,919
Short positions		215,930	-	-	215,930
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Derivatives – Hedge accounting	12	-	782,657	-	782,657
Total liabilities		**215,930**	**3,220,576**	**-**	**3,436,506**

Thousand euro

	Note	2019 Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		568,196	1,872,570	100	2,440,866
Derivatives	10	-	1,840,245	-	1,840,245
Equity instruments	9	1,817	1,884	-	3,701
Debt securities	8	566,379	30,441	100	596,920
Loans and advances – Customers		-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		51,007	2,663	117,386	171,056
Equity instruments	9	-	-	-	-
Debt securities		51,007	2,663	117,386	171,056
Loans and advances		-	-	-	-
Financial assets designated at fair value through profit or loss		-	-	-	-
Debt securities		-	-	-	-
Loans and advances – Credit institutions		-	-	-	-
Financial assets at fair value through other comprehensive income		7,420,035	282,809	99,181	7,802,025
Equity instruments	9	22,365	106,389	83,320	212,074
Debt securities	8	7,397,670	176,420	15,861	7,589,951
Loans and advances		-	-	-	-
Derivatives – Hedge accounting	12	-	468,516	-	468,516
Total assets		**8,039,238**	**2,626,558**	**216,667**	**10,882,463**

Thousand euro

	Note	2019 Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		871,812	1,842,553	-	2,714,365
Derivatives	10	-	1,842,553	-	1,842,553
Short positions		871,812	-	-	871,812
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Derivatives – Hedge accounting	12	-	728,769	-	728,769
Total liabilities		**871,812**	**2,571,322**	**-**	**3,443,134**

Derivatives no credit support annexes (CSAs) include the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA) in their fair value, respectively. The fair value of these derivatives represents 4.97% of the total, and their adjustment for credit and debit risks represents 3.79% of their fair value.

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

Thousand euro

	Assets	Liabilities
Balance as at 31 December 2018	**129,738**	**-**
Valuation adjustments recognised in profit and loss (*)	(38,415)	-
Valuation adjustments not recognised in profit and loss	7,335	-
Purchases, sales and write-offs	16,134	-
Net additions/removals in Level 3	102,886	-
Exchange differences and other	(1,011)	-
Balance as at 31 December 2019	**216,667**	**-**
Valuation adjustments recognised in profit and loss (*)	(8,512)	-
Valuation adjustments not recognised in profit and loss	622	-
Purchases, sales and write-offs	(47,788)	-
Net additions/removals in Level 3	3,610	-
Exchange differences and other	(3,993)	-
Balance as at 31 December 2020	**160,606**	**-**

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

Net Level 3 inflows primarily correspond to debt instruments previously classified as Level 1 and Level 2 whose fair value is now calculated using valuation techniques in which the main significant inputs are based on unobservable data.

Details of financial instruments that were transferred between valuation levels in 2020 and 2019 are as follows:

Thousand euro

	2020					
From	Level 1		Level 2		Level 3	
To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:						
Financial assets held for trading	6,197	4,988	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	26,240	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	834	-	-	420	1,792
Derivatives	-	-	-	-	-	-
Liabilities:						
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Derivatives – Hedge accounting	-	-	-	-	-	-
Total	**32,437**	**5,822**	**-**	**-**	**420**	**1,792**

Thousand euro

	2019					
From	Level 1		Level 2		Level 3	
To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:						
Financial assets held for trading	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	22,399	-	62,229	-	505
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	5,209	4,147	-	15,453	-	837
Derivatives	-	-	-	-	-	-
Liabilities:						
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Derivatives – Hedge accounting	-	-	-	-	-	-
Total	**5,209**	**26,546**	**-**	**77,682**	**-**	**1,342**

As at 31 December 2020, the effect of replacing the main assumptions used in the valuation of Level 3 financial instruments with other reasonably possible assumptions, taking the highest value (most favourable assumption) or lowest value (least favourable assumption) of the range that is considered likely, is not significant.

Transfers from Level 1 to Level 2 are due to the fact that the markets in which these instruments are traded are no longer considered as active markets; therefore, their valuation is now calculated using valuation techniques in which all significant inputs are based on directly or indirectly observable market data.

In addition, transfers from Level 1 to Level 3 are due to the fact that the markets in which these instruments are traded (mainly Andorran government bonds) are no longer considered as active markets; therefore, their valuations are now calculated using valuation techniques in which one of the main significant inputs (liquidity discount rate) is based on unobservable market data.

Finally, transfers from Level 3 to Level 1 and Level 2 are due to the fact that these instruments (equity instruments) are now calculated using valuation techniques in which their inputs (purchase price) are based on directly or indirectly observable market data.

At the end of both years, there were no derivatives using equity instruments as underlying assets or material interests in discretionary gains in any companies.

Loans and financial liabilities at fair value through profit or loss

As at 31 December 2020 and 2019, there were no loans or financial liabilities recognised at fair value through profit or loss.

Financial instruments at cost

As at the end of 2020 and 2019, there were also no equity instruments valued at their cost of acquisition that could be considered significant.

Non-financial assets

Real estate assets

As at 31 December 2020 and 2019, the net carrying values of real estate assets do not differ significantly from the fair values of these assets (see Notes 13, 15 and 17).

The selection criteria for valuation suppliers and the update of appraisals are defined in the section on “Guarantees”, in Note 1.3.4. to these consolidated annual financial statements.

Valuation techniques are generally used by all appraisal companies based on the type of each real estate asset.

As per regulatory requirements, in the valuation techniques used, the valuation companies maximise the use of observable market data and other factors which would be taken into account by market operators when setting prices, endeavouring to keep the use of subjective considerations and unobservable or non-verifiable data to a minimum.

The main valuation methods used fall into the following measurement levels:

Level 2

• Comparison method: applicable to all kinds of properties provided that there is a representative market of comparable properties and that sufficient data is available relating to transactions that reflect the current market situation.

• Rental update method: applicable when the valued property generates or may generate rental income and there is a representative market of comparable data.

• Statistical model: this model adjusts the value of the assets based on the date of acquisition and their location, updating the value in accordance with price trends in the area concerned as from the date of purchase. To this end, it includes statistical information on price trends in all provinces, as provided by external valuation firms, as well as demographic data from the Spanish Office for National Statistics (INE) to calculate sensitivity at a municipality level. The value obtained is in turn adjusted based on the construction progress (finished product, development in progress, plots or land under management) and use (residential, industrial, etc.) of the asset.

Level 3

• Cost method: applicable to determine the value of buildings being planned, under construction or undergoing renovations.

• Residual method: in the present macroeconomic climate, the dynamic calculation procedure is being used preferentially in new land valuations to the detriment of the static procedure, which is reserved for specific cases in which the envisaged time frames for project completion are in line with the relevant regulations.

Depending on the type of asset, the methods used in the valuation of the Group's portfolio are the following:

- Completed works: valued in comparable terms, based on updates to income or the statistical model (Level 2).

- Works in progress: valued using the cost method as a sum of the land value and the value of the work carried out (Level 3).

- Land: valued using the residual method (Level 3).

Determination of the fair value of real estate assets

The following tables show the main real estate assets broken down using the valuation method used in their fair value estimate as at 31 December 2020 and 2019:

Thousand euro

	2020			
	Level 1	Level 2	Level 3	Total
Housing	-	904,750	-	904,750
Offices, retail establishments and other real estate	-	1,101,166	-	1,101,166
Land and building plots	-	-	32,316	32,316
Work in progress	-	-	7,026	7,026
Total assets	**-**	**2,005,916**	**39,342**	**2,045,258**

Thousand euro

	2019			
	Level 1	Level 2	Level 3	Total
Housing	-	881,028	-	881,028
Offices, retail establishments and other real estate	-	1,192,568	-	1,192,568
Land and building plots	-	-	574,306	574,306
Work in progress	-	-	216,728	216,728
Total assets	**-**	**2,073,596**	**791,034**	**2,864,630**

Significant unobservable variables used in valuations classed as Level 3 have not been developed by the Group but by the independent third party valuation companies that performed the appraisals. Given the widespread use of the appraisals, the valuation techniques of which are clearly set out in the regulation governing the valuation of properties, the unobservable variables used reflect the assumptions frequently used by all valuation firms. In terms of proportional weight, unobservable variables represent almost all of the value of these appraisals.

The main unobservable variables used in the valuation of assets in accordance with the dynamic residual method are the future sale price, the estimated construction costs, the costs of development, the time required for land planning and development and the discount rate. The main unobservable variables used in accordance with the static residual method are construction costs, the costs of development and the profit for the developer.

The number of plots in the Group's possession is very fragmented, and they are very varied, both in terms of location and in terms of the stage of development of the urban infrastructure and the possibility of future development. For this reason, no quantitative information can be provided regarding the unobservable variables affecting the fair value of these types of assets.

Movements in the balances of real estate assets classified as Level 3 in 2020 and 2019 are shown below:

Thousand euro

	For house purchase	Offices, retail establishments and other real estate	Land, building plots and work in progress
Balance as at 31 December 2018	**-**	**-**	**1,312,032**
Purchases	-	-	129,964
Sales	-	-	(31,106)
Impairments recognised on income statement (*)	-	-	(18,359)
Net additions/removals in Level 3	-	-	(601,497)
Balance as at 31 December 2019	**-**	**-**	**791,034**
Purchases	-	-	20,044
Sales	-	-	(756,772)
Impairments recognised on income statement (*)	-	-	(14,737)
Net additions/removals in Level 3	-	-	(227)
Balance as at 31 December 2020	**-**	**-**	**39,342**

(*) Relates to assets kept on the balance sheet as at 31 December 2020 and 2019.

During 2020, certain real estate assets have been transferred between the different valuation levels, due to the transformation of assets that were in the process of construction into finished products.

The following table shows a comparison between the value at which the Group's real estate assets were recognised under the headings "*Non-current assets and disposal groups classified as held for sale*", "*Investment properties*" and "*Inventories*" and their appraisal value, as at the end of 2020 and 2019:

Thousand euro

	2020				2019			
	Carrying amount (*)	Impairment	Net carrying amount	Valuation amount	Carrying amount (*)	Impairment	Net carrying amount	Valuation amount
Investment properties	390,757	(42,665)	348,092	379,225	570,029	(56,298)	513,731	601,035
Inventories	313,094	(118,830)	194,264	291,990	1,724,085	(855,508)	868,577	1,100,376
Non-current assets held for sale	946,814	(282,756)	664,058	1,091,219	889,607	(203,797)	685,810	1,071,967
Total	**1,650,665**	**(444,251)**	**1,206,414**	**1,762,434**	**3,183,721**	**(1,115,603)**	**2,068,118**	**2,773,378**

(*) Cost less accumulated depreciation.

The fair values of real estate assets valued by appraisal companies and included in the headings "*Non-current assets and disposal groups classified as held for sale*", "*Investment properties*" and "*Inventories*" in 2020 are as follows:

Thousand euro

Valuation firm	Non-current assets held for sale	Investment properties	Inventories
Afes Técnicas de Tasación, S.A.	-	3,081	-
Alia Tasaciones, S.A.	86,017	40,529	39,930
Arco Valoraciones, S.A.	60	-	-
Cushman & Wakefield	-	15,387	-
Eurovaloraciones, S.A.	86,285	7,851	13,375
Gestión de Valoraciones y Tasaciones, S.A.	53,089	23,557	21,680
Gloval Valuation, S.A.U.	30,088	57,397	27,471
Ibertasa, S.A.	2,374	906	-
Instituto de Valoraciones, S.A.	1,318	-	-
JLL Valoraciones, S.A.	1,104	-	69
Krata, S.A.	954	1,834	-
Peritand	1,916	9,222	-
Sociedad de Tasación, S.A.	213,942	106,670	45,181
Tabimed Gestión de Proyectos, S.L.	311	-	-
Tasalia Sociedad de Tasación, S.A.	343	-	-
Tasasur Sociedad de Tasaciones, S.A.	69	-	37
Tasiberica, S.A.	34	-	-
Tecnitasa Técnicos en Tasación, S.A	3,978	-	1,049
Thirsa	265	-	-
Tinsa Tasaciones Inmobiliarias, S.A.	58,140	14,002	19,960
Valoraciones Mediterráneo, S.A.	117,084	67,374	23,144
Rest	6,687	282	2,368
Total	**664,058**	**348,092**	**194,264**

The fair value of property, plant and equipment for own use does not differ significantly from its net carrying amount.

Note 7 – Cash, cash balances at central banks and other demand deposits

The composition of this heading on the asset side of the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
By nature:		
Cash	749,608	897,745
Cash balances at central banks	33,842,492	13,587,274
Other demand deposits	592,802	684,183
Total	**35,184,902**	**15,169,202**
By currency:		
In euro	28,671,822	8,524,283
In foreign currency	6,513,080	6,644,919
Total	**35,184,902**	**15,169,202**

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

The increase during 2020 of the 'Cash balances at central banks' heading is mainly due to the Bank's participation in the TLTRO III liquidity auctions (see Note 4).

Note 8 – Debt securities

Debt securities reported in the consolidated balance sheets as at 31 December 2020 and 2019 are broken down below:

Thousand euro

	2020	2019
By heading:		
Financial assets held for trading	313,126	596,920
Non-trading financial assets mandatorily at fair value through profit or loss	101,682	171,056
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	6,506,818	7,589,951
Financial assets at amortised cost	18,091,189	19,218,721
Total	**25,012,815**	**27,576,648**
By nature:		
Central banks	-	-
General governments	22,132,663	24,290,371
Credit institutions	1,435,817	1,376,147
Other sectors	1,106,251	1,452,604
Stage 3 assets	73	73
Impairment allowances	(297)	(234)
Other valuation adjustments (interest, fees and commissions, other)	338,308	457,687
Total	**25,012,815**	**27,576,648**
By currency:		
In euro	20,790,858	23,576,442
In foreign currency	4,221,957	4,000,206
Total	**25,012,815**	**27,576,648**

In March 2020, the Group sold Italian sovereign debt instruments which had a book value of 2,835 million euros and which were recognised under the heading "*Financial assets at amortised cost*". These sales were executed with the aim of managing the increased credit risk associated with Italian debt instruments as a result of the impact of COVID-19 on the Italian economy. Consequently, following the sales, the book value of Italian sovereign debt instruments recorded at amortised cost stood at 2,792 million euros as at 31 December 2020. The Group considered that these sales were consistent with the business model under which these assets were managed (held to collect contractual cash flows).

In the last quarter of 2020, the Group sold Spanish and Portuguese sovereign debt instruments which had a book value of 4,032 million euros and which were recognised under the heading "*Financial assets at amortised cost"*. These sales were made in order to preserve the Group's solvency as part of a series of actions carried out to improve future profitability and the quality of its balance sheet (such as the disposal of certain portfolios of impaired financial assets or the agreement on retirement, early retirement and voluntary redundancy mentioned in Note 33), in response to the economic crisis triggered by COVID-19. The Group has considered that these sales are consistent with the business model under which these assets are managed (held to collect contractual cash flows) as they are sales made due to exceptional circumstances beyond the control of the Group, without modifying the criteria under which debt instruments classified in the amortised cost portfolio which have not been disposed of are managed.

The results obtained from these disposals were recognised under the headings *"Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net – Financial assets at amortised cost"* of the consolidated income statement (see Note 30).

Additionally, during 2020, based on the latest strategic plan presented by the Spanish company for the management of assets proceeding from the restructuring of the banking system (SAREB, for its acronym in Spanish), the book value of subordinated debt held by the Group in this company was written down by 27 billion euros, which was charged to the heading *"Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net – Other gains or losses"* of the consolidated income statement, reducing the book value to zero (see Note 30).

The breakdown of the debt securities classified based on their credit risk and the movement of impairment allowances associated with these instruments are included, together with those of other financial assets, in Note 11.

Details of debt instruments included under the "*Financial assets at fair value through other comprehensive income*" heading are as follows:

Thousand euro

	2020	2019
Amortised cost	6,513,033	7,597,159
Fair value (*)	6,506,818	7,589,951
Accumulated losses recognised in equity	(87,420)	(81,823)
Accumulated capital gains recognised in equity	82,997	76,695
Value adjustments made for credit risk	(1,792)	(2,080)

(*) Includes net gains/(-) losses due to impairment in the profit and loss account for 2020 and 2019 of 288 and 3,748 thousand euros, of which those due to provisions during the year amount to (1,475) and (1,093) thousand euros, and those due to reversal of impairment amount to 1,763 and 4,841 thousand in 2020 and 2019 (see Note 34).

The breakdown of public debt securities classified as "*Financial assets at fair value through other comprehensive income*" is as follows:

Thousand euro

	2020	2019
Amortised cost	5,718,479	6,292,827
Fair value	5,702,819	6,272,501
Accumulated losses recognised in equity	(84,255)	(73,085)
Accumulated capital gains recognised in equity	68,704	52,861
Value adjustments made for credit risk	(109)	(102)

The portfolio of "*Financial assets at amortised cost*" breaks down as follows:

Thousand euro

	2020	2019
Central banks	-	-
General governments	16,750,347	18,112,781
Credit institutions	815,989	565,924
Other sectors	525,039	540,219
Impairment allowances	(186)	(203)
Total	**18,091,189**	**19,218,721**

Note 9 – Equity instruments

Equity instruments reported in the consolidated balance sheets as at 31 December 2020 and 2019 are broken down below:

Thousand euro

	2020	2019
By heading:		
Financial assets held for trading	1,115	3,701
Non-trading financial assets mandatorily at fair value through profit or loss	12,516	-
Financial assets at fair value through other comprehensive income	169,983	212,074
Total	**183,614**	**215,775**
By nature:		
Resident sector	146,872	173,618
Credit institutions	5,081	7,065
Other	141,791	166,553
Non-resident sector	16,569	16,325
Credit institutions	-	-
Other	16,569	16,325
Participations in investment vehicles	20,173	25,832
Total	**183,614**	**215,775**
By currency:		
In euro	181,786	214,428
In foreign currency	1,828	1,347
Total	**183,614**	**215,775**

As at 2020 year-end, there were no investments in listed equity instruments for which their quoted market price has not been considered as a reference of their fair value.

As at 31 December 2020, there were no Group investments in equity instruments included in the portfolio of "*Financial assets at fair value through other comprehensive income*" considered to be individually significant.

Details of equity instruments included under the *"Financial assets at fair value through other comprehensive income"* heading are as follows:

Thousand euro

	2020	2019
Cost of acquisition	264,897	288,025
Fair value	169,983	212,074
Accumulated capital losses recognised in equity at reporting date	(154,041)	(146,067)
Accumulated capital gains recognised in equity at reporting date	59,127	70,116
Transfers of gains or losses within equity during the period	4,846	-
Recognised dividends from investments held at the end of the year	994	4,480
Recognised dividends from investments derecognised during the year	5	-

Note 10 – Asset and liability derivatives held for trading

The breakdown by type of risk of this heading on the asset and liability sides of the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Securities risk	148,471	149,448	98,229	97,909
Interest rate risk	1,467,154	1,534,857	1,202,760	1,182,667
Currency risk	501,476	506,315	351,656	373,614
Other types of risk	247,494	247,299	187,600	188,363
Total	**2,364,595**	**2,437,919**	**1,840,245**	**1,842,553**
By currency:				
In euro	1,919,173	1,895,436	1,595,590	1,593,692
In foreign currency	445,422	542,483	244,655	248,861
Total	**2,364,595**	**2,437,919**	**1,840,245**	**1,842,553**

The fair values of derivatives held for trading, broken down by type of derivative instrument as at 31 December 2020 and 2019, are shown below:

Thousand euro

	2020	2019
Assets		
Swaps, CCIRS, Call Money Swap	1,685,131	1,360,018
Currency options	80,147	30,743
Interest rate options	29,015	28,660
Index and securities options	148,436	97,584
Currency forwards	421,329	320,913
Fixed income forwards	537	1,715
Equity forward	-	583
Interest rate forwards	-	29
Total derivatives on asset side held for trading	**2,364,595**	**1,840,245**
Liabilities		
Swaps, CCIRS, Call Money Swap	1,755,200	1,337,427
Currency options	78,468	30,773
Interest rate options	20,915	24,574
Index and securities options	155,489	105,362
Currency forwards	427,847	342,842
Fixed income forwards	-	927
Equity forward	-	583
Interest rate forwards	-	65
Total derivatives on liability side held for trading	**2,437,919**	**1,842,553**

Note 11 – Loans and advances

Central banks and Credit institutions

The breakdown of the headings "*Loans and advances – Central banks*" and "*Loans and advances – Credit institutions*" in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
By heading:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	-	-
Financial assets at amortised cost	7,213,593	14,388,424
Total	**7,213,593**	**14,388,424**
By nature:		
Deposits with agreed maturity	1,629,195	1,768,595
Repos	5,424,127	11,805,180
Hybrid financial assets	-	-
Other	159,126	811,986
Stage 3 assets	5	304
Impairment allowances	(1,424)	(492)
Other valuation adjustments (interest, fees and commissions, other)	2,564	2,851
Total	**7,213,593**	**14,388,424**
By currency:		
In euro	6,757,115	13,624,692
In foreign currency	456,478	763,732
Total	**7,213,593**	**14,388,424**

Customers

The breakdown of the heading *"Loans and advances – Customers"* (General governments and Other sectors) of the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
By heading:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	-	-
Financial assets at amortised cost	149,183,476	147,815,501
Total	**149,183,476**	**147,815,501**
By nature:		
Overdrafts, etc.	4,833,182	7,376,969
Commercial loans	4,991,095	6,443,041
Finance leases	2,230,500	2,558,211
Secured loans	87,270,583	87,049,502
Repos	63,494	235,749
Other term loans	47,552,905	41,144,218
Stage 3 assets	5,319,869	5,922,593
Impairment allowances	(3,081,312)	(2,933,267)
Other valuation adjustments (interest, fees and commissions, other)	3,160	18,485
Total	**149,183,476**	**147,815,501**
By sector:		
General governments	10,087,458	10,509,796
Other sectors	136,854,301	134,297,894
Stage 3 assets	5,319,869	5,922,593
Impairment allowances	(3,081,312)	(2,933,267)
Other valuation adjustments (interest, fees and commissions, other)	3,160	18,485
Total	**149,183,476**	**147,815,501**
By currency:		
In euro	100,937,177	99,364,554
In foreign currency	48,246,299	48,450,947
Total	**149,183,476**	**147,815,501**
By geography:		
Spain	96,288,761	95,659,236
United Kingdom	39,786,928	39,702,191
Rest of European Union	5,339,314	4,464,943
Americas	8,747,660	9,082,619
Rest of the world	2,102,125	1,839,779
Impairment allowances	(3,081,312)	(2,933,267)
Total	**149,183,476**	**147,815,501**

The "*Loans and advances*" heading on the consolidated balance sheets includes certain assets pledged in funding operations, i.e. they have been pledged as collateral or guarantees with respect to certain liabilities. For further information, see the "Credit risk" section of Note 4.

In June 2020, the Bank carried out the synthetic securitisation of a 1.6 billion euros SME and mid-cap loan portfolio, having received a guarantee from the European Investment Fund for 96 million euros, which covers losses in the range of 1.5%–7.5% on the securitised portfolio. This guarantee has an annual cost of 5.4%, taking into account a 1.5% retrocession fee, and is subject to an undertaking to grant 576 million euros in loans to Spanish SMEs and mid-caps. This operation did not produce any substantial transfer of risks or rewards pertaining to the assets concerned and, as such, did not involve their derecognition from the balance sheet. The operation receives preferential treatment for capital consumption purposes, in accordance with Article 270 of Regulation (EU) 2017/2401 (see Note 5).

Finance leases

Certain information concerning financial leasing transactions carried out by the Group in which it acts as lessor is set out below:

Thousand euro	2020	2019
Finance leases		
Total gross investment	2,407,292	2,789,636
Impairment allowances	(64,347)	(55,454)
Interest income	61,899	72,471

As at 31 December 2020 and 2019, the reconciliation of undiscounted lease receipts to the net investment on the leases is as follows:

Thousand euro	2020	2019
Undiscounted lease receipts	2,243,258	2,594,150
Unguaranteed residual value	164,034	195,486
Gross investment in the lease	**2,407,292**	**2,789,636**
Unearned financial income	175,576	214,854
Net investment in the lease	**2,231,716**	**2,574,782**

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

Thousand euro	2020	2019
Up to 1 year	569,446	732,175
1-2 years	495,782	575,586
2-3 years	326,196	383,798
3-4 years	239,803	243,542
4-5 years	170,120	172,350
More than 5 years	441,911	486,699
Total	**2,243,258**	**2,594,150**

Past-due financial assets

The balance of "*Loans and advances – Customers*" past-due and pending collection not classified as Stage 3 as at 31 December 2020 amounted to 77,350 thousand euros (126,793 thousand euros as at 31 December 2019). Of this total, over 80% of the balance as at 31 December 2020 (78% of the balance as at 31 December 2019) had become due in a period no longer than one month.

Financial assets classified on the basis of their credit risk

The breakdown of the gross book values, excluding valuation adjustments, of financial assets classified on the basis of their credit risk as at 31 December 2020 and 2019 is as follows:

Thousand euro

Stage 1	31/12/2020	31/12/2019
Debt securities	24,670,232	27,119,124
Loans and advances	142,878,089	151,262,299
Customers	135,666,359	136,888,126
Central banks and Credit institutions	7,211,729	14,374,173
Total *stage* 1	**167,548,321**	**178,381,423**
By sector:		
General governments	32,193,319	34,762,568
Central banks and Credit institutions	8,647,547	15,750,320
Other private sectors	126,707,455	127,868,535
Total *stage* 1	**167,548,321**	**178,381,423**
Stage 2		
Debt securities	4,500	-
Loans and advances	11,276,120	7,931,152
Customers	11,275,402	7,919,564
Central banks and Credit institutions	718	11,588
Total *stage* 2	**11,280,620**	**7,931,152**
By sector:		
General governments	26,803	37,598
Central banks and Credit institutions	718	11,588
Other private sectors	11,253,099	7,881,966
Total *stage* 2	**11,280,620**	**7,931,152**
Stage 3		
Debt securities	73	73
Loans and advances	5,319,874	5,922,896
Customers	5,319,869	5,922,593
Central banks and Credit institutions	5	304
Total *stage* 3	**5,319,947**	**5,922,969**
By sector:		
General governments	10,231	11,772
Central banks and Credit institutions	5	304
Other private sectors	5,309,711	5,910,894
Total *stage* 3	**5,319,947**	**5,922,969**
Total *stages*	**184,148,889**	**192,235,545**

Movements of gross values, excluding valuation adjustments, of assets subject to impairment by the Group during the years ended 31 December 2020 and 2019 were as follows:

Thousand euro

	Stage 1	*Stage* 2	*Stage* 3	*Of which: purchased credit-impaired*	Total
Balance as at 31 December 2018	**165,656,006**	**8,894,968**	**6,472,225**	***420,162***	**181,023,199**
Transfers between impairment stages	(1,802,973)	619,908	1,183,065	-	-
Stage 1	5,489,037	(5,420,825)	(68,212)	-	-
Stage 2	(6,965,516)	7,321,554	(356,038)	-	-
Stage 3	(326,494)	(1,280,821)	1,607,315	-	-
Increases	50,880,311	669,178	322,849	*7,523*	51,872,338
Decreases	(36,880,578)	(2,288,401)	(1,452,585)	*(171,815)*	(40,621,564)
Transfers to write-offs	(152)	(932)	(609,784)	-	(610,868)
Adjustments for exchange differences	528,809	36,431	7,199	*9,663*	572,439
Balance as at 31 December 2019	**178,381,423**	**7,931,152**	**5,922,969**	***265,533***	**192,235,544**
Transfers between impairment stages	(6,106,818)	4,558,050	1,548,769	-	-
Stage 1	5,612,870	(5,541,131)	(71,739)	-	-
Stage 2	(11,253,952)	11,578,522	(324,570)	-	-
Stage 3	(465,736)	(1,479,341)	1,945,077	-	-
Increases	50,140,360	841,787	458,809	*7,023*	51,440,955
Decreases	(52,346,170)	(1,820,692)	(2,005,296)	*(88,401)*	(56,172,159)
Transfers to write-offs	-	-	(568,816)	-	(568,816)
Adjustments for exchange differences	(2,520,473)	(229,675)	(36,488)	*(9,950)*	(2,786,637)
Balance as at 31 December 2020	**167,548,321**	**11,280,620**	**5,319,947**	***174,204***	**184,148,889**

The breakdown of assets classified as Stage 3 by type of guarantee as at 31 December 2020 and 2019 is as follows:

Thousand euro

	31/12/2020	31/12/2019
Secured with a mortgage (*)	2,363,867	3,191,551
Of which: Stage 3 financial assets with guarantees covering all of the risk	*1,897,377*	*2,373,708*
Other collateral (**)	274,821	354,338
Of which: Stage 3 financial assets with guarantees covering all of the risk	*178,650*	*184,704*
Rest	2,681,259	2,377,080
Total	**5,319,947**	**5,922,969**

(*) Assets secured with a mortgage with an outstanding exposure below 100% of their valuation amount.

(**) Includes the rest of assets secured with collateral.

The breakdown by region of the balance of assets classed as Stage 3 as at 31 December 2020 and 2019 is as follows:

Thousand euro

	31/12/2020	31/12/2019
Spain	4,531,715	5,192,312
United Kingdom	564,290	503,588
Rest of European Union	44,099	40,710
Americas	89,587	146,024
Rest of the world	90,256	40,335
Total	**5,319,947**	**5,922,969**

Accumulated financial income on impaired financial assets incurred but not recorded in the consolidated income statement amounted to 447,413 thousand euros as at 31 December 2020 and to 333,191 thousand euros as at 31 December 2019.

The movements in impaired financial assets derecognised due to the remote likelihood of their recovery during 2020 and 2019 are as follows:

Thousand euro

Balance as at 31 December 2018	**5,432,836**
Additions	**669,726**
Use of accumulated impairment balance	578,035
Directly recognised on income statement	36,367
Contractually payable interests	50,724
Other items	4,600
Disposals	**(1,084,717)**
Collections of principal in cash from counterparties	(80,613)
Collections of interest in cash from counterparties	(1,041)
Debt forgiveness	(29,324)
Referrals	-
Forbearance	(41)
Sales	(894,762)
Other items	(78,936)
Exchange differences	**25,924**
Balance as at 31 December 2019	**5,043,769**
Additions	**676,779**
Use of accumulated impairment balance	531,055
Directly recognised on income statement	68,935
Contractually payable interests	62,944
Other items	13,845
Disposals	**(507,193)**
Collections of principal in cash from counterparties	(44,508)
Collections of interest in cash from counterparties	(1,274)
Debt forgiveness	(19,328)
Referrals	(129,542)
Forbearance	-
Sales	(256,102)
Foreclosure of tangible assets	(7,118)
Other items	(49,321)
Exchange differences	**(22,223)**
Balance as at 31 December 2020	**5,191,132**

Allowances

The values of financial asset impairment allowances under the different headings on the asset side of the consolidated balance sheets, listed according to credit risk, as at 31 December 2020 and 2019 are as follows:

Thousand euro

Stage 1	2020	2019
Debt securities	296	234
Loans and advances	447,796	399,628
Central banks and Credit institutions	1,032	191
Customers	446,763	399,437
Total *stage 1*	**448,092**	**399,862**
Stage 2		
Debt securities	-	-
Loans and advances	465,067	268,743
Central banks and Credit institutions	-	-
Customers	465,067	268,743
Total *stage 2*	**465,067**	**268,743**
Stage 3		
Debt securities	-	-
Loans and advances	2,169,874	2,265,388
Central banks and Credit institutions	392	300
Customers	2,169,482	2,265,087
Total *stage 3*	**2,169,874**	**2,265,388**
Total *stages*	**3,083,032**	**2,933,992**

Movements in impairment allowances allocated by the Group to cover credit risk during 2020 and 2019 are as follows:

Thousand euro

	Individually measured		Collectively measured			Total
	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Balance as at 31 December 2018	**26,884**	**736,036**	**373,091**	**297,861**	**2,001,295**	**3,435,167**
Movements reflected in impairment gains/(losses) (**)	**(5,113)**	**110,129**	**(22,871)**	**119,756**	**347,568**	**549,469**
Increases due to origination	-	-	244,151	-	-	244,151
Changes due to credit risk variance	(4,738)	101,761	(158,349)	89,180	420,152	448,006
Other movements	(375)	8,368	(108,673)	30,576	(72,583)	(142,687)
Movements not reflected in impairment gains/(losses)	**(5,630)**	**(355,166)**	**45,709**	**(167,430)**	**(577,101)**	**(1,059,618)**
Transfers between impairment stages	(5,629)	104,483	46,026	(128,792)	(16,087)	-
Stage 1	(1,832)	(5,359)	137,436	(109,553)	(20,691)	-
Stage 2	2,763	(570)	(65,503)	95,188	(31,878)	-
Stage 3	(6,560)	110,412	(25,907)	(114,427)	36,482	-
Utilisation of allocated provisions	(1)	(456,919)	(225)	(38,306)	(451,725)	(947,176)
Other movements (***)	-	(2,729)	(92)	(332)	(109,288)	(112,442)
Adjustments for exchange differences	**8**	**527**	**3,933**	**2,406**	**2,100**	**8,974**
Balance as at 31 December 2019	**16,149**	**491,526**	**399,862**	**252,593**	**1,773,862**	**2,933,992**
Movements reflected in impairment gains/(losses) (**)	**2,418**	**219,856**	**70,290**	**309,375**	**979,230**	**1,581,169**
Increases due to origination	-	-	266,479	-	-	266,479
Changes due to credit risk variance	2,350	234,695	(79,918)	225,626	985,257	1,368,010
Other movements	68	(14,839)	(116,271)	83,749	(6,027)	(53,320)
Movements not reflected in impairment gains/(losses)	**(7,014)**	**(112,934)**	**(12,357)**	**(103,510)**	**(1,170,095)**	**(1,405,910)**
Transfers between impairment stages	(6,066)	94,538	(6,301)	(81,020)	(1,151)	-
Stage 1	741	(1,785)	189,108	(163,198)	(24,866)	-
Stage 2	(486)	(608)	(177,906)	208,896	(29,896)	-
Stage 3	(6,321)	96,931	(17,503)	(126,718)	53,611	-
Utilisation of allocated provisions	(948)	(198,503)	(6,020)	(22,222)	(1,105,905)	(1,333,598)
Other movements (***)	-	(8,969)	(36)	(268)	(63,039)	(72,312)
Adjustments for exchange differences	**(14)**	**(8,164)**	**(9,704)**	**(4,931)**	**(3,406)**	**(26,219)**
Balance as at 31 December 2020	**11,540**	**590,283**	**448,092**	**453,527**	**1,579,591**	**3,083,032**

(*) This figure, corresponding to the amortisation charged to results on impaired financial assets derecognised from the asset side of the balance sheet and the recovery of write-offs, has been recognised with a contra account under the heading 'Impairment and gains or losses on changes in cash flows of financial assets not measured at fair value through profit or loss and net gains or (-) losses on changes' (see Note 27)

(**) Corresponds to credit loss allowances transferred to non-current assets held for sale (see Note 13) and investment property (see Note 15).

The breakdown by region of the balance of impairment allowances as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Spain	2,565,302	2,557,901
United Kingdom	301,257	235,516
Rest of European Union	44,408	34,042
Americas	100,665	72,288
Rest of the world	71,400	34,245
Total	**3,083,032**	**2,933,992**

Sensitivity analysis of the key variables of macroeconomic scenarios

An analysis of the sensitivity of the Group's expected loss and its impact by stage in the event of a change, *ceteris paribus*, from the actual macroeconomic environment, relative to the most probable baseline macroeconomic scenario included in the Group's business plan, is set out below. The results of this analysis are shown below:

	Change in the variable (*)	Impact on expected loss - Stage 1	Impact on expected loss - Stage 2	Impact on expected loss - Stage 3	Impact on expected loss - Total
Deviation of GDP growth	- 100 pb	6.4%	10.9%	4.3%	5.5%
	+ 100 pb	-4.9%	-6.0%	-3.8%	-4.2%
Deviation in unemployment rate	+ 350 pb	7.8%	24.6%	6.1%	8.8%
	- 350 pb	-7.2%	-16.5%	-5.1%	-6.9%
Changes in housing prices	- 300 pb	7.3%	16.8%	4.0%	6.2%
	+ 300 pb	-5.9%	-11.8%	-3.4%	-4.9%

(*) In Spain, changes in macroeconomic variables reflect the impacts, in absolute values, on the macroeconomic scenario in this country. In all other regions, changes in variables proportionate to those in Spain are applied to the macroeconomic scenario of each region.

Note 12 – Derivatives - asset and liability hedge accounting

Hedging management

The main hedges arranged by the Group are described below:

Interest rate risk hedge

Based on the balance sheet positioning and the market situation and outlook, interest rate risk mitigation strategies are proposed and agreed in order to adjust the aforesaid positioning to that desired by the Group. With this aim in mind, Banco Sabadell Group establishes interest rate hedging strategies for positions that are not included in the trading book and, to that end, derivative instruments are used, whether fair value instruments or cash flows, and a distinction is made between them depending on the items hedged:

- Macro-hedges: hedges intended to mitigate the risk of balance sheet components.
- Micro-hedges: hedges intended to mitigate the risk of a particular asset or liability.

When a transaction is designated as a hedging operation, it is classified as such from the outset of the transaction or the inception of the instruments included in the hedge, and a document is prepared which covers the hedging strategy, defining it in management and accounting terms, and setting out its governance. The said document clearly identifies the item or items hedged and the hedging instrument, the risk that it seeks to hedge and the criteria or methodologies followed by the Group to evaluate its effectiveness.

The Group operates with the following types of hedges intended to mitigate structural interest rate risk:

- Fair value hedges: hedges against the exposure to changes in the fair value of assets and liabilities recognised on the balance sheet, or against the analogous exposure of a specific selection of such assets and liabilities, that can be attributed to interest rate risk. These are used to keep a stable economic value of equity.

  The main types of balance sheet items hedged are:

  - Fixed-rate loans included in the lending portfolio.
  - Debt securities included in the portfolio of "*Financial assets at fair value through other comprehensive income*" and the portfolio of "*Financial assets at amortised cost*".
  - Fixed-rate liabilities, including fixed-term deposits and the Institution's capital market funding transactions.

  Banco Sabadell generally uses macro-hedging for balance sheet items, both assets and liabilities, while TSB uses macro-hedging for fixed-rate loans or deposits and micro-hedging for debt securities or the Bank's funding operations in the capital markets, for which they arrange derivative contracts, typically for a nominal amount identical to the item hedged and with the same financial features.

If the hedge relates to assets, the Group enters into a fixed-for-floating swap, whereas if the macro-hedge relates to liabilities, it enters into a floating-to-fixed interest rate swap. These derivatives can be traded in cash or as F&O. The hedged risk is the interest rate risk arising from a potential change in the risk-free interest rate that gives rise to changes in the value of the hedged balance sheet items. As such, the hedge will not cover any risk inherent to the hedged items other than the risk of a change in the risk-free interest rate.

In order to assess the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated monthly variance in the fair value of the hedged item against the accumulated monthly variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that future changes to the fair value of the hedged balance sheet items are offset by future changes in the fair value of the derivative.

- Cash flows: hedging against the exposure to changes in cash flows arising from a particular risk associated with a previously recognised asset or liability, or a forecast transaction that is highly likely to materialise and which could affect the results for the year. They are used to reduce net interest income volatility.
-

  The main types of balance sheet items hedged are:

  - Floating rate mortgage loans indexed to the mortgage Euribor.
  - Floating rate liabilities indexed to the 3-month Euribor.

  Banco Sabadell generally uses macro-hedging for balance sheet items, both assets and liabilities, while TSB also uses micro-hedging for floating-rate issues of its own debt securities, for which they arrange derivative contracts, typically for a nominal amount identical to the item hedged and with the same financial features.

  If the hedge relates to assets, the Group enters into a floating-to-fixed interest rate swap, whereas if the macro-hedge relates to liabilities, it enters into a fixed-for-floating swap. These derivatives can be traded in cash or as F&O. The hedged risk is the interest rate risk associated with the effect that a potential change in the benchmark interest rate could have on the future interest accrued on balance sheet items. The credit spread and risk premium which, together with the benchmark index, make up the contractual interest rate applicable to the hedged balance sheet items is expressly excluded from the hedge.

  In order to assess the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated variance in the fair value of the hedged item against the accumulated variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that the expected cash flows on the hedged items are still highly likely to materialise.

Possible causes of partial or total ineffectiveness include changes in the sufficiency of the portfolio of hedged balance sheet items or differences in their contractual characteristics in relation to hedging derivatives.

Every month the Group calculates the interest rate risk metrics and establishes hedging strategies in accordance with the established risk appetite framework. Hedges are therefore managed, establishing hedges or discontinuing them, as required, on the basis of the evolution of the balance sheet items described previously within the management and control framework defined by the Group through its policies and procedures.

Hedging of net investments in foreign operations

The positions of subsidiaries and foreign branches implicitly entail exposure to exchange rate risk, which is managed by creating hedges through the use of forward contracts.

The maturities of these instruments are periodically renewed on the basis of prudential and forward-looking criteria.

2020 hedging disclosures

The nominal values and the fair values of the hedging instruments as at 31 December 2020 and 2019, broken down by risk category and type of hedge, are as follows:

Thousand euro

	2020			2019		
	Nominal	Assets	Liabilities	Nominal	Assets	Liabilities
Micro-hedges:						
Fair value hedges	5,231,704	46,337	45,992	7,245,991	55,400	67,932
Exchange rate risk	1,002	82	-	1,976	113	-
For funding operations (A)	-	-	-	-	-	-
Of permanent investments	-	-	-	-	-	-
Of non-monetary items (B)	*1,002*	*82*	-	*1,976*	*113*	-
Interest rate risk	3,439,560	38,759	42,817	5,185,382	48,275	57,533
For funding operations (A)	*444,105*	*4,824*	*623*	*468,381*	*9,882*	*1,010*
For lending operations (B)	*2,995,455*	*33,935*	*42,194*	*4,717,001*	*38,393*	*56,523*
Risk associated with shares	1,791,142	7,496	3,175	2,058,633	7,012	10,399
For funding operations (A)	*1,791,142*	*7,496*	*3,175*	*2,058,633*	*7,012*	*10,399*
Cash flow hedges	4,255,363	139,086	25,972	5,931,234	238,985	17,570
Exchange rate risk	-	-	-	317,492	51,254	-
Of non-monetary items (D)	-	-	-	*317,492*	*51,254*	-
Interest rate risk	2,896,963	94	19,835	3,602,746	6,171	17,335
Of future transactions (E)	*156,746*	-	*2,441*	*223,319*	*3,384*	-
For funding operations (A)	*227,146*	*35*	*15,055*	*500,525*	*2,753*	*14,663*
For securitisation operations (F)	*2,513,071*	*59*	*2,339*	*2,878,902*	*34*	*2,672*
Rest	-	-	-	-	-	-
Risk associated with shares	3,400	-	11	9,996	-	100
For funding operations (G)	*3,400*	-	*11*	*9,996*	-	*100*
Other risks	1,355,000	138,992	6,126	2,001,000	181,560	135
For inflation-linked bonds (H)	*1,355,000*	*138,992*	*6,126*	*2,001,000*	*181,560*	*135*
Hedge of net investment in foreign operations	1,005,975	3,562	8,569	1,648,059	2,678	25,212
Exchange rate risk (I)	*1,005,975*	*3,562*	*8,569*	*1,648,059*	*2,678*	*25,212*
Macro-hedges:						
Fair value hedges	32,091,269	360,565	697,089	23,279,606	171,453	605,689
Interest rate risk	32,091,269	360,565	697,089	23,279,606	171,453	605,689
For funding operations (J)	*12,316,156*	*358,012*	*371*	*10,735,569*	*161,693*	*7,132*
For lending operations (K)	*19,775,113*	*2,553*	*696,718*	*12,544,037*	*9,760*	*598,557*
Cash flow hedges	250,000	-	5,035	400,000	-	12,366
Interest rate risk	250,000	-	5,035	400,000	-	12,366
For funding operations (L)	*250,000*	-	*5,035*	*400,000*	-	*12,366*
For lending operations	-	-	-	-	-	-
Total	42,834,311	549,550	782,657	38,504,890	468,516	728,769
By currency:						
In euro	*20,643,531*	*393,373*	*523,545*	18,817,424	357,989	382,743
In foreign currency	*22,190,780*	*156,177*	*259,112*	19,687,466	110,527	346,026
Total	42,834,311	549,550	782,657	38,504,890	468,516	728,769

The types of hedges according to their composition that are identified in the table are as follows:

A. Micro-hedges of interest rate risk on the Institution's funding transactions in capital markets, transactions involving term deposits opened by customers and recognised under the heading "*Financial liabilities measured at amortised cost*".
B. Micro-hedges against the exchange rate risk of equity transactions recognised under the heading *"Financial assets not intended for trading mandatorily measured at fair value through profit or loss"*.
C. Micro-hedges of transactions involving customer loans, recognised under the heading "*Financial assets at amortised cost*" and debt securities classified in the portfolio under the "fair value through other comprehensive income" and "amortised cost" categories.

D. Micro-hedges against exchange rate risk to reduce the volatility in the event of exchange rate fluctuations of securitisation bonds, recognised under the heading "*Financial liabilities measured at amortised cost*". As at 31 December 2020, the micro-hedges against the exchange rate risk of foreign currency securitisation bonds are not in force.
E. Micro-hedges against interest rate risk on futures transactions, mainly fixed-income securities. The institution designates as a hedging item derivative contracts that will be settled at their gross value by transferring the underlying asset (according to the contracted price) which, in accordance with the implementation guidelines of IAS 39, can be considered as a cash flow hedge in respect of the consideration that will be settled in a future transaction arising from the settlement of the derivative itself in gross terms. If no derivative had been arranged, the Group would be exposed to changes in price.
F. Micro-hedging operations carried out by the Group's securitisation funds.
G. Micro-hedges for transactions involving term deposits arranged by customers and which are currently being sold.
H. Micro-hedges of interest rates on inflation-linked bonds recognised under the headings "*Financial assets at fair value through other comprehensive income*" and "*Financial assets at amortised cost*". The Bank has arranged financial swaps to hedge future changes in cash flows that will be settled by ILBs.
I. Hedges against exchange rate risk on permanent shareholdings currently cover 213 million pounds sterling and 9,003 million Mexican pesos corresponding to shareholdings in Group entities (573 million pounds sterling and 10,418 million Mexican pesos as at 31 December 2019); and 150 million US dollars corresponding to shareholdings in foreign branches (200 million US dollars as at 31 December 2019). All of these hedges are carried out through currency forwards.
J. Macro-hedges of the Institution's funding transactions in capital markets, transactions involving term deposits and sight accounts opened by customers and recognised under the heading "*Financial liabilities measured at amortised cost*".
K. Macro-hedges of debt securities classified in the portfolio under the "fair value through other comprehensive income" and "amortised cost" categories, and of fixed-rate mortgage loans granted to customers (recognised under the heading "*Financial assets at amortised cost*").
L. Cash flow macro-hedges the purpose of which is to reduce the volatility of the buy-sell spread as a result of interest rate fluctuations, for a one-year time horizon. Thus, this macro-hedge covers future cash flows based on the net exposure of a portfolio consisting of floating rate liabilities recognised under the heading "*Financial liabilities measured at amortised cost*". The average rate of interest rate swaps used for this hedge was -0.54% (-0.40% as at 31 December 2019).

The maturity profiles of the hedging instruments used by the Group as at 31 December 2020 and 2019 are shown below:

Thousand euro

	2020					
	Nominal					
	Up to 1 month	1 to 3 months	3 to 12 months	1 and 5 years	More than 5 years	Total
Exchange rate risk	506,233	482,538	18,206	-	-	**1,006,977**
Interest rate risk	4,141	1,563,818	3,229,878	17,130,246	16,749,709	**38,677,792**
Risk associated with shares	8,475	19,726	219,837	1,492,680	53,824	**1,794,542**
Other risks	-	11,000	-	449,000	895,000	**1,355,000**
Total	**518,849**	**2,077,082**	**3,467,921**	**19,071,926**	**17,698,533**	**42,834,311**

Thousand euro

	2019					
	Nominal					
	Up to 1 month	1 to 3 months	3 to 12 months	1 and 5 years	More than 5 years	Total
Exchange rate risk	706,675	921,589	339,263	-	-	**1,967,527**
Interest rate risk	1,869,952	223,319	4,140,362	12,038,165	14,195,936	**32,467,734**
Risk associated with shares	15,406	59,835	242,785	1,717,835	32,768	**2,068,629**
Other risks	-	-	-	11,000	1,990,000	**2,001,000**
Total	**2,592,033**	**1,204,743**	**4,722,410**	**13,767,000**	**16,218,704**	**38,504,890**

In 2020 and 2019 there were no reclassifications from equity to the consolidated income statement due to cash flow hedges and hedges of net investments in foreign operations for transactions that were ultimately not executed.

The following table shows the accounting information of items covered by the fair value micro-hedges contracted by the Group:

Thousand euro

	2020					2019	
	Carrying amount of hedged item		Accumulated fair value adjustments in the hedged item		Accumulated amount of adjustments in hedged items for which hedge accounting no longer applies	Carrying amount of hedged item	
	Assets	Liabilities	Assets	Liabilities		Assets	Liabilities
Micro-hedges:							
Fair value hedges							
Exchange rate risk	-	-	-	-	-	-	-
Interest rate risk	4,275,182	1,003,491	7,794	4,061	9,979	4,074,896	532,354
Risk associated with shares	-	1,903,259	-	29,635	(22)	-	2,182,389
Total	**4,275,182**	**2,906,750**	**7,794**	**33,696**	**9,957**	**4,074,896**	**2,714,743**

In terms of fair value macro-hedges, the book value of the hedged items recognised in assets and liabilities for 2020 amounted to 28,907,233 and 60,851,577 thousand euros, respectively (28,007,949 and 51,284,438 thousand euros in 2019, respectively). Similarly, fair value adjustments of the hedged items amounted to 458,849 and 371,642 thousand euros as at 31 December 2020, respectively (249,552 and 234,537 thousand euros as at 31 December 2019).

In relation to fair value hedges, the losses and gains recognised in 2020 and 2019, arising from both hedging instruments and hedged items are detailed hereafter:

Thousand euro

	2020		2019	
	Hedging instruments	Hedged items	Hedging instruments	Hedged items
Micro-hedges	**45,768**	**(45,691)**	**(139,860)**	**139,610**
Fixed-rate assets	(31,239)	31,665	(53,512)	53,574
Capital markets	(5,617)	5,642	(12,052)	12,242
Fixed-rate liabilities	1,832	(1,598)	24,045	(24,354)
Assets denominated in foreign currency	80,792	(81,400)	(98,341)	98,148
Macro-hedges	**(233,051)**	**242,738**	**(143,466)**	**143,309**
Capital markets and fixed-rate liabilities	162,619	(158,746)	132,659	(133,410)
Fixed-rate assets	(395,670)	401,484	(276,125)	276,719
Total	**(187,283)**	**197,047**	**(283,326)**	**282,919**

In cash flow hedges, the amounts recognised in the statement of consolidated equity during the year and the amounts derecognised from consolidated equity and included in earnings during the year are indicated in the statement of total changes in equity of the Group.
The hedge ineffectiveness in the results for 2020 related to cash flow hedges amounted to losses of 300 thousand euros (losses of 508 thousand euros in 2019).

Note 13 – Non-current assets and assets and liabilities included in disposal groups classified as held for sale

The composition of these headings in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Assets	**1,269,690**	**976,084**
Cash, cash balances at central banks and other demand deposits	-	-
Loans and advances	243,890	1,850
Credit institutions	-	-
Customers	243,890	1,850
Debt securities	-	-
Equity instruments	-	-
Real estate exposure	1,004,859	915,557
Tangible assets for own use	53,074	30,967
Investment properties	-	-
Foreclosed assets	951,785	884,590
Leased out under operating leases	9,141	13,141
Rest of other assets	11,800	45,536
Impairment allowances	**(294,150)**	**(211,881)**
Non-current assets and disposal groups classified as held for sale	**975,540**	**764,203**

Liabilities		
Financial liabilities measured at amortised cost	-	4,016
Tax liabilities	-	2,759
Liabilities under insurance or reinsurance contracts	-	-
Rest	-	3,380
Liabilities included in disposal groups classified as held for sale	**-**	**10,155**

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

Details of the gross value and impairment allowances on loans in these portfolios classified as *"Non-current assets and disposal groups classified as held for sale"*, grouped according to their credit risk and purpose, are shown below:

Thousand euro	Gross amount	Allowances	Net value
Portfolio of loans for which a sale agreement has been reached	**848,927**	**605,037**	**243,890**
Loans and advances previously classified in Stage 3	**797,897**	**573,837**	**224,060**
Real estate development and construction	41,388	36,167	5,221
Non-real estate construction	1,133	1,120	13
Corporates	6,870	5,910	960
SMEs and self-employed	57,424	37,436	19,988
Individuals	691,082	493,204	197,878
Loans and advances previously classified in Stage 2	**40,916**	**25,925**	**14,991**
Real estate development and construction	3,361	1,513	1,848
Non-real estate construction	-	-	-
Corporates	244	63	181
SMEs and self-employed	7,041	3,074	3,967
Individuals	30,270	21,275	8,995
Loans and advances previously classified in Stage 1	**10,114**	**5,275**	**4,839**
Real estate development and construction	157	56	101
Non-real estate construction	-	-	-
Corporates	361	82	279
SMEs and self-employed	1,668	556	1,112
Individuals	7,928	4,581	3,347
Other loans and advances	**-**	**-**	**-**
Total	**848,927**	**605,037**	**243,890**

Tangible assets for own use relate mainly to commercial establishments.

In respect of real estate assets originating in foreclosures, 93.57% of the balance corresponds to residential properties, 5.84% to industrial properties and 0.59% to agricultural properties.

The average term during which assets remained within the category of " *Non-current assets and assets and liabilities included in disposal groups classified as held for sale – Foreclosed assets*" was 35 months in 2020 (23.2 months in 2019) (refer to Note 4 for policies on selling or otherwise disposing of these assets).

The percentage of foreclosed assets sold with financing granted to the buyer in 2020 was 4.9% (in 2019 it was 12.2%).

Movements in "*Non-current assets and disposal groups classified as held for sale*" during 2020 and 2019 were as follows:

Thousand euro

	Note	Non-current assets held for sale
Cost:		
Balances as at 31 December 2018		**7,409,293**
Additions		489,292
Disposals		(6,979,478)
Transfer of credit losses (*)		(112,400)
Other transfers/reclassifications		169,377
Balances as at 31 December 2019		**976,084**
Additions		685,665
Disposals		(462,095)
Transfer of credit losses (*)		(41,918)
Other transfers/reclassifications		111,954
Balances as at 31 December 2020		**1,269,690**
Impairment allowances:		
Balances as at 31 December 2018		**2,822,370**
Impairment through profit or loss	37	345,881
Reversal of impairment through profit or loss	37	(176,668)
Utilisations		(2,857,647)
Other transfers/reclassifications		77,945
Balances as at 31 December 2019		**211,881**
Impairment through profit or loss	37	410,285
Reversal of impairment through profit or loss	37	(182,110)
Utilisations		(108,935)
Other transfers/reclassifications		(36,971)
Balances as at 31 December 2020		**294,150**
Net balances as at 31 December 2019		**764,203**
Net balances as at 31 December 2020		**975,540**

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

Details of the net carrying value of transfers shown in the table above are as follows:

Thousand euro

	Note	2020	2019
Loans and advances		243,890	1,064
Tangible assets	15	100,173	29,170
Inventories	17	(85,854)	51,925
Rest		(109,284)	9,273
Total		**148,925**	**91,432**

Note 14 – Investments in joint ventures and associates

Movements in this heading of the consolidated balance sheets as at 31 December 2020 and 2019 are as follows:

Thousand euro

Balance as at 31 December 2018	**574,940**
Scope additions / exclusions	150,669
Profit/(loss) for the year	56,551
Acquisition or capital increase (*)	14,653
Sale or dissolution	(53,328)
Dividends	(55,416)
Transfer	57,930
Impairment, allowances, translation differences and other	(12,069)
Balance as at 31 December 2019	**733,930**
Scope additions / exclusions	12
Profit/(loss) for the year	35,926
Acquisition or capital increase (*) (**)	85,379
Sale or dissolution	(22,340)
Dividends	(47,347)
Transfer	(4,375)
Impairment, allowances, translation differences and other	(1,326)
Balance as at 31 December 2020	**779,859**

(*) See cash flow statement.

(**) Of which 62,061 thousand euros are non-monetary contributions and 23,318 thousand euros are cash.

The section of the cash flow statement *"Investment activities -– Collections from investments in joint ventures and associates*" shows 70,106 thousand euros which correspond to the sum of 22,340 thousand euros on sales or settlements, 47,347 thousand euros on dividends charged and 419 thousand euros, which correspond to derecognitions or settlements included in the breakdown shown in Schedule I. Furthermore, the section "*Investment activities -– Payments for investments in joint ventures and associates*" of this statement shows 23,318 thousand euros, which correspond to the acquisitions and capital increases made in the financial year 2020.

The main investee companies included for the first time in the balance sheet and those no longer in the balance sheet in 2020 y 2019 are indicated in Schedule I.

As at 31 December 2020, goodwill linked to investments in joint ventures and associates corresponding to the investee Solvia Servicios Inmobiliarios, S.L.U., amounted to 25,637 thousand euros. This goodwill arose as a result of the recognition at fair value of the interest held in this institution following the sale of 80% of its share capital to a non-Group third party (see Note 2).

As at 31 December 2020 and 2019, no support agreements or other type of significant contractual commitment had been provided by the Bank or its subsidiaries to associates.

The reconciliation between the Group's investment in investees and the balance recorded under the heading "*Investments in joint ventures and associates*" is as follows:

Thousand euro

	2020	2019
Group investment in investees (Schedule I)	502,019	446,496
Contributions due to retained earnings	296,707	310,830
Valuation adjustments	(18,867)	(23,396)
Total	**779,859**	**733,930**

The following table shows the key financial data relating to the investment considered to be individually significant as at 31 December 2020 and 2019: Bansabadell Vida, S.A., through which the Bank completes its offer to customers by distributing its insurance products through its branch network, and Promontoria Challenger I, S.A., an institution controlled by Cerberus to which the Group transferred a large part of its real estate exposure in 2019 (see Note 2):

Thousand euro

	BanSabadell Vida (*)	
	2020	2019
Total assets	10,866,241	11,202,448
Of which: financial investments	*9,625,116*	*10,033,236*
Total liabilities	10,166,025	10,531,615
Of which: technical provisions	*9,035,756*	*9,198,607*
Result of the technical account of insurer	112,308	110,618
Of which: premiums allocated to the year	*1,210,419*	*1,668,940*
Of which: claims ratio for the year	*(1,302,047)*	*(1,471,879)*
Of which: technical financial yield	*131,405*	*129,928*

(*) Figures taken from BanSabadell Vida accounts without taking into consideration consolidation adjustments nor the Group's percentage holding.

Thousand euro

	Promontoria Challenger I (*)	
	2020	2019
Total assets	3,203,880	2,499,819
Of which: Investment properties	991,064	*603,250*
Of which: Inventories	2,109,097	*1,776,617*
Total liabilities	2,216,252	1,649,249
Of which: long-term debt	2,160,899	*1,619,946*
Profit/(loss)	(139,813)	(18,646)
Of which: ordinary income	*198,910*	-

(*) Figures taken from accounting records of Promontoria Challenger I, without taking into account consolidation adjustments or the Group's percentage holding.

As at 31 December 2020 and 2019, the carrying amount of the investment in Bansabadell Vida, S.A. was of 306,509 and 291,429 thousand euros, respectively, and the carrying amount of the investment in Promontoria Challenger I, S.A. was of 205,593 and 161,958 thousand euros, respectively. Furthermore, as at these dates, the aggregate carrying amount of investments in associates considered as non-material on an individual basis was of 267,757 and 280,543 thousand euros, respectively.

Note 15 – Tangible assets

The composition of this heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020				2019			
	Cost	Depreciation and amortisation	Impairment	Net value	Cost	Depreciation and amortisation	Impairment	Net value
Property, plant and equipment	**4,636,930**	**(1,767,492)**	**(17,151)**	**2,852,287**	**4,593,448**	**(1,621,752)**	**(23,925)**	**2,947,770**
For own use (*):	4,278,181	(1,682,036)	(17,143)	2,579,002	4,200,109	(1,543,640)	(17,985)	2,638,484
Computer equipment and related facilities	643,025	(423,776)	-	219,249	525,018	(370,452)	-	154,566
Furniture, vehicles and other facilities	1,154,022	(660,514)	-	493,508	1,274,106	(698,969)	(4,078)	571,059
Buildings	2,384,730	(582,115)	(17,143)	1,785,472	2,312,108	(459,600)	(13,907)	1,838,601
Work in progress	9,522	(2)	-	9,520	53,371	-	-	53,371
Other	86,882	(15,629)	-	71,253	35,506	(14,619)	-	20,887
								-
Leased out under operating leases	358,749	(85,456)	(8)	273,285	393,339	(78,112)	(5,940)	309,286
Investment properties	**429,367**	**(38,610)**	**(42,665)**	**348,092**	**614,308**	**(43,381)**	**(56,298)**	**514,629**
Buildings	429,367	(38,610)	(42,665)	348,092	610,531	(42,796)	(55,752)	511,983
Rural property, plots and sites	-	-	-	-	3,777	(585)	(546)	2,646
Total	**5,066,297**	**(1,806,102)**	**(59,816)**	**3,200,379**	**5,207,756**	**(1,665,133)**	**(80,223)**	**3,462,399**

(*) As at 31 December 2020, the cost of property, plant and equipment for own use includes right-of-use assets relating to the leased tangible assets in which the Group acts as lessee amounting to 1,231,842 thousand euros, of which 224,115 thousand euros have been depreciated as at that date (1,192,180 thousand euros as at 31 December 2019, of which 113,940 thousand euros have been depreciated as at that date).

Movements in the balance under the "*Tangible assets*" heading during 2020 and 2019 were as follows:

Thousand euro

	Note	Own use - Buildings, work in progress and other	Own use - Computer equipment, furniture and related facilities	Investment properties	Leased out under operating leases	Total
Cost:						
Balances as at 31 December 2018		**1,146,055**	**1,787,349**	**821,885**	**346,316**	**4,101,605**
Additions (*)		1,303,088	103,462	25,255	287,273	1,719,078
Disposals		(51,950)	(110,943)	(202,257)	(240,720)	(605,870)
Transfer of credit losses		-	-	(42)	-	(42)
Other transfers		(10,856)	14,645	(30,533)	-	(26,744)
Exchange rate		14,648	4,611	-	470	19,729
Balances as at 31 December 2019		**2,400,985**	**1,799,124**	**614,308**	**393,339**	**5,207,756**
Additions		86,215	165,307	33,587	109,538	394,647
Disposals		(31,128)	(163,222)	(41,381)	(143,599)	(379,330)
Transfer of credit losses		-	-	-	-	-
Other transfers		51,892	1,552	(177,146)	-	(123,702)
Exchange rate		(26,830)	(5,714)	-	(529)	(33,073)
Balances as at 31 December 2020		**2,481,133**	**1,797,048**	**429,367**	**358,749**	**5,066,298**
Accumulated depreciation:						
Balances as at 31 December 2018		**326,172**	**1,069,955**	**47,970**	**71,123**	**1,515,220**
Additions (**)		149,305	109,231	13,374	45,479	317,389
Disposals		(3,032)	(116,898)	(11,951)	(38,165)	(170,046)
Other transfers		(5,497)	3,545	(6,012)	-	(7,964)
Exchange rate		7,271	3,588	-	(324)	10,535
Balances as at 31 December 2019		**474,219**	**1,069,421**	**43,381**	**78,113**	**1,665,134**
Additions (**)		159,843	133,312	11,766	40,412	345,333
Disposals		(23,234)	(114,272)	(4,860)	(38,668)	(181,033)
Other transfers		(3,091)	(49)	(11,678)	-	(14,818)
Exchange rate		(9,991)	(4,121)	-	5,599	(8,514)
Balances as at 31 December 2020		**597,746**	**1,084,290**	**38,610**	**85,456**	**1,806,102**
Impairment losses:						
Balances as at 31 December 2018		**6,223**	**4,078**	**72,894**	**5,487**	**88,682**
Impairment through profit or loss	35	16	-	25,360	-	25,376
Reversal of impairment through profit or loss	35	-	-	(30,093)	-	(30,093)
Utilisations		(409)	-	(14,176)	453	(14,132)
Other transfers		8,077	-	2,313	-	10,390
Balances as at 31 December 2019		**13,907**	**4,078**	**56,298**	**5,940**	**80,223**
Impairment through profit or loss	35	3,433	-	16,963	-	20,396
Reversal of impairment through profit or loss	35	(8,383)	-	(19,704)	-	(28,087)
Utilisations		4,191	(4,078)	1,815	(5,933)	(4,005)
Other transfers		3,995	-	(12,706)	-	(8,711)
Balances as at 31 December 2020		**17,144**	**-**	**42,665**	**8**	**59,816**
Net balances as at 31 December 2019		**1,912,859**	**725,625**	**514,629**	**309,286**	**3,462,399**
Net balances as at 31 December 2020		**1,866,244**	**712,758**	**348,092**	**273,285**	**3,200,379**

(*) Includes 1,192,180 thousand euro corresponding to recognition on the consolidated balance sheet of the cost of the right-of-use assets in leased property, plant and equipment where the group acts as lessee, of which 1,107,452 correspond to the impact of the first-time application of IFRS 16.

(**) Includes 112,855 thousand euros in 2020 and 113,385 thousand euros in 2019 corresponding to the recognition in the consolidated income statement of the depreciation of the right-of-use assets of the leased properties in which the Group acts as lessee.

Details of the net carrying value of transfers shown in the table above are as follows:

Thousand euro

	Note	2020	2019
Non-current assets and disposal groups classified as held for sale	13	(100,173)	(29,170)
Credit losses		-	(42)
Total		**(100,173)**	**(29,212)**

Specific information relating to tangible assets as at 31 December 2020 and 2019 is shown hereafter:

Thousand euro

	2020	2019
Gross value of tangible assets for own use in use and fully amortised	454,649	411,143
Net carrying value of tangible assets of foreign operations	363,344	434,609

Lease contracts in which the Group acts as lessee

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

Thousand euro

	2020	2019
Interest expense on lease liabilities	(16,258)	(16,760)
Expense related to short-term low-value leases (*)	(17,888)	(14,157)
Total lease payments in cash (**)	117,535	91,089

(*) Recognised in the "Administrative expenses" heading, in the item on "Of property, plant and equipment" (see note 33).

(**) Payments of the principal and interest components of the lease liability are recognised as cash flows from financing activities in the group's consolidated cash flow statement.

The future cash outflows to which the Group may potentially be exposed as lessee and which are not included under lease liabilities are not significant.

Minimum future payments over the period that cannot be cancelled for lease contracts in effect as at 31 December 2020 are indicated below:

Thousand euro

	2020	2019
Undiscounted future lease payments		
Up to 1 month	7,624	13,747
1 to 3 months	21,136	9,536
3 to 12 months	79,792	68,350
1 to 5 years	427,161	308,216
More than 5 years	501,878	683,936

Sale and leaseback transactions

Between 2009 and 2012, the Group completed transactions for the sale of properties and simultaneously entered into a lease contract, for the same properties, with the buyers (maintenance, insurance and taxes to be borne by the Bank). The main characteristics of the most significant lease contracts in effect as at the end of 2020 are as follows:

	2020			
Operating lease contracts	No. properties sold	No. contracts with purchase option	No. contracts without purchase option	Mandatory term
2,009	68	28	40	10 to 20 years
2,010	379	378	1	10 to 25 years
2011 (acquisition B.Guipuzcoano)	82	64	18	8 to 20 years
2012 (acquisition Banco CAM)	15	15	-	10 to 25 years
2,012	4	4	-	15 years

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

Thousand euro

	2020
Undiscounted future lease payments	
Up to 1 month	3,686
1 to 3 months	7,017
3 to 12 months	32,601
1 to 5 years	211,669
More than 5 years	403,689

During 2020, no individually material gain or loss was obtained through sale and leaseback transactions.

Contracts in which the Group acts as lessor

The lease contracts entered into by the Group in which it acts as lessor are mainly operating leases.

The Group implements strategies to reduce risks related to the rights held over the underlying assets. For example, the lease contracts include a clause which stipulates a minimum non-cancellable lease period, a deposit which the lessor may retain as compensation if the asset sustains excessive wear during the lease period, and additional guarantees or sureties to limit losses in the event of non-payment.

With regard to the tangible assets leased out under operating leases, the bulk of the operating lease operations is carried out by BanSabadell Renting, S.A. and consists of vehicle leases.

As regards the investment properties item, the rental income from these investment properties and the direct costs associated with the investment properties that produced rental income during 2020 amounted to 38,507 and 14,358 thousand euros, respectively. Direct expenses associated with investment properties that did not produce income were not significant in the context of the consolidated annual financial statements.

Note 16 – Intangible assets

The composition of this heading as at 31 December 2020 and 2019 was as follows:

Thousand euro

	2020	2019
Goodwill:	**1,026,105**	**1,031,824**
Banco Urquijo	473,837	473,837
Grupo Banco Guipuzcoano	285,345	285,345
From acquisition of Banco BMN Penedés assets	245,364	245,364
Rest	21,559	27,278
Other intangible assets:	**1,569,978**	**1,533,159**
With a finite useful life:	1,569,978	1,533,159
Contractual relations with customers (Banco Guipuzcoano)	-	5,007
Private Banking Business, Miami	11,332	16,244
Contractual relations with TSB customers and brand	118,873	167,681
Computer applications	1,438,427	1,342,902
Other	1,346	1,325
Total	**2,596,083**	**2,564,983**

Goodwill

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

Since the first half of 2020, Banco Sabadell Group has been monitoring the Group's total goodwill across the ensemble of Cash-Generating Units (CGUs) that make up the Banking Business Spain operating segment, rather than doing so individually for each CGU.

As at 31 December 2020, the Banking Business Spain operating segment comprises all CGUs to which goodwill was originally allocated.

Banco Sabadell Group made this decision as a result of the operational changes related to monitoring of the development of business resulting from the reorganisation of Banking Business in Spain in which Private Banking became part of Commercial Banking and was integrated within that operating segment. In addition, the development of the Corporate Banking business has led to an increasing portion of its customers executing transactions through foreign branches; the income from those transactions is not allocated to this cash-generating unit. It has also led to asset portfolios being transferred between this business and the Commercial Banking business, which has produced modifications to the scope of both CGUs.

The valuation method used in this analysis was that of discounting future net distributable profit associated with the activity carried out by the Banking Business Spain operating segment until 2026. To calculate the terminal value, 2026 has been taken as the reference year, using a perpetual growth rate of 1.6%. A discount rate of 9.0% was used, a figure reached using the CAPM (Capital Asset Pricing Model) approach.

The key variables on which the financial projections are based are: growth in the buy-sell spread (determined by expected trading volumes and interest rates) and changes of other items on the income statement and solvency levels.

Recoverable values, both at Group-wide level and at the level of the various businesses (Spain, United Kingdom and Mexico), are higher than their respective book values and, therefore, no impairment has been recognised.

The Group has carried out a sensitivity analysis using reasonable adjustments to the most significant assumptions for the calculation of the recoverable value.

This analysis consisted of adjusting the following:

- Discount rate +/- 0.5%.
- Growth rate in perpetuity +/- 0.5%.
- Minimum capital requirement +/-0.5%.
- NIM/ATAs in perpetuity +/- 5bps.
- Cost of risk in perpetuity +/- 10bps.

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

The impairment of goodwill and the various businesses is calculated taking into account the central macroeconomic scenario described in Note 1.

The main transactions that generated goodwill were the acquisition of Banco Urquijo in 2006, of Banco Guipuzcoano in 2010 and of certain assets of BMN-Penedès in 2013.

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

Other intangible assets

Private Banking business, Miami

Intangible assets associated with the acquisition in 2008 of the Private Banking business in Miami include the value of contractual rights arising from relationships with customers taken over from this business, mainly short-term lending and deposits. These assets are amortised over a period of between 10 and 15 years of their creation.

Contractual relations with TSB customers and brand

The intangible assets associated with the acquisition of TSB include the value of the contractual rights arising from relationships with customers taken over from TSB for demand deposits (core deposits), the initial estimate of which amounted to 353,620 thousand euros. This asset is amortised over 8 years. The valuation of these intangible assets was carried out by calculating the value in use based on the income approach (discounted cash flows) with the multi-period excess earnings technique. To determine whether there is any evidence of impairment, the balance of deposits currently in TSB linked to existing customers at the time of its acquisition by the Bank has been compared against the estimated balance that such customers would have at the end of 2020, forecast at the time of the initial valuation. Based on this comparison, the conclusion can be drawn that there is no evidence of any impairment. The carrying amount of contractual relationships with TSB customers amounted to 87,443 thousand euros as at 31 December 2020.

The value of the exclusive right of use of the TSB brand was also estimated at an initial amount of 73,328 thousand euros. The value attributable to this asset was determined through the replacement cost method, consisting of establishing the cost of rebuilding or acquiring an exact replica of the asset in question. This asset is amortised over 12 years. For the brand, the assessment of the recoverable value of the TSB cash-generating unit included an implicit analysis of its valuation and concluded that there is no impairment. The carrying amount of the TSB brand is 31,430 thousand euros as at 31 December 2020.

IT applications

Software purchase costs comprise mainly the capitalised costs of developing the Group's computer software and the purchase of software licences.

Movements

Movements in goodwill in 2020 and 2019 were as follows:

Thousand euro

	Goodwill	Impairment	Total
Balance as at 31 December 2018	**1,032,618**	**-**	**1,032,618**
Additions	334	-	334
Disposals	(1,128)	-	(1,128)
Exchange differences	-	-	-
Other	-		-
Balance as at 31 December 2019	**1,031,824**	**-**	**1,031,824**
Additions	500	-	500
Disposals	(6,219)	-	(6,219)
Exchange differences	-	-	-
Balance as at 31 December 2020	**1,026,105**	**-**	**1,026,105**

Movements in other intangible assets in 2020 and 2019 were as follows:

Thousand euro

	Cost	Depreciation and amortisation	Impairment	Total
Balance as at 31 December 2018	**2,808,109**	**(1,379,584)**	**(1)**	**1,428,524**
Additions	333,321	(197,373)	(6,964)	128,984
Disposals	(179,924)	138,418	5,857	(35,649)
Other	-	-	1,108	1,108
Exchange differences	19,920	(9,728)	-	10,192
Balance as at 31 December 2019	**2,981,426**	**(1,448,267)**	**-**	**1,533,159**
Additions	288,371	(218,457)	(2,025)	67,889
Disposals	(27,006)	8,790	-	(18,216)
Other	(1,652)	(39)	-	(1,691)
Exchange differences	(26,132)	14,969	-	(11,163)
Balance as at 31 December 2020	**3,215,007**	**(1,643,004)**	**(2,025)**	**1,569,978**

The gross value of other intangible assets that were in use and had been fully amortised as at 31 December 2020 and 2019 amounted to 945,626 thousand euros and 863,110 thousand euros, respectively.

Note 17 – Other assets

The "*Other assets*" heading on the consolidated balance sheets as at 31 December 2020 and 2019 breaks down as follows:

Thousand euro

	Note	2020	2019
Insurance contracts linked to pensions	22	133,757	133,960
Inventories		194,264	868,577
Rest of other assets		580,335	493,399
Total		**908,356**	**1,495,936**

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

Movements in inventories in 2020 and 2019 were as follows:

Thousand euro

	Note	Land	Buildings under construction	Finished buildings	Total
Balance as at 31 December 2018		**601,422**	**145,428**	**188,006**	**934,857**
Additions		47,395	93,699	72,273	213,367
Disposals		(21,391)	(950)	(121,392)	(143,733)
Impairment through profit or loss	35	(54,495)	(6,813)	(77,593)	(138,901)
Reversal of impairment through profit or loss	35	31,991	2,970	19,951	54,912
Other transfers	13	(88,361)	(58,948)	95,384	(51,925)
Balance as at 31 December 2019		**516,561**	**175,386**	**176,629**	**868,577**
Additions		68,398	15,161	46,049	129,609
Disposals		(488,691)	(137,522)	(217,496)	(843,709)
Impairment through profit or loss	35	(50,156)	26,206	(65,714)	(89,663)
Reversal of impairment through profit or loss	35	3,788	300	39,508	43,596
Other transfers	13	(40,077)	(77,746)	203,676	85,854
Balance as at 31 December 2020		**9,824**	**1,786**	**182,653**	**194,264**

As at 31 December 2020 and 2019, there are no inventories associated with debt secured with mortgages.

Note 18 – Deposits in central banks and credit institutions

The breakdown of the deposits in central banks and credit institutions heading in the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
By heading:		
Financial liabilities measured at amortised cost	41,964,732	31,535,828
Total	**41,964,732**	**31,535,828**
By nature:		
Demand deposits	375,755	470,512
Deposits with agreed maturity	34,535,298	23,153,219
Repurchase agreements	6,789,993	7,607,237
Deposits redeemable at notice	-	-
Hybrid financial liabilities	73,200	58,800
Other accounts	185,472	229,414
Valuation adjustments	5,014	16,646
Total	**41,964,732**	**31,535,828**
By currency:		
In euro	35,781,889	23,680,458
In foreign currency	6,182,843	7,855,370
Total	**41,964,732**	**31,535,828**

Note 19 – Customer deposits

The customer deposits heading on the consolidated balance sheets as at 31 December 2020 and 2019 breaks down as follows:

Thousand euro

	2020	2019
By heading:		
Financial liabilities measured at amortised cost	151,269,710	147,362,353
Total	**151,269,710**	**147,362,353**
By nature:		
Demand deposits	130,294,703	118,868,376
Deposits with agreed maturity	18,906,351	25,174,407
Fixed term	16,674,741	22,815,482
Non-marketable covered bonds and bonds issued	1,397,479	1,476,891
Rest	834,131	882,034
Hybrid financial liabilities	1,898,153	2,164,716
Repurchase agreements	13,022	951,258
Valuation adjustments	157,481	203,596
Total	**151,269,710**	**147,362,353**
By sector:		
General governments	6,456,561	6,609,279
Other sectors	144,655,668	140,549,479
Other valuation adjustments (interest, fees and commissions, other)	157,481	203,595
Total	**151,269,710**	**147,362,353**
By currency:		
In euro	106,121,344	102,177,287
In foreign currency	45,148,366	45,185,066
Total	**151,269,710**	**147,362,353**

Note 20 – Debt securities issued

The breakdown of the balance of debt securities issued by the Group by type of issuance and recognised on the consolidated balance sheets as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Straight bonds/debentures	6,822,802	6,329,322
Straight bonds	6,717,715	6,219,012
Structured bonds	105,087	110,310
Commercial paper	374,317	1,094,222
Covered bonds	8,041,000	8,925,100
Covered Bonds	1,390,387	1,469,205
Asset-backed bonds	874,049	1,691,596
Subordinated marketable debt securities	2,873,239	3,010,465
Subordinated liabilities	1,723,239	1,860,465
Preference shares	1,150,000	1,150,000
Valuation and other adjustments	37,604	49,986
Total	20,413,398	22,569,896

Schedule V shows details of the outstanding issuances as at 2020 and 2019 year-end.

Two issues of preference shares contingently convertible into the Bank's ordinary shares (Additional Tier 1), offered exclusively to qualified investors, were carried out in 2017. On 18 May 2017, Banco Sabadell carried out its first Additional Tier 1 issuance, amounting to 750,000 thousand euros with a fixed coupon rate of 6.5%. Subsequently, on 23 November 2017, it carried out a second Additional Tier 1 issuance, amounting to 400,000 thousand euros with a fixed coupon rate of 6.125%.

These securities are perpetual, although they may be converted into newly issued Banco Sabadell shares, if Banco Sabadell, or its consolidated Group had a Common Equity Tier 1 (CET1) ratio lower than 5.125%, calculated in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June, on prudential requirements for credit institutions and investment firms.

The remuneration for preference shares contingently converted into ordinary shares amounts to 73,250 thousand euros in 2020 (73,250 thousand euros in 2019) and is recognised under the heading *"Other reserves"* of consolidated equity.

Note 21 – Other financial liabilities

The breakdown of the balance of other financial liabilities in the consolidated balance sheet as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
By heading:		
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	3,742,926	4,167,941
Total	**3,742,926**	**4,167,941**
By nature:		
Debentures payable	157,545	247,622
Guarantee deposits received	73,364	83,494
Clearing houses	607,792	537,099
Collection accounts	1,383,699	1,584,924
Lease liabilities	1,045,162	1,103,834
Other financial liabilities	475,364	610,968
Total	**3,742,926**	**4,167,941**
By currency:		
In euro	3,442,277	3,801,986
In foreign currency	300,649	365,955
Total	**3,742,926**	**4,167,941**

The following table shows information relating to the average payment period to suppliers, as required by Additional Provision Three of Law 15/2010, taking into account the amendments introduced by Law 31/2014 of 3 December, amending the Capital Companies Act in order to improve corporate governance:

Number of days and thousand euro

	2020	2019
Days		
Average time taken to pay suppliers (*)	30.13	37.28
Ratio of paid operations	30.14	37.28
Ratio of operations pending payment	17.99	29.65
Amount		
Total payments made	995,338	1,165,832
Total payments pending	119	171

(*) Refers to the average period of payment to suppliers by consolidated undertakings based in Spain.

Note 22 – Provisions and contingent liabilities

Movements during 2020 and 2019 under the heading of provisions are shown below:

Thousand euro

	Pensions and other post employment defined benefit obligations	Other long term employee benefits	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total
Balance as at 31 December 2018	88,456	12,404	58,226	108,568	198,725	466,379
Scope additions / exclusions	-	-	-	-	-	-
Interest and similar charges - pension commitments	1,574	169	-	-	-	1,743
Allowances charged to income statement - staff expenses (*)	2,596	145	-	-	35,932	38,673
Allowances not charged to income statement	-	-	-	-	-	-
Allowances charged to income statement – provisions	1,667	1,758	23,088	4,787	(4,705)	26,595
Allocation of provisions	517	817	36,925	129,393	13,863	181,515
Reversal of provisions	-	-	(13,837)	(124,606)	(18,568)	(157,011)
Actuarial losses / (gains)	1,150	941	-	-	-	2,091
Exchange differences	182	62	-	(486)	1,717	1,475
Utilisations:	(8,841)	(5,549)	(22,911)	-	(111,589)	(148,890)
Contributions by the sponsor	(136)	2	-	-	-	(134)
Pension payments	(8,705)	(5,551)	-	-	-	(14,256)
Other	-	-	(22,911)	-	(111,589)	(134,500)
Other movements	13,712	(2,051)	8,486	(2,123)	26,435	44,459
Balance as at 31 December 2019	99,346	6,938	66,889	110,746	146,515	430,434
Scope additions / exclusions	-	-	-	-	(745)	(745)
Interest and similar charges - pension commitments	1,004	107	-	-	-	1,111
Allowances charged to income statement - staff expenses (*)	2,488	196	-	-	345,150	347,834
Allowances not charged to income statement	-	-	-	-	-	-
Allowances charged to income statement – provisions	1,224	(38)	70,003	87,180	117,039	275,408
Allocation of provisions	14	-	70,879	239,662	117,369	427,924
Reversal of provisions	-	-	(876)	(152,482)	(330)	(153,688)
Actuarial losses / (gains)	1,210	(38)	-	- -		1,172
Exchange differences	(556)	(162)	-	(375)	(4,193)	(5,286)
Utilisations:	(8,575)	(3,205)	(22,795)	-	(63,146)	(97,721)
Net contributions by the sponsor	(39)	1	-	-	-	(38)
Pension payments	(8,536)	(3,206)	-	-	-	(11,742)
Other	-	-	(22,795)	-	(63,146)	(85,941)
Other movements	4,759	135	-	(1,672)	29,255	32,477
Balance as at 31 December 2020	99,690	3,971	114,097	195,879	569,875	983,512

(*) See Note 33.

The headings "*Pensions and other post-employment defined benefit obligations*" and "*Other long-term employee benefits*" include the amount of provisions for the coverage of post-employment remuneration and commitments undertaken with early retirees and similar commitments.

The heading "*Commitments and guarantees given*" includes the amount of provisions for the coverage of commitments given and contingent liabilities arising from financial guarantees or other types of contract.

During the usual course of business, the Group is exposed to fiscal, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of third party experts when necessary and, where appropriate, provisions are recognised under the headings "*Pending legal issues and tax litigation*" and "*Other provisions*". As at 31 December 2020 and 2019, these headings mainly include:

- Provisions for compensation to certain TSB customers in arrears who received financial support that could have been detrimental to them during the period 2013-2020. The estimate of the potential cost of compensation payable, which includes compensatory interest and related operational costs, amounted to 61 million euros as at 31 December 2020.

- Liabilities for legal contingencies amounting to 77 million euros at the end of 2020 (38 million euros at the end of 2019).

- Provisions to cover the anticipated costs relating to reduction of personnel and branch closures at TSB amounting to 75 million euros at 2020 year-end (34 million euros at 2019 year-end).

- Provisions to cover the anticipated costs relating to the voluntary redundancy scheme in Spain amounting to 305 million at 2020 year-end (see Note 33).

- Provisions for the possible reimbursement of amounts paid as a result of the application of mortgage floor clauses, whether as a result of the hypothetical voiding by the courts of law of floor clauses or whether due to the implementation of Royal Decree-Law 1/2017 of 20 January on measures to protect consumers regarding floor clauses, for the amount of 84.6 million euros as at 31 December 2020 (76.7 million euros as at 31 December 2019). In a remote scenario that is not considered likely of potential additional claims, both through the procedures established by the entity, in accordance with that set forth in Royal Decree, and through court proceedings applying the percentages set forth in the current agreement, the maximum contingency would amount to 113.3 million euros.

  With regards to these provisions, the Bank considers its floor clauses to be transparent and clear to customers, and in general, these have not been definitively cancelled with a final ruling. On 12 November 2018, Section 28 of the Civil Division of the Provisional Court of Madrid issued a ruling in which it partially supported the appeal brought forth by Banco de Sabadell, S.A. against the ruling issued by the Commercial Court no. 11 of Madrid on the invalidity of the restrictive interest rate clauses, considering that some of the clauses established by Banco Sabadell, S.A. are transparent and valid in their entirety. With regards to the rest of the clauses, the Bank considers that it has legal arguments which should be reviewed in the legal appeal which the Institution presented to the Supreme Court, with regards to the ruling made by the Provincial Court of Madrid.

The final disbursement amount and the payment schedule are uncertain due to the difficulties inherent in estimating the factors used to determine the amount of the provisions.

Pensions and similar obligations

The origins of liabilities recognised in respect of post-employment benefits and other similar long-term obligations on the Group's balance sheet are shown below:

Thousand euro

	2020	2019	2018	2017	2016
Obligations arising from pension and similar commitments	819,789	803,905	768,695	793,871	862,218
Fair value of defined benefit plan assets	(716,128)	(697,621)	(667,835)	(692,537)	(749,295)
Net liability recognised on balance sheet	**103,661**	**106,284**	**100,860**	**101,334**	**112,923**

The return on the Banco Sabadell pension plan was 0.24% and that of E.P.S.V. was 0.63% in 2020. The return on the Banco Sabadell pension plan was 2.33% and that of E.P.S.V. was 1.15% in 2019.

Movements during 2020 and 2019 in obligations due to pensions and similar commitments and the fair value of the scheme assets are as follows:

Thousand euro

	Obligations arising from pension and similar commitments	Fair value of defined benefit plan assets	Net liability recognised on balance sheet
Balance as at 31 December 2018	**768,695**	**667,835**	**100,860**
Interest costs	11,487	-	11,487
Interest income	-	9,745	(9,745)
Normal cost in year	2,741	-	2,741
Past service cost	1,301	-	1,301
Benefits paid	(50,291)	(36,035)	(14,256)
Settlements, curtailments and terminations	5,013	3,483	1,530
Net contributions by the institution	-	(44)	44
Actuarial gains or losses from changes in demographic assumptions	-	-	-
Actuarial gains or losses from changes in financial assumptions	65,454	-	65,454
Actuarial gains or losses from changes in actuarial assumptions	3,016	-	3,016
Yield on defined benefit plan assets excluding interest income	-	57,389	(57,389)
Other movements	(3,511)	(4,752)	1,241
Balance as at 31 December 2019	**803,905**	**697,621**	**106,284**
Interest costs	6,204	-	6,204
Interest income	-	5,092	(5,092)
Normal cost in year	2,643	-	2,643
Past service cost	-	-	-
Benefits paid	(48,220)	(36,478)	(11,742)
Settlements, curtailments and terminations	(8,695)	(9,905)	1,210
Net contributions by the institution	-	(62)	62
Actuarial gains or losses from changes in demographic assumptions	23,964	-	23,964
Actuarial gains or losses from changes in financial assumptions	22,499	-	22,499
Actuarial gains or losses from changes in actuarial assumptions	(5,229)	-	(5,229)
Yield on defined benefit plan assets excluding interest income	-	39,788	(39,788)
Other movements	22,718	20,072	2,646
Balance as at 31 December 2020	**819,789**	**716,128**	**103,661**

The breakdown of Group pension commitments and similar obligations as at 31 December 2020 and 2019, based on its financing vehicle, coverage and the interest rate applied in its calculation is listed below:

Thousand euro

		2020	
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension plans		**413,423**	
Insurance policies with related parties	Matched	39,817	0.50%
Insurance policies with unrelated parties	Matched	373,606	0.50%
Insurance policies		**396,162**	
Insurance policies with related parties	Matched	88,078	0.50%
Insurance policies with unrelated parties	Matched	308,084	0.50%
Internal funds	Without cover	**10,203**	0.50%
Total obligations		**819,788**	

Thousand euro

		2019	
Financing vehicle	Coverage	Amount	Interest rate
Pension plans		**415,354**	
Insurance policies with related parties	Matched	35,067	0.75%
Insurance policies with unrelated parties	Matched	380,287	0.75%
Insurance policies		**377,386**	
Insurance policies with related parties	Matched	86,958	0.75%
Insurance policies with unrelated parties	Matched	290,428	0.75%
Internal funds	Without cover	**11,165**	0.75%
Total obligations		**803,905**	

The amount of the commitments covered by matched insurance policies as at 31 December 2020 stands at 809,585 thousand euros (792,740 thousand euros as at 31 December 2019) and therefore in 98.76% of its commitments (98.61% as at 31 December 2019) there is no mortality risk (mortality tables) or profitability risk (interest rate) for the Group. Therefore, the evolution of interest rates throughout the year has not had an impact on the Bank's financial situation.

The sensitivity analysis for each key actuarial assumption, as at 31 December 2020 and 2019, shows how the obligation would have been affected, and the cost of the services during the current year, by reasonably likely changes on such date.

%

	2020	2019
Sensitivity analysis	Percentage change	
Discount rate		
Discount rate -50 basis points:		
Assumption	-	0.25%
Change in obligation	6.25%	6.16%
Change of service cost in current year	10.44%	10.09%
Discount rate +50 basis points:		
Assumption	1.00%	1.25%
Change in obligation	(5.66%)	(5.52%)
Change of service cost in current year	(9.09%)	(8.87%)
Rate of salary increase		
Rate of salary increase -50 basis points:		
Assumption	2.00%	2.50%
Change in obligation	(0.17%)	(0.25%)
Change of service cost in current year	(2.69%)	(3.29%)
Rate of salary increase +50 basis points:		
Assumption	3.00%	3.50%
Change in obligation	0.19%	0.28%
Change of service cost in current year	2.99%	3.80%

The estimate of probable present values, as at 31 December 2020, of benefits payable for the next ten years, is set out below:

Thousand euro

	Years										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total
Future benefit payments	12,055	10,736	10,252	9,990	9,812	10,451	10,113	9,763	9,403	9,032	**101,607**

The fair value of assets linked to pensions recognised on the consolidated balance sheet amounted to 133,757 thousand euros as at 31 December 2020 and 133,960 thousand euros as at 31 December 2019 (see Note 17).

The main categories of the plan assets as a percentage of the total plan assets are listed below:

%	2020	2019
Equity instruments issued by Banco Sabadell	-	0.02%
Debt securities	-	0.21%
Mutual funds	1.63%	2.03%
Deposits and guarantees	0.18%	0.10%
Derivatives	-	0.01%
Other (non-linked insurance policies)	98.18%	97.63%
Total	**100%**	**100%**

The following financial instruments issued by the Bank are included in the fair value of the plan assets:

Thousand euro	2020	2019
Equity instruments	36	105
Deposits and guarantees	902	397
Total	**938**	**502**

Contingent liabilities

- In its ruling of 22 November 2017, the Supreme Court ruled on the validity of the use of the IRPH (Spanish mortgage market index) as a reference index for the variation of interest rates on mortgage loans as it is not possible to control its transparency since it is an index defined and regulated by a rule of law. Barcelona's Court no. 38, deviating from the criteria of the Supreme Court, referred a case to the Court of Justice of the European Union (CJEU) for a preliminary ruling on whether or not this index is subject to a transparency control when applied to consumers, requesting that it be determined whether to replace it with another index or simply stop applying it altogether.

  On 3 March 2020, the Court of Justice of the European Union (CJEU) ruled on the issues raised by the Court of First Instance no. 38 of Barcelona in relation to IRPH, concluding that the index is open to scrutiny for transparency by national courts.

  The Supreme Court issued four rulings on 12 November 2020 in which, while admitting a possible lack of transparency, it ruled out the existence of abuse in the arrangement of loans linked to the IRPH index. The criterion established in this Supreme Court ruling has been followed in practically all Spanish courts and tribunals. As at 31 December 2020, the outstanding balance of mortgage loans to IRPH-indexed consumers was 654 million euros.

- The judgment of the Supreme Court dated 4 March 2020, relating to revolving card contracts and/or with deferred payment of a third-party institution, modifies the previous doctrine of the court itself and clarifies that the specific benchmark interest rate for this category of credit transactions published in the Statistical Bulletin of the Bank of Spain, is the one that should be used as a reference to determine what is the normal interest rate of money for the purposes of the Law on the Repression of Usury. In the case in question, the average rate published was somewhat higher than 20%. The court does not set specific criteria to determine what a manifestly disproportionate interest rate means; therefore, each marketed contract must be analysed on a case-by-case basis. Banco Sabadell considers that the Supreme Court ruling should not have a significant effect on its financial statements.

- As at the date of preparation of these consolidated annual financial statements, the investigation by the British authorities into the incidents that occurred subsequent to the migration to TSB's new IT platform in April 2018 is still under way. The decision to recognise a provision for this item requires the use of judgement in order to determine whether there is a current payment obligation and, if so, to reliably estimate the same. Based on the information available regarding the progress of the aforementioned investigation, the Group's management considers that the circumstances do not require a provision for potential sanctions to be recognised, as there is currently no payment obligation and, if such obligation were to exist, there is no way to reliably estimate the amount that would need to be disbursed.

Note 23 – Own funds

The breakdown of the balance of own funds recognised on the consolidated balance sheets as at 31 December 2020 and 2019 is the following:

Thousand euro

	2020	2019
Capital	703,371	703,371
Share premium	7,899,227	7,899,227
Equity instruments issued other than capital	-	-
Other equity	20,273	39,742
Retained earnings	5,444,622	4,858,681
Revaluation reserves	-	-
Other reserves	(1,088,384)	(977,687)
(-) Treasury shares	(37,517)	(8,533)
Profit or loss attributable to owners of the parent	2,002	767,822
(-) Interim dividends	-	(110,817)
Total	**12,943,594**	**13,171,806**

Capital

The Bank's share capital as at 31 December 2020 and 2019 stood at 703,370,587.63 euros, represented by 5,626,964,701 registered shares with a par value of 0.125 euros each. All shares are fully paid-up and are numbered in sequential order from 1 through 5,626,964,701, inclusive.

The Bank's shares are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and on Spain's continuous securities market managed by Sociedad de Bolsas, S.A.

None of the other subsidiary companies included in the scope of consolidation are listed on the stock exchange.

The rights conferred to equity instruments are those regulated by the Capital Companies Act. During the Annual General Meeting, shareholders may exercise a percentage of votes equivalent to the percentage of the share capital in their possession.

There were no changes in share capital in 2020 and 2019.

Significant investments in the Bank's capital

As required by Articles 23 and 32 of Royal Decree 1362/2007 of 19 October, implementing the Securities Market Law 24/1988 of 28 July, on transparency requirements relating to information on the issuers whose securities have been admitted to trading on an official secondary market or on any other European Union regulated market, the following table gives details of significant investments in the capital of Banco Sabadell as at 31 December 2020:

Direct owner of the shareholding	% of voting rights assigned to shares	% of voting rights through financial instruments	% of total voting rights	Indirect owner of the shareholding
Various subsidiaries of BlackRock Inc.	2.89%	0.42%	3.31%	Blackrock Inc.
Fintech Europe S.A.R.L.	3.45%	-	3.45%	David Martínez Guzmán
Norges Bank	3.06%	-	3.06%	-
Sanders Capital LLC	3.47%	-	3.47%	Lewis A. Sanders and clients of Sanders Capital LLC who delegate their voting rights

The sources for the information provided are communications sent by shareholders to the National Securities Market Commission (CNMV) or directly to the institution.

Share premium

The balance of the share premium as at 31 December 2020 amounted to 7,899,227 thousand euros, remaining unchanged from the amounts in 2020 and 2019.

Retained earnings and Other reserves

The balance of these headings are broken down as follows on the consolidated balance sheets as at 31 December 2020 and 2019:

Thousand euro

	2020	2019
Restricted reserves:	**195,966**	**322,094**
Statutory reserve	140,674	140,674
Reserves for treasury shares pledged as security	41,832	133,149
Capitalisation reserve Law 27/2014	-	35,985
Canary Island investment reserve	10,345	9,171
Reserve for share capital redenomination in euro	113	113
Capital redemption reserve	3,002	3,002
Unrestricted reserves	**3,895,788**	**3,334,925**
Reserves of entities valued using the equity method	**264,484**	**223,975**
Total	**4,356,238**	**3,880,994**

Information on the reserves for each of the consolidated companies is indicated in Schedule I.

Other equity

Items incorporated under Other equity include share-based remuneration pending settlement which as at 31 December 2020 and 2019 amounted to 20,273 and 39,742 thousand euros, respectively.

Business on own equity instruments

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

	No. of shares	Nominal value *(in thousand euro)*	Average price *(in euro)*	% Shareholding
Balance as at 31 December 2018	**88,788,514**	**11,098.57**	**1.57**	**1.58**
Purchases	225,036,359	28,129.54	0.93	4.00
Sales	307,818,009	38,477.25	0.98	5.47
Balance as at 31 December 2019	**6,006,864**	**750.86**	**1.42**	**0.11**
Purchases	342,926,719	42,865.84	0.42	6.09
Sales	300,372,716	37,546.59	0.39	5.34
Balance as at 31 December 2020	**48,560,867**	**6,070.11**	**0.77**	**0.86**

Net gains and losses arising from transactions in own equity have been included under the heading "*Own funds - Other reserves*" on the consolidated balance sheet, and they are shown in the statement of changes in equity, in the row corresponding to the sale or cancellation of treasury shares.

As at 31 December 2020, TSB owns 66,016 Banco Sabadell shares (19,297 as at 31 December 2019), with a cost of 60 thousand euros (30 thousand euros as at 31 December 2019), which are recognised as own shares on the consolidated balance sheet.

As at 31 December 2020, the number of shares of the Bank pledged as collateral for transactions was 118,169,913 with a nominal value of 14,771 thousand euros (128,027,778 shares with a nominal value of 16,003 thousand euros as at 31 December 2019).

The number of Banco de Sabadell, S.A. equity instruments owned by third parties, yet managed by different Group companies, amounts to 12,669,119 and 21,638,760 securities as at 31 December 2020 and 2019, respectively. Their nominal value amounts to 1,584 thousand euros and 2,705 thousand euros, respectively. In both years, 100% of the securities corresponded to Banco Sabadell shares.

Note 24 – Accumulated other comprehensive income

The composition of this heading of consolidated equity as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Items that will not be reclassified to profit or loss	(64,419)	(44,677)
Actuarial gains or (-) losses on defined benefit pension plans	(693)	(2,361)
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	(63,726)	(42,316)
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Items that may be reclassified to profit or loss	(459,171)	(222,069)
Hedge of net investments in foreign operations [effective portion] (*)	211,841	114,237
Foreign currency translation	(737,073)	(445,169)
Hedging derivatives. Cash flow hedges (effective portion) (**)	39,798	89,845
Amount deriving from outstanding operations	(4,662)	38,280
Amount deriving from discontinued operations	44,460	51,565
Fair value changes of debt instruments measured at fair value through other comprehensive income	(871)	(2,137)
Hedging instruments [not designated elements]	-	-
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	27,134	21,155
Total	**(523,590)**	**(266,746)**

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

(**) Cash flow hedges mainly mitigate interest rate risk and other risks (see note 12).

The breakdown of the items in the consolidated statement of recognised income and expense as at 31 December 2020 and 2019, showing their gross and net of tax effect amounts, is as follows:

Thousand euro

	2020			2019		
	Gross amount	Tax effect	Net	Gross amount	Tax effect	Net
Items that will not be reclassified to profit or loss	(15,603)	(4,139)	(19,742)	(2,709)	10,597	7,888
Actuarial gains or (-) losses on defined benefit pension plans	2,383	(715)	1,668	(2,902)	871	(2,031)
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-
Share of other recognised income and expense of investments in joint ventures and associates	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	(17,986)	(3,424)	(21,410)	193	9,726	9,919
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-	-	-	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-	-	-	-	-
Items that may be reclassified to profit or loss	(254,533)	17,730	(236,803)	261,283	(44,323)	216,960
Hedge of net investments in foreign operations [effective portion]	97,604	-	97,604	(98,793)	-	(98,793)
Foreign currency translation	(291,902)	-	(291,902)	195,549	-	195,549
Hedging derivatives. Cash flow hedges reserve [effective portion]	(67,603)	17,557	(50,046)	122,152	(36,614)	85,538
Fair value changes of debt instruments measured at fair value through other comprehensive income	1,392	173	1,565	28,654	(7,709)	20,945
Hedging instruments [not designated elements]	-	-	-	-	-	-
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-
Share of other recognised income and expense of investments in joint ventures and associates	5,976	-	5,976	13,721	-	13,721
Total	**(270,136)**	**13,591**	**(256,545)**	**258,574**	**(33,726)**	**224,848**

Note 25 – Minority interests (non-controlling interests)

The companies comprising this consolidated equity heading as at 31 December 2020 and 2019 are the following:

Thousand euro

	2020			2019		
	% Minority interests	Amount	*Of which: Profit/ (loss) attributed*	% Minority interests	Amount	*Of which: Profit/ (loss) attributed*
BancSabadell d'Andorra, S.A.	49.03%	49,815	*4,967*	49.03%	44,199	*5,213*
Aurica Coinvestment, S.L.	38.24%	20,707	*(2,290)*	38.24%	23,646	3,105
Rest		1,112	*(1,669)*		1,501	*738*
Total		**71,634**	***1,008***		**69,346**	***9,056***

The movements in the balance of this heading in 2020 and 2019 were as follows:

Thousand euro

Balances as at 31 December 2018	**63,539**
Valuation adjustments	124
Rest	5,683
Scope additions / exclusions	-
Percentage shareholding and other	(3,373)
Changes in consolidation method	-
Profit or loss for the year	9,056
Balances as at 31 December 2019	**69,346**
Valuation adjustments	299
Rest	1,989
Scope additions / exclusions	-
Percentage shareholding and other	981
Changes in consolidation method	-
Profit or loss for the year	1,008
Balances as at 31 December 2020	**71,634**

The dividends distributed to minority shareholders of Group entities in 2020 amounted to 650 thousand euros (Aurica Coinvestment, S.L.) and 3,503 thousand euros in 2019 (1,533 thousand euros to BancSabadell d'Andorra, S.A., 1,290 thousand euros to Aurica Coinvestment, S.L. and 680 thousand euros to Business Services for Operational Support, S.A.U.).

In 2020, the companies Aurica Coinvestment S.L., Business Services for Operational Support, S.A.U. and BancSabadell d'Andorra, S.A. and their investees are allocated to Banking Business Spain (see Note 38).

Note 26 – Off-balance sheet exposures

The breakdown of this heading for the annual periods ended 31 December 2020 and 2019 is the following:

Thousand euro

Commitments and guarantees given	Note	2020	2019
Loan commitments provided		**29,295,155**	**27,563,836**
Of which, amount classified as Stage 2		*1,584,252*	*889,215*
Of which, amount classified as Stage 3		*128,512*	*56,253*
Can be drawn by third parties		29,295,155	27,563,836
By credit institutions		78	96
By general governments		1,472,415	1,213,587
By other resident sectors		16,470,386	16,341,791
By non-residents		*11,352,276*	10,008,362
Amount recognised within liabilities on the balance sheet	22	88,562	48,204
Financial guarantees provided (*)		**2,035,638**	**2,107,412**
Of which, amount classified as Stage 2		*136,415*	*90,063*
Of which, amount classified as Stage 3		*108,143*	*41,534*
Amount recognised within liabilities on the balance sheet (**)	22	38,605	21,041
Other commitments provided		**7,594,720**	**10,398,913**
Of which, amount classified as Stage 2		*479,396*	*315,842*
Of which, amount classified as Stage 3		*349,677*	*156,918*
Other guarantees given		7,237,127	7,506,189
Assets earmarked for third-party obligations		-	-
Irrevocable letter of credit		760,160	806,348
Additional settlement guarantee		20,000	20,000
Other guarantees and sureties given		6,456,967	6,679,841
Other contingent risks		-	-
Other commitments provided		357,593	2,892,724
Financial asset forward purchase commitments		204,692	2,468,533
Conventional financial asset purchase contracts		171	275,922
Capital subscribed but not paid up		1,939	1,939
Underwriting and subscription commitments		-	-
Other loan commitments given		150,791	146,330
			-
Amount recognised within liabilities on the balance sheet	22	68,712	41,501
Total		**38,925,513**	**40,070,161**

(*) Includes 73,548 and 135,624 thousand euro as of 31 December 2020 and 2019, respectively, corresponding to financial guarantees provided in connection with construction and real estate development.

(**) Includes 3,909 and 5,225 thousand euro as of 31 December 2020 and 2019, respectively, in connection with construction and real estate development.

The total contingent commitments drawable by third parties as at 31 December 2020 includes mortgage-secured lending commitments amounting to 5,160,536 thousand euros (4,773,615 thousand euros as at 31 December 2019). As regards other commitments, in the majority of cases there are other types of guarantees which are in line with the Group's risk management policy.

Guarantees given classed as Stage 3

The movement of the balance of guarantees given classed as Stage 3 during 2020 was the following:

Thousand euro

Balances as at 31 December 2019	**198,452**
Additions	338,411
Disposals	(79,922)
Balances as at 31 December 2020	**456,941**

The breakdown by region of the balance of guarantees given classed as Stage 3 as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Spain	455,929	195,951
United Kingdom	5	5
Rest of European Union	437	437
Americas	4	1,726
Rest of the world	566	333
Total	**456,941**	**198,452**

Credit risk allowances corresponding to guarantees given and the credit risk of off-balance sheet exposures as at 31 December 2020 and 2019, broken down by the method used to determine such allowances, are as follows:

Thousand euro

	2020	2019
Specific individually measured allowances:	**82,961**	**38,939**
Stage 2	934	1,403
Stage 3	82,027	37,536
Specific collectively measured allowances:	**24,355**	**22,762**
Stage 1	7,651	8,399
Stage 2	5,539	4,571
Stage 3	10,667	9,284
Allowances for country risk	498	508
Total	**107,316**	**61,701**

The movement of this coverage during the periods 2020 and 2019, together with the coverage of other commitments given is shown in Note 22.

Note 27 – Off-balance sheet customer funds

Off-balance sheet customer funds managed by the Group, those sold but not under management and the financial instruments deposited by third parties as at 31 December 2020 and 2019 are shown below:

Thousand euro

	2020	2019
Managed by the group:	**5,036,415**	**21,680,784**
Investment firms and funds	1,738,444	18,318,071
Asset management	3,297,971	3,362,713
Sold by the group:	**33,028,002**	**21,482,232**
Mutual Funds	19,627,494	7,685,237
Pension funds	3,349,136	3,366,512
Insurance	10,051,372	10,430,483
Financial instruments deposited by third parties	**69,347,471**	**77,041,761**
Total	**107,411,888**	**120,204,777**

The decrease in assets under management during 2020 is due to the sale of SabAM, which has largely become traded assets (see Note 2).

Note 28 – Interest income and expense

These headings in the consolidated income statement include interest accrued during the year on all financial assets and liabilities the yield of which, implicit or explicit, is obtained by applying the effective interest rate approach, irrespective of whether they are measured at fair value or otherwise, and using product adjustments due to accounting hedges. Interest is recorded at its gross value, without subtracting any tax withholdings deducted at source.

The majority of interest income is generated by the Group's financial assets measured either at amortised cost or at fair value through other comprehensive income.

The average annual interest rate during 2020 and 2019 of the indicated balance sheet headings is shown below:

%

	2020		2019	
	Banco Sabadell Group	Ex TSB (*)	Banco Sabadell Group	Ex TSB (*)
Assets				
Cash, cash balances at central banks and other demand deposits	(0.01)	(0.06)	0.21	0.04
Debt securities	0.92	0.96	1.27	1.30
Loans and advances				
Customers	2.52	2.42	2.91	2.81
Liabilities				
Deposits				
Central banks and Credit institutions	(0.40)	(0.52)	0.15	(0.04)
Customers	0.15	0.12	0.27	0.22

(*) Group figures, not including TSB.

The breakdown of quarterly net interest income for the years 2020 and 2019, as well as returns and average costs of the different components which comprise the total investment and funds, is as follows:

Thousand euro

	2020												
	1st quarter			2nd quarter			3rd quarter			4th quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Return on the investment	**220,337,733**	**2.09**	**1,143,474**	**222,868,306**	**1.83**	**1,013,848**	**233,151,256**	**1.62**	**949,587**	**234,273,619**	**1.59**	**933,856**	**4,040,484**
Cash and cash equivalents (*)	26,254,634	0.19	12,509	30,340,678	0.16	6,985	38,048,331	(0.08)	(7,365)	38,368,333	(0.17)	(15,968)	**(3,770)**
Loans and advances	142,934,129	2.60	988,433	143,837,823	2.52	899,813	144,898,464	2.39	869,815	146,229,816	2.37	870,903	**3,627,881**
Fixed-income portfolio (**)	27,498,632	1.16	79,208	26,549,881	0.96	63,358	29,524,076	0.87	64,674	27,692,025	0.72	58,088	**267,321**
Equity portfolio	1,008,487	-	-	1,038,194	-	-	1,043,559	-	-	995,839	-	-	-
Tangible and intangible assets	5,475,464	-	-	5,411,998	-	-	5,353,196	-	-	5,365,285	-	-	-
Rest of other assets	18,074,408	1.41	63,252	17,380,137	1.00	43,294	18,483,630	0.58	23,283	15,742,482	0.74	29,223	**159,052**
Cost of resources	**220,337,733**	**(0.47)**	**(258,988)**	**222,868,306**	**(0.35)**	**(193,807)**	**233,151,256**	**(0.19)**	**(108,716)**	**234,273,619**	**(0.14)**	**(80,137)**	**(641,348)**
Credit institutions	22,792,008	(0.14)	(7,887)	23,720,351	0.08	4,841	34,093,243	0.69	59,216	34,378,243	0.69	58,704	**114,874**
Customer deposits (***)	149,836,987	(0.22)	(82,386)	151,834,892	(0.16)	(60,571)	153,893,757	(0.12)	(45,973)	154,678,457	(0.09)	(34,376)	**(223,310)**
Capital markets	25,329,868	(1.33)	(83,523)	24,211,144	(1.28)	(77,177)	23,438,418	(1.31)	(77,289)	22,752,551	(1.27)	(72,385)	**(310,324)**
Other liabilities	9,671,578	(3.55)	(85,389)	9,853,198	(2.45)	(60,900)	9,164,748	(1.94)	(44,680)	8,708,751	(1.30)	(33,110)	**(223,789)**
Own funds	12,808,181	-	-	12,798,829	-	-	12,768,098	-	-	12,864,617	-	-	-
Net interest income			**884,486**			**820,041**			**840,871**			**853,719**	**3,399,118**
Average total assets			**220,337,733**			**222,868,306**			**233,151,256**			**234,273,619**	**227,658,674**
Ratio (margin/ATA)			**1.62**			**1.48**			**1.43**			**1.45**	**1.49**

(*) Includes cash, central banks, credit institutions and reverse repos.

(**) Includes 1,333 thousand euros corresponding to interest on financial assets held for trading.

(***) Includes repos.

Financial income and expense arising from the application of negative interest rates are assigned to the associated instrument. Thus, profit/(loss) on investments and the cost of resources include financial expenses and income amounting to 71,085 and 212,253 thousand, respectively, arising from such assignment. In particular, the credit institutions row on the liabilities side includes financial income on negative interest rates applied to balances of credit institutions in the liabilities side, mainly those relating to TLTRO II and TLTRO III.

Thousand euro

	2019												
	1st quarter			2nd quarter			3rd quarter			4th quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Return on the investment	**221,188,986**	**2.19**	**1,190,977**	**226,800,010**	**2.13**	**1,203,204**	**222,971,888**	**2.16**	**1,211,863**	**223,103,539**	**2.13**	**1,195,272**	**4,804,216**
Cash and cash equivalents (*)	31,206,864	0.19	14,808	33,175,183	0.21	17,454	27,896,451	0.26	18,268	26,688,855	0.19	12,770	**63,482**
Loans and advances	136,829,686	2.97	1,010,944	136,416,656	2.94	1,022,383	139,833,777	2.90	1,020,772	141,582,881	2.81	1,003,948	**4,058,039**
Fixed-income portfolio (**)	25,213,037	1.34	83,358	26,872,089	1.30	86,716	26,356,684	1.20	85,806	27,468,323	1.25	86,242	**342,243**
Equity portfolio	989,833	-	-	835,022	-	-	856,452	-	-	859,238	-	-	-
Tangible and intangible assets	5,301,343	-	-	5,364,135	-	-	5,408,272	-	-	5,492,564	-	-	-
Rest of other assets	20,543,311	1.67	84,694	21,033,946	1.48	76,651	21,825,342	1.64	86,687	21,011,506	1.75	92,420	**340,452**
Cost of resources	**221,188,986**	**(0.54)**	**(293,245)**	**226,800,010**	**(0.53)**	**(297,859)**	**222,971,888**	**(0.54)**	**(305,253)**	**223,103,539**	**(0.51)**	**(285,463)**	**(1,181,820)**
Credit institutions	32,238,040	(0.15)	(12,181)	31,913,401	(0.12)	(9,482)	26,510,777	(0.20)	(13,507)	23,968,825	(0.15)	(8,773)	**(43,933)**
Customer deposits (***)	144,271,153	(0.27)	(97,186)	148,279,108	(0.29)	(107,149)	147,938,923	(0.28)	(104,270)	149,853,131	(0.22)	(83,364)	**(391,969)**
Capital markets	24,608,120	(1.38)	(84,635)	24,855,118	(1.45)	(89,686)	24,527,227	(1.50)	(92,757)	24,602,361	(1.44)	(90,185)	**(357,263)**
Other liabilities	7,697,969	(5.23)	(99,263)	8,893,319	(4.13)	(91,532)	11,108,719	(3.38)	(94,719)	11,508,944	(3.58)	(103,141)	**(388,655)**
Own funds	12,342,895	-	-	12,859,063	-	-	12,868,242	-	-	13,020,478	-	-	-
Net interest income			**900,732**			**905,345**			**906,410**			**909,809**	**3,622,396**
Average total assets			**221,188,986**			**226,800,010**			**222,971,888**			**223,103,539**	**223,470,603**
Ratio (margin/ATA)			**1.65**			**1.60**			**1.62**			**1.62**	**1.62**

(*) Includes cash, central banks, credit institutions and reverse repos.

(**) Includes 1,410 thousand euros corresponding to interest on financial assets held for trading.

(***) Includes repos.

Financial income and expense arising from the application of negative interest rates are assigned to the associated instrument. Thus, profit/(loss) on investments and the cost of resources include financial expenses and income amounting to 68,868 and 111,807 thousand, respectively, arising from such assignment. In particular, the credit institutions row on the liabilities side includes financial income on negative interest rates applied to balances of credit institutions in the liabilities side, mainly those relating to TLTRO II.

In terms of annual average, net interest margin on average total assets stood at 1.49% (1.37% ex-TSB), declining by 13 basis points in comparison with the previous year (1.62% in 2019).

Note 29 – Fee and commission income and expenses

Income and expenses arising from fees and commissions for financial operations and the provision of services are as follows:

Thousand euro

	2020	2019
Fees from risk transactions	**259,640**	**252,262**
Lending operations	159,148	143,621
Sureties and other guarantees	100,492	108,641
Service fees	**755,128**	**809,565**
Payment cards	196,976	266,796
Payment orders	56,888	64,097
Securities	70,554	63,085
Sight accounts	240,011	193,151
Rest	190,699	222,436
Asset management and marketing fees	**335,560**	**376,914**
Mutual funds	122,952	152,855
Sale of pension funds and insurance products	188,157	194,042
Asset management	24,451	30,017
Total	**1,350,328**	**1,438,741**
Memorandum item		
Fee and commission income	1,538,377	1,628,892
Fee and commission expenses	(188,049)	(190,151)
Fees and commissions (net)	**1,350,328**	**1,438,741**

Note 30 – Gains or (-) losses on financial assets and liabilities, net

“Gains or (-) losses on financial assets and liabilities, net” groups together a series of headings from the consolidated income statement for the years ended 31 December 2020 and 2019 which are shown below:

Thousand euro

	2020	2019
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	782,143	152,483
Financial assets at fair value through other comprehensive income	54,044	87,269
Financial assets at amortised cost (Note 8)	728,200	65,277
Financial liabilities measured at amortised cost	(101)	(63)
Gains or (-) losses on financial assets and liabilities held for trading, net	444,354	(111,151)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(9,544)	(2,470)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or (-) losses from hedge accounting, net	9,464	(915)
Total	**1,226,417**	**37,947**
By type of financial instrument:		
Net gain/(loss) on debt securities	794,404	93,697
Net gain/(loss) other equity instruments	1,745	1,800
Net gain/(loss) on derivatives	446,708	(117,319)
Net gain/(loss) on other items (*)	(16,440)	59,769
Total	**1,226,417**	**37,947**

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

During 2020, the Group has carried out sales of certain debt securities which it held in its portfolio of financial assets at fair value through other comprehensive income, generating profits of 54,044 thousand euros (87,269 thousand euros in 2019). Of this profit, 35,849 thousand euros (81,723 thousand euros in the year 2019) derive from the sale of debt securities held with general governments.

In addition, during 2020, the Group sold certain debt securities held in the financial asset portfolio at amortised cost in order to manage the increase in credit risk and preserve the Group’s solvency as part of a series of actions taken to improve the future profitability and quality of its balance sheet in response to the economic crisis triggered by COVID-19 (see Note 8).

Likewise, the “*Net gain/(loss) on derivatives*” heading in the table above includes, mainly, the change in the fair value of derivatives used to hedge against the foreign exchange risk of debit and credit balances denominated in foreign currencies. The results obtained from these derivatives are recognised under the heading “*Gains or (-) losses on financial assets and liabilities held for trading, net*” of the consolidated income statement, while the exchange differences generated by debit and credit balances denominated in foreign currencies hedged with these derivatives are recognised under the heading “*Exchange differences (gain or [-] loss), net*” of the consolidated income statement.

Note 31 – Other operating income

The composition of this item of the consolidated income statement for the years ended 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Income from use of investment properties (*)	38,507	49,981
Sales and other income from the provision of non-financial services	18,675	34,178
Other operating income	168,038	150,081
Total	**225,220**	**234,240**

(*) The amounts relate mainly to revenues from operating leases in which the group acts as lessor.

The income recognised in *“Other operating income”* basically corresponds to income from Group entities engaging in non-financial activities (mostly operating leases).

Note 32 – Other operating expenses

The composition of this item of the consolidated income statement for the years ended 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Contribution to deposit guarantee schemes	(123,437)	(121,381)
Banco Sabadell	(110,587)	(110,673)
TSB	(166)	(694)
BS IBM México	(12,684)	(10,014)
Contribution to resolution fund	(78,388)	(58,647)
Other items	(307,268)	(370,794)
Monetisation rates of tax assets (*)	(48,578)	(48,133)
Rest	(258,690)	(322,661)
Total	**(509,093)**	**(550,822)**

(*) See Note 39.

The "*Other*" subheading includes expenses corresponding to Tax on Deposits to Credit Institutions, amounting to 32,369 thousand euros in 2020 (31,239 thousand euros in 2019), as well as expenses associated with non-financial activities.

Note 33 – Administrative expenses

This heading in the consolidated income statement includes expenses incurred by the Group in respect of staff and other general administrative expenses.

Staff expenses

The staff expenses recognised in the consolidated income statement for the years ended 31 December 2020 and 2019 are as follows:

Thousand euro

	Nota	2020	2019
Payrolls and bonuses for active staff		(1,137,159)	(1,197,000)
Social Security payments		(247,427)	(251,960)
Contributions to defined benefit pension plans	22	(2,683)	(2,741)
Contributions to defined contribution pension plans		(66,807)	(70,655)
Other staff expenses		(430,500)	(126,480)
Of which: voluntary redundancy packages in Spain and restructuring plan in TSB (*)		*(345,150)*	-
Total		**(1,884,576)**	**(1,648,836)**

(*) Refers to agreements on voluntary redundancy, early retirement and incentivised resignation signed by the Group and trade unions in Spain in December 2020, amounting to 304,805 thousand euros, affecting approximately 1,800 employees who will cease to be employed by the Group in the first quarter of 2021. Also includes restructuring costs of the subsidiary TSB amounting to 40,345 thousand euros (see Note 22).

As at 31 December 2020 and 2019, the breakdown of the average workforce for all companies within the Group by category and by gender is as follows:

Average number of employees

	2020			2019		
	Men	Women	Total	Men	Women	Total
Management staff	531	185	716	523	175	698
Technical staff	9,378	10,431	19,809	9,687	10,694	20,381
Administrative staff	799	2,765	3,564	976	3,294	4,270
Total	**10,708**	**13,381**	**24,089**	**11,186**	**14,163**	**25,349**

The breakdown of the Group's average, workforce by category as at 31 December 2020 and 2019 with a disability of 33% or greater is as follows:

Average number of employees

	Banco Sabadell Group	
	2020	2019
Management staff	13	5
Technical staff	335	203
Administrative staff	160	51
Total	**508**	**259**

As at 31 December 2020 and 2019, the breakdown of Group workforce by category and by gender is as follows:

Number of employees

	2020			2019		
	Men	Women	Total	Men	Women	Total
Management staff	516	180	696	511	168	679
Technical staff	9,277	10,294	19,571	9,418	10,494	19,912
Administrative staff	738	2,453	3,191	863	3,000	3,863
Total	**10,531**	**12,927**	**23,458**	**10,792**	**13,662**	**24,454**

Of the total workforce as at 31 December 2020, 482 employees had informed the Group that they had some form of recognised disability (531 as at 31 December 2019).

Non-recurring staff expenses in 2020 amounted to 365,030 thousand euros (59,027 thousand euros in 2019). Expenses which do not form part of the Institution's ordinary activities are considered non-recurring. Staff expenses are those linked to business transformation and reduction of the Group's workforce.

Long-term share-based complementary incentive scheme

Pursuant to the Remuneration Policy, members of the Group's Identified Staff, with the exception of non-executive directors, will be allocated long-term remuneration through the schemes described below:

<u>Share-based complementary incentive scheme</u>

At the Annual General Meeting held on 30 March 2017, the shareholders approved an incentive scheme, based on the increase in value of Banco de Sabadell, S.A. shares, for 3 executive directors, 7 members of Senior Management and 466 Group management staff ("ICLP 2017"). During the period of validity of this scheme, 830,861 stock options were derecognised with settlement by delivery of shares. In March 2020, this scheme expired with no settlement since the exercise price (1.353 euros) was above the listed share price.

At the Annual General Meeting held on 19 April 2018, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares and which takes into account multi-year objectives, for members of the Group's Identified Staff with allocated variable remuneration (ICLP 2018). It consists of assigning a specific number of rights to the beneficiaries, which carry the right to receive the increase in value of the same number of shares of Banco de Sabadell, S.A., based on the share's market price, while also being tied to the Bank's attainment of certain multi-year indicators over a given period of time, to be paid 55% in the form of shares of Banco de Sabadell, S.A. and the remaining 45% in cash. The number of rights to be settled may be equal to or less than the number of vested rights in the first quarter of 2019, depending on the level to which Banco de Sabadell, S.A. attains four indicators during the lifetime of the ICLP 2018. The period for evaluating the level of attainment will cover the years 2018, 2019 and 2020, and during this period targets are established for the following indicators and with the following weights: shareholder return (25%), for which the benchmark will be the share's closing price, rounded to the third decimal place, in the first 20 sessions of 2018 and the first 20 sessions of 2021; liquidity coverage ratio (25%); CET1 capital (25%); and the Bank's return on risk-adjusted capital (RoRAC) (25%). The last three indicators will be measured at the end of the multi-year period, taking the average of the last three months of 2020.

Their main characteristics are shown below:

Incentives Schemes in effect	End date	Exercise price	Maximum number of rights affected
ICLP 2018	4/18/2022	1.841	21,000,000

The fair value of services is calculated based on the fair value of pledged capital instruments, i.e. bank stock options, as indicated in Note 6, employing the Monte Carlo simulations valuation technique and the Black-Scholes valuation model.

Movements in rights associated with the aforementioned schemes were as follows:

Rights - ICLP 2018

Balance as at 31 December 2018	**20,600,000**
Granted	-
Cancelled	(2,447,500)
Balance as at 31 December 2019	**18,152,500**
Granted	-
Cancelled	(467,199)
Balance as at 31 December 2020	**17,685,301**

As regards TSB, the Share Incentive Plan (SIP) provides its employees with the opportunity to own shares in Banco Sabadell and the grant, where applicable, of shares to certain senior employees as part of the hiring arrangements. During 2020, an expense for 3,070 thousand euros was recognised in relation to this plan.

Long-term remuneration scheme

The Board of Directors, at its meeting of 31 January 2019, at the proposal of the Remuneration Committee, approved a Long-Term Remuneration 2019-2021, aimed at members of the Group's Identified Staff with allocated variable remuneration, with the exception of management staff who are assigned to TSB Banking Group Plc or its subsidiaries, and which consists of the allocation of a certain amount to each beneficiary, the amount of which is determined based on a monetary amount corresponding to a percentage of each beneficiary's fixed remuneration. The incentive will be paid 55% in bank shares (to calculate the number of shares, the weighted average price of the last 20 sessions of December 2019 was used) and 45% in cash. The incentive vesting period started on 1 January 2019 and ends on 31 December 2021, and comprises two sub-periods:

- Period of measurement of individual annual targets: this is the period from 1 January 2019 to 31 December 2019, in which the annual targets of each beneficiary (composed of Group targets, management targets and individual targets) established to determine the "Adjusted Target" were measured, which was subject to the Risk Correction Factor, with capital (CET1) and liquidity (LCR) indicators.

- Group multi-year target measurement period: this is the period from 1 January 2019 to 31 December 2021, in which multi-year Group targets are measured for the purpose of determining the final incentive, which is also subject to the Risk Correction Factor. The Group's multi-year targets relate to the following indicators: total shareholder return (25%), the Group's liquidity coverage ratio (25%), the CET1 capital indicator (25%) and the Group's return on risk-adjusted capital (RoRAC) (25%).

In addition to meeting the annual and multi-year targets described above, payment of the incentive will be subject to the requirements set out in the General Terms and Conditions of the Long-Term Remuneration 2019-2021.

Furthermore, the Board of Directors, at its meeting of 18 December 2019, at the proposal of the Remuneration Committee, approved a Long-Term Remuneration 2020-2022, aimed at members of the Group's Identified Staff with allocated variable remuneration, with the exception of management staff who are assigned to TSB Banking Group Plc or its subsidiaries, and which consists of the allocation of a certain amount to each beneficiary, the amount of which is determined based on a monetary amount corresponding to a percentage of each beneficiary's fixed remuneration. The incentive will be paid 55% in bank shares (to calculate the number of shares, the weighted average price of the last 20 sessions of December 2020 was used) and 45% in cash. The incentive vesting period started on 01 January 2020 and ends on 31 December 2022, and comprises two sub-periods:

- Period of measurement of individual annual targets: this is the period from 01 January 2020 to 31 December 2020, in which the annual targets of each beneficiary (composed of Group targets, management targets and individual targets) established to determine the "Adjusted Target" were measured, which was subject to the Risk Correction Factor, with capital (CET1) and liquidity (LCR) indicators.

- Group multi-year target measurement period: this is the period from 01 January 2020 to 31 December 2022, in which multi-year Group targets are measured for the purpose of determining the final incentive, which is also subject to the Risk Correction Factor. The Group's multi-year targets relate to the following indicators: total shareholder return (25%), the Group's liquidity coverage ratio (25%), the CET1 capital indicator (25%) and the Group's return on risk-adjusted capital (RoRAC) (25%).

In addition to meeting the annual and multi-year targets described above, payment of the incentive will be subject to the requirements set out in the General Terms and Conditions of the Long-Term Remuneration 2019-2022.

As regards the staff expenses associated with share-based incentives schemes (see Note 1.3.15), the contra account for such expenses is recognised in equity in the case of rights settled using shares (see the Consolidated statement of total changes in equity – share-based payments), while those settled in cash are recognised in the "*Other liabilities*" heading of the consolidated balance sheet.

Thousand euro

	2020	2019
Settled in Shares	6,285	8,059
Settled in Cash	1,386	675
Total	**7,671**	**8,734**

Other administrative expenses

The composition of this heading in the consolidated income statement for the years 2020 and 2019 was as follows:

Thousand euro

	2020	2019
Property, plant and equipment	(111,498)	(106,015)
Information technology	(356,122)	(334,868)
Communication	(38,633)	(41,123)
Publicity	(87,783)	(99,333)
Subcontracted administrative services	(156,658)	(156,280)
Contributions and taxes	(143,795)	(127,689)
Technical reports	(49,142)	(55,654)
Security services and fund transfers	(18,442)	(22,265)
Entertainment expenses and staff travel expenses	(6,400)	(21,531)
Membership fees	(5,057)	(44,512)
Other expenses	(80,028)	(85,353)
Total	**(1,053,558)**	**(1,094,623)**

Fees with Auditing Companies

The fees received by KPMG Auditores, S.L. in 2020 for statutory auditing services and other audit-related services provided in Spain amounted to 2,228 and 65 thousand euros, respectively (1,913 and 785 thousand euros received by PricewaterhouseCoopers Auditores, S.L. in 2019 for these same services).

Audit services corresponding to overseas branches provided by KPMG Auditores, S.L. in Spain amounted to 25 thousand euros (27 thousand euros provided by PricewaterhouseCoopers Auditores, S.L. in 2019 for this same service).

Auditing services provided by other companies in the KPMG network in relation to foreign branches and subsidiaries and other audit-related services provided abroad amounted to 5,109 and 28 thousand respectively in 2020 (4,983 and 207 thousand euros in 2019 received by other companies in the PwC network for these same services).

Fees received by auditors other than KPMG in 2020 for auditing and other audit-related services provided in Spain amounted to 41 and 0 thousand euros, respectively (31 and 0 thousand euros in 2019 received by auditors other than PwC). Fees for audit and other audit-related services for foreign branches and subsidiaries amounted to 9 and 5 thousand euros, respectively, in 2020 (18 and 21 thousand euros in 2019).

Fees received by other companies in the KPMG network for tax advisory services and other services provided in Spain in 2020 amounted to 0 and 219 thousand euros, respectively. The amounts recognised for these services in 2019 received by companies in the KPMG network amounted to 0 and 95 thousand euros in Spain.

No fees were accrued for tax advisory and other services provided abroad by companies in the KPMG network in 2020 The amounts recognised for these services in 2019 received by companies in the PwC network amounted to 0 and 39 thousand euros, respectively.

Other information

Non-recurring administrative expenses in 2020 amounted to 47,368 thousand euros (44,483 thousand euros in 2019) including costs related to the business transformation.

The cost-to-income ratio as at 2020 year-end (staff and general expenses/gross income) stood at 55.41% (55.63% in 2019).

Information about the Group's branches and offices is given below:

Number of branches

	2020	2019
Branches	**2,083**	**2,398**
Spain	1,589	1,822
Outside Spain	494	576

Note 34 – Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or (-) losses, net

The composition of this item of the consolidated income statement for the years ended 31 December 2020 and 2019 is as follows:

Thousand euro

	Note	2020	2019
Financial assets at fair value through other comprehensive income		288	3,748
Debt securities	8	288	3,748
Other equity instruments		-	-
Financial assets at amortised cost	11	(1,745,302)	(670,773)
Debt securities		16	109
Loans and advances		(1,745,318)	(670,882)
Total		**(1,745,014)**	**(667,025)**

Note 35 – Impairment or (-) reversal of impairment on non-financial assets

The composition of this heading of the consolidated income statement for the years ended 31 December 2020 and 2019 is as follows:

Thousand euro

	Note	2020	2019
Property, plant and equipment	15	4,950	(16)
Investment properties	15	2,742	4,733
Goodwill and other intangible assets	16	(2,025)	(6,964)
Inventories	17	(46,068)	(83,989)
Total		**(40,401)**	**(86,236)**

The total allowance for the impairment of investment properties in 2020 and 2019 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 319,672 and 425,163 thousand euros in 2020 and 2019, respectively.

Of the total inventory impairment allowances for 2020 and 2019, 26,206 and 57,642 thousand euros were allocated based on Level 2 valuations, respectively, and 19,862 and 26,347 thousand euros based on Level 3 valuations, respectively. The fair value of impaired assets amounted to 173,532 and 686,976 thousand euros at 2020 and 2019 year-end, respectively.

Note 36 – Gains or (-) losses on derecognition of non-financial assets, net

The composition of this heading of the consolidated income statement for the years ended 31 December 2020 and 2019 is as follows:

Thousand euro

	2020	2019
Property, plant and equipment	(7,860)	(6,396)
Investment properties	3,525	4,001
Intangible assets	(4,498)	252
Interests (*)	419	16,951
Other capital instruments	-	-
Other items	5,547	26,549
Total	**(2,867)**	**41,357**

(*) See Schedule I – Companies no longer consolidated.

The sale of tangible assets under finance leases in which the Group acts as the lessor did not have a material impact on the 2020 consolidated income statement.

Note 37 – Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The composition of this heading of the consolidated income statement for the years ended 31 December 2020 and 2019 is as follows:

Thousand euro

	Note	2020	2019
Property, plant and equipment for own use and foreclosed		(217,378)	(168,471)
Gains/losses on sales		10,797	742
Impairment/Reversal	13	(228,175)	(169,213)
Investment properties		406	103
Intangible assets		-	-
Interests (*)		343,169	132,741
Other capital instruments		-	-
Other items		(23,615)	(41)
Total		**102,582**	**(35,668)**

(*) See Schedule I - Companies no longer consolidated.

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

The total provision for the impairment of non-current assets held for sale in 2020 y 2019 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 518,495 and 426,361 thousand euros at 2020 and 2019 year-end, respectively.

Note 38 – Segment reporting

Segmentation criteria

This section gives information regarding earnings and other indicators of the Group's business units.

For 2020, the criteria that Banco Sabadell Group uses to report on results for each segment are:

- Three regions: Banking Business Spain, United Kingdom and Mexico.
- Each business unit is allocated capital equivalent to 11% of its risk-weighted assets (capital divided by RWAs) and the surplus of own funds is allocated to Banking Business Spain.

In terms of the other criteria applied, segment information is first structured with a breakdown by region and then broken down based on the customers to which each segment is aimed.

Segmentation by region and business units

As regards the basis of presentation and approach used, information for each business unit is based on the individual accounting records of each Group company, after all consolidation disposals and adjustments have been made, and on analytical accounting of income and expenses where particular business lines are allocated to one or more legal entities, which allows income and expenses to be allocated to each customer in line with the business to which they are assigned.

Each business unit is treated as an independent business. They each bear their own direct costs, on the basis of general and analytical accounting, as well as the indirect costs arising from the provision of specialised products, services or systems.

Capital is allocated in such a way that each business is assigned capital equivalent to the minimum regulatory capital requirements for risk-weighted assets. This regulatory minimum requirement depends on the body responsible for supervising each business.

Details of profit attributable to the Group and other key figures for each business unit for the years 2020 y 2019, are shown in the table below, along with a reconciliation of the totals shown in the table with those shown in the consolidated Group accounts:

Million euro

	2020 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Net interest income	**2,400**	**885**	**114**	**3,399**
Fees and commissions (net)	1,246	96	7	1,350
Net banking revenues	**3,646**	**981**	**122**	**4,749**
Net trading income and exchange differences	770	25	4	800
Equity-accounted affiliates and dividends	37	-	-	37
Other operating income/expense	(271)	2	(14)	(284)
Gross income	**4,182**	**1,008**	**112**	**5,302**
Operating expenses and depreciation and amortisation	(2,344)	(1,035)	(82)	(3,461)
Pre-provisions income	**1,838**	**(27)**	**30**	**1,841**
Provisions and impairments	(2,007)	(240)	(28)	(2,275)
Capital gains on asset sales and other revenue	317	(4)	-	313
Profit/(loss) before tax	**147**	**(271)**	**3**	**(121)**
Corporation tax	71	51	1	124
Profit or loss attributed to minority interests	1	-	-	1
Profit attributable to the Group	**218**	**(220)**	**4**	**2**
ROE (profit / average shareholders' equity)	2.%	-	0.8%	0.%
Cost-to-income (general administrative expenses / gross income)	47.6%	86.8%	64.3%	55.4%
NPL ratio	4.4%	1.3%	0.5%	3.6%
NPL coverage ratio of Stage 3	55.7%	57.4%	231.6%	56.5%
Employees	16,260	6,709	489	23,458
Domestic and foreign branches	1,614	454	15	2,083

(*) Exchange rates used in the income statement: GBP 0.8888 (average), MXN 24.5034 (average), USD 1.1389 (average) and MAD 10.8769 (average).

Million euro

	2020 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Assets	**183,896**	**47,284**	**4,584**	**235,763**
Gross performing loans to customers	106,327	36,977	3,574	146,878
Non-performing real estate assets (net)	871	-	-	871
Liabilities	**173,664**	**45,566**	**4,041**	**223,272**
On-balance sheet customer funds	110,572	38,213	1,993	150,778
Wholesale Funding Capital Markets	18,332	2,319	-	20,651
Allocated capital	**10,204**	**1,736**	**551**	**12,492**
Off-balance sheet customer funds	**38,064**	**-**	**-**	**38,064**

(*) Exchange rates used in the balance sheet: GBP 0.8990, MXN 24.416, USD 1.2271 and MAD 10.882.

Million euro

	2019 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Net interest income	**2,527**	**979**	**117**	**3,622**
Fees and commissions (net)	1,304	117	19	1,439
Net banking revenues	**3,830**	**1,095**	**136**	**5,061**
Net trading income and exchange differences	110	15	1	126
Equity-accounted affiliates and dividends	61	-	-	61
Other operating income/expense	(288)	(20)	(9)	(317)
Gross income	**3,714**	**1,091**	**127**	**4,932**
Operating expenses and depreciation and amortisation	(2,070)	(1,052)	(91)	(3,213)
Pre-provisions income	**1,644**	**39**	**36**	**1,719**
Provisions and impairments	(850)	(72)	(16)	(938)
Capital gains on asset sales and other revenue	174	(4)	-	170
Profit/(loss) before tax	**968**	**(38)**	**20**	**951**
Corporation tax	(165)	(8)	(2)	(174)
Profit or loss attributed to minority interests	9	-	-	9
Profit attributable to the Group	**794**	**(45)**	**19**	**768**
ROE (profit / average shareholders' equity)	7.3%	-	3.5%	5.9%
Cost-to-income (general administrative expenses / gross income)	47.0%	84.0%	62.9%	55.6%
NPL ratio	4.7%	1.2%	1.2%	3.8%
NPL coverage ratio of Stage 3	50.5%	43.1%	108.9%	49.6%
Employees	16,610	7,394	450	24,454
Domestic and foreign branches	1,847	540	15	2,402

(*) Exchange rates applied in the income statement: GBP 0.8782 (average), MXN 21.5648 (average), USD 1.1170 (average) and MAD 10.6881 (average).

Million euro

	2019 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Assets	**172,610**	**46,449**	**4,695**	**223,754**
Outstanding gross loans and advances	104,436	36,496	3,640	144,572
Non-performing real estate assets (net)	791	-	-	791
Liabilities	**161,695**	**44,924**	**4,160**	**210,779**
On-balance sheet customer funds	108,890	35,423	1,996	146,309
Wholesale Funding Capital Markets	19,912	2,423	-	22,335
Allocated capital	**10,915**	**1,525**	**535**	**12,974**
Off-balance sheet customer funds	**43,163**	**-**	**-**	**43,163**

(*) Exchange rates applied in the balance sheet: GBP 0.8508, MXN 21.2202, USD 1.1234 and MAD 10.7438.

The Group's average total assets as at 31 December 2020 amounted to 227,639 thousand euros (223,470 thousand euros as at 31 December 2019).

The types of products and services from which ordinary income is derived are described below for each business unit:

- **Banking Business Spain**, which includes the following customer-centric business units:

  - Commercial Banking offers both investment and savings products. In terms of investment, the sale of mortgage products, working capital and revolving credit is particularly noteworthy. In terms of savings, the main products are deposits (demand deposits and term deposits), mutual funds, savings insurance and pension plans. Protection insurance products and payment services are also noteworthy, such as credit cards and the issues of transfers, amongst others. Private Banking offers value-added products and services for customers.

  - Corporate Banking offers specialised lending services together with a comprehensive offering of solutions ranging from transaction banking services to more complex and tailored solutions relating to the fields of financing and treasury, as well as import and export activities, amongst others.

  - Asset Transformation comprehensively manages NPA risk and real estate exposures. It focuses on developing its asset transformation strategy and integrating the general overview of the Group's real estate balance sheet in order to maximise its value.

- **Banking Business United Kingdom:**

The TSB franchise includes business conducted in the United Kingdom, which includes current and savings accounts, loans, credit cards and mortgages.

- **Banking Business Mexico:**

It offers Corporate Banking and Commercial Banking financial services.

Details of income from ordinary activities and the pre-tax profit/(loss) generated by each business unit, are set out below for 2020 and 2019:

Thousand euro

	Consolidated			
	Income from ordinary activities (*)		Profit/(loss) before tax	
SEGMENTS	2020	2019	2020	2019
Banking Business Spain	5,843,283	5,141,281	147,359	968,225
Banking Business UK	1,196,722	1,401,238	(271,072)	(37,561)
Banking Business Mexico	274,829	347,967	2,883	20,413
(-) Adjustments and disposals of ordinary income between segments	-	-	-	-
Total	**7,314,834**	**6,890,486**	**(120,830)**	**951,077**

(*) Includes the following headings from the consolidated income statements: "Interest income", "Dividend income", "Fee and commission income", "Gains or (-) losses on financial assets and liabilities, net" and "Other operating income".

The table below shows the balance of net interest income and net fees and commissions income generated by each business unit as a percentage of the total for 2020 and 2019:

%

	2020				
	Breakdown net interest income and net fees and commissions				
	Customer loans		Customer deposits		Income from services (*)
	% of average balance	% of total yield	% of average balance	% of total cost	% of total balance
SEGMENTS					
Banking Business Spain	72.4%	66.5%	73.3%	15.8%	92.3%
Banking Business UK	25.2%	27.6%	25.3%	37.7%	7.2%
Banking Business Mexico	2.4%	6.0%	1.3%	46.5%	0.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(*) Segment percentage of total net fees and commissions.

%

	2019				
	Breakdown net interest income and net fees and commissions				
	Customer loans		Customer deposits		Income from services (*)
	% of average balance	% of total yield	% of average balance	% of total cost	% of total balance
SEGMENTS					
Banking Business Spain	72.2%	65.9%	74.4%	30.9%	89.7%
Banking Business UK	25.2%	27.3%	24.2%	35.2%	9.3%
Banking Business Mexico	2.6%	6.8%	1.4%	33.9%	1.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(*) Segment percentage of total net fees and commissions.

Furthermore, a breakdown by region of the "*Interest income*" heading of the 2020 and 2019 income statements is shown below:

Thousand euro

	Breakdown of interest income by geography			
Geography	**Individual**		**Consolidated**	
	2020	**2019**	**2020**	**2019**
Domestic market	2,797,680	3,142,780	2,844,649	3,133,184
International market	209,970	308,251	1,479,153	1,851,707
European Union	35,156	90,556	35,156	1,288,626
Euro zone	35,156	32,735	35,156	32,735
Non Euro zone	-	57,821	-	1,255,891
Other	174,814	217,695	1,443,997	563,081
Total	**3,007,650**	**3,451,031**	**4,323,802**	**4,984,891**

The Consolidated Directors' Report (see Section 5 therein) gives a more detailed assessment of each of these business units.

Note 39 – Tax situation (income tax relating to continuing operations)

Consolidated tax group

Banco de Sabadell, S.A. is the parent company of a consolidated tax group for corporation tax purposes, in Spain, comprising all the Spanish companies in which Banco de Sabadell, S.A. holds an interest that meet the requirements of the Spanish Corporation Tax Law.

The other companies in the accounting group, whether Spanish or non-resident in Spain, are taxed in accordance with the tax regulations applicable to them.

Reconciliation

The reconciliation of the difference between consolidated accounting results and income subject to Corporation Tax is as follows:

Thousand euro

	2020	**2019**
Profit/(loss) before tax	(120,829)	951,077
Increases in taxable income	776,635	779,695
From profits	772,072	779,695
From equity	4,563	-
Decreases in taxable income	(768,077)	(1,485,555)
From profits	(676,695)	(1,412,305)
From equity	(91,382)	(73,250)
Taxable income	**(112,271)**	**245,217**
Tax payable (30%)	**33,681**	**(73,565)**
Deductions for double taxation, training and other	11,911	11,476
Tax payable (less tax credits)	**45,592**	**(62,089)**
Due to timing differences (net)	88,753	(121,570)
Other adjustments (net)	(10,506)	9,460
(Tax expense or (-) income related to profit or loss from continuing operations)	**123,839**	**(174,199)**

The reconciliation between the Group's Corporation Tax expense calculated by applying the general tax rate and the expense recognised for this corporation tax in the consolidated income statements is as follows:

Thousand euro

	2020	2019
Profit or loss before tax	**(120,829)**	**951,076**
Corporation tax, applying national tax rate (30%)	**36,249**	**(285,323)**
Reconciliation:		
Gains/(losses) on sale of equity instruments (exempt)	95,289	42,853
Remuneration of preference shares	21,968	21,975
Profit/(loss) of entities accounted for using the equity method	10,778	16,928
Difference in effective tax rate on companies outside Spain (*) (**)	(25,599)	5,540
Generated deductions/Non-deductible expenses	5,176	14,368
Rest	(20,022)	9,460
(Tax expense or (-) income related to profit or loss from continuing operations)	**123,839**	**(174,199)**
Effective tax rate	(102.49%)	18.32%

(*) Calculated applying the difference between the current tax rate for the Group in Spain (30%) and the effective tax rate applied to the Group's profit/(loss) in each jurisdiction.

(**) In 2020, the United Kingdom's corporation tax rate was changed to 19% (from 17%). As a result, deferred tax assets have increased by 8.6 million euros.

Taxable income – increases and decreases

The increases and decreases in taxable income are analysed in the following table on the basis of whether they arose from temporary or permanent differences:

Thousand euro

	2020	2019
Permanent difference	109,462	14,417
Temporary difference arising during the year	630,717	708,842
Temporary difference arising in previous years	36,456	56,436
Increases	**776,635**	**779,695**
Permanent difference	(396,748)	(315,044)
Temporary difference arising during the year	(513)	(115,929)
Temporary difference arising in previous years	(370,816)	(1,054,582)
Decreases	**(768,077)**	**(1,485,555)**

Deferred tax assets and liabilities

Under current tax and accounting regulations, certain temporary differences should be taken into account when quantifying the relevant tax expense related to profit from continuing operations.

In 2013, Spain made a provision (Royal Decree-Law 14/2013) for tax assets generated by allowances for the impairment of loans and other assets arising from the potential insolvency of debtors not related to the relevant taxable person, as well as those corresponding to contributions or provisions in respect of social welfare systems and, where appropriate, early retirement schemes, to be afforded the status of assets guaranteed by the Spanish State (hereinafter, "monetisable tax assets").

Monetisable tax assets can be converted into credit enforceable against the Spanish Tax Authority in cases where the taxable person incurs accounting losses or the Institution is liquidated or legally declared insolvent. Similarly, they can be exchanged for Public Debt securities, once the 18-year term has elapsed, calculated from the last day of the tax period in which these assets were recognised in the accounting records. To retain the State guarantee, deferred tax assets generated before 2016 (see Note 32) are subject to an annual capital contribution of 1.5% of the deferred tax assets that comply with the legal requirements in order to keep their status as monetisable tax assets.

The sources of the deferred tax assets / liabilities recognised in the consolidated balance sheets as at 31 December 2020 and 2019 are as follows:

Thousand euro

Deferred tax assets	2020	2019
Monetisable	**5,058,733**	**5,127,453**
Due to credit impairment	3,358,141	3,356,167
Due to real estate asset impairment	1,574,672	1,643,538
Due to pension funds	125,920	127,748
Non-monetisable	**1,066,199**	**979,288**
Tax credits for losses carried forward	**483,831**	**394,422**
Deductions not applied	**35,975**	**14,769**
Total	**6,644,738**	**6,515,932**

Deferred tax liabilities	2020	2019
Property restatements	56,677	62,576
Adjustments to value of wholesale debt issuances arising in business combinations	19,871	29,336
Other financial asset value adjustments	34,666	53,802
Other	55,303	52,452
Total	**166,517**	**198,166**

The breakdown by country of deferred tax assets and liabilities is as follows:

Thousand euro

	2020		2019	
Country	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Spain	6,417,678	151,614	6,341,527	183,745
United Kingdom	166,992	12,762	116,754	14,334
US	7,737	1,925	7,780	12
Mexico	43,434	-	41,674	-
Other	8,897	216	8,197	75
Total	**6,644,738**	**166,517**	**6,515,932**	**198,166**

As indicated in Note 1.3.20, according to the information available as at year-end, and the projections taken from the Group's business plan for the coming years, the Group estimates that it will be able to generate sufficient taxable income to offset tax loss carry-forwards and non-monetisable tax assets when these can be deducted on the basis of current tax regulations, and that it will be able to generate this within a maximum of 12 years.

Monetisable tax assets are guaranteed by the State; therefore, their recoverability does not depend on the generation of future tax benefits.

The Group has no material deferred tax assets that have not been recognised in the balance sheet.

Years subject to tax inspections

As at 31 December 2020, Corporation Tax for the consolidated tax group in Spain is open to review for 2015 and subsequent years.

During 2019, inspection procedures initiated in relation to the items and periods of Banco de Sabadell, S.A. were completed, as detailed below:

Tax	Period
Tax withholdings/prepayments from wages and professional fees	07/2012 a 12/2014
Tax withholdings/prepayments from income from movable capital	07/2012 a 12/2014
Income tax	01/2011 a 12/2014
Value added tax	07/2012 a 12/2014

Of the procedures indicated, the only one that is in progress as at 31 December 2020 is that relating to the challenge of the settlement agreement issued in relation to the certificate of disagreement concerning Value Added Tax (07/2012 to 12/2014), which contained an adjustment of 6,938 thousand euros in respect of various sector-based issues. A Tax Appeal was filed against it with the Central Tax Appeal Board (Tribunal Económico-Administrativo Central) on 25 March 2019, having submitted the corresponding arguments on 15 October 2019. As of 31 December 2020, the aforesaid body had not yet issued a decision in that regard.

Details of the outcome of proceedings completed during 2019 can be viewed in Note 39 "Tax situation" of the consolidated annual financial statements for 2019.

In relation to Value Added Tax corresponding to entities forming part of the VAT group, 2016 and subsequent periods are subject to tax inspection.

The review of all taxes not verified and not legally required in accordance with tax regulations is still pending for other Group companies which are not taxed within the consolidated tax group in Spain and the VAT group.

The main tax litigations in progress as at the end of the year are listed below:

- Appeal for judicial review before the Spanish National Court in relation to the rebuttal of the settlement of the disputed tax assessment for the VAT between 2008-2010 of Banco Sabadell S.A. for an amount of tax due of 1,831 thousand euros, after a tax settlement has been issued in execution of a resolution made by the Central Tax Appeal Board that is partially upheld.

- Appeal against decision of the regional Tax Appeal Board of Catalonia (Tribunal Económico-Administrativo Regional de Cataluña) filed by BanSabadell Renting, S.L. against the disputed tax assessment regarding VAT for 2014-2015 for an amount due of 3,496 thousand euros.

The Group has, in any event, made suitable provisions for any contingencies that it is considered may arise in relation to these tax settlements.

In relation to items for which the statute of limitations is unexpired, due to potential differences in the interpretation of tax regulations, the results of the tax authority inspections for the years subject to review may give rise to contingent tax liabilities, which it is not possible to quantify objectively. However, the Group considers that the possibility of such liabilities materialising is remote, and if they did materialise, the resulting tax charge would not be such as to have any significant impact on these consolidated annual financial statements.

Note 40 – Related party transactions

There are no transactions with the company's administrators or directors that could be considered significant. Those that did take place were in the normal course of the company's business or were conducted at market prices or under the terms normally applicable to employees.

The Group is not aware of any transactions carried out at non-market prices with any persons or entities related to the Bank's administrators or Senior Management staff.

The most significant balances recognised in dealings with related parties, and the effect on the income statement of related party transactions, are shown below:

Thousand euro

	2020					2019
	Joint control or signif. influence (in B.Sab)	Associates	Key personnel	Other related parties (*)	TOTAL	TOTAL
Assets:						
Customer lending and other financial assets	-	155,762	5,562	168,216	329,540	418,894
Liabilities:						
Customer deposits and other financial liabilities	-	437,060	6,336	83,937	527,333	485,613
Off-balance sheet exposures:						
Financial guarantees provided	-	302	-	370	672	1,435
Loan commitments given	-	1,784	395	38,717	40,896	25,094
Other commitments provided	-	6,749	-	817	7,566	9,248
Income statement:						
Interest and similar income	-	3,413	45	3,681	7,139	7,238
Interest and similar charges	-	(77)	(4)	(2)	(83)	(2,010)
Return on capital instruments	-	-	-	-	-	-
Fees and commissions (net)	-	130,888	37	451	131,376	137,824
Other operating income	-	18,874	-	26	18,900	39,719

(*) Includes employee pension schemes.

Note 41 – Remuneration of members of the Board of Directors and Senior Management and their respective balances

The following table shows, for the years ended 31 December 2020 and 2019, the amount paid to directors in remuneration and in contributions to meet their pension commitments for services provided by them in that capacity:

Thousand euro

	Remuneration		Pension commitments		Total	
	2020	2019	2020	2019	2020	2019
Josep Oliu Creus (*)	234	234	35	35	269	269
José Javier Echenique Landiribar	207	205	-	-	207	205
Jaime Guardiola Romojaro (*)	100	100	-	-	100	100
Anthony Frank Elliott Ball (1)	150	141	-	-	150	141
Aurora Catá Sala	166	160	-	-	166	160
Pedro Fontana García	198	195	-	-	198	195
María José García Beato (*)	100	100	-	-	100	100
Maria Teresa Garcia-Milà Lloveras (2)	38	161	-	-	38	161
Mireya Giné Torrens (3)	39	-	-	-	39	-
George Donald Johnston III	188	186	-	-	188	186
David Martínez Guzmán	100	100	-	-	100	100
José Manuel Martínez Martínez	138	185	-	-	138	185
José Ramón Martínez Sufrategui	140	129	-	-	140	129
José Luis Negro Rodríguez (*) (4)	74	100	-	18	74	118
Alicia Reyes Revuelta (5)	-	-	-	-	-	-
Manuel Valls Morató	160	160	-	-	160	160
David Vegara Figueras (*) (6)	100	106	-	-	100	106
Total	**2,132**	**2,262**	**35**	**53**	**2,167**	**2,315**

(*) Perform executive functions.

(1) On 28 March 2019, he was appointed Lead Independent Director, succeeding Maria Teresa Garcia-Milà Lloveras.

(2) Submitted her resignation from her position as Director, effective from 26 March 2020.

(3) On 26 March 2020, the Annual General Meeting approved her appointment as member of the Board of Directors, in the capacity of Independent Director. She accepted the position on 1 September 2020.

(4) Submitted his resignation from his position as Director, effective from 24 September 2020.

(5) On 24 September 2020, the Board of Directors approved her appointment as member of the Board of Directors, in the capacity of Independent Director. She accepted the position on 21 December 2020.

(6) Executive director since 15 February 2019.

Aside from the items mentioned above, members of the Board of Directors received 60 thousand euros as fixed remuneration in 2020 (31 thousand euros in 2019) by reason of their membership of boards of directors in Banco Sabadell Group companies or advisory boards (these amounts are included in the Annual Report on Directors' Remuneration).

Contributions for life insurance premiums covering pension commitments in respect of pension rights accruing in 2020 amounted to 2,174 thousand euros (1,740 thousand euros in 2019), of which 35 thousand euros are detailed in the table above and 2,139 thousand euros correspond to directors for the discharge of their executive duties.

Remuneration earned by directors for discharging their executive duties during 2020 amounted to 4,588 thousand euros (7,382 thousand euros in 2019).

Total risk transactions granted by the Bank and consolidated companies to directors of the parent company amounted to 2,037 thousand euros as at 31 December 2020, of which 1,850 thousand euros corresponded to loans and receivables and 187 thousand euros related to loan commitments given (2,284 thousand euros as at 31 December 2019, consisting of 2,607 thousand euros in loans and receivables and 217 thousand euros in loan commitments given). These transactions are in the ordinary course of the Bank's business and are carried out under normal market conditions. Liabilities amounted to 5,254 thousand euros as at 31 December 2020 (8,839 thousand euros as at 31 December 2019).

Total Senior Management remuneration earned during 2020 amounted to 5,077 thousand euros. Pursuant to applicable regulations, this amount includes the remuneration of the Senior Management members plus the Internal Audit Officer.

With regard to the remuneration corresponding to 2020, the Chairman, CEO, executive directors and members of Senior Management have waived their variable remuneration corresponding to 2020. The Board of Directors accepted this waiver in its extraordinary meeting of 8 April 2020.

Risk transactions granted by the Bank and consolidated companies to Senior Management staff (with the exception of those who are also executive directors, for whom details are provided above) amounted to 3,429 thousand euros as at 31 December 2020 (6,556 thousand euros in 2019), comprising 3,221 thousand euros in loans and receivables and 208 thousand euros related to loan commitments given (in 2019, 6,020 thousand euros related to loans and receivables and 536 thousand euros to loan commitments given). Liabilities amounted to 1,081 thousand euros as at 31 December 2020 (985 thousand euros as at 31 December 2019).

In addition, stock appreciation rights granted under incentive schemes and the long-term remuneration scheme to members of Senior Management, including executive directors (see Note 33) in 2020, gave rise to staff expenses amounting to 2 million euros (2 million euros in 2019).

Details of existing agreements between the company and members of the Board and management staff with regard to severance pay are set out in the Group's Annual Report on Corporate Governance, which forms part of the Consolidated Directors' Report.

The directors and management staff mentioned above are specified below with their positions held in the Bank as at 31 December 2020:

Executive Directors	
Josep Oliu Creus	Chair
Jaime Guardiola Romojaro	Sabadell Group CEO
María José García Beato	Director Secretary General
David Vegara Figueras	Director-General Manager
Senior Management	
Tomás Varela Muiña	General Manager
Miquel Montes Güell	General Manager
Carlos Ventura Santamans	General Manager
José Nieto de la Cierva	General Manager
Rafael José García Nauffal	Deputy General Manager
Jaime Matas Vallverdú	Deputy General Manager
Ramón de la Riva Reina	Deputy General Manager
Enric Rovira Masachs	Deputy General Manager
Manuel Tresànchez Montaner	Deputy General Manager

Other information relating to the Board

Pursuant to Article 229 of the Capital Companies Act, in accordance with the wording set out in Law 31/2014 of 3 December, amending the Spanish Capital Companies Act in order to improve corporate governance, and in order to strengthen transparency in public limited companies, the directors have notified the company that, during 2020, they or persons related to them, as defined in Article 231 of the Spanish Capital Companies Act:

a. Have not carried out transactions with the company, without taking into account usual operations, performed under standard conditions for customers and whose significance is immaterial, understanding such operations to be those that do not need to be reported to give a true and fair view of the company's equity, financial situation and income.

b. Have not used the name of the company or their position as administrator to unduly influence the performance of personal transactions.

c. Have not made use of corporate assets, including the company's confidential information, for personal purposes.

d. Have not taken undue advantage of the company's business opportunities.

e. Have not obtained advantages or remuneration from third parties other than the company or group in connection with the discharge of their duties, with the exception of acts of mere courtesy.

f. Have not carried out activities on their own behalf or on behalf of a third party that involve competition with the company, whether on an isolated or potential basis, or that might otherwise place them in permanent conflict with the company's interests.

The Bank has entered into a liability insurance policy for 2020 that covers the Institution's administrators and Senior Management staff. The total premium paid was 2,651 thousand euros (752 thousand euros in 2019).

Note 42 – Other information

Transactions with significant shareholders

No major transactions with significant shareholders have been carried out during 2020 and 2019.

Information relating to the environment

All operations of the Group as a whole are subject to legal requirements on environmental protection and health and safety in the workplace. The Group considers that it substantially complies with these laws and it has procedures in place which have been designed to foster and guarantee such compliance.

The Group has adopted the corresponding measures relating to the protection and improvement of the environment and the minimisation of any environmental impacts of its activities, complying with the regulations in force in this regard. During 2020, the Group has continued to implement a number of Group-wide waste treatment, consumables recycling and energy saving schemes. It has not considered it necessary to recognise any provision for risks or expenses relating to the environment, as there are no contingencies related to the protection and improvement of the environment.

For further details on the policies and activities adopted by the Bank relating to the environment, see the Non-Financial Disclosures Report, which is included as part of the Consolidated Directors' Report.

Customer Care Service (SAC)

The Customer Care Service (hereinafter, the SAC) and its head, who is appointed by the Board of Directors, report directly to the Secretary General. Its main function is to handle and resolve complaints and claims brought forward by customers and users of the financial services of Banco de Sabadell, S.A., when these relate to their interests and legally recognised rights arising from contracts, transparency and customer protection regulations or good banking practices, in accordance with Banco Sabadell Regulations for the Protection of Customers and Users of Financial Services.

The SAC, in accordance with its Regulations, handles and resolves complaints and claims from customers and users of Banco de Sabadell, S.A., as well as those deriving from other entities associated with it: Bansabadell Financiación, E.F.C., S.A., Sabadell Asset Management, S.A., S.G.I.I.C. Sociedad Unipersonal, Urquijo Gestión, S.G.I.I.C, S.A. and Sabadell Consumer Finance, S.A.U.

A total of 42,534 complaints and claims were received in 2020, of which 3,048 were complaints (7.17%), and 39,486 were claims (92.83%), to which 778 files pending as at 31 December 2019 must be added.

Of this total volume, 42,169 cases were managed in 2020, with a total of 33,449 files being processed and resolved, 8,720 files being rejected and 1,143 files pending as at 31 December 2020.

The 5 products that received the most complaints are detailed below:

Product	No. of claims	% of total received
Current accounts	17,216	40.48%
Mortgage loans	10,707	25.17%
Credit/Debit cards	4,909	11.54%
Personal loans	1,869	4.39%
Direct debits	1,169	2.75%
Other	6,664	15.67%
	42,534	100.00%

Complaints and claims processed by the SAC at first instance

During 2020, the SAC received 39,516 complaints and claims, of which 31,130 were accepted for processing and resolved, in accordance with the provisions of Finance Ministry Order 734/2004 of 11 March.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 15,540 (49.92%) were resolved in the customer's favour and 15,590 (50.08%) in the Institution's favour.

Of the total number of complaints and claims accepted for processing and resolved, 24,982 (80.25%) were processed within a period of 15 working days, 5,694 (18.3%) within a period of less than 1 month and 454 (1.45%) within a period in excess of 1 month. All were within the 2-month turnaround specified as the maximum response period provided for in the Finance Ministry Order 734/2004, of 11 March.

Complaints and claims managed by the Customer and Stakeholder Ombudsman

At Banco Sabadell, the role of Customer Ombudsman is assumed by Mr José Luis Gómez-Dégano y Ceballos-Zúñiga. The Ombudsman is responsible for resolving the complaints brought forward by the customers and users of Banco de Sabadell, S.A., and of the other aforementioned entities associated with it, both at first and second instance, and for resolving issues that are passed on by the SAC.

In 2020, the Customer Ombudsman received a total of 2,560 complaints and claims, of which 1,862 were accepted for processing and resolved during the year.

Of the claims and complaints accepted for processing and resolved, the Ombudsman decided in favour of the customer in 17 (0.92%) cases, and in favour of the Institution in 412 (22.13%) cases, and in one case, the customer withdrew the complaint (0.05%). Furthermore, the SAC agreed to the claimant's request in 1,080 (58.00%) cases. The other 352 complaints and claims (18.90%) remained pending final resolution by the Ombudsman, following dispatch of arguments by the SAC.

Complaints and claims managed by the Bank of Spain, the Spanish National Securities Market Commission (CNMV) and the Directorate General for Insurance and Pension Plans

Under current legislation, customers or users who are dissatisfied with the response received from the SAC or from the Customer Ombudsman may submit their claims and complaints to the Market Conduct and Complaints Department of the Bank of Spain, to the CNMV or to the Directorate General for Insurance and Pension Plans, subject to the essential prerequisite of having previously addressed their complaint or claim to the Institution.

The SAC received a total of 458 claims referred by the Bank of Spain or the CNMV until 31 December 2020. During the year, 457 claims were accepted for processing and resolved.

Note 43 – Subsequent events

There were no significant events worthy of mention subsequent to 31 December 2020.

Schedule I – Banco Sabadell Group companies

Banco Sabadell Group companies as at 31 December 2020 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding: Direct	% Shareholding: Indirect	Company data (a): Capital	Company data (a): Other equity	Company data (a): Profit/(loss) (b)	Company data (a): Dividends paid (c)	Company data (a): Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L.	Real estate	Alicante - Spain	100.00	-	100	716	(377)	-	437	10,538	(9,722)	(377)
Assegurances Segur Vida, S.A.U.	Other regulated companies	Andorra la Vella - Andorra	-	50.97	602	834	151	-	47,913	802	323	77
Aurica Capital Desarrollo, S.G.E.I.C., S.A.U.	Funds management activities	Barcelona - Spain	100.00	-	3,601	727	926	-	6,208	4,342	(7)	919
Aurica Coinvestments, S.L.	Holding	Barcelona - Spain	-	61.76	50,594	(1,268)	1,909	1,050	51,242	31,247	(1,948)	2,202
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Nassau - Bahamas	99.99	0.01	1,598	604	(72)	-	2,794	2,439	(298)	(80)
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	-	-	703,371	10,299,269	93,781	-	188,909,020	-	12,158,438	213,991
Banco Sabadell, S.A., Institución de Banca Múltiple	Credit institution	Mexico DF - Mexico	99.99	0.01	573,492	(83,163)	459	-	3,427,477	558,017	(48,446)	(12,831)
BancSabadell d'Andorra, S.A.	Credit institution	Andorra la Vella - Andorra	50.97	-	30,069	61,399	9,878	-	991,038	15,326	30,681	5,015
BanSabadell Factura, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	100	(658)	383	-	2,520	299	(657)	383
BanSabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell - Spain	100.00	-	24,040	11,574	765	-	722,649	24,040	5,232	7,107
BanSabadell Inversió Desenvolupament, S.A.U.	Holding	Barcelona - Spain	100.00	-	16,975	89,719	783	-	199,068	108,828	18,216	(906)
Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del Grupo Banco Sabadell, S.A.	Other regulated companies	Alicante - Spain	-	100.00	301	60	7,832	2,748	54,330	524	(164)	5,276
BanSabadell Renting, S.L.U.	Vehicle and equipment leasing	Sant Cugat del Valles - Spain	100.00	-	2,000	2,589	7,180	-	611,806	3,861	728	7,180
Bitarte, S.A.U. (1)	Real estate	Sant Cugat del Valles - Spain	100.00	-	6,506	1,021	(3,137)	-	4,633	9,272	(1,960)	(2,342)
BStartup 10, S.L.U.	Holding	Barcelona - Spain	-	100.00	1,000	2,757	244	-	6,160	1,000	(1,186)	(79)
Business Services for Operational Support, S.A.	Other ancillary activities	Sant Cugat del Valles - Spain	80.00	-	530	547	(8,605)	-	31,722	1,160	396	(6,886)
Caminsa Urbanismo, S.A.U. en Liquidación (2)	Real estate	Alicante - Spain	-	100.00	-	-	-	-	32	-	37	(37)
Compañía de Cogeneración del Caribe Dominicana, S.A.	Power generation	Santo Domingo - Dominican Republic	-	100.00	5,016	(4,638)	-	-	394	-	(312)	-
Crisae Private Debt, S.L.U.	Other ancillary activities	Barcelona - Spain	-	100.00	3	197	-	-	200	200	-	-
Desarrollos y Participaciones Inmobiliarias 2006, S.L.U. en Liquidación (3)	Real estate	Elche - Spain	-	100.00	1,942	(91,065)	130	-	7	1,919	(91,042)	130
Duncan de Inversiones S.I.C.A.V., S.A.	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	87.35	-	7,842	(5,195)	(47)	-	2,607	2,560	(248)	(41)
Duncan Holdings 2015-1 Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	1	-	-
Duncan Holdings 2016 -1 Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	1	-	-
Duncan Holdings 2020-1 Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	-	-	-
Ederra, S.A.	Real estate	San Sebastián - Spain	97.85	-	2,036	34,089	151	-	36,537	36,062	(723)	339
Europea Pall Mall Ltd.	Real estate	London - United Kingdom	100.00	-	20,843	(2,369)	(1,617)	-	20,057	20,843	(3,682)	(1,491)
Subtotal								**3,798**		**833,281**	**12,063,436**	**217,831**

Banco Sabadell Group companies as at 31 December 2020 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Fonomed Gestión Telefónica Mediterráneo, S.A.U.	Other ancillary activities	Alicante - Spain	100.00	-	1,202	1,539	601	-	5,763	2,771	554	1,208
Fuerza Eólica De San Matías, S. de R.L. de C.V.	Power generation	Monterrey - Mexico	-	99.99	8,144	(13,093)	(1,343)	-	80,889	5,861	(2,793)	(2,082)
Galeban 21 Comercial, S.L.U.	Services	A Coruña - Spain	100.00	-	10,000	(4,291)	(1)	-	5,709	14,477	(8,768)	(1)
Gazteluberri, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	50	(20,672)	(68)	-	1,756	23,891	(44,510)	(68)
Gest 21 Inmobiliaria, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	7,810	609	533	-	8,965	80,516	(32,920)	(2,142)
Gestión de Proyectos Urbanísticos del Mediterráneo, S.L.U. en Liquidación (4)	Real estate	Sant Cugat del Valles - Spain	-	100.00	-	-	-	-	314	-	(840)	848
Gestión Financiera del Mediterráneo, S.A.U.	Other financial services	Alicante - Spain	100.00	-	13,000	2,800	2,789	1,531	18,398	66,787	(48,392)	(7)
Guipuzcoano Promoción Empresarial, S.L.	Holding	San Sebastián - Spain	-	100.00	50	(75,438)	(64)	-	6,933	7,160	(61,533)	(1,067)
Guipuzcoano Valores, S.A.	Real estate	Sant Cugat del Valles - Spain	99.99	0.01	4,514	(3,712)	(783)	1,745	34	4,181	(3,379)	(783)
Hobalear, S.A.U.	Real estate	Barcelona - Spain	-	100.00	60	58	11	-	125	414	50	11
Hondarriberri, S.L.	Holding	San Sebastián - Spain	99.99	0.01	41	21,859	(3,314)	-	60,403	120,689	96,534	(955)
Hotel Management 6 Gestión Activa, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	138,730	38,251	(6,475)	-	165,781	136,336	58,741	(8,938)
Hotel Management 6 Holdco, S.L.U.	Real estate	Sant Cugat del Valles - Spain	-	100.00	28,074	(22,262)	414	-	63,859	27,611	(26,726)	321
Interstate Property Holdings, LLC.	Holding	Miami - United States	100.00	-	7,290	(3,290)	34	-	5,868	3,804	6,383	34
Inverán Gestión, S.L.	Real estate	Sant Cugat del Valles - Spain	44.83	55.17	90	(12,065)	12,021	-	117	45,090	(43,456)	(1,578)
Inversiones Cotizadas del Mediterráneo, S.L.	Holding	Alicante - Spain	100.00	-	308,000	196,051	3,635	-	508,905	589,523	(98,868)	3,635
Inversiones en Resorts Mediterráneos, S.L. en liquidación	Real estate	Torre Pacheco - Spain	-	55.06	298,090	(302,367)	-	-	68	175,124	-	-
LSP Finance, S.L.U.	Provision of technology services	Barcelona - Spain	-	100.00	252	(1,124)	(703)	-	2,194	6,494	(1,136)	(2,728)
Manston Invest, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	33,357	(12,809)	(121)	-	20,447	33,357	(12,809)	(121)
Manfamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	62	(52,680)	(13,102)	-	15,090	55,013	(107,639)	(13,102)
Mediterráneo Sabadell, S.L.	Holding	Alicante - Spain	50.00	50.00	85,000	16,909	9	53	102,012	510,829	(408,829)	9
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real estate	Alicante - Spain	100.00	-	796	(3,000)	(25)	-	5,063	986	(3,192)	(25)
Paycomet, S.L.U. (5)	Payment institution	Torrelodones - Spain	-	100.00	300	438	(196)	-	3,336	8,500	(75)	(208)
Plataforma de Innovación Sabadell, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	3	(1)	-	-	2	3	(1)	-
Puerto Pacific Vallarta, S.A. de C.V.	Real estate	Mexico DF - Mexico	-	100.00	28,947	(17,315)	(58)	-	11,574	29,164	(11,513)	(58)
Ripollet Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	20	(287)	(3)	-	293,417	20	(287)	(3)
Rubí Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	3	(14)	(10)	-	552,295	3	(14)	(10)
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Other financial services	São Paulo - Brazil	99.99	0.01	906	(646)	-	-	75	250	383	-
Sabadell Consumer Finance, S.A.U.	Credit institution	Sabadell - Spain	100.00	-	38,720	45,998	10,938	-	1,672,099	72,232	14,408	10,661
Sabadell Corporate Finance, S.L.U. (6)	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	70	4,271	3,828	-	10,371	9,373	2,827	3,828
Sabadell d'Andorra Inversions, S.G.O.I.C., S.A.U.	Funds management activities	Andorra la Vella - Andorra	-	50.97	300	1,156	98	-	2,217	300	623	61
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	100.00	-	12,036	26,943	(508)	-	70,664	41,296	1,216	(462)
Sabadell Information Systems, S.A.U.	Provision of technology services	Sabadell - Spain	100.00	-	48,343	33,368	18,025	-	1,804,100	143,695	(97,632)	21,841
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	-	100.00	1,000	646	(3,270)	-	37,792	1,000	(1,062)	(1,145)
Sabadell Innovation Cells, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	3	(3,582)	541	-	2,607	3	(3,708)	667
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	38,116	818,109	(5,195)	-	911,472	863,898	(13,663)	(6,206)
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	100,060	232,843	2,483	-	338,208	500,622	(167,718)	2,483
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	15,807	(2,336,904)	(67,382)	-	1,273,692	2,147,442	(4,452,738)	(62,128)
Subtotal								**3,329**		**5,728,771**	**(5,464,502)**	**(58,203)**

Banco Sabadell Group companies as at 31 December 2020 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	2,073	553	(170)	-	29,170	14,292	(11,656)	(170)
Sabadell Securities USA, Inc.	Other financial services	Miami - United States	100.00	-	561	3,862	923	-	5,677	561	3,945	928
Sabadell Strategic Consulting, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	3	139	136	-	696	3	139	136
Sabadell Venture Capital, S.L.U.	Holding	Barcelona - Spain	-	100.00	3	7,587	1,764	-	49,408	3	1,327	529
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico DF - Mexico	49.00	51.00	164,835	4,613	17,026	-	1,261,679	150,351	50,317	17,027
Sinia Capital, S.A. de C.V.	Holding	Mexico DF - Mexico	-	100.00	20,830	4,685	2,275	-	79,652	17,264	5,694	844
Sinia Renovables, S.A.U.	UCITS, funds and similar financial corporations	Barcelona - Spain	100.00	-	15,080	(9,682)	11,028	-	42,278	15,080	(15,217)	15,871
Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.	Real estate	Alicante - Spain	100.00	-	3	9,719	308	-	12,091	3	9,681	344
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	60,729	(10,471)	(621)	-	49,809	60,729	(10,471)	(621)
Tasaciones de Bienes Mediterráneo, S.A. en Liquidación	Other ancillary activities	Alicante - Spain	99.88	0.12	1,000	1,389	1	-	2,395	5,266	(2,878)	2
Tenedora de Inversiones y Participaciones, S.L.	Holding	Alicante - Spain	100.00	-	296,082	(522,554)	(3,138)	-	375,783	2,584,914	(2,721,195)	(4,181)
Tierras Vega Alta del Segura, S.L. en Liquidación (7)	Real estate	Sant Cugat del Valles - Spain	-	100.00	-	-	-	-	59	-	3,155	(3,155)
TSB Bank PLC	Credit institution	Edinburgh - United Kingdom	-	100.00	90,710	2,003,014	(175,893)	-	47,138,659	1,814,636	370,653	(177,437)
TSB Banking Group PLC	Holding	London - United Kingdom	100.00	-	7,028	1,745,380	(3,406)	-	2,705,089	2,196,583	(146,766)	(42,685)
TSB Banking Group plc Employee Share Trust	Other ancillary activities	Saint Helier - Jersey	-	100.00	1	(10,438)	(414)	-	580	-	(10,571)	(6)
TSB Covered Bonds (Holdings) Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	-	-	-
TSB Covered Bonds (LM) Limited	Other ancillary activities	London - United Kingdom	-	100.00	1	-	-	-	1	-	-	-
TSB Covered Bonds LLP	UCITS, funds and similar financial corporations	London - United Kingdom	-	100.00	1	9	3	-	47	-	10	3
Urquijo Gestión, S.A.U., S.G.I.I.C.	Funds management activities	Madrid - Spain	-	100.00	3,606	4,888	2,717	-	16,119	3,084	5,082	3,016
Urumea Gestión, S.L. en Liquidación	Other ancillary activities	San Sebastián - Spain	-	100.00	9	(11)	(1)	-	-	9	(11)	(1)
VeA Rental Homes, S.A.U.(8)	Real estate	Sant Cugat del Valles - Spain	100.00	-	5,000	(18,678)	1,658	-	47,621	5,000	(18,677)	1,656
Verum Inmobiliaria Urbanismo y Promoción, S.A.	Real estate	Sant Cugat del Valles - Spain	-	97.20	12,000	(44,495)	32,501	-	62	11,662	(9,711)	(1,944)
Subtotal								-		**6,839,290**	**(2,487,180)**	**(189,849)**
TOTAL								**7,127**		**13,421,342**	**4,091,784**	**(30,221)**

(1) Formerly, Bitarte, S.A.
(2) Formerly, Caminsa Urbanismo, S.A.U.
(3) Formerly, Desarrollo y Participaciones Inmobiliarias 2006 S.L. (in liquidation)
(4) Formerly, Gestión de Proyectos Urbanísticos del Mediterráneo, S.L. (in liquidation)
(5) Formerly, PayTPV On Line Entidad de Pago, S.L.
(6) Formerly, Sabadell Corporate Finance, S.L.
(7) Formerly, Tierras Vega Alta del Segura, S.L.
(8) Formerly, VeA Rental Homes, S.A.

Banco Sabadell Group companies as at 31 December 2020 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Arian Bakers, S.L.	Manufacturing	Castellgalí - Spain	-	22.41	26,249	(7,536)	(2,591)	-	33,082	2,000	225	(1,079)
Aurica III, Fondo de Capital Riesgo	UCITS, funds and similar financial corporations	Barcelona - Spain	-	48.15	75,497	(2,651)	(2,081)	-	70,965	36,933	(1,274)	3,266
Aurica IIIB, S.C.R., S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	-	43.43	41,524	(1,825)	(1,411)	-	47,345	22,526	(803)	2,010
BanSabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	-	7,813	35,936	(656)	-	45,882	40,376	(16,565)	(328)
BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	10,000	70,333	18,307	5,000	273,370	34,000	5,159	9,154
BanSabadell Vida, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	43,858	567,012	89,346	37,500	10,866,241	27,106	241,319	48,139
Energies Renovables Terra Ferma, S.L.	Power generation	Barcelona - Spain	-	50.00	6	(3)	(68)	-	1,136	3	(2)	(1)
ESUS Energía Renovable, S.L.	Power generation	Vigo - Spain	-	45.00	50	(701)	(34)	-	2,938	23	(23)	-
Financiera Iberoamericana, S.A.	Credit institution	Havana - Cuba	50.00	-	38,288	7,137	3,090	2,931	71,854	19,144	2,725	1,744
Flex Equipos de Descanso, S.A.	Manufacturing	Getafe - Spain	-	19.16	66,071	21,081	3,439	-	242,481	50,930	8,892	(5,980)
Gestora de Aparcamientos del Mediterráneo, S.L. en Liquidación	Services	Alicante - Spain	-	40.00	1,000	(10,072)	(495)	-	2,080	7,675	(7,675)	-
Murcia Emprende, S.C.R. de R.S., S.A.	Other financial services	Murcia - Spain	28.70	-	5,399	(2,838)	(160)	-	2,435	2,026	(1,629)	292
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	-	45.01	3	(15,290)	(3)	-	31,984	3,004	(3,004)	-
Promontoria Challenger I, S.A.	Holding	Madrid - Spain	20.00	-	60	1,127,382	(139,813)	-	3,203,880	224,019	-	(18,059)
SBD Creixent, S.A.	Real estate	Sabadell - Spain	23.05	-	5,965	(1,227)	75	-	5,337	3,524	(2,447)	33
Serveis i Mitjans de Pagament XXI, S.A.	Other ancillary activities	Andorra la Vella - Andorra	-	20.00	60	129	77	-	1,467	12	-	21
Sociedad de Cartera del Vallès, S.I.C.A.V., S.A.	UCITS, funds and similar financial corporations	Sabadell - Spain	48.46	-	4,818	(175)	(333)	-	4,345	397	1,853	(161)
Solvia Servicios Inmobiliarios, S.L.	Real estate	Alicante - Spain	20.00	-	660	132,300	2,015	-	177,269	16,517	39,753	(6,826)
Termosolar Borges, S.L.	Power generation	Barcelona - Spain	47.50	-	14,700	(37,468)	(12)	-	134,054	11,800	-	-
Villoldo Solar, S.L.	Power generation	Barcelona - Spain	50.00	-	3	36	63	34	176	-	-	-
Total								**45,465**		**602,019**	**264,484**	**32,223**

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.
(a) Figures for foreign companies were translated to euro at the historical exchange rate, and amounts in the consolidated income statement were translated at the average exchange rate.
(b) Results pending approval at Annual General Meeting.
(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method and individually considered to be non-material amounted to 560,797 thousand euros as at 31 December 2020. The liabilities balance as at the end of 2020 totalled 636,908 thousand euros. See the key figures as at 2020 year-end for BanSabadell Vida, S.A. and for Promontoria Challenger I, S.A. in Note 14.

Changes in the Group's scope of consolidation in 2020

Additions to the scope of consolidation:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Cost of combination		% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
			Cost of acquisition	Fair value of equity instruments issued for the acquisition					
Samo Age Wallets, S.L.	Associate	01/01/2020	1,011	-	20.00%	20.00%	Indirect	Equity method	b
Serveis i Mitjans de Pagament XXI, S.A.	Associate	01/01/2020	12	-	20.00%	20.00%	Indirect	Equity method	b
Torenia Solar, S.L.	Subsidiary	21/02/2020	193	-	100.00%	100.00%	Indirect	Full consolidation	a
Gabe Solar 21, S.L.	Subsidiary	21/02/2020	213	-	100.00%	100.00%	Indirect	Full consolidation	a
Crisae Private Debts, S.L.U.	Subsidiary	02/12/2020	200	-	100.00%	100.00%	Indirect	Full consolidation	d
Total newly consolidated subsidiaries			**606**						
Total newly consolidated associates			**1,023**						

(a) Acquisition of subsidiaries.
(b) Acquisition or incorporation of associates.
(c) Change in consolidation method.
(d) Incorporation of subsidiaries.

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Gate Huerta Solar 44, S.L.	Subsidiary	5/29/2020	100.00%	-	133	Indirect	Full consolidation	a
Gate Solar 21 S.L.	Subsidiary	5/29/2020	100.00%	-	32	Indirect	Full consolidation	a
Inversiones Samiac 14 S.L.	Subsidiary	5/29/2020	100.00%	-	25	Indirect	Full consolidation	a
Nueva Pescanova, S.L.	Associate	4/3/2020	25.00%	-	25,272	Direct	Equity method	a
Sabadell Asset Management Luxembourg, S.A.	Subsidiary	6/30/2020	100.00%	-	-	Indirect	Full consolidation	a
Sabadell Asset Management, S.A., S.G.I.I.C.	Subsidiary	6/30/2020	100.00%	-	292,507	Direct	Full consolidation	a
Torenia Solar, S.L.	Subsidiary	5/29/2020	100.00%	-	118	Indirect	Full consolidation	a
Gate Solar Gestión, S.L.	Associate	11/27/2020	50.00%	-	516	Direct	Equity method	a
Hydrophytic, S.L.	Associate	12/23/2020	50.00%	-	77	Indirect	Equity method	a
Sdin Residencial, S.L.U.	Subsidiary	9/21/2020	100.00%	-	28,947	Direct	Full consolidation	a
Promontoria Challenger Industrial Assets, S.L.U. en liquidacion	Subsidiary	8/26/2020	100.00%	-	(3)	Direct	Full consolidation	b
Promontoria Challenger Land, S.L.U. en liquidacion	Subsidiary	8/26/2020	100.00%	-	(3)	Direct	Full consolidation	b
Promontoria Challenger Real Estate, S.L.U. en liquidacion	Subsidiary	8/26/2020	100.00%	-	(3)	Direct	Full consolidation	b
Promontoria Challenger Residential, S.L.U. en liquidacion	Subsidiary	8/26/2020	100.00%	-	(3)	Direct	Full consolidation	b
Grecoholdco, S.A.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 1, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 2, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 3, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 4, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 5, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 6, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 7, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 8, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 9, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 10, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 11, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 12, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 13, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 14, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Grecopropco 15, S.L.U.	Subsidiary	9/21/2020	100.00%	-	-	Direct	Full consolidation	a
Hotel Value Added Primera, S.L.U. en liquidacion	Subsidiary	8/27/2020	100.00%	-	(115)	Indirect	Full consolidation	b
Redes 2 Promotora Unica, S.L.	Associate	9/21/2020	20.00%	-	412	Indirect	Equity method	a
Same Age Wallets, S.L.	Associate	7/16/2020	20.37%	-	(935)	Indirect	Equity method	a
Sabadell BS Select Fund of Hedge Funds SICAV (Luxembourg) in Liquidation	Subsidiary	2/22/2020	100.00%	-	(276)	Direct	Full consolidation	b
Xunqueira Eólica, S.L.U.	Subsidiary	12/22/2020	100.00%	-	366	Indirect	Full consolidation	a
Vitigudina FV, S.L.U.	Subsidiary	12/22/2020	100.00%	-	7,896	Indirect	Full consolidation	a
Orión Energía 1, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 2, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 3, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Subtotal					**354,963**			

Direct

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Orión Energía 4, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 5, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 6, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 7, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 8, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 9, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 10, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 11, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 12, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 13, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 14, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 15, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 16, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 17, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 18, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 19, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 20, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 21, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 22, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 23, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 24, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 25, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 26, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 27, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 28, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 29, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Orión Energía 30, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Indirect	Full consolidation	a
Sabadell Asabys Health Innovation Investments, S.C.R., S.A.	Associate	10/30/2020	-	-	309	Indirect	Equity method	c
Parque Eólico Lecrín, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Direct	Full consolidation	a
Parque Eólico Las Lomas de Lecrín, S.L.U.	Subsidiary	12/22/2020	100.00%	-	123	Direct	Full consolidation	a
Parque Eólico Lomas de Manteca, S.L.U.	Subsidiary	12/22/2020	100.00%	-	373	Direct	Full consolidation	a
Parque Eólico Jaufil, S.L.U.	Subsidiary	12/22/2020	100.00%	-	-	Direct	Full consolidation	a
Parque Eólico Zorreras, S.L.U.	Subsidiary	12/22/2020	100.00%	-	1,763	Direct	Full consolidation	a
Parque Eólico Tahuna, S.L.U.	Subsidiary	12/22/2020	100.00%	-	1,106	Direct	Full consolidation	a
Otros (*)					(15,049)			
TOTAL					**343,588**			

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Exclusions due to reclassification into "Financial assets at fair value through other comprehensive income"

(*) Corresponds, mainly, to a negative adjustment of 17,001 thousand euros of the sale price of Solvia Servicios Inmobiliarios, S.L. (Solvia), a company 80% of whose share capital was sold in 2019 (see Note 2).

Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L.	Real estate	Alicante - Spain	100.00	-	100	10,237	(21)	-	10,341	20,038	(9,644)	326
Assegurances Segur Vida, S.A.U.	Other regulated companies	Andorra la Vella - Andorra	-	50.97	602	419	215	-	45,786	602	214	110
Aurica Capital Desarrollo, S.G.E.I.C., S.A.Unipersonal	Funds management activities	Barcelona - Spain	100.00	-	3,601	(435)	1,169	3,450	5,158	4,342	(226)	1,169
Aurica Coinvestments S.L.	Holding	Barcelona - Spain	-	61.76	50,594	(1,475)	1,910	2,003	51,032	31,247	(911)	(3,112)
Banco Atlántico (Bahamas) Bank & Trust Ltd.	Credit institution	Nassau - Bahamas	99.99	0.01	1,598	849	(39)	-	3,134	2,439	(243)	(54)
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	-	-	703,371	9,559,869	1,053,267	-	178,390,801	-	11,239,253	701,793
Banco Sabadell, S.A., Institución De Banca Múltiple	Credit institution	Mexico DF - Mexico	99.99	0.01	554,267	(22,998)	9,744	-	3,718,149	598,718	(45,015)	(3,431)
Bancsabadell d'Andorra, S.A.	Credit institution	Andorra la Vella - Andorra	50.97	-	30,069	49,929	10,092	1,594	863,156	15,326	24,997	5,242
Bansabadell Factura, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	100	(1,264)	605	-	2,229	299	(1,462)	605
Bansabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell - Spain	100.00	-	24,040	4,895	337	24,300	781,267	24,040	4,895	337
Bansabadell Inversió Desenvolupament, S.A.U.	Holding	Barcelona - Spain	100.00	-	16,975	73,457	26,585	53,000	161,805	108,828	41,004	4,412
Bansabadell Mediación, Operador de Banca-Seguros Vinculado del	Other regulated companies	Alicante - Spain	-	100.00	301	(3,940)	6,748	8,306	48,472	524	(164)	6,748
Bansabadell Renting, S.L.U.	Vehicle and equipment leasing	Sant Cugat del Valles - Spain	100.00	-	2,000	(5,214)	7,181	57,500	693,670	3,881	(7,075)	7,803
Bitarte, S.A.	Real estate	Sant Cugat del Valles - Spain	100.00	-	6,506	1,464	(440)	-	34,660	9,272	(1,187)	(465)
Bstartup 10, S.L.U.	Holding	Barcelona - Spain	-	100.00	1,000	702	1,268	-	7,102	1,000	(1,365)	(299)
Business Services for Operational Support, S.A.	Other ancillary activities	Sant Cugat del Valles - Spain	60.00	-	530	(2,647)	3,194	2,720	31,350	1,160	(2,357)	2,754
Caminsa Urbanismo, S.A.U.	Real estate	Alicante - Spain	-	100.00	2,000	(1,712)	(3)	-	1,304	800	(417)	(4)
Compañía de Cogeneración del Caribe Dominicana, S.A.	Power generation	Santo Domingo - Dominican Republic	-	100.00	5,016	(4,272)	(330)	-	431	-	18	(330)
Desarrollos y Participaciones Inmobiliarias 2006, S.L. en	Real estate	Elche - Spain	-	100.00	1,942	(90,851)	(215)	-	9	1,919	(79,142)	(215)
Duncan 2016 -1 Holdings Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	1	-	-
Duncan de Inversiones SICAV, S.A.	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	67.36	-	7,842	(5,148)	(47)	-	2,652	2,560	(256)	(41)
Duncan Holdings 2015-1 Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	1	21	-
Duncan Holdings 2020-1-Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	-	-	-
Ederra, S.A.	Real estate	San Sebastián - Spain	97.85	-	2,036	31,253	2,826	-	35,198	36,062	(3,240)	2,808
Sabadell Asset Management Luxembourg, S.A.	Other regulated companies	Luxembourg - Luxembourg	-	100.00	125	649	(191)	-	907	437	438	(191)
Europea Pall Mall Ltd.	Real estate	London - United Kingdom	100.00	-	20,843	(1,013)	(314)	-	22,254	20,843	(3,306)	(377)
Fonomed Gestión Telefónica Mediterráneo, S.A.U.	Other ancillary activities	Alicante - Spain	100.00	-	1,232	630	909	2,201	5,990	2,771	(632)	1,186
Subtotal								**155,154**		**897,098**	**11,154,217**	**726,484**

Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Fuerza Eólica de San Matías, S. de R.L. de C.V.	Other power generation	Monterrey - Mexico	-	99.99	7,115	(7,089)	(3,429)	-	60,684	6,036	-	(2,792)
Galeban 21 Comercial, S.L.U.	Services	A Coruña - Spain	100.00	-	10,000	(4,289)	(2)	-	5,709	14,477	(8,766)	(2)
Gate Huerta Solar 44, S.L.	Other power generation	Vitoria-Gasteiz - Spain	-	100.00	87	165	19	-	694	205	-	83
Gazteluberri, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	53	(20,442)	(230)	-	5,735	23,891	(44,280)	(226)
Gest 21 Inmobiliaria, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	7,810	17	591	-	8,430	60,516	(35,626)	2,706
Gestión de Proyectos Urbanísticos	Real estate	Sant Cugat del Valles - Spain	-	100.00	33,850	(31,448)	(13)	-	10,341	32,032	(17,588)	(13)
Gestión Financiera del Mediterráneo, S.A.U.	Other financial services	Alicante - Spain	100.00	-	13,000	2,604	13,715	-	29,343	78,971	(58,961)	5,306
Grecoholdco, S.A.U.	Holding company	Madrid - Spain	100.00	-	60	-	-	-	60	60	-	-
Grecopropco 1, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 2, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 3, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 4, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 5, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 6, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 7, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 8, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 9, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 10, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 11, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 12, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 13, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 14, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Grecopropco 15, S.L.U.	Real estate development	Madrid - Spain	100.00	-	3	-	-	-	3	3	-	-
Guipuzcoano Promoción Empresarial, S.L.	Holding	San Sebastián - Spain	-	100.00	53	(76,040)	(288)	-	7,127	7,160	(78,008)	(278)
Guipuzcoano Valores, S.A.	Real estate	Sant Cugat del Valles - Spain	99.99	0.01	4,514	2,946	(6)	-	7,518	10,833	(3,376)	12
Hotel Management 6 Holdco, S.L.U.	Real estate	Sant Cugat del Valles - Spain	-	100.00	29,074	(29,204)	4,034	-	60,569	27,611	(17,984)	977
Hobalear, S.A.U.	Real estate	Barcelona - Spain	-	100.00	60	46	5	650	111	414	46	5
Hondarriberri, S.L.	Holding	San Sebastián - Spain	99.99	0.01	41	(11,553)	(1,748)	-	64,709	120,699	122,491	225
Hotel Management 6 Gestión Activa,	Real estate	Sant Cugat del Valles - Spain	100.00	-	135,730	31,977	(1,081)	-	166,756	136,335	54,847	3,319
Hotel Value Added Primera, S.L.U.	Real estate development	Sant Cugat del Valles - Spain	-	100.00	3	20,823	3,555	-	25,810	27,527	(6,701)	3,540
Interstate Property Holdings, Llc.	Holding	Miami - United States	100.00	-	7,293	(2,938)	64	-	6,364	3,804	6,289	64
Inverán Gestión, S.L.	Real estate	Sant Cugat del Valles - Spain	44.83	55.17	90	(11,894)	(162)	-	22,670	45,090	(56,894)	(160)
Inversiones Cotizadas del Mediterráneo, S.L.	Holding	Alicante - Spain	100.00	-	308,000	194,349	1,719	-	505,243	589,523	(88,586)	1,719
Inversiones en Resorts	Real estate	Torre Pacheco - Murcia	-	55.06	299,089	(301,160)	(1,206)	-	68	175,124	-	-
Inversiones Samiac 14, S.L.	Wind power generation	Vitoria-Gasteiz - Spain	-	100.00	-	-	-	-	-	178	16	(37)
LSP Finance, S.L.U.	Provision of technology services	Barcelona - Spain	-	100.00	252	(555)	(509)	-	1,955	6,494	(565)	(572)
Mansion Invest, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	33,357	(12,760)	(49)	-	20,513	33,357	(15,430)	3,412
Mariñamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	62	(51,299)	(1,389)	-	39,106	55,013	(106,225)	(1,389)
Mediterráneo Sabadell, S.L.	Holding	Alicante - Spain	50.00	50.00	85,000	17,028	106	120	102,201	510,882	(408,882)	106
Subtotal								**770**		**1,987,037**	**(764,183)**	**15,994**

Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real estate	Alicante - Spain	100.00	-	795	(3,048)	48	-	5,162	986	(3,239)	48
Orión Energía 1, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	98	(136)	5	-	94	36	(72)	4
Orión Energía 10, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	8	-	95	36	(79)	7
Orión Energía 11, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	99	36	(80)	4
Orión Energía 12, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	4	-	98	36	(79)	3
Orión Energía 13, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(145)	5	-	97	36	(82)	4
Orión Energía 14, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(141)	5	-	96	36	(78)	4
Orión Energía 15, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	96	36	(79)	4
Orión Energía 16, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(145)	5	-	97	36	(81)	4
Orión Energía 17, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	97	36	(79)	4
Orión Energía 18, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	97	36	(78)	4
Orión Energía 19, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	96	36	(79)	4
Orión Energía 2, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(138)	5	-	94	36	(75)	4
Orión Energía 20, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	97	36	(79)	4
Orión Energía 21, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	98	36	(80)	4
Orión Energía 22, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	97	36	(79)	4
Orión Energía 23, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	100	36	(80)	5
Orión Energía 24, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	97	36	(79)	5
Orión Energía 25, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	97	36	(80)	4
Orión Energía 26, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(139)	2	-	97	36	(76)	1
Orión Energía 27, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(139)	2	-	99	36	(76)	1
Orión Energía 28, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(141)	2	-	103	36	(77)	1
Orión Energía 29, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(139)	1	-	97	36	(76)	1
Orión Energía 3, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(143)	5	-	89	36	(80)	4
Orión Energía 30, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(141)	2	-	99	36	(78)	1
Orión Energía 4, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	95	36	(79)	4
Orión Energía 5, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	4	-	97	36	(79)	3
Orión Energía 6, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	99	36	(79)	4
Orión Energía 7, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	95	36	(79)	4
Orión Energía 8, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(144)	4	-	94	36	(81)	3
Orión Energía 9, S.L.	Other power generation	Barcelona - Spain	-	100.00	98	(142)	5	-	97	36	(79)	5
Parque Eólico Jaulí, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	163	(2,717)	125	-	5,183	163	(2,699)	107
Parque Eólico Las Lomas de Lecrín, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	83	(1,241)	136	-	2,487	83	(1,236)	131
Parque Eólico Lecrín, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	4,003	(8,466)	397	-	14,498	4,003	(8,430)	361
Parque Eólico Lomas De Manteca, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	163	(2,160)	194	-	5,363	163	(2,152)	186
Parque Eólico Tahuna, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	3	(10,371)	285	-	12,240	-	(10,151)	68
Parque Eólico Zorreras, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	3	(9,290)	306	-	10,646	-	(9,089)	108
PayTPV On Line Entidad de Pago, S.L.	Payment institution	Bilbao - Spain	-	100.00	150	5	(1)	-	2,436	7,500	-	(75)
Subtotal								-		**13,978**	**(38,354)**	**1,842**

Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Plataforma de Innovación Sabadell, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	3	-	(1)	-	3	3	-	(1)
Promontoria Challenger Industrial Assets, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	4	-	-	-	4	4	-	-
Promontoria Challenger Land, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	4	-	-	-	4	4	-	-
Promontoria Challenger Real Estate, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	4	-	-	-	4	4	-	-
Promontoria Challenger Residential S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	4	-	-	-	4	4	-	-
Puerto Pacific Vallarta, S.A. de C.V.	Real estate	Mexico DF - Mexico	-	100.00	28,947	(15,551)	(11)	-	13,384	29,164	(11,502)	(11)
Ripollet Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	20	(2)	(205)	-	194,457	20	(2)	(205)
Rubí Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	3	(11)	(3)	-	556,255	3	(11)	(3)
Sabadell Asset Management, S.A., S.G.I.I.C.	Other regulated companies	Madrid - Spain	100.00	-	601	(17,509)	36,027	135,000	96,149	607	14,485	35,113
Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg)	Other investees	Luxembourg - Luxembourg	100.00	-	12,316	(80)	-	-	12,386	4,926	-	(124)
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Other financial services	São Paulo - Brazil	99.99	0.01	966	(821)	-	-	196	250	393	-
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico DF - Mexico	49.00	51.00	164,915	4,271	24,153	13,996	1,076,508	144,158	25,880	24,437
Sabadell Consumer Finance, S.A.U	Credit institution	Sabadell - Spain	100.00	-	35,720	29,902	16,095	63,000	1,586,516	72,232	13,022	15,386
Sabadell Corporate Finance, S.L.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	70	2,062	2,209	-	6,131	9,373	567	2,259
Sabadell d'Andorra Inversions Sgoic, S.A.U.	Funds management activities	Andorra la Vella - Andorra	-	50.97	300	1,090	132	100	2,131	300	687	67
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	100.00	-	12,036	22,072	550	-	78,564	41,296	(8,342)	558
Sabadell Information Systems, S.A.	Provision of technology services	Sabadell - Spain	100.00	-	40,243	50,475	(4,013)	-	1,614,303	143,895	43,567	(143,971)
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	-	100.00	1,000	6,977	(551)	-	41,455	1,000	(362)	(551)
Sabadell Innovation Cells, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	-	3	(1,852)	(1,557)	-	2,184	3	(2,123)	(1,586)
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	30,116	825,897	(8,788)	-	924,793	863,895	5,914	(20,584)
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	100,060	234,750	(1,907)	-	333,298	500,622	(161,120)	(1,706)
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	15,607	(2,234,020)	(102,894)	-	2,528,948	2,147,442	(3,996,919)	(98,215)
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	2,073	1,084	(531)	-	29,547	14,292	(11,135)	(531)
Sabadell Securities Usa, Inc.	Other financial services	Miami - United States	100.00	-	551	3,488	849	-	5,104	551	3,096	849
Sabadell Strategic Consulting, S.L.U.	Other ancillary investees	Sant Cugat del Valles - Spain	100.00	-	3	7	133	650	737	3	7	133
Sabadell Venture Capital, S. L.U.	Holding	Barcelona - Spain	-	100.00	3	7,490	(929)	-	45,499	3	(823)	336
Sinia Capital S.A. de C.V.	Holding	Mexico DF - Mexico	-	100.00	20,030	(3,257)	(294)	-	60,933	19,795	1,869	3,825
Sinia Renovables, S.A.U.	UCITS, funds and similar financial corporations	Barcelona - Spain	100.00	-	15,000	(9,279)	(403)	-	33,765	15,000	(8,468)	(804)
Sdin Residencial S.L.U.	Real estate development	Madrid - Spain	100.00	-	25	1,798	791	-	10,317	15	1,809	8,303
Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.	Real estate	Alicante - Spain	100.00	-	3	7,958	1,713	-	13,502	7,980	7,958	1,713
Subtotal								212,345		4,016,644	(4,081,463)	(175,523)

Banco Sabadell Group companies as at 31 December 2019 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	60,729	(9,726)	(744)	-	50,269	60,729	(15,370)	7,654
Tasaciones de Bienes Mediterráneo, S.A. (En Liquidación)	Other ancillary activities	Alicante - Spain	99.88	0.12	1,000	1,388	-	-	2,394	5,266	(2,879)	1
Tenedora de Inversiones y Participaciones, S.L.	Holding	Alicante - Spain	100.00	-	296,092	(515,434)	(7,120)	-	629,958	2,564,914	(2,605,545)	(6,330)
Tierras Vega Alta del Segura, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	4,550	(13,949)	(52)	-	6,099	16,823	(26,222)	(53)
TSB Bank Plc	Credit institution	Edinburgh - United Kingdom	-	100.00	90,710	2,115,492	75,173	-	45,979,210	1,814,636	208,655	158,340
TSB Banking Group Plc	Holding	London - United Kingdom	100.00	-	7,028	1,844,280	368	-	2,326,053	2,231,817	(107,401)	(39,385)
TSB Banking Group plc Employee Share Trust	Other ancillary activities	Saint Helier - Jersey	-	100.00	1	(9,904)	(1)	-	3,070	-	(9,089)	-
TSB Coverd Bonds Holdings Limited	Holding	London - United Kingdom	-	100.00	1	-	-	-	1	1	-	-
TSB Covered Bonds (LM) Limited	Other ancillary activities	London - United Kingdom	-	100.00	1	-	-	-	1	1	-	-
TSB Covered Bonds LLP	UCITS, funds and similar financial corporations	London - United Kingdom	-	100.00	1	7	3	-	46	1	7	3
Urquijo Gestión, S.A.U., S.G.I.I.C.	Funds management activities	Madrid - Spain	-	100.00	3,606	3,022	3,309	2,000	16,654	3,084	3,544	1,538
Urumea Gestión, S.L. (en liquidación)	Other ancillary activities	San Sebastián - Spain	-	100.00	9	(9)	(2)	-	1	9	(9)	(2)
VeA Rental Homes , S.A.	Real estate	Sant Cugat del Valles - Spain	100.00	-	5,000	(10,031)	(8,647)	-	50,500	5,000	(10,030)	(8,647)
Verum Inmobiliaria Urbanismo y Promoción, S.A.	Real estate	Sant Cugat del Valles - Spain	-	97.20	12,000	(44,302)	(193)	-	14,702	11,664	(43,966)	(211)
Vilquadina Fv, S.L.	Engineering	Barcelona - Spain	-	100.00	1,629	(977)	17	-	17,300	-	1,549	194
Xunqueira Eolica, S.L.	Other power generation	Barcelona - Spain	-	100.00	3	(5,100)	2	-	11,373	400	(5,442)	(133)
Subtotal								**2,000**		**6,714,345**	**(2,612,198)**	**112,968**
Total								**370,269**		**13,619,094**	**3,657,019**	**680,966**

Banco Sabadell Group companies as at 31 December 2019 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Company data (a) Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
Aurica III, Fondo de Capital Riesgo	UCITS, funds and similar financial corporations	Barcelona - Spain	-	48.15	48,856	(3,037)	387	-	46,211	23,528	(1,463)	186
Aurica IIIB, Soc. de Capital Riesgo, S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	-	43.43	33,020	(2,076)	255	-	31,206	14,354	(914)	111
Atrian Bakers, S.L.	Manufacturing	Castellgalí - Spain	-	22.41	26,249	(6,243)	(1,030)	-	38,734	2,000	148	85
Bansabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	-	7,813	35,200	597	-	49,105	40,378	(18,883)	298
Sociedad de Cartera del Vallès, S.I.C.A.V., S.A.	UCITS, funds and similar financial corporations	Sabadell - Spain	48.46	-	4,818	(535)	273	-	4,586	387	1,679	132
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	10,000	61,706	17,587	-	258,902	34,000	1,375	8,793
Bansabadell Vida, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	43,858	548,242	78,732	48,500	11,202,448	27,106	231,844	46,207
Energía Renovables Terra Ferma, S.L.	Power generation	Barcelona - Spain	-	50.00	6	-	-	-	-	3	-	-
Esus Energía Renovable, S.L.	Power generation	Vigo - Spain	-	45.00	50	(678)	(22)	-	2,626	23	(23)	-
Financiera Iberoamericana, S.A.	Credit institution	Havana - Cuba	50.00	-	38,288	13,862	2,987	-	84,368	19,144	4,162	1,493
Flex Equipos de Descanso, S.A.	Manufacturing	Getafe - Spain	-	19.16	66,071	22,396	9,166	-	252,946	50,930	3,758	8,127
Gate Solar Gestión, S.L.	Services	Vitoria-Gasteiz - Spain	50.00	-	300	2,612	(9)	-	3,684	1,860	(826)	(7)
Gestora de Aparcamientos Del Mediterráneo, S.L.	Services	Alicante - Spain	-	40.00	1,000	(9,600)	(472)	-	2,457	7,675	(7,486)	(189)
Hydrophytic, S.L.	Real estate	Vitoria-Gasteiz - Spain	-	50.00	186	142	21	-	451	93	71	10
Murcia Emprende, S.C.R. de R.S., S.A.	Other financial services	Murcia - Spain	28.70	-	5,309	(1,351)	(892)	-	3,202	2,026	(1,996)	(93)
Nueva Pescanova, S.L.	Wholesale trade	Redondela - Spain	24.53	-	147,814	(32,743)	(33,889)	-	882,481	1,641	218	(1,851)
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	-	45.01	3	(15,266)	(4)	-	31,986	2,061	(2,851)	-
Promontoria Challenger I, S.A.	Holding	Madrid - Spain	20.00	-	60	869,142	(17,784)	-	2,486,996	161,958	-	-
Redes 2 Promotoro Única S.L.	Holding	Madrid - Spain	-	20.00	8,401	96,602	(1,175)	-	110,090	21,091	(74)	(235)
Sabadell Asabys Health Innovation Investment, S.A.	Holding	Barcelona - Spain	-	37.39	9,370	(172)	(1,156)	-	8,237	3,500	(61)	(432)
Sbd Creixent, S.A.	Real estate	Sabadell - Spain	23.05	-	5,965	411	(1,707)	-	5,299	3,524	(2,054)	(393)
Solvia Servicios Inmobiliarios, S.L.U.	Real estate	Alicante - Spain	20.00	-	600	173,726	(22,270)	-	196,175	16,517	16,839	24,583
Termosolar Borges S.L.	Power generation	Barcelona - Spain	47.50	-	14,700	(37,021)	3,213	-	144,113	11,800	-	-
Villoldo Solar S.L.	Power generation	Barcelona - Spain	50.00	-	3	44	38	-	307	-	-	-
Total								**48,500**		**446,495**	**223,975**	**86,866**

"Balance sheet date" lists the date of the latest available figures.

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.

(a) Figures for foreign companies were translated to euro at the historical exchange rate, and amounts in the consolidated income statement were translated at the average exchange rate.

(b) Results pending approval at Annual General Meeting.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method and individually considered to be non-material amounted to 1,368,317 thousand euros as at 31 December 2019. The liabilities balance as at the end of 2019 totalled 1,536,005 thousand euros. See the key figures as at 2019 year-end for BanSabadell Vida, S.A. and for Promontoria Challenger I, S.A. in Note 14.

Changes in the scope of consolidation in 2019

Additions to the scope of consolidation:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Cost of combination		% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
			Cost of acquisition	Fair value of equity instruments issued for the acquisition					
Dancan Holdings 2020-1 Limited	Subsidiary	08/04/2019	-	-	100.00%	100.00%	Indirect	Full consolidation	a
Solvia Servicios Inmobiliarios, S.L.U.	Associate	23/04/2019	57,930	-	20.00%	20.00%	Direct	Equity method	d
Plataforma de Innovación Sabadell, S.L.U.	Subsidiary	26/02/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Challenger Industrial Assets, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Challenger Land, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Challenger Real Estate, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Challenger Residential, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Coliseum Real Estate, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Coliseum Industrial Assets, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Coliseum Land, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Coliseum Residential, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Gate Huerta Solar 44, S.L.	Subsidiary	30/07/2019	205	-	100.00%	100.00%	Indirect	Full consolidation	b
Inversiones Samiac 14, S.L.	Subsidiary	31/10/2019	178	-	100.00%	100.00%	Indirect	Full consolidation	b
Promontoria Challenger I, S.A.	Associate	20/12/2019	161,958	-	20.00%	20.00%	Direct	Equity method	c
Energies Renovables Terra Ferma, S.L.	Associate	11/11/2019	3	-	50.00%	50.00%	Indirect	Equity method	c
Sabadell BS Select Fund of Hedge Funds Sicav (Luxembourg)	Subsidiary	29/11/2019	4,928	-	55.44%	55.44%	Direct	Full consolidation	d
Grecoholdco, S.A.U.	Subsidiary	19/12/2019	60	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 1, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 2, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 3, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 4, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 5, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 6, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 7, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 8, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 9, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 10, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 11, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 12, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 13, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 14, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 15, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Total newly consolidated subsidiaries			**5,449**						
Total newly consolidated associates			**219,891**						

(a) Incorporation of subsidiaries.

(b) Acquisition of subsidiaries.

(c) Acquisition or incorporation of associates.

(d) Change in consolidation method.

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
CAM Global Finance, S.A. en liquidación	Subsidiary	14/01/2019	100.00%	-	-	Direct	Full consolidation	b
Grupo Luxiona, S.L.	Associate	29/03/2019	20.00%	-	(141)	Indirect	Equity method	a
Malbrouck, S.I.C.A.V.	Subsidiary	13/06/2019	100.00%	-	(10)	Direct	Full consolidation	b
Placements Immobiliers France, S.A.S.	Subsidiary	01/01/2019	100.00%	-	811	Indirect	Full consolidation	b
Societat d'Inversió dels Enginyers, S.L.	Associate	27/05/2019	47.00%	-	768	Indirect	Equity method	b
Ac Dos Lerida, S.L.U. en liquidación	Subsidiary	27/06/2019	100.00%	-	(142)	Indirect	Full consolidation	b
Hotel Calle de los Molinos 10, S.L.U. en liquidación	Subsidiary	27/06/2019	100.00%	-	19	Indirect	Full consolidation	b
Hotel Calle Mayor 34, S.L.U. en liquidación	Subsidiary	27/06/2019	100.00%	-	43	Indirect	Full consolidation	b
Hotel Mirador del Valle, S.L.U. en liquidación	Subsidiary	27/06/2019	100.00%	-	25	Indirect	Full consolidation	b
Ribera Salud, S.A.	Associate	28/06/2019	40.00%	10.00%	5,255	Indirect	Equity method	a
Tratamientos y Aplicaciones, S.L.U. en liquidación	Subsidiary	27/05/2019	100.00%	-	(22)	Direct	Full consolidation	b
Solvia Servicios Inmobiliarios, S.L.U.	Subsidiary	23/04/2019	80.00%	20.00%	132,776	Direct	Full consolidation	a
Emte Renovables, S.L.	Associate	05/08/2019	62.11%	-	(9)	Indirect	Equity method	b
Bansabadell Securities Services, S.L.U.	Subsidiary	21/11/2019	100.00%	-	(47)	Direct	Full consolidation	b
Aurica XXI, S.C.R. de R.S., S.A.U.	Subsidiary	20/11/2019	100.00%	-	(1,218)	Direct	Full consolidation	b
Promontoria Coliseum Real Estate, S.L.U.	Subsidiary	20/12/2019	100.00%	-	-	Direct	Full consolidation	a
Promontoria Coliseum Industrial Assets, S.L.U.	Subsidiary	20/12/2019	100.00%	-	-	Direct	Full consolidation	a
Promontoria Coliseum Land, S.L.U.	Subsidiary	20/12/2019	100.00%	-	-	Direct	Full consolidation	a
Promontoria Coliseum Residential, S.L.U.	Subsidiary	20/12/2019	100.00%	-	-	Direct	Full consolidation	a
Sabadell BS Select Fund of Hedge Funds Sicav (Luxembourg)	Associate	29/11/2019	44.56%	-	-	Direct	Equity method	c
Other					11,585			
Subtotal					**149,691**			

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Derecognised due to reclassification to dependent companies.

Schedule II – Structured entities - Securitisation funds

Thousand euro

Year	Securitisation funds fully retained on the balance sheet	Entity	Total securitised assets as at 31/12/2020
2005	TDA 23, F.T.A	Banco Guipuzcoano	22,136
2005	TDA CAM 4 F.T.A	Banco CAM	184,595
2005	TDA CAM 5 F.T.A	Banco CAM	373,608
2006	TDA 26-MIXTO, F.T.A	Banco Guipuzcoano	63,621
2006	TDA CAM 6 F.T.A	Banco CAM	263,954
2006	FTPYME TDA CAM 4 F.T.A	Banco CAM	85,851
2006	TDA CAM 7 F.T.A	Banco CAM	405,461
2006	CAIXA PENEDES 1 TDA, FTA	BMN- Penedés	167,433
2007	TDA 29, F.T.A	Banco Guipuzcoano	84,785
2007	TDA CAM 8 F.T.A	Banco CAM	382,501
2007	TDA CAM 9 F.T.A	Banco CAM	379,355
2007	CAIXA PENEDES PYMES 1 TDA, FTA	BMN- Penedés	33,731
2007	CAIXA PENEDES 2 TDA, FTA	BMN- Penedés	131,092
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA	BMN- Penedés	50,856
2009	GAT-ICO-FTVPO 1, F.T.H (CP)	BMN- Penedés	4,248
2016	IM SABADELL PYME 10	Banc Sabadell	300,220
2017	TDA SABADELL RMBS 4, FT	Banc Sabadell	4,685,184
2017	IM SABADELL PYME 11, FT	Banc Sabadell	557,897
Total			**8,176,528**

Thousand euro

Year	Securitisation funds fully derecognised from the balance sheet	Entity	Total securitised assets as at 31/12/2020
2001	TDA 14-MIXTO, F.T.A	Banco Guipuzcoano	1,455
2001	TDA 14-MIXTO, F.T.A	BMN- Penedés	8,436
2006	TDA 25, FTA (*)	Banco Gallego	4,188
2010	FPT PYMES 1 LIMITED	Banco CAM	148,661
2019	SABADELL CONSUMO 1, FT	Banc Sabadell	583,228
Total			**745,968**

(*) Securitisation fund in process of early liquidation.

Schedule III – Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register

Information concerning the data kept in the special accounting register of the issuer Banco Sabadell referred to in Article 21 of Royal Decree 716/2009, as required by Bank of Spain Circular 5/2011 is as follows, without taking account of the guarantee provided by the DGF.

A) Asset-side transactions

Details of the aggregate nominal values of mortgage loans and credit as at 31 December 2020 and 2019 used as collateral for issues, their eligibility and the extent to which they qualify as such for mortgage market purposes, are presented in the following table:

Thousand euro

Analysis of overall mortgage loan & credit portfolio; eligibility and qualifying amounts (nominal values)	2020	2019
Total mortgage loan and credit portfolio	**50,756,669**	**51,704,089**
Participation mortgages issued	**1,918,951**	**2,333,714**
Of which: Loans held on balance sheet	*1,875,011*	*2,267,172*
Mortgage transfer certificates	**6,087,432**	**6,505,016**
Of which: Loans held on balance sheet	*5,855,389*	*6,405,988*
Mortgage loans pledged as security for financing received	-	-
Loans backing issues of mortgage bonds and covered bonds	**42,750,286**	**42,865,358**
Ineligible loans	10,169,340	11,478,524
Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009	9,603,831	10,838,235
Rest	565,509	640,289
Eligible loans	32,580,946	31,386,834
Non-qualifying portions	91,307	68,264
Qualifying portions	32,489,639	31,318,570
Loans covering mortgage bond issues	-	-
Loans eligible as coverage for covered bond issues	32,489,639	31,318,570
Substitution assets for covered bond issues	-	-

A breakdown of these nominal values according to different classifications is given below:

Thousand euro

Analysis of total mortgage loan and credit portfolio backing mortgage market issues

	2020		2019	
	Total	*Of which: Eligible loans*	Total	*Of which: Eligible loans*
Total mortgage loan and credit portfolio	42,750,286	*32,580,946*	42,865,358	*31,386,834*
Origin of operations	42,750,286	*32,580,946*	42,865,358	*31,386,834*
Originated by the institution	42,183,959	*32,174,163*	42,270,777	*30,974,128*
Subrogated from other entities	269,499	*233,253*	278,494	*233,425*
Rest	296,828	*173,530*	316,087	*179,281*
Currency	42,750,286	*32,580,946*	42,865,358	*31,386,834*
Euro	42,695,243	*32,535,432*	42,797,267	*31,349,794*
Other currencies	55,043	*45,514*	68,091	*37,040*
Payment status	42,750,286	*32,580,946*	42,865,358	*31,386,834*
Satisfactory payment	38,634,588	*30,360,821*	37,958,995	*28,923,510*
Other situations	4,115,698	*2,220,125*	4,906,363	*2,463,324*
Average residual maturity	42,750,286	*32,580,946*	42,865,358	*31,386,834*
Up to 10 years	9,951,936	*8,286,771*	10,530,752	*8,364,734*
10 to 20 years	16,848,912	*13,429,613*	16,913,750	*13,114,430*
20 to 30 years	14,764,169	*10,498,681*	13,554,446	*9,372,057*
More than 30 years	1,185,269	*365,881*	1,866,410	*535,613*
Interest rate	42,750,287	*32,580,946*	42,865,358	*31,386,834*
Fixed	17,799,195	*14,337,428*	15,649,048	*12,302,334*
Variable	24,951,092	*18,243,518*	27,216,310	*19,084,500*
Mixed	-	-	-	-
Borrowers	42,750,287	*32,580,946*	42,865,358	*31,386,834*
Legal entities and individual entrepreneurs	12,077,615	*8,481,935*	13,064,592	*8,615,114*
Of which: Real estate developments	*2,426,325*	*1,223,926*	*2,592,657*	*1,168,147*
Other individuals and NPISHs	30,672,672	*24,099,011*	29,800,766	*22,771,720*
Type of guarantee	42,750,287	*32,580,946*	42,865,358	*31,386,834*
Assets /finished buildings	41,869,228	*32,013,323*	41,648,120	*30,766,388*
Residential	*34,365,662*	*26,602,780*	*33,886,692*	*25,263,855*
Of which: Subsidised housing	*1,460,161*	*1,185,576*	*1,595,969*	*1,253,735*
Commercial	*7,300,429*	*5,258,460*	*7,544,133*	*5,341,589*
Other	*203,137*	*152,083*	*217,295*	*160,944*
Assets/ buildings under construction	193,026	*174,259*	197,324	*165,674*
Residential	*153,794*	*138,421*	*154,640*	*127,281*
Of which: Subsidised housing	*137*	*137*	*173*	*173*
Commercial	*38,991*	*35,598*	*41,050*	*36,759*
Other	*241*	*240*	*1,634*	*1,634*
Land	688,033	*393,364*	1,019,914	*454,772*
Developed	*127,609*	*52,908*	*322,786*	*69,652*
Rest	*560,424*	*340,456*	*697,128*	*385,120*

The nominal values of available funds (i.e. undrawn commitments) within the total mortgage loans and credit portfolio were as follows:

Thousand euro

Undrawn balances (nominal value). Total mortgage loans and credit backing the issue of mortgage bonds and covered bonds	2020	2019
Potentially eligible	1,067,752	1,099,810
Ineligible	2,040,402	2,824,979

The breakdown of nominal values based on the loan-to-value (LTV) ratio measuring the risk based on the last available valuation of the mortgage loans and credit portfolio eligible for the issuance of mortgage bonds and covered bonds is given hereafter:

Thousand euro

LTV ratio by type of security. Eligible loans for the issue of mortgage bonds and covered bonds	2020	2019
Secured on residential property	**26,756,164**	**25,411,025**
Of which LTV <= 40%	*7,774,941*	*7,362,006*
Of which LTV 40%-60%	*9,511,514*	*9,237,433*
Of which LTV 60%-80%	*9,469,709*	*8,811,586*
Of which LTV > 80%	-	-
Secured on other property	**5,824,782**	**5,975,809**
Of which LTV <= 40%	*3,488,807*	*3,510,121*
Of which LTV 40%-60%	*2,335,975*	*2,465,688*
Of which LTV > 60%	-	-

Changes during 2020 and 2019 in the nominal values of mortgage loans that secure issues of mortgage bonds and covered bonds (eligible and non-eligible) are as follows:

Thousand euro

Changes in nominal values of mortgage loans	Eligible	Ineligible
Balance as at 31 December 2018	**30,132,631**	**13,712,492**
Derecognised during the year	**(4,405,522)**	**(3,913,259)**
Terminations at maturity	(2,433,595)	(283,965)
Early terminations	(1,032,207)	(285,039)
Subrogations by other entities	(11,474)	(2,836)
Derecognised due to securitisations	-	-
Rest	(928,246)	(3,341,419)
Additions during the year	**5,659,725**	**1,679,291**
Originated by the institution	4,243,046	1,370,201
Subrogations by other entities	13,999	6,849
Rest	1,402,680	302,241
Balance as at 31 December 2019	**31,386,834**	**11,478,524**
Derecognised during the year	**(5,479,375)**	**(3,865,051)**
Terminations at maturity	(2,335,360)	(382,752)
Early terminations	(1,302,776)	(469,732)
Subrogations by other entities	(35,810)	(5,249)
Derecognised due to securitisations	-	-
Rest	(1,805,429)	(3,007,318)
Additions during the year	**6,673,487**	**2,555,867**
Originated by the institution	3,676,398	1,335,728
Subrogations by other entities	24,685	6,543
Rest	2,972,404	1,213,596
Balance as at 31 December 2020	**32,580,946**	**10,169,340**

B) Liability-side transactions

Information on issues carried out and secured with Banco Sabadell's mortgage loans and credit portfolio is provided in the following table, broken down according to whether the sale was by public offering or otherwise and by their residual maturity.

Thousand euro

Nominal value	2020	2019
Covered bonds issued	**16,653,854**	**21,429,687**
Of which: Not reflected under liabilities on the balance sheet	*7,182,000*	*10,927,900*
Debt securities. Issued through public offering	**5,450,000**	**6,200,000**
Time to maturity up to one year	1,350,000	1,750,000
Time to maturity from one to two years	-	1,350,000
Time to maturity from two to three years	1,000,000	-
Time to maturity from three to five years	2,100,000	2,000,000
Time to maturity from five to ten years	1,000,000	1,100,000
Time to maturity more than ten years	-	-
Debt securities. Other issues	**9,773,000**	**13,653,000**
Time to maturity up to one year	3,000,000	5,380,000
Time to maturity from one to two years	1,695,000	3,000,000
Time to maturity from two to three years	338,000	1,695,000
Time to maturity from three to five years	4,350,000	1,938,000
Time to maturity from five to ten years	390,000	1,640,000
Time to maturity more than ten years	-	-
Deposits	**1,430,854**	**1,576,687**
Time to maturity up to one year	300,000	145,833
Time to maturity from one to two years	694,444	300,000
Time to maturity from two to three years	100,000	694,444
Time to maturity from three to five years	336,410	100,000
Time to maturity from five to ten years	-	336,410
Time to maturity more than ten years	-	-

	2020		2019	
	Nominal value (thousand euro)	Average residual maturity (years)	Nominal value (thousand euro)	Average residual maturity (years)
Mortgage transfer certificates	**6,087,432**	**21**	**6,505,016**	**22**
Issued through public offering	-	-	-	-
Other issues	6,087,432	21	6,505,016	22
Participation mortgages	**1,918,951**	**12**	**2,333,714**	**12**
Issued through public offering	-	-	-	-
Other issues	1,918,951	12	2,333,714	12

Banco de Sabadell, S.A.'s overcollateralisation ratio (the nominal value of the full mortgage lending portfolio backing the issuance of covered bonds, divided by the nominal value of issued covered bonds) stood at 257% as at 31 December 2020 (200% as at 31 December 2019).

As required by Royal Decree 716/2009, implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market and other matters relating to mortgage lending, the Board of Directors represents that it is responsible for ensuring that the Institution has a set of policies and procedures in place to assure compliance with mortgage market regulations.

In line with these policies and procedures related to the Group's mortgage market activities, the Board of Directors is responsible for ensuring compliance with mortgage market regulations and for implementing the Group's risk management and control procedures (see Note 4.3 "General Principles of Risk Management"). In terms of credit risk, in particular, the Board of Directors confers powers and discretions to the Delegated Committee, which then sub-delegates authority to the various decision-making levels. The internal procedures set up to handle the origination and monitoring of assets that make up the Group's lending and particularly those secured by mortgages, which back the Group's covered bond issues, are described in detail below for each type of loan applicant.

Retail customers

Loans to retail customers are approved and decided on using the credit scoring tools described in Note 4.4.2.2 "Risk management models". Where necessary, these tools are complemented with the work of a risk analyst, who carries out more in-depth studies of supplementary materials and reports. Furthermore, a series of other information and parameters are considered, such as the consistency of customers' applications and how well their requested products match their repayment possibilities; customers' ability to pay based on their current and future circumstances; the value of the property provided as security for the loan (as determined by an appraisal carried out by a valuation firm authorised by Bank of Spain and which the Institution's own internal approval processes will, additionally, have shown to be free of any association with the Group); the availability of any additional guarantees; examinations of internal and external databases of defaulters, etc.

One aspect of the decision-making process involves establishing the maximum amount of the loan, based on the appraisal value of the assets pledged as guarantees, as well as the purchase value if that is the purpose of the loan. As a general rule, under internal Group policies, the maximum amount of the loan relative to the appraisal value or the purchase value, whichever is lower, is applicable to purchases by individuals of properties for use as their primary residence and is fixed at 80%. This provides an upper limit below which a range of other maximum ratios of less than 80% are set, having regard to the purpose of the loan.

A further step that must be taken before an application can be decided upon is to review all charges and liens associated with the property on which the loan is to be secured and also any insurance taken out to cover the security. Once a loan application has been approved, the mortgage must be registered with the Property Registry as part of the formalities for arranging the loan.

Concerning approval discretions, the credit scoring tools are the main reference for determining the feasibility of the transaction. Where the loan being sought is above a certain amount, or where factors are present that are not readily captured by a credit scoring procedure, a risk analyst will be involved. The limit for each discretion is based on credit scores and the amount of the transaction/risk of the customer, with additional conditions being specified at each level to determine when special intervention is required. A list of exceptions has been drawn up, based on the particular circumstances of the borrower and the transaction, and these exceptions are covered in the Group's internal rules and procedures.

As mentioned in Note 4.4.2.2 "Risk management models", the Group has a comprehensive monitoring system in place which uses early warning tools that enable the early detection of borrowers that could be predisposed to compliance issues. A key part of this process consists of well-established procedures to review and validate the guarantees given.

Corporates unrelated to construction and/or real estate development

Analyses and decisions concerning the approval of risks (lending and guarantees) are based on rating tools and "basic risk management teams", formed by one person from the business side and one from the risks side at different decision-making levels, both described in Note 4.4.2.2 "Risk management models". A range of other data and parameters are also taken into account, such as the consistency of the application, ability to pay and the nature of the security provided (as determined by an appraisal carried out by a Bank of Spain-authorised valuation firm which Banco Sabadell's own approval processes will, additionally, have shown to be free of any association with the Group) and considering any supplementary guarantees, the "fit" between the company's working capital and its total sales; the appropriateness of the total amount borrowed from the Group based on the business's capital strength, examinations of internal and external databases of defaulters, etc.

Reviews of charges and liens associated with the security provided and the registration of mortgages with the Property Registry are also applicable in this case.

Discretion figures are assigned based on the expected loss on the transaction/customer/risk group and the total risk of the customer or risk group. There are several levels in the approval process. In each such level there is a "basic management team", one member of which will be on the business side and one on the risk management side. All loan approvals must be the result of a joint decision. As with retail customers, a set of exceptional circumstances has been specified for borrowers and sectors, and these are provided for in the Group's internal procedures.

As in the case of retail customers, transactions are monitored using early warning tools. There are also procedures to ensure that the securities and guarantees provided are constantly being reviewed and validated.

Corporates engaging in construction and/or real estate development

The Bank includes the management of real estate developer loans in the Real Estate Business Division. This unit has its own organisational structure geared towards a specialised management of these assets based on knowledge of the situation and development of the real estate market. Managing the risks in this portfolio is the responsibility of the Bank's Specialised Lending Risk Division, part of the Risk Management Division.

Risk assessments are carried out by teams of specialised analysts who operate in conjunction with the Real Estate Business Division to ensure that a risk management perspective is combined with a view based on direct contact with customers.

Factors influencing the decision include an assessment of both the developer and the project together with a series of other supplementary considerations such as the financial position and net worth of the developer, revenue and cash flow projections, any business plans relating to the project and, most particularly, an in-depth analysis of the current risk situation, which may cover the finished development, plots or land or other developments.

There is a scale of maximum LTV ratios defined internally by the Group based on the purpose of the financing, quality of the developer and an internal appraisal of the development.

Decision-making powers and discretions are assigned according to the specific types of portfolios handled within this business segment, which may be related to new projects, sales, purchases or action plans. All these different circumstances are provided for in internal rules and procedures.

Loans are subject to the kind of continuous monitoring that asset management necessarily implies. For completed developments, monitoring will focus on sales or rental figures; for developments under construction, the progress of the work. A system of continuous control is established to check that commitments are being adhered to and, as with non-real estate businesses, procedures are in place for the continuous review and validation of the guarantees provided.

Other matters

Banco Sabadell Group is an active participant in capital markets and has a number of funding programmes in operation (see section on "Funding strategy and evolution of liquidity in 2020" in Note 4). As one element of the Group's funding strategy, Banco de Sabadell, S.A. is an issuer of covered bonds. Covered bond issues are backed by the Bank's portfolio of mortgage loans granted by the issuer that meet the eligibility criteria defined in Royal Decree 716/2009 regulating the mortgage market and other standards of the financial mortgages system in Spain. The Group has control procedures in place to monitor its entire portfolio of mortgage loans and credit (one of which involves keeping special accounting records of all mortgage loans and credit – and any assets that replace them – used to back issues of covered bonds and mortgage bonds, as well as records of any associated financial derivatives). There are also procedures in place to verify that all loans meet the eligibility criteria for use as collateral in issues of covered bonds, and to ensure that bond issues are kept within their maximum limits at all times. These procedures are all regulated by current mortgage market regulations.

Schedule IV – Information on issuers of public sector covered bonds and on the special accounting register of public sector covered bonds

Details of the data from the special accounting register of public sector covered bonds of the issuing entity Banco Sabadell, referred to in the sole additional provision of Royal Decree 579/2014, required by Bank of Spain Circular 4/2015, are given below:

A) Asset-side transactions

Details of the aggregate nominal values of loans and credit with general governments as at 31 December 2020 and 2019 which are used as collateral for issuances, their eligibility and the extent to which they qualify as eligible collateral for public sector covered bonds are presented in the following table:

Thousand euro

	2020		
	Total	Residents in Spain	Residents in other countries of the European Economic Area
Central governments	219,036	219,036	-
Regional governments or governments in autonomous communities	3,108,232	3,108,232	-
Local governments	1,162,742	1,162,742	-
Social Security Trust Funds	-	-	-
Total loans and credit portfolio	**4,490,010**	**4,490,010**	**-**

Thousand euro

	2019		
	Total	Residents in Spain	Residents in other countries of the European Economic Area
Central governments	217,896	217,896	-
Regional governments or governments in autonomous communities	2,396,736	2,396,736	-
Local governments	1,120,276	1,120,276	-
Social Security Trust Funds	-	-	-
Total loans and credit portfolio	**3,734,908**	**3,734,908**	**-**

B) Liability-side transactions

Information on issuances carried out and collateralised using the Bank’s portfolio of loans and credit with general governments is provided in the following table, disclosed by residual maturity and according to whether the sale was by public offering or otherwise:

Thousand euro

Nominal value	2020	2019
Public sector covered bonds issued	**1,600,000**	**1,600,000**
Of which: Not reflected under liabilities on the balance sheet	*1,600,000*	*1,600,000*
Issued through public offering	**-**	**-**
Time to maturity up to one year	-	-
Time to maturity from one to two years	-	-
Time to maturity from two to three years	-	-
Time to maturity from three to five years	-	-
Time to maturity from five to ten years	-	-
Time to maturity more than ten years	-	-
Other issues	**1,600,000**	**1,600,000**
Time to maturity up to one year	-	-
Time to maturity from one to two years	400,000	-
Time to maturity from two to three years	-	400,000
Time to maturity from three to five years	1,200,000	800,000
Time to maturity from five to ten years	-	400,000
Time to maturity more than ten years	-	-

The overcollateralisation ratio (the aggregate nominal value of the portfolio of loans and credit to general governments backing the issue of public sector covered bonds divided by the nominal value of issued public sector covered bonds) for Banco de Sabadell, S.A. stood at 280% as at 31 December 2020 (233% as at 31 December 2019).

As required by Royal Decree 579/2014, the Board of Directors represents that it is responsible for ensuring that the Institution has a set of policies and procedures in place relating to the activities for the financing of public entities to assure compliance with regulations governing the issuance of these securities (see Note 4 “Risk management”).

In terms of credit risk, in particular, the Board of Directors confers powers and discretions to the Delegated Committee, which then sub-delegates authority to the various decision-making levels. Internal procedures are in place to handle the origination and monitoring of the assets that make up the Group’s loans and receivables and particularly assets with public entities, which back the Group's issues of public sector covered bonds.

Schedule V – Details of outstanding issues and subordinate liabilities of the Group

Debt securities issued

The breakdown of the Group's issues as at 31 December 2020 and 2019 is as follows:

Thousand euro

Issuer	Date of issue	Amount 31/12/2020	Amount 31/12/2019	Interest rate ruling as at 31/12/2020	Maturity/call date	Issue currency	Target of offering
Banco de Sabadell, S.A.	10/03/2014	-	324	EURIBOR 6M + 3,50%	10/03/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2014	-	461	4.423%	10/05/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2014	-	609	EURIBOR 6M + 3,50%	10/05/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2014	-	261	EURIBOR 6M + 2,75%	10/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2014	-	284	EURIBOR 6M + 3,00%	10/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/07/2014	-	401	EURIBOR 6M + 2,75%	10/07/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/08/2014	-	766	EURIBOR 6M + 2,75%	10/08/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/10/2014	-	462	EURIBOR 6M + 2,35%	10/10/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/11/2014	-	842	EURIBOR 6M + 2,35%	10/11/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/12/2014	-	789	EURIBOR 6M + 2,35%	10/12/2020	Euros	Institutional
Banco de Sabadell, S.A.	05/12/2016	-	500,000	0.650%	05/03/2020	Euros	Retail
Banco de Sabadell, S.A.	03/07/2017	10,000	10,000	MAX(EURIBOR 3M + 0,30; 0,3%)	04/07/2022	Euros	Retail
Banco de Sabadell, S.A.	28/07/2017	26,800	26,800	MAX(EURIBOR 3M; 0,60%)	28/07/2022	Euros	Retail
Banco de Sabadell, S.A.	28/09/2017	10,000	10,000	MAX(EURIBOR 3M + 0,30; 0,3%)	28/09/2022	Euros	Retail
Banco de Sabadell, S.A.	05/12/2017	1,000,000	1,000,000	0.875%	05/03/2023	Euros	Institutional
Banco de Sabadell, S.A.	26/02/2018	4,000	4,000	MAX(EURIBOR 3M; 0,4%)	27/02/2023	Euros	Retail
Banco de Sabadell, S.A.	16/03/2018	6,000	6,000	MAX(EURIBOR 3M; 0,67%)	17/03/2025	Euros	Retail
Banco de Sabadell, S.A.	03/04/2018	6,000	6,000	MAX(EURIBOR 3M; 0,4%)	03/04/2023	Euros	Retail
Banco de Sabadell, S.A.	31/05/2018	3,000	3,000	MAX(EURIBOR 3M; 0,3%)	31/05/2023	Euros	Retail
Banco de Sabadell, S.A.	07/09/2018	750,000	750,000	1.625%	07/03/2024	Euros	Institutional
Banco de Sabadell, S.A.	14/11/2018	1,000	1,000	MAX(EURIBOR 3M; 1,1%)	14/11/2023	Euros	Retail
Banco de Sabadell, S.A.	14/11/2018	2,500	2,500	MAX(EURIBOR 3M; 1,5%)	14/11/2025	Euros	Retail
Banco de Sabadell, S.A.	28/03/2019	601,415	601,415	0.700%	28/03/2022	Euros	Retail
Banco de Sabadell, S.A.	08/04/2019	300,000	300,000	0.454%	08/04/2021	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2019	1,000,000	1,000,000	1.750%	10/05/2024	Euros	Institutional
Banco de Sabadell, S.A.	22/07/2019	1,000,000	1,000,000	0.875%	22/07/2025	Euros	Institutional
Banco de Sabadell, S.A.	27/09/2019	500,000	500,000	1.125%	27/03/2025	Euros	Institutional
Banco de Sabadell, S.A. (*)	07/11/2019	500,000	500,000	0.625%	07/11/2024	Euros	Institutional
Banco de Sabadell, S.A.	15/11/2019	-	120,000	MAX(0%; EURIBOR 3M+0,6%)	15/05/2024	Euros	Institutional
Banco de Sabadell, S.A. (*)	29/06/2020	500,000	-	1.750%	29/06/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	11/09/2020	500,000	-	1.125%	11/03/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	15/10/2020	120,000	-	EURIBOR 3M + 0,646%	15/05/2024	Euros	Institutional
TSB Banking Group Plc (*)	29/12/2020	500,539	-	SONIA + 2.1%	29/06/2022	GBP	Institutional
Subscribed by Group companies		(623,540)	(126,902)				
Total straight bonds		**6,717,715**	**6,219,012**				

(*) "Maturity/call date" refers to the first call date.

Thousand euro

Issuer	Date of issue	Amount 31/12/2020	Amount 31/12/2019	Interest rate ruling as at 31/12/2020	Maturity date	Issue currency	Target of offering
Banco Guipuzcoano, S.A. (*)	18/04/2007	25,000	25,000	1.70%	18/04/2022	Euros	Institutional
Banco de Sabadell, S.A.	25/07/2012	3,000	3,000	ref . underlying assets	25/07/2022	Euros	Retail
Banco de Sabadell, S.A.	14/07/2014	10,000	10,000	ref . underlying assets	15/07/2024	Euros	Retail
Banco de Sabadell, S.A.	14/07/2014	3,000	3,000	ref . underlying assets	14/07/2021	Euros	Retail
Banco de Sabadell, S.A.	15/04/2015	-	4,000	ref . underlying assets	15/04/2020	Euros	Retail
Banco de Sabadell, S.A.	06/07/2015	-	1,300	ref . underlying assets	06/07/2020	Euros	Retail
Banco de Sabadell, S.A.	30/11/2016	45,000	45,000	ref . underlying assets	30/11/2021	Euros	Retail
Banco de Sabadell, S.A.	05/11/2018	10,000	10,000	ref . underlying assets	01/04/2025	Euros	Retail
Banco de Sabadell, S.A.	12/11/2018	3,200	3,200	ref . underlying assets	01/04/2025	Euros	Retail
Banco de Sabadell, S.A.	18/02/2019	3,000	3,000	ref . underlying assets	18/02/2022	Euros	Retail
Banco de Sabadell, S.A.	04/04/2019	3,000	3,000	ref . underlying assets	04/10/2022	Euros	Retail
Subscribed by Group companies		(113)	(190)				
Total structured bonds		**105,087**	**110,310**				

(*) Company merged with Banco Sabadell.

Thousand euro

Issuer	Date of issue	Amount 31/12/2020	Amount 31/12/2019	Average interest rate 31/12/2020	Average interest rate 31/12/2019	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A. (ofic. Londres) (*)	18/12/2015	-	293,333	-	-0.16%	Various	Euros	Institutional
Banco de Sabadell, S.A. (**)	14/05/2020	782,221	1,612,490	0.00%	-0.10%	Various	Euros	Institutional
Subscribed by Group companies		(407,904)	(811,601)					
Total commercial paper		**374,317**	**1,094,222**					

(*) Commercial paper (ECP).

(**) Prospectus for 7,000,000 thousand euros, eligible for extension up to 9,000,000 thousand euros, filed with the National Securities Market Commission (CNMV).

Thousand euro

Issuer	Date of issue	Amount 31/12/2020	Amount 31/12/2019	Interest rate ruling as at 31/12/2020	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	08/05/2009	100,000	100,000	EURIBOR 3M + 1	08/05/2021	Euros	Institutional
Banco CAM, S.A. (*)	27/04/2010	-	30,000	4.60%	31/07/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/12/2010	-	150,000	EURIBOR 3M + 2,35	10/12/2020	Euros	Institutional
Banco de Sabadell, S.A.	13/07/2011	50,000	50,000	EURIBOR 3M + 2,60	13/07/2021	Euros	Institutional
Banco de Sabadell, S.A.	12/12/2011	150,000	150,000	EURIBOR 3M + 3,10	12/12/2021	Euros	Institutional
Banco de Sabadell, S.A.	05/10/2012	95,000	95,000	EURIBOR 3M + 4,80	05/10/2022	Euros	Institutional
Banco de Sabadell, S.A.	28/12/2012	-	200,000	EURIBOR 3M + 4,15	28/12/2020	Euros	Institutional
Banco de Sabadell, S.A.	09/12/2013	200,000	200,000	EURIBOR 3M+ 1,60	09/12/2021	Euros	Institutional
Banco de Sabadell, S.A.	26/09/2014	250,000	250,000	EURIBOR 3M + 0,70	26/09/2022	Euros	Institutional
Banco de Sabadell, S.A.	03/10/2014	38,000	38,000	EURIBOR 3M + 0,68	03/10/2023	Euros	Institutional
Banco de Sabadell, S.A.	12/11/2014	1,350,000	1,350,000	0.88%	12/11/2021	Euros	Institutional
Banco de Sabadell, S.A.	05/12/2014	100,000	100,000	EURIBOR 3 M + 0,40	05/12/2022	Euros	Institutional
Banco de Sabadell, S.A.	04/05/2015	250,000	250,000	EURIBOR 3 M + 0,13	04/05/2023	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2015	-	750,000	0.38%	10/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	18/06/2015	-	1,500,000	EURIBOR 12 M + 0,05	18/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	03/07/2015	50,000	50,000	EURIBOR 3 M + 0,20	03/07/2023	Euros	Institutional
Banco de Sabadell, S.A.	20/07/2015	-	1,500,000	EURIBOR 12 M + 0,05	20/07/2020	Euros	Institutional
Banco de Sabadell, S.A.	16/09/2015	-	1,000,000	EURIBOR 12 M + 0,07	16/09/2020	Euros	Institutional
Banco de Sabadell, S.A.	03/11/2015	-	1,000,000	0.63%	03/11/2020	Euros	Institutional
Banco de Sabadell, S.A.	26/01/2016	550,000	550,000	EURIBOR 3M + 0,80	26/01/2024	Euros	Institutional
Banco de Sabadell, S.A.	24/05/2016	50,000	50,000	EURIBOR 3M + 0,535	24/05/2024	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2016	1,000,000	1,000,000	0.63%	10/06/2024	Euros	Institutional
Banco de Sabadell, S.A.	20/10/2016	1,000,000	1,000,000	0.13%	20/10/2023	Euros	Institutional
Banco de Sabadell, S.A.	21/12/2016	500,000	500,000	EURIBOR 12M + 0,27	21/12/2021	Euros	Institutional
Banco de Sabadell, S.A.	29/12/2016	250,000	250,000	0.97%	27/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	26/04/2017	1,100,000	1,100,000	1.00%	26/04/2027	Euros	Institutional
Banco de Sabadell, S.A.	21/07/2017	500,000	500,000	0.89%	21/07/2025	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	-	1,000,000	EURIBOR 12M + 0,027	18/09/2020	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	1,000,000	1,000,000	EURIBOR 12M + 0,085	18/06/2021	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	1,000,000	1,000,000	EURIBOR 12M + 0,086	18/07/2021	Euros	Institutional
Banco de Sabadell, S.A.	21/12/2018	390,000	390,000	1.09%	21/12/2026	Euros	Institutional
Banco de Sabadell, S.A.	30/01/2019	1,250,000	1,250,000	EURIBOR 12M + 0,130	30/01/2022	Euros	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	750,000	EURIBOR 12M + 0,074	20/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	750,000	EURIBOR 12M + 0,104	22/12/2025	Euros	Institutional
Banco de Sabadell, S.A.	20/01/2020	1,000,000	-	0.13%	10/02/2028	Euros	Institutional
Banco de Sabadell, S.A.	23/06/2020	1,500,000	-	EURIBOR 12M + 0,08	23/06/2025	Euros	Institutional
Subscribed by Group companies		(7,182,000)	(10,927,900)				
Total covered bonds		**8,041,000**	**8,925,100**				

(*) Company merged with Banco Sabadell.

Thousand euro

Issuer	Date of issue	Amount 31/12/2020	Amount 31/12/2019	Interest rate ruling as at 31/12/2019	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	12/18/2018	800,000	800,000	EURIBOR 12M + 0,242	12/18/2024	Euros	Institutional
Banco de Sabadell, S.A.	12/16/2019	400,000	400,000	EURIBOR 12M + 0,007	12/16/2022	Euros	Institutional
Banco de Sabadell, S.A.	12/16/2019	400,000	400,000	EURIBOR 12M + 0,104	12/16/2025	Euros	Institutional
Subscribed by Group companies		(1,600,000)	(1,600,000)				
Total public sector covered bonds		**-**	**-**				

Thousand euro

Issuer	Date of issue	Amount 31/12/2020	Amount 31/12/2019	Interest rate ruling as at 31/12/2019	Maturity date	Issue currency	Target of offering
TSB Banking Group Plc	12/7/2017	556,155	587,682	SONIA + 0.372	12/7/2022	Pounds sterling	Institutional
TSB Banking Group Plc	2/15/2019	834,232	881,523	SONIA + 0.870	2/15/2024	Pounds sterling	Institutional
Subscribed by Group companies		-	-				
Total Covered Bonds		**1,390,387**	**1,469,205**				

Securitisations

The following table shows the bonds issued by asset securitisation funds outstanding as at 31 December 2020 and 2019, respectively:

Thousand euro

Year	Name of fund	Types of issue	Issue: Number of securities	Issue: Amount	Outstanding balance of liabilities: 2020	Outstanding balance of liabilities: 2019	Yield
2004	GC SABADELL 1, F.T.H. (A)	RMBS	12,000	1,200,000	-	63,573	EURIBOR 3M + 0,17%
2005	TDA CAM 4,FTA (A)	RMBS	20,000	2,000,000	101,353	131,953	EURIBOR 3M + (entre 0,09% y 0,24%)
2005	TDA CAM 5,FTA (A)	RMBS	20,000	2,000,000	147,402	169,568	EURIBOR 3M + (entre 0,12% y 0,35%)
2006	TDA CAM 6 F.T.A (A)	RMBS	13,000	1,300,000	99,601	115,058	EURIBOR 3M + (entre 0,13% y 0,27%)
2006	TDA CAM 7 F.T.A (A)	RMBS	15,000	1,500,000	118,552	136,916	EURIBOR 3M + (entre 0,14% y 0,3%)
2006	CAIXA PENEDES 1 TDA, FTA (A)	RMBS	10,000	1,000,000	44,451	51,384	EURIBOR 3M + 0,14%
2006	FTPYME TDA CAM 4 F.T.A (A)	PYMES	11,918	1,191,800	40,458	51,668	EURIBOR 3M + (entre 0,29% y 0,61%)
2007	TDA CAM 8 F.T.A (A)	RMBS	17,128	1,712,800	100,207	114,230	EURIBOR 3M + (entre 0,13% y 0,47%)
2007	CAIXA PENEDES PYMES 1 TDA, FTA (A)	PYMES	7,900	790,000	300	300	EURIBOR 3M + 0,8%
2007	TDA CAM 9 F.T.A (A)	RMBS	15,150	1,515,000	139,481	157,081	EURIBOR 3M + (entre 0,19% y 0,75%)
2015	DUNCAN FUNDING 2015-1 PLC (B) (*)	RMBS	20,912	2,940,691	-	418,230	LIBOR GBP 3M+0,7%; EURIBOR 3M+0,48%
2016	DUNCAN FUNDING 2016-1 PLC (B) (*)	RMBS	30,120	4,354,356	-	83,119	EURIBOR 3M+0,4%; LIBOR GBP 3M+0,77%;
2017	IM SABADELL PYME 11, F.T. (A)	PYMES	19,000	1,900,000	82,244	198,514	EURIBOR 3M + 0,75%
Total securitisation funds					**874,049**	**1,691,594**	

(*) TSB securitisation fund.

(A) Issues quoted on AIAF (Spanish Brokers' Association) fixed income market.

(B) Issues quoted on the LSE market.

Subordinated liabilities

Subordinated liabilities issued by the Group as at 31 December 2020 and 2019 are as follows:

Thousand euro

Issuer	Date of issue	Amount 31/12/2020	Amount 31/12/2019	Interest rate ruling as at 31/12/2020	Maturity/call date	Issue currency	Target of offering
Banco de Sabadell, S.A.	26/04/2010	-	424,600	6.250%	4/26/2020	Euros	Institutional
TSB Banking Group Plc	01/05/2014	428,239	452,515	5.750%	5/6/2021	Pounds sterling	Institutional
Banco de Sabadell, S.A.	06/05/2016	500,000	500,000	5.625%	5/6/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	12/12/2018	500,000	500,000	5.375%	12/12/2023	Euros	Institutional
Banco de Sabadell, S.A. (*)	17/01/2020	300,000	-	2.000%	1/17/2025	Euros	Institutional
Subscribed by Group companies		(5,000)	(16,650)				
Total subordinated bonds		**1,723,239**	**1,860,465**				

(*) Subordinated issue. "Maturity/call date" refers to the first call date.

Thousand euro

Issuer	Date of issue	Importes 31/12/2020	Importes 31/12/2019	Interest rate ruling as at 31/12/2020	Maturity/call date	Issue currency	Target of offering
Banco de Sabadell, S.A. (*)	18/05/2017	750,000	750,000	6.500%	5/18/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	23/11/2017	400,000	400,000	6.125%	11/23/2022	Euros	Institutional
Subscribed by Group companies		-	-				
Total preference shares		**1,150,000**	**1,150,000**				

(*) Perpetual issue. "Maturity/call date" refers to the first call date.

The issues included in subordinated liabilities, for the purposes of credit priority, are ranked below all of the Group's unsecured creditors.

For the purpose of complying with the requirements of IAS 7, the table below shows the reconciliation of liabilities derived from funding activities, identifying the components that have entailed their movements:

Thousand euro

Total subordinated liabilities as at 31 December 2018	**2,986,344**
New issuances	-
Amortised	-
Capitalisation	-
Exchange rate	22,121
Variation in subordinated liabilities subscribed by group companies.	2,000
Total subordinated liabilities as at 31 December 2019	**3,010,465**
New issuances	300,000
Amortised	(424,600)
Capitalisation	-
Exchange rate	(24,276)
Variation in subordinated liabilities subscribed by group companies.	11,650
Total subordinated liabilities as at 31 December 2020	**2,873,239**

Schedule VI – Other risk information

Credit risk exposure

Loans and advances to customers broken down by activity and type of guarantee

The breakdown of the balance of the heading "*Loans and advances – Customers*" by activity and type of guarantee, excluding advances not classed as loans, as at 31 December 2020 and 2019, respectively, is as follows:

Thousand euro

	2020							
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Collateralised loans. Carrying amount based on last available valuation. Loan to value: Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	10,117,502	37,367	1,195	16,791	13,547	449	-	7,775
Other financial corporations and individual entrepreneurs (financial business activity)	1,026,650	200,685	343,959	391,825	147,582	2,513	1,042	1,682
Non-financial corporations and individual entrepreneurs (non-financial business activity)	59,195,501	14,252,188	5,925,953	7,487,468	5,230,265	2,753,867	1,991,429	2,715,172
Construction and real estate development (including	3,225,295	2,133,149	363,967	821,140	741,075	469,467	276,798	188,636
Civil engineering construction	864,217	34,541	47,841	27,048	14,647	2,734	3,400	34,553
Other purposes	55,105,989	12,084,498	5,514,145	6,639,280	4,474,483	2,281,666	1,711,231	2,491,963
Large enterprises	24,318,504	2,039,938	1,858,595	1,901,801	504,081	324,836	415,900	751,915
SMES and individual entrepreneurs	30,787,485	10,044,560	3,655,550	4,737,479	3,970,402	1,956,830	1,295,331	1,740,068
Rest of households	77,989,598	70,324,572	984,767	15,063,405	20,698,838	23,929,365	7,933,957	3,683,774
Home loans	69,488,848	69,015,248	32,602	14,145,483	20,096,602	23,567,589	7,772,722	3,465,454
For consumption	5,199,956	55,329	575,512	158,939	211,889	105,013	56,647	98,353
Other purposes	3,300,794	1,253,995	376,653	758,983	390,347	256,763	104,588	119,967
TOTAL	148,329,251	84,814,812	7,255,974	22,959,489	26,090,172	26,686,194	9,926,428	6,408,403
MEMORANDUM ITEM Forbearance (refinanced and restructured loans)	4,211,661	2,511,856	225,603	582,300	716,600	583,768	410,712	442,060

Thousand euro

	2019							
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Collateralised loans. Carrying amount based on last available valuation. Loan to value: Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	10,524,898	45,589	6,425	14,233	22,478	2,709	2,078	10,516
Other financial corporations and individual entrepreneurs (financial business activity)	1,016,161	345,606	91,667	109,731	229,585	43,815	38,954	5,188
Non-financial corporations and individual entrepreneurs (non-financial business activity)	56,181,367	14,244,242	9,687,652	8,532,188	5,889,168	3,407,264	2,414,739	3,688,535
Construction and real estate development (including	3,184,046	2,225,353	645,191	758,141	937,242	476,725	182,227	516,209
Civil engineering construction	802,490	40,222	62,737	21,662	24,486	10,919	7,419	38,473
Other purposes	52,194,831	11,978,667	8,979,724	7,752,385	4,927,440	2,919,620	2,225,093	3,133,853
Large enterprises	22,886,000	1,140,591	3,688,598	2,367,475	600,043	353,985	553,439	954,247
SMES and individual entrepreneurs	29,308,831	10,838,076	5,291,126	5,384,910	4,327,397	2,565,635	1,671,654	2,179,606
Rest of households	78,230,486	70,392,038	766,420	14,500,163	20,022,312	22,854,631	9,109,453	4,671,899
Home loans	69,559,754	69,032,294	38,639	13,899,046	19,460,093	22,451,028	8,885,914	4,374,852
For consumption	5,166,943	69,133	580,875	145,094	190,038	117,918	73,141	123,817
Other purposes	3,503,789	1,290,611	146,906	456,023	372,181	285,685	150,398	173,230
TOTAL	145,952,912	85,027,475	10,542,164	23,156,315	26,163,543	26,308,419	11,563,224	8,376,138
MEMORANDUM ITEM Forbearance (refinanced and restructured loans)	3,553,489	2,332,091	334,972	488,778	534,854	560,366	392,761	690,304

In terms of risks with LTV >80%, these mainly correspond to transactions from acquired institutions or business operations in which, as a supplement to the valuation of the operation, a mortgage guarantee is available to cover that operation. Similarly, there are other additional reasons for approval, which mainly correspond to solvent borrowers with a proven payment capacity, as well as customers with a good profile who contribute guarantees (personal guarantees and/or pledges) which are additional to the mortgage guarantees already considered in the LTV ratio.

Refinancing and restructuring operations

The outstanding balance of refinanced and restructured loans as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020						
	Credit institutions	**General governments**	**Other financial corporations and individual entrepreneurs (financial business activity)**	**Non-financial corporations and individual entrepreneurs (non-financial business activity)**	***Of which: lending for construction and real estate development (including land)***	**Rest of households**	**Total**
TOTAL							
Not secured with collateral							
Number of transactions	-	14	78	27,484	537	53,083	**80,659**
Gross carrying amount	-	13,615	5,520	1,797,259	166,133	347,615	**2,164,009**
Secured with collateral							
Number of transactions	-	4	20	9,513	7,434	15,511	**25,048**
Gross carrying amount	-	1,188	13,854	1,730,287	142,435	1,428,279	**3,173,608**
Impairment allowances	-	1,104	11,939	864,030	84,100	257,531	**1,134,604**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	-	12	42	13,451	289	32,807	***46,312***
Gross carrying amount	-	8,593	699	936,595	72,557	197,421	***1,143,308***
Secured with collateral							
Number of transactions	-	3	13	4,633	268	10,321	***14,970***
Gross carrying amount	-	271	13,647	769,606	63,498	780,523	***1,564,047***
Impairment allowances	-	1,104	11,756	729,115	71,097	215,213	***957,188***
TOTAL							
Number of transactions	-	18	98	36,997	7,971	68,594	**105,707**
Gross amount	-	14,803	19,374	3,527,546	308,568	1,775,894	**5,337,617**
Impairment allowances	-	1,104	11,939	864,030	84,100	257,531	**1,134,604**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-

Thousand euro

	2019						
	Credit institutions	General governments	Other financial corporations and individual entrepreneurs (financial business activity)	Non-financial corporations and individual entrepreneurs (non-financial business activity)	*Of which: lending for construction and real estate development (including land)*	Rest of households	Total
TOTAL							
Not secured with collateral							
Number of transactions	-	12	71	17,928	434	48,601	**66,612**
Gross carrying amount	-	9,468	7,415	1,196,253	126,165	343,758	**1,556,894**
Secured with collateral							
Number of transactions	-	3	18	8,617	615	18,488	**27,126**
Gross carrying amount	-	914	21,731	1,431,372	239,124	1,543,459	**2,997,476**
Impairment allowances	-	1,306	10,418	714,477	119,723	274,681	**1,000,882**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	-	*12*	*43*	*10,861*	*321*	*26,071*	***36,987***
Gross carrying amount	-	*9,468*	*780*	*836,649*	*118,037*	*200,883*	***1,047,780***
Secured with collateral							
Number of transactions	-	*3*	*15*	*6,122*	*456*	*11,823*	***17,963***
Gross carrying amount	-	*914*	*13,821*	*872,627*	*135,300*	*1,014,352*	***1,901,714***
Impairment allowances	-	*1,306*	*10,347*	*646,167*	*113,585*	*249,673*	***907,493***
TOTAL							
Number of transactions	-	15	89	26,545	1,049	67,089	**93,738**
Gross amount	-	10,382	29,146	2,627,625	365,289	1,887,217	**4,554,370**
Impairment allowances	-	1,306	10,418	714,477	119,723	274,681	**1,000,882**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-

The value of the guarantees received to ensure collection associated with refinanced and restructured transactions, broken down into collateral and other guarantees, as at 31 December 2020 and 2019, is as follows:

Thousand euro

Guarantees received	2020	2019
Value of collateral	2,742,754	2,762,628
Of which: securing Stage 3 loans	*1,223,896*	*1,521,410*
		-
Value of other guarantees	702,241	441,249
Of which: securing Stage 3 loans	*282,816*	*225,534*
Total value of guarantees received	3,444,995	3,203,877

Detailed movements of the balance of refinanced and restructured loans during 2020 and 2019 are as follows:

Thousand euro

	2020	2019
Opening balance	4,554,370	5,274,134
(+) Forbearance (refinancing and restructuring) in the period	2,397,895	1,031,681
Memorandum item: impact recognised on the income statement for the period	*223,082*	*111,070*
(-) Debt amortisations	(938,644)	(886,887)
(-) Foreclosures	(41,267)	(76,111)
(-) Derecognised from the balance sheet (reclassified as write-offs)	(156,458)	(153,023)
(+)/(-) Other changes (*)	(478,279)	(635,424)
Year-end balance	**5,337,617**	**4,554,370**

(*) Includes transactions no longer classified as refinancing, refinanced or restructured due to meeting the requirements for reclassification from stage 2 to stage 1 risks (see note 1.3.4).

The table below shows the value of transactions which, after forbearance, have been classified as Stage 3 exposures during 2020 and 2019:

Thousand euro

	2020	2019
General governments	-	-
Other legal entities and individual entrepreneurs	**185,514**	**152,315**
Of which: Lending for construction and real estate development	*16,906*	*11,876*
Other natural persons	**208,074**	**341,041**
Total	**393,588**	**493,356**

The average probability of default on current refinanced and restructured loans broken down by activity as at 31 December 2020 and 2019 is as follows:

%

	2020	2019
General governments (*)	-	-
Other legal entities and individual entrepreneurs	**8**	8
Of which: Lending for construction and real estate development	*9*	*7*
Other natural persons	**10**	9

(*) Authorisation has not been granted for the use of internal models in the calculation of capital requirements.

Average probability of default calculated as at 30 September 2020.

The probability of default (PD) of refinanced exposures is the same as it was as at 31 December 2019.

Concentration risk

Geographical exposure

Global

The breakdown of risk concentration by activity and at global level as at 31 December 2020 and 2019 is as follows:

Thousand euro

	2020				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**44,185,857**	**29,420,936**	**4,917,055**	**1,516,600**	**8,331,266**
General governments	**32,730,612**	**25,586,932**	**3,846,229**	**1,242,360**	**2,055,091**
Central governments	24,976,083	18,620,808	3,835,065	495,085	2,025,125
Rest	7,754,529	6,966,124	11,164	747,275	29,966
Other financial corporations and individual entrepreneurs	**4,091,799**	**1,838,198**	**1,207,143**	**562,420**	**484,038**
Non-financial corporations and individual entrepreneurs	**62,377,945**	**47,376,248**	**4,218,718**	**8,200,957**	**2,582,022**
Construction and real estate	3,298,822	2,834,328	6,997	264,304	193,193
Civil engineering construction	948,975	888,596	21,662	10,042	28,675
Other purposes	58,130,148	43,653,324	4,190,059	7,926,611	2,360,154
Large enterprises	26,736,168	14,873,770	3,546,002	6,906,457	1,409,939
SMEs and individual entrepreneurs	31,393,980	28,779,554	644,057	1,020,154	950,215
Rest of households	**78,372,221**	**38,312,557**	**927,035**	**501,945**	**38,630,684**
Home loans	69,704,167	32,161,472	819,070	208,093	36,515,532
For consumption	5,199,966	3,282,539	8,061	4,939	1,904,427
Other purposes	3,468,088	2,868,546	99,904	288,913	210,725
TOTAL	**221,758,434**	**142,534,871**	**15,116,180**	**12,024,282**	**52,083,101**

Thousand euro

	2019				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**31,188,227**	**9,284,592**	**20,017,993**	**1,597,456**	**288,186**
General governments	**35,372,875**	**24,234,966**	**9,960,911**	**1,057,904**	**119,094**
Central governments	28,659,327	18,050,464	9,960,832	554,788	93,243
Rest	6,713,548	6,184,502	79	503,116	25,851
Other financial corporations and individual entrepreneurs	**3,763,467**	**2,016,542**	**1,158,393**	**564,947**	**23,585**
Non-financial corporations and individual entrepreneurs	**60,413,597**	**46,139,954**	**5,168,415**	**8,450,222**	**655,006**
Construction and real estate	3,319,641	2,934,240	10,304	290,595	84,502
Civil engineering construction	901,545	864,354	27,334	9,157	700
Other purposes	56,192,411	42,341,360	5,130,777	8,150,470	569,804
Large enterprises	26,244,735	14,919,231	3,921,055	7,065,402	339,047
SMEs and individual entrepreneurs	29,947,676	27,422,129	1,209,722	1,085,068	230,757
Rest of households	**78,679,742**	**38,284,908**	**38,836,363**	**509,888**	**1,048,583**
Home loans	69,864,356	32,203,418	36,477,234	185,639	998,065
For consumption	5,188,697	3,285,595	1,860,575	5,734	36,793
Other purposes	3,626,689	2,795,895	498,554	318,515	13,725
TOTAL	**209,417,908**	**119,960,962**	**75,142,075**	**12,180,417**	**2,134,454**

By autonomous communities

The risk concentration broken down by activity and at the level of Spanish autonomous communities as at 31 December 2020 and 2019, respectively, is as follows:

Thousand euro

		2020								
		AUTONOMOUS COMMUNITIES								
	TOTAL	Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**29,420,836**	**4,588**	**983**	**1**	**6,074**	**2**	**617,150**	**2**	**3**	**212,848**
General governments	**25,586,932**	**380,489**	**21,587**	**330,312**	**248,961**	**150,713**	**33,214**	**9,717**	**553,752**	**1,051,831**
Central governments	18,620,808	-	-	-	-	-	-	-	-	-
Rest	6,966,124	380,489	21,587	330,312	248,961	150,713	33,214	9,717	553,752	1,051,831
Other financial corporations and individual entrepreneurs	**1,838,198**	**5,084**	**2,485**	**2,019**	**2,462**	**820**	**343**	**619**	**11,848**	**453,298**
Non-financial corporations and individual entrepreneurs	**47,376,248**	**2,382,035**	**936,636**	**1,431,427**	**2,357,582**	**1,349,760**	**225,878**	**600,582**	**1,077,727**	**13,732,232**
Construction and real estate	2,834,328	124,291	40,290	60,513	91,105	29,161	12,387	18,660	28,684	654,353
Civil engineering construction	888,596	29,629	8,548	16,756	8,676	2,476	4,427	4,927	13,931	186,360
Other purposes	43,653,324	2,228,115	886,798	1,354,158	2,257,801	1,318,123	209,064	576,996	1,035,112	12,891,519
Large enterprises	14,873,770	514,509	267,324	211,558	1,069,219	325,161	85,436	153,827	226,559	4,042,935
SMEs and individual	28,779,554	1,713,606	619,474	1,142,600	1,188,382	992,962	123,628	423,168	808,553	8,848,584
Rest of households	**38,312,557**	**2,682,667**	**511,530**	**1,172,830**	**1,392,281**	**591,397**	**106,171**	**500,511**	**764,662**	**14,719,983**
Home loans	32,161,472	2,212,757	430,222	932,081	1,226,686	417,738	89,760	403,838	598,153	12,569,748
For consumption	3,282,539	322,301	43,904	91,289	89,420	149,524	7,611	62,097	85,029	1,032,314
Other purposes	2,868,546	147,609	37,404	149,460	76,175	24,135	8,800	34,576	81,480	1,117,921
TOTAL	**142,534,871**	**5,454,793**	**1,473,211**	**2,936,589**	**4,007,360**	**2,092,692**	**982,756**	**1,111,431**	**2,408,090**	**30,169,392**

Thousand euro

	2020								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**-**	**2,822**	**27,867,038**	**3**	**180**	**183,709**	**406,313**	**-**	**-**
General governments	**94,267**	**323,727**	**1,936,240**	**42,329**	**291,466**	**692,996**	**691,704**	**78,151**	**34,668**
Central governments	-	-	-	-	-	-	-	-	-
Rest	94,267	323,727	1,936,240	42,329	291,466	692,996	691,704	78,151	34,668
Other financial corporations and individual entrepreneurs	**121**	**4,628**	**1,300,197**	**2,928**	**633**	**30,025**	**20,681**	**99**	**-**
Non-financial corporations and individual entrepreneurs	**127,200**	**2,222,322**	**12,237,925**	**1,086,692**	**550,895**	**4,575,097**	**2,261,729**	**202,443**	**18,085**
Construction and real estate	1,838	60,853	1,398,386	38,359	21,677	159,377	81,831	12,207	356
Civil engineering construction	2,325	60,171	427,546	10,155	2,468	48,827	58,863	1,254	57
Other purposes	123,037	2,101,298	10,411,993	1,038,178	526,750	4,366,893	2,121,035	188,982	17,673
Large enterprises	17,071	635,883	4,655,580	209,291	195,585	1,242,267	964,218	56,638	709
SMEs and individual	105,966	1,465,415	5,756,413	828,887	331,165	3,124,626	1,156,817	132,344	16,964
Rest of households	**134,837**	**833,278**	**5,057,519**	**2,026,821**	**171,367**	**6,285,414**	**1,196,673**	**83,366**	**72,250**
Home loans	98,729	612,786	4,144,488	1,735,126	129,863	5,391,483	1,040,818	59,129	68,067
For consumption	28,663	129,891	545,091	143,836	17,644	442,613	74,317	14,868	2,127
Other purposes	7,445	89,601	367,940	147,859	23,860	451,318	81,538	9,369	2,056
TOTAL	**356,425**	**3,385,777**	**48,518,919**	**3,158,773**	**1,014,541**	**11,777,241**	**4,577,100**	**364,059**	**125,004**

Thousand euro

	TOTAL	2019 AUTONOMOUS COMMUNITIES								
		Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	9,284,592	7,867	1	37	6,105	3	584,764	2	35	321,105
General governments	24,234,966	132,854	25,109	250,550	250,242	32,135	34,779	74,523	501,109	1,167,624
Central governments	18,050,464	-	-	-	-	-	-	-	-	-
Rest	6,184,502	132,854	25,109	250,550	250,242	32,135	34,779	74,523	501,109	1,167,624
Other financial corporations and individual entrepreneurs	2,016,542	4,104	2,413	2,421	2,388	805	356	510	12,025	546,527
Non-financial corporations and individual entrepreneurs	46,139,954	2,398,251	945,194	1,390,499	2,131,098	1,392,454	242,384	610,089	1,111,539	14,058,351
Construction and real estate development	2,934,240	172,201	48,788	75,440	108,127	34,809	10,893	23,804	27,071	690,271
Civil engineering construction	864,354	27,954	27,088	20,447	4,646	3,605	2,961	3,822	15,623	120,571
Other purposes	42,341,360	2,198,096	869,320	1,294,612	2,018,325	1,354,040	228,530	582,463	1,068,845	13,247,509
Large enterprises	14,919,231	612,165	260,510	276,313	885,038	325,445	101,668	160,104	287,006	5,436,446
SMEs and individual entrepreneurs	27,422,129	1,583,931	608,810	1,018,299	1,133,287	1,028,595	126,862	422,359	781,839	7,811,063
Rest of households	38,284,938	2,646,155	500,660	1,184,455	1,393,873	580,771	107,762	512,165	769,032	14,510,918
For house purchase	32,203,418	2,197,795	417,083	941,575	1,225,265	420,564	90,873	422,052	605,048	12,288,338
For consumption	3,285,595	293,760	46,961	92,918	92,007	136,607	7,531	55,315	90,174	1,120,240
Other purposes	2,795,895	154,600	36,616	149,962	76,601	23,600	9,358	34,798	74,810	1,102,340
TOTAL	119,993,982	5,187,231	1,473,377	2,927,962	3,783,706	2,006,168	970,045	1,197,269	2,394,740	30,604,525

Thousand euro

	2019 AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	-	3,968	7,656,942	16	180	166,542	537,025	-	-
General governments	69,491	200,384	1,724,337	40,956	241,551	658,006	664,432	78,261	38,149
Central governments	-	-	-	-	-	-	-	-	-
Rest	69,491	200,384	1,724,337	40,956	241,551	658,006	664,432	78,261	38,149
Other financial corporations and individual entrepreneurs	125	5,350	1,378,933	3,270	392	32,666	24,174	83	-
Non-financial corporations and individual entrepreneurs	138,741	2,008,521	11,220,806	1,098,702	451,494	4,507,992	2,230,047	191,230	16,562
Construction and real estate development	2,291	59,958	1,317,390	50,281	20,157	184,676	98,693	9,889	503
Civil engineering construction	2,917	59,799	415,282	6,887	4,580	35,871	111,784	519	-
Other purposes	133,533	1,888,766	9,488,134	1,041,534	426,757	4,287,445	2,019,570	181,822	16,059
Large enterprises	33,797	577,432	4,181,661	192,354	131,924	513,556	891,826	51,475	512
SMEs and individual entrepreneurs	99,736	1,309,334	5,306,473	849,180	294,833	3,773,889	1,127,745	130,347	15,547
Rest of households	134,177	791,874	5,015,644	2,081,432	162,817	6,576,926	1,178,491	78,893	67,863
For house purchase	99,265	583,112	4,162,789	1,809,437	127,980	5,674,616	1,015,379	58,025	64,202
For consumption	27,495	124,422	552,443	123,769	19,477	417,210	80,831	12,552	1,883
Other purposes	7,397	84,340	300,412	148,226	15,360	485,100	82,281	8,316	1,778
TOTAL	342,534	3,009,107	26,996,662	3,224,376	856,434	11,942,132	4,634,169	348,467	122,574

Sovereign risk exposure

The breakdown of exposure to sovereign risk, by type of financial instrument, applying the criteria required by the European Banking Authority (EBA), as at 31 December 2020 and 2019, is as follows:

Thousand euro

	2020											
	Sovereign debt securities							Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	*Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value to equity*	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	61,869	(98,627)	-	3,418,698	11,974,783	11,891,514	-	23,300	(13)	26,971,612	-	79.1%
Italy	5,013	-	-	-	2,792,307	-	-	-	-	2,797,320	-	8.2%
United States	-	-	2,516	509,136	300,555	159	-	-	-	812,366	-	2.4%
United Kingdom	-	-	-	1,336,434	617,616	11	-	-	-	1,954,061	-	5.7%
Portugal	5	-	-	-	925,500	-	-	-	-	925,505	-	2.7%
Mexico	-	-	-	328,974	101,017	-	-	-	-	429,991	-	1.3%
Rest of the world	3,540	-	-	109,619	38,565	61,210	-	-	-	212,934	-	0.6%
Total	**70,427**	**(98,627)**	**2,516**	**5,702,859**	**16,750,343**	**11,952,894**	**-**	**23,300**	**(13)**	**34,104,189**	**-**	**100%**

(*) Sovereign-exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (1,492 million euros as at 31 December 2020).

(***) Relates to commitments for cash purchases and sales of financial assets.

Thousand euro

	2019											
	Sovereign debt securities							Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	*Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value to equity*	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	339,989	(788,822)	-	2,960,341	10,411,251	11,880,466	-	19,679	(54)	24,822,850	-	69.1%
Italy	20,150	(54,598)	-	-	5,712,700	-	-	-	-	5,678,253	-	15.8%
United States	-	-	2,719	465,155	218,095	1	-	-	-	685,970	-	1.9%
United Kingdom	-	-	-	-	120,958	3	-	-	-	120,961	-	0.3%
Portugal	-	-	-	616,724	1,621,113	-	-	-	-	2,237,836	-	6.2%
Mexico	-	-	-	179,339	-	-	-	-	-	179,339	-	0.5%
Rest of the world	11,398	-	-	2,050,868	26,665	69,862	-	-	-	2,158,793	-	6.1%
Total	**371,537**	**(843,419)**	**2,719**	**6,272,427**	**18,112,781**	**11,873,332**	**-**	**19,679**	**(54)**	**35,906,002**	**-**	**100%**

(*) Sovereign-exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (687 million euros as at 31 December 2019).

(***) Relates to commitments for cash purchases and sales of financial assets.

Exposure to construction and real estate development sector

Details of lending for construction and real estate development and the relevant allowances are as follows: The loans and credits shown have been classified in terms of their intended purpose, and not by the debtor's statistical classification of economic activities in the European Community (NACE). This implies, for example, that if a debtor is: (a) a real estate company, but uses the financing for a purpose other than construction or real estate development, it is not included in this table; or (b) a company whose primary activity is not construction or real estate development, but where the loan is used for the financing of properties intended for real estate development, it is included in the table:

Million euro

	2020		
	Gross carrying amount	Excess value of the collateral	Adjustments due to impairment (*)
Lending for construction and real estate development (including land) (business in Spain)	3,099	766	161
Of which: risks classified as Stage 3	*228*	*107*	*117*

Million euro

	2019		
	Gross carrying amount	Excess value of the collateral	Adjustments due to impairment (*)
Lending for construction and real estate development (including land) (business in Spain)	**3,105**	**747**	**221**
Of which: risks classified as Stage 3	*437*	*161*	*197*

(*) Allowances for the exposure for which the bank retains the credit risk. Does not include allowances for exposures with transferred risk.

Million euro

	Gross carrying amount	
Memorandum item	**2020**	**2019**
Write-offs (*)	44	145

Million euro

	Amount	Amount
Pro-memoria:	**2020**	**2019**
Loans to customers, excluding General Governments (business in Spain) (carrying amount)	88,196	87,450
Total assets (total business) (carrying amount)	235,763	234,447
Allowances and provisions for exposures classed as Stage 2 or Stage 1 (total operations)	913	669

(*) Refers to lending for construction and real estate development reclassified as write-offs during the year.

The breakdown of lending for construction and real estate development for transactions registered by credit institutions (business in Spain) is as follows:

Million euro

	Gross carrying amount 2020	Gross carrying amount 2019
Not secured with real estate	**719**	**519**
Secured with real estate	**2,380**	**2,585**
Buildings and other finished constructions	883	1,176
Housing	630	815
Rest	253	361
Buildings and other construction in progress	1,234	1,003
Housing	1,165	950
Rest	69	52
Land	262	407
Consolidated urban land	225	361
Other land	37	46
Total	**3,099**	**3,105**

The figures shown do not show the total value of guarantees received, but rather the net carrying value of the associated exposure.

Guarantees received associated with lending for construction and real estate development are shown hereafter, for both periods:

Million euro

Guarantees received	2020	2019
Value of collateral	2,425	2,415
Of which: securing Stage 3 loans	*94*	*204*
Value of other guarantees	328	202
Of which: securing Stage 3 loans	*10*	*22*
Total value of guarantees received	**2,753**	**2,617**

The breakdown of lending to households for house purchase for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

	2020	
	Gross carrying amount	*Of which: securing Stage 3 loans*
Lending for house purchase	**33,953**	**819**
Not secured with real estate	475	*41*
Secured with real estate	33,478	*778*

Million euro

	2019	
	Gross carrying amount	*Of which: securing Stage 3 loans*
Lending for house purchase	**34,018**	**1,316**
Not secured with real estate	537	*113*
Secured with real estate	33,481	*1,203*

The tables below show mortgage-secured lending to households for house purchase broken down by the loan-to-value of transactions recorded by credit institutions (business in Spain):

Million euro

	2020	
	Gross amount	*Of which: securing Stage 3 loans*
LTV ranges	**33,478**	***778***
LTV <= 40%	6,103	*87*
40% < LTV <= 60%	8,709	*131*
60% < LTV <= 80%	10,733	*160*
80% < LTV <= 100%	4,475	*165*
LTV > 100%	3,459	*236*

Million euro

	2019	
	Gross amount	*Of which: securing Stage 3 loans*
LTV ranges	**33,481**	**1,203**
LTV <= 40%	6,008	*120*
40% < LTV <= 60%	8,402	*169*
60% < LTV <= 80%	10,173	*245*
80% < LTV <= 100%	4,678	*231*
LTV > 100%	4,220	*438*

Lastly, the table below gives details of assets foreclosed or received in lieu of debt by the consolidated Group entities, for transactions recorded by credit institutions within Spain as at 31 December 2020 and 2019:

Million euro

	2020			
	Gross carrying amount	Allowances	*Gross amount (*)*	*Allowances (*)*
Real estate assets acquired through lending for construction and real estate development	**747**	**240**	***713***	***259***
Finished buildings	690	214	*654*	*230*
Housing	439	125	*413*	*137*
Rest	251	89	*241*	*93*
Buildings under construction	12	5	*8*	*4*
Housing	11	5	*7*	*4*
Rest	0	-	*0*	*0*
Land	44	21	*51*	*25*
Building land	25	11	*31*	*14*
Other land	19	10	*20*	*11*
Real estate assets acquired through mortgage lending to households for house purchase	**629**	**180**	***632***	***231***
Rest of real estate assets foreclosed or received in lieu of debt	**28**	**7**	***29***	***12***
Capital instruments foreclosed or received in lieu of debt	**14**	**0**	-	-
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
Financing to institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
TOTAL	**1,418**	**427**	**1,373**	**502**

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales (see reconciliation between assets foreclosed or received in payment of debt and non-performing assets, below).

Million euro

	2019			
	Gross carrying amount	Allowances	*Gross amount (*)*	*Allowances (*)*
Real estate assets acquired through lending for construction and real estate development	**2,382**	**1,007**	***676***	***234***
Finished buildings	759	168	*593*	*195*
Housing	521	110	*385*	*121*
Rest	238	57	*209*	*73*
Buildings under construction	328	111	*14*	*8*
Housing	327	111	*13*	*7*
Rest	1	-	*1*	*1*
Land	1,296	728	*69*	*32*
Building land	484	220	*27*	*10*
Other land	812	508	*42*	*22*
Real estate assets acquired through mortgage lending to households for house purchase	**442**	**86**	***509***	***160***
Rest of real estate assets foreclosed or received in lieu of debt	-	-	-	-
Capital instruments foreclosed or received in lieu of debt	**25**	**9**	-	-
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
Financing to institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
TOTAL	**2,849**	**1,102**	**1,185**	**394**

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales.

The table below sets out the reconciliation between assets foreclosed or received in lieu of debt and real estate assets considered non-performing by the Group as at 31 December 2020 and 2019:

Million euro

	2020		
	Gross amount	Allowances	Net carrying value
Total real estate portfolio in the national territory (in books)	**1,404**	**427**	**977**
Performing real estate (*)	(16)	(2)	(14)
Total operations outside the national territory and others	22	7	15
Provision allocated in original loan	242	242	-
Credit risk transferred in portfolio sales	(279)	(172)	(107)
Total non-performing real estate	**1,373**	**502**	**871**

(*) Performing real estate refers to assets classified as investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment, on which a profit is expected to be realised.

Million euro

	2019		
	Gross amount	Allowances	Net carrying value
Total real estate portfolio in the national territory (in books)	**2,824**	**1,093**	**1,731**
Performing real estate (*)	(41)	(1)	(39)
Total operations outside the national territory and others	24	7	18
Provision allocated in original loan	275	275	-
Credit risk transferred in portfolio sales (**)	(1,897)	(980)	(918)
Total non-performing real estate	**1,185**	**394**	**791**

(*) Performing real estate refers to assets classified as investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment, on which a profit is expected to be realised.

(**) Relates mainly to the Solvia Desarrollos Inmobiliarios, S.L.U. sale (see note 2).

Loans and advances subject to statutory and sector moratoria and financing granted subject to government guarantee schemes

Below is certain information as at 31 December 2020 on the loans and credits granted by the Group that are subject to statutory or sector moratoria, as well as the financing granted that has benefited from the government guarantee schemes established to enable the Group's customers to cope with the impact of COVID-19:

Thousand euro

	31/12/2020						
	Gross carrying amount	Performing	Of which: exposures with forbearance measures	Of which: instruments with significant increase in credit risk since initial	Non performing	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
Loans and advances subject to moratorium	**3,197,211**	**2,865,616**	**189,727**	**1,275,154**	**331,585 (*)**	**257,009**	**307,689**
Of which: Households	2,863,089	2,536,220	181,770	1,226,601	326,869	256,373	306,906
Of which: Collateralised by residential immovable property	2,604,776	2,317,591	161,727	1,139,159	287,185	220,652	269,379
Of which: Non-financial corporations	334,157	329,381	7,957	48,553	4,726	636	782
Of which: Small and Medium-sized Enterprises	227,431	222,706	7,957	36,687	4,726	636	782
Of which: Collateralised by commercial immovable property	183,349	182,628	6,918	45,752	721	674	721

(*) Of which [illegible] million correspond to stage 3 transactions

Thousand euro

	31/12/2020						
	Accumulated impairment, accumulated negative changes in fair value due to credit risk	Performing	Of which: exposures with forbearance measures	Of which: instruments with significant increase in credit risk since initial recognition but not credit-	Non performing	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
Loans and advances subject to moratorium	**(76,531)**	**(42,223)**	**(14,198)**	**(36,258)**	**(34,308)**	**(29,896)**	**(31,657)**
Of which: Households	(68,361)	(36,007)	(11,158)	(31,758)	(32,354)	(29,847)	(30,949)
Of which: Collateralised by residential immovable property	(53,894)	(27,182)	(9,254)	(24,068)	(26,712)	(24,942)	(25,919)
Of which: Non-financial corporations	(8,169)	(6,215)	(3,040)	(4,500)	(1,954)	(49)	(107)
Of which: Small and Medium-sized Enterprises	(7,636)	(5,681)	(3,040)	(4,275)	(1,954)	(49)	(107)
Of which: Collateralised by commercial immovable property	(4,955)	(4,864)	(2,950)	(4,338)	(91)	(33)	(91)

	31/12/2020							
				Residual maturity of moratoria				
	Gross carrying amount	Of which: legislative moratoria	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratorium was offered	9,195,082	6,296,696	5,597,872	1,589,324	1,266,121	332,826	8,939	-
Loans and advances subject to moratorium (granted)	8,834,333	6,075,190	5,971,244	1,520,515	1,134,637	202,710	5,228	-
Of which: Households	8,118,258	5,792,984	5,513,482	1,370,380	1,045,157	184,732	4,539	-
Of which: Collateralised by residential immovable property	380,734	221,491	28,627	48,794	151,484	130,116	3,714	-
Of which: Non-financial corporations	246,083	177,384	20,682	48,794	86,588	86,337	3,713	-
Of which: Small and Medium-sized Enterprises	194,538	194,211	11,190	43,838	24,080	115,816	117	-
Of which: Collateralised by commercial immovable property	-	-	-	-	-	-	-	-

Thousand euro

	31/12/2020		
	Gross carrying amount	*Of which: forborne*	Maximum amount of the guarantee that can be considered
			Public guarantees received
Newly originated loans and advances subject to public guarantee schemes	8,679,922	216,875	6,163,719
Of which: Households	942,257	-	-
Of which: Collateralised by residential immovable property	-	-	-
Of which: Non-financial corporations	7,734,462	193,912	5,953,889
Of which: Small and Medium-sized Enterprises	5,687,668	-	-
Of which: Collateralised by commercial immovable property	7,921	-	-

The credit exposure of large companies and SMEs to the sectors most sensitive to COVID-19 in the Banking Business Spain as at 31 December 2020 is detailed below:

Million euro / %

	31/12/2020		
	Gross performing loans to customers	Maximum risk exposure	ICO loans
Tourism, hospitality and leisure	5,878	6,732	19%
Transport	3,257	3,660	14%
Of which: airlines	*379*	*400*	*9%*
Automotive	1,356	1,528	25%
Non-essential retail	1,186	1,386	30%
Oil	240	341	
Total sectors most sensitive to COVID-19	11,917	13,647	19%
% of total	8%	7%	

Schedule VII – Annual banking report

INFORMATION REQUIRED UNDER ARTICLE 89 OF DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 26 JUNE 2013

This information has been prepared pursuant to Article 89 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directive 2006/48/EC and Directive 2006/49/EC, and the transposition thereof into Spanish national legislation in accordance with Article 87 and Transitional Provision 12 of Law 10/2014 of 26 June on the management, supervision and solvency of credit institutions published in the Official State Gazette of 27 June 2014.

In accordance with the above regulations, the following information is presented on a consolidated basis and corresponds to the end of the 2020 financial year:

Thousand euro

	Revenue	No. full time equivalents	Gross income before tax	Corporation tax
Spain	4,034,691	15,712	98,084	83,228
United Kingdom	948,602	6,751	(287,727)	55,198
Mexico	108,386	498	1,317	1,614
United States	141,654	243	63,126	(15,875)
Rest	68,822	254	4,371	(326)
Total	**5,302,155**	**23,458**	**(120,829)**	**123,839**

As at 31 December 2020, the return on Group assets, calculated by dividing the consolidated gains/(losses) for the year by total assets, amounts to 0.00%.

This information is available in Schedule I to these Group consolidated annual financial statements for the year ended 31 December 2020, in which the companies operating in each jurisdiction are listed, including among other details their corporate names, geographical location and line of business.

As can be seen in Schedule I, the main activity carried out by the Group in the different jurisdictions in which it operates is banking, and fundamentally commercial banking through a wide range of products and services for large and medium-sized enterprises, SMEs, retailers and self-employed workers, professional groups, other individuals and Bancassurance.

For the purposes of this information, business turnover is regarded as the gross income recognised on the consolidated income statement for December 2020. Data on full-time equivalent staff has been obtained from the workforce of each company/country as at the end of 2020.

The amount of public subsidies and aid received is not material.

Glossary of terms in connection with alternative performance metrics

In presenting its results to the market and for tracking its business performance and making decisions, the Group uses performance metrics that conform to generally accepted accounting principles (EU-IFRS) and also other unaudited metrics that are commonly used in the banking industry (alternative performance metrics — APMs) as indicators of asset and liability performance and the Group's financial status, which facilitate comparison with other institutions.

In line with ESMA guidelines on APMs (ESMA/2015/1415en dated October 2015), whose purpose is to promote the usefulness and transparency of information for the protection of investors in the European Union, the Group presents the definition, calculation and reconciliation of the APMs in this section.

Equivalence of headings from the income statement of businesses and management units that appear in the note on “Segment information” and in the Directors’ Report with those of the consolidated income statement (*)

Net fees and commissions:
- Fee and commission income.
- (Fee and commission expenses).

Core revenue:
- Net interest income.
- Fee and commission income.
- (Fee and commission expenses).

Other operating income and expenses:
- Other operating income.
- (Other operating expenses).

Operating expenses, depreciation and amortisation:
- (Administrative expenses).
- (Depreciation and amortisation).

Pre-provisions income:
- Gross income.
- (Administrative expenses).
- (Depreciation and amortisation).

Provisions and impairments
- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or gains).
- (Provisions or (-) reversal of provisions).
- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excludes gains or (-) losses on the sale of equity holdings).
- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (including only gains or (-) losses on the sale of investment properties).

Provisions for loan losses:

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification gains or (-) losses).
- (Provisions or (-) reversal of provisions) (only includes commitments and guarantees given).

Provisions for other financial assets:

- (Provisions or (-) reversal of provisions) (excludes commitments and guarantees given).

Other provisions and impairments:

- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excludes gains or (-) losses on the sale of equity holdings).
- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (only includes the gain or (-) loss on the sale of investment properties).

Capital gains on asset sales and other revenue:

- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (excludes gains or losses on the sale of investment properties).
- Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (only includes gains or (-) losses on the sale of equity holdings).

(*) Sub-headings in the consolidated income statement expressed in brackets denote negative figures.

Glossary of terms on alternative performance measures

In the presentation of its results to the market, and for the purpose of monitoring the business and decision-making processes, the Group uses performance indicators pursuant to the generally accepted accounting regulations (EU-IFRS), and also uses other non-audited measures commonly used in the banking industry (Alternative Performance Measures, or "APMs") as monitoring indicators for the management of assets and liabilities, and the financial and economic situation of the Group, which facilitates its comparison with other institutions.

Following the ESMA guidelines on APMs (ESMA/2015/1415 of October 2015), the purpose of which is to promote the use and transparency of information for the protection of investors in the European Union, the Group presents below, for each APM, the definition, calculation and use or purpose. Their reconciliation is also shown below.

Performance measure	Definition and calculation	Use or purpose
Gross performing loans to customers	Includes gross customer loans and advances, excluding repos, accrual adjustments and Stage 3 assets.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Gross loans to customers	Includes loans and advances to customers excluding impairment allowances.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
On-balance sheet customer funds	Includes customer deposits (ex-repos) and other liabilities sold by the branch network (Banco Sabadell straight bonds, commercial paper and others).	Key figure in the Group's consolidated balance sheet, the performance of which is monitored.
On-balance sheet funds	Includes the following accounting sub-headings: customer deposits, debt securities in issue (borrowings, other marketable securities and subordinated liabilities).	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Off-balance sheet customer funds	Includes mutual funds, asset management, pension funds and insurance products sold.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Funds under management and third-party funds	The sum of on-balance sheet funds and off-balance sheet customer funds.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.

Customer spread	Difference between yield and costs of customer-related assets and liabilities. Calculated as the difference between the average rate that the Bank charges its customers for loans and the average rate that the Bank pays its customers for deposits. The average rate on customer loans and advances is the annualised ratio, in percentage terms, between financial revenues booked on customer loans and advances and the average daily balance of customer loans and advances. The average rate on customer funds is the annualised ratio, in percentage terms, between the financial cost booked on customer funds and the average daily balance of customer funds.	It reflects the profitability of purely banking activity.
Other assets	Comprises the following accounting items: derivatives - hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax assets, other assets, assets under insurance or reinsurance contracts and non-current assets and disposal groups classified as held for sale.	Key figure among the main indicators of a financial institution's business , the performance of which is monitored.
Other liabilities	Comprises the following accounting items: derivatives - hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax liabilities, other liabilities and liabilities included in disposal groups classified as held for sale.	Key figure among the main indicators of a financial institution's business , the performance of which is monitored.
Other operating income and expenses	Comprises the following accounting items: other operating income and other operating expenses as well as income from assets and expenses from liabilities under insurance or reinsurance contracts.	Grouping of items used to explain part of the performance of the Group's consolidated results.
Pre-provisions income	Comprises the following accounting items: Gross income plus administrative expenses and depreciation and amortisation.	It is one of the key figures that reflects the performance of the Group's consolidated results.
Total provisions and impairments	Comprises the following accounting items: (i) impairment or reversal of impairment of financial assets not measured at fair value through profit or loss and net modification losses or gains; (ii) provisions or reversal of provisions; (iii) impairment or reversal of impairment of investments in joint ventures or associates; (iv) impairment or reversal of impairment of non-financial assets; (v) gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excludes gains or (-) losses on the sale of equity holdings).; and (vi) gains or losses on derecognition of non-financial assets and equity holdings, net (including only gains or losses on the sale of investment properties).	Grouping of items used to explain part of the performance of the Group's consolidated results.
Capital gains on asset sales and other revenue	Comprises the following accounting items: (i) gains or (-) losses on derecognition of non-financial assets and equity holdings, net (excluding gains or (-) losses on the sale of investment properties) and (ii) gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (including only gains or losses on the sale of equity holdings).	Grouping of items used to explain part of the performance of the Group's consolidated results.

ROA	Consolidated profit or loss for the year / Average total assets. The numerator is the annualisation of the profit obtained to date, except for the capital gain on the sale of Solvia Servicios Inmobiliarios, S.L. in 2019. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end. **Average total assets:** arithmetic mean calculated as the sum of the daily balances for the reference period and divided by the number of days in said period.	A measure commonly used in the financial sector to determine the accounting return on Group assets.
RORWA	Profit attributable to the Group / Risk weighted assets (RWAs). **Risk-weighted assets:** total assets of a credit institution, multiplied by its respective risk factors (risk weights). Risk factors reflect the perceived level of risk of a particular asset class.	A measure commonly used in the financial sector to determine the accounting return on risk-weighted assets.
ROE	Profit attributable to the Group / Average shareholders' equity. **Average shareholders' equity:** average shareholders' equity calculated using the month-end balance since December of the previous year.	A measure commonly used in the financial sector to determine the accounting return on the Group's shareholders' equity.
ROTE	Profit attributable to the Group / Average shareholders' equity. The denominator excludes intangible assets and goodwill of investees. **Average shareholders' equity:** average shareholders' equity calculated using the month-end balance since December of the previous year.	Additional measure of the accounting return on own funds, but excluding goodwill from its calculation.
Cost-to-income ratio	Administrative expenses / Adjusted gross income.	Main indicator of efficiency or productivity of banking activity.
Stage 3 exposures	The sum of the following accounting items: loans and advances to customers classified as Stage 3 and not classified as non-current assets held for sale, together with guarantees given classified as Stage 3.	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and to assess its management.
NPL coverage ratio of Stage 3 (with total provisions)	Percentage of exposures classified as Stage 3 (doubtful) that are covered by total provisions. Calculated as impairment of loans and advances to customers (including provisions for guarantees given) / Total exposures classified as Stage 3 (doubtful) (including guarantees given classified as Stage 3).	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and shows the provisions that the institution has allocated for loans classified as Stage 3.

NPL coverage ratio of Stage 3	Percentage of exposures classified as stage 3 that are covered by Stage 3 provisions. Calculated as impairment of Stage 3 customer loans and advances (including provisions for Stage 3 guarantees given) / Total Stage 3 exposures (including guarantees given classified as Stage 3).	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and shows the Stage 3 provisions that the institution has allocated for loans classified as Stage 3.
NPA exposures	The sum of risks classified as Stage 3 plus non-performing real estate assets. Non-performing real estate assets are foreclosed properties or properties accepted in payment of debt and properties classified in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment properties with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment.	Indicator of total exposure to risks classified as Stage 3 and to non-performing real estate assets.
Non-performing real estate coverage ratio	The non-performing real estate coverage ratio is obtained by dividing provisions for non-performing real estate assets by total non-performing real estate assets. **Non-performing real estate assets**: foreclosed properties or properties accepted in payment of debt and properties classified in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment properties with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment.	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of real estate risk and shows the provisions that the institution has allocated for real estate exposure.
NPA coverage ratio	This is calculated by dividing the provisions associated with non-performing assets by total non-performing assets.	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk and real estate risk, and it shows the provisions that the institution has allocated for non-performing exposures.
NPL ratio	Exposures classified as Stage 3 expressed as a percentage of total exposures granted to customers that are not classified as non-current assets held for sale. All components of the calculation are headings or sub-headings of the financial statements.. Calculated as the ratio of exposures classified as Stage 3, including guarantees given classified as Stage 3 / Loans to customers not classified as non-current assets held for sale and guarantees given. (See the definition of Stage 3 exposures in this table).	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and to assess its management.
Cost of risk (bps)	The ratio between provisions for loan losses / loans to customers and guarantees given. The numerator is adjusted to account for costs associated with managing assets classified as Stage 3 and provisions for institutional portfolio sales.	A relative measure of risk, being one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk through the cost or loss due to financial asset impairments that have taken place in one year.

Loan-to-deposit ratio	Net loans and receivables in retail funding. Calculated by subtracting brokered loans from the numerator. The denominator consists of retail funding or customer funds, as defined in this table.	It measures the Bank's liquidity through the ratio of its available funds to the volume of loans granted to customers. Liquidity is one of the material aspects that define the structure of an institution.
Market capitalisation	Calculated by multiplying the share price by the average number of shares outstanding as at the reporting date.	It is an economic market measurement or market ratio that indicates the total value of a company according to its market price.
Earnings (or loss) per share (EPS)	Calculated by dividing the net profit (or loss) attributable to the Group by the average number of shares outstanding as at the reporting date. The numerator is adjusted to account for the amount of the Additional Tier 1 coupon recognised in equity, after tax.	It is an economic measurement or market ratio that indicates a company's profitability, and it is one of the measurements used most frequently to assess institutions' performance.
Book value per share	Book value / Average number of shares as at the reporting date. The book value is the sum of shareholders' equity.	It is an economic market measurement or market ratio that indicates the book value per share.
TBV per share	Tangible book value / Average number of shares outstanding as at the reporting date. The tangible book value is the sum of shareholders' equity adjusted to account for intangible assets and goodwill of investees.	It is an economic market measurement or market ratio that indicates the tangible book value per share.
Price/Book value	Share price or value / Book value per share.	Economic measurement or market ratio commonly used by the market, which represents the listed price of a share relative to its book value.
Price / Earnings ratio (P/E)	Share price or value / Net earnings (or loss) per share.	Economic measurement or market ratio commonly used by the market to determine a company's ability to generate future earnings.

APMs reconciliation (data in million euros, with the exception of those shown in percentages).

BALANCE SHEET	31/12/2020	31/12/2019
Gross loans to customers / Gross performing loans to customers		
Mortgage loans & credit	83.573	83.720
Loans and credit secured with other collateral	3.698	3.330
Commercial loans	4.991	6.443
Finance leases	2.230	2.558
Overdrafts, etc.	52.386	48.521
Gross performing loans to customers	**146.878**	**144.572**
Stage 3 assets (customers)	5.320	5.923
Accrual adjustments	3	18
Gross loans to customers, excluding repos	**152.201**	**150.513**
Repos	63	236
Gross loans to customers	**152.265**	**150.749**
Impairment allowances	(3.081)	(2.933)
Loans and advances to customers	**149.183**	**147.816**
On-balance sheet customer funds		
Financial liabilities measured at amortised cost	217.391	205.636
Non-retail financial liabilities	66.612	59.327
Deposits - central banks	31.881	20.065
Deposits - credit institutions	10.083	11.471
Institutional issues	20.905	23.623
Other financial liabilities	3.743	4.168
On-balance sheet customer funds	**150.778**	**146.309**
On-balance sheet funds		
Customer deposits	151.270	147.362
Sight deposits	130.295	118.868
Deposits with agreed maturity, including deposits redeemable at notice, and hybrid financial liabilities	20.805	27.339
Repos	13	951
Accrual adjustments and hedging derivatives	157	204
Debt securities in issue	17.510	19.514
Subordinated liabilities (*)	2.903	3.056
On-balance sheet funds	**171.683**	**169.932**
Off-balance sheet customer funds		
Mutual funds	21.366	26.003
Asset management	3.298	3.363
Pension funds	3.349	3.367
Insurance products sold	10.051	10.430
Off-balance sheet customer funds	**38.064**	**43.163**
Funds under management and third-party funds		
On-balance sheet funds	171.683	169.932
Off-balance sheet customer funds	38.064	43.163
Funds under management and third-party funds	**209.748**	**213.095**

(*) Subordinated liabilities in connection with debt securities.

BALANCE SHEET	31/12/2020	31/12/2019
Other assets		
Derivatives - Hedge accounting	550	469
Fair value changes of the hedged items in portfolio hedge of interest rate risk	459	250
Tax assets	7.152	7.008
Other assets	908	1.496
Non-current assets and disposal groups classified as held for sale	976	764
Other assets	**10.044**	**9.987**
Other liabilities		
Derivatives - Hedge accounting	783	729
Fair value changes of the hedged items in portfolio hedge of interest rate risk	372	235
Tax liabilities	206	241
Other liabilities	883	784
Liabilities included in disposal groups classified as held for sale	-	10
Other liabilities	**2.244**	**1.998**

INCOME STATEMENT	31/12/2020	31/12/2019
Customer spread		
Loans and advances to customers (net)		
Average balance	144.207	139.674
Profit/(loss)	3.628	4.058
Rate (%)	2,52	2,91
Customer deposits		
Average balance	152.495	147.551
Profit/(loss)	(223)	(392)
Rate (%)	(0,15)	(0,27)
Customer spread	**2,37**	**2,64**
Other operating income and expenses		
Other operating income	225	234
Other operating expenses	(509)	(551)
Income from assets under insurance or reinsurance contracts	-	-
Expenses on liabilities under insurance or reinsurance contracts	-	-
Other operating income and expenses	**(284)**	**(317)**

	31/12/2020	31/12/2019
Pre-provisions income		
Gross income	5.302	4.932
Administrative expenses	(2.938)	(2.743)
Staff expenses	(1.885)	(1.649)
Other general administrative expenses	(1.054)	(1.095)
Depreciation and amortisation	(523)	(470)
Pre-provisions income	**1.841**	**1.719**
Total provisions and impairments		
Impairment or reversal of impairment on investments in joint ventures and associates	(0)	7
Impairment or reversal of impairment on non-financial assets, adjusted	(37)	(82)
Impairment or reversal of impairment on non-financial assets	(40)	(86)
Gains or losses on sale of investment properties	4	4
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, adjusted	(217)	(168)
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	103	(36)
Gains on sale of equity holdings	(320)	(133)
Other provisions and impairments	**(254)**	**(244)**
Provisions or reversal of provisions	(275)	(27)
Impairment or reversal of impairment and gains or losses on changes in cash flows from financial assets not measured at fair value through profit or loss and net modification losses or gains	(1.745)	(667)
Provisions for loan losses and financial assets	**(2.020)**	**(694)**
Total provisions and impairments	**(2.275)**	**(938)**
Capital gains on asset sales and other revenue		
Gains or losses on derecognition of non-financial assets, net	(3)	41
Gains on sale of equity holdings	320	133
Gains or losses on sale of investment properties	(4)	(4)
Capital gains on asset sales and other revenue	**313**	**170**

PROFITABILITY AND EFFICIENCY	31/12/2020	31/12/2019
ROA		
Consolidated profit or loss for the year	3	777
Average total assets	227.639	223.470
ROA (%)	**0,00**	**0,35**
RORWA		
Net profit attributable to the Group	2	768
Risk-w eighted assets (RWAs)	78.779	81.231
RORWA (%)	**0,00**	**0,95**
ROE		
Net profit attributable to the Group	2	768
Average shareholders' equity	13.151	12.926
ROE (%)	**0,02**	**5,94**
ROTE		
Net profit attributable to the Group	2	768
Average shareholders' equity (excluding intangible assets)	10.558	10.418
ROTE (%)	**0,02**	**7,37**
Cost-to-income ratio		
Administrative expenses	(2.938)	(2.743)
Gross income	5.302	4.932
Cost-to-income ratio (%)	**55,41**	**55,63**

RISK MANAGEMENT	31/12/2020	31/12/2019
Stage 3 exposures		
Loans and advances to customers	5.351	5.942
Stage 3 guarantees given	457	198
Stage 3 exposures	**5.808**	**6.141**
NPL coverage ratio of Stage 3 (*with total provisions*)		
Provisions for loan losses	3.279	3.045
Stage 3 exposures	5.808	6.141
NPL coverage ratio of Stage 3 (*with total provisions*) (%)	**56,5%**	**49,6%**
NPL coverage ratio of Stage 3		
Provisions for Stage 3 loan losses	2.272	2.316
Stage 3 exposures	5.808	6.141
NPL coverage ratio of Stage 3 (%)	**39,1%**	**37,7%**
Non-performing real estate coverage ratio		
Provisions for non-performing real estate assets	502	394
Non-performing real estate assets	1.373	1.185
Non-performing real estate coverage ratio (%)	**36,6%**	**33,3%**
NPA exposures		
Stage 3 exposures	5.808	6.141
Non-performing real estate assets	1.373	1.185
NPA exposures	**7.182**	**7.326**
NPA coverage ratio		
Provisions for non-performing assets	3.781	3.439
Non-performing assets	7.182	7.326
NPA coverage ratio (%)	**52,6%**	**46,9%**
NPL ratio		
Stage 3 exposures	5.808	6.141
Loans to customers and guarantees given	161.474	160.127
NPL ratio (%)	**3,6%**	**3,8%**
Cost of risk (bps)		
Loans to customers and guarantees given	**161.474**	**160.127**
Provisions for loan losses	(1.832)	(672)
NPL expenses	(117)	(140)
Provisions for institutional portfolio sales	(325)	(24)
Cost of risk (bps)	**86**	**32**

LIQUIDITY MANAGEMENT	31/12/2020	31/12/2019
Loan-to-deposit ratio		
Net loans and advances excluding ATAs, adjusted for brokered loans	147.143	144.246
On-balance sheet customer funds	150.778	146.309
Loan-to-deposit ratio (%)	**97,6%**	**98,6%**

SHAREHOLDERS AND SHARES	31/12/2020	31/12/2019
Average number of shares (million)	5.582	5.538
Listed price	0,354	1,040
Market capitalisation (million euros)	**1.976**	**5.760**
Adjusted profit attributable to the Group	(71)	695
Profit attributable to the Group	2	768
Adjustment for accrued AT1	(73)	(73)
Average number of shares (million)	5.582	5.538
Earnings per share (euros)	**(0,01)**	**0,13**
Shareholders' equity	12.944	13.172
Average number of shares (million)	5.582	5.538
Book value per share (euros)	**2,32**	**2,38**
Shareholders' equity	12.944	13.172
Intangible assets	2.622	2.594
Tangible book value (adjusted shareholders' equity)	10.322	10.578
Average number of shares (million)	5.582	5.538
TBV per share	**1,85**	**1,91**
Listed price	0,354	1,040
Book value per share (euros)	2,32	2,38
Price/Book value	**0,15**	**0,44**
Listed price	0,354	1,040
Earnings per share (euros)	(0,01)	0,13
Price / Earnings ratio (P/E)	**(27,75)**	**8,29**

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Independent Auditor's Report on the Consolidated financial statements

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

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

Opinion

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

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2020 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

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

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

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

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

Key Audit Matters

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

Impairment of loans and advances to other debtors

See notes 1, 2, 4.4.2 and 11 to the consolidated financial statements

Key audit matter	*How the matter was addressed in our audit*
The Group's portfolio of loans and advances to other debtors reflects a net balance of Euros 149,183 million at 31 December 2020, while allowances and provisions recognised at that date for impairment total Euros 3,081 million. For the purposes of estimating impairment, financial assets measured at amortised cost are classified into three categories (Stage 1, 2 or 3) according to whether a significant increase in credit risk since their initial recognition has been identified (Stage 2), whether the financial assets are credit-impaired (Stage 3), or whether neither of the foregoing circumstances apply (Stage 1). For the Group, establishing this classification is a relevant process inasmuch as the calculation of the credit risk provision varies depending on the category in which the financial asset has been included. Impairment is calculated based on an expected loss model, which the Group estimates on both an individual and a collective basis. This calculation entails a considerable level of judgement as this is a significant and complex estimate. Individual provisions consider estimates of future business performance and the market value of collateral provided for credit transactions. For the collective analysis, estimates of expected losses are calculated using internal models that use large databases, different macroeconomic scenarios, parameters to estimate provisions, segmentation criteria and automated processes, which are complex in their design and implementation and require past, present and future information to be considered. The Group regularly conducts recalibrations and tests of its internal models in order to improve their predictive capabilities based on actual historical experience. The COVID-19 pandemic is affecting the economy and business activities of the countries where the Group operates, leading to an economic recession in	Our audit approach in relation to the Group's estimate of impairment of loans and advances to other debtors due to credit risk included an assessment of the relevant controls associated with the processes for estimating impairment, as well as different tests of detail on that estimate, for which we involved our credit risk specialists. Our procedures related to the control environment focused on the following key areas: – Identifying the credit risk management framework and assessing the compliance of the Group's accounting policies with the applicable regulations. – Evaluating the appropriate classification of the loans and advances to other debtors portfolio based on their credit risk, in accordance with the criteria defined by the Group, particularly the criteria for identifying and classifying refinancing and restructuring transactions. – Testing of the relevant controls relating to the information available for the monitoring of loans outstanding. – Evaluating the design and implementation of the relevant controls over the management and measurement of collateral and guarantees. – Evaluating the correct functioning of the internal models for estimating both individual and collective provisions for expected losses. – Assessing the consideration of the aspects observed by the Internal Valuation Unit in the recalibration and tests of the models to estimate collective provisions. – Evaluating the integrity, accuracy and updating of the data used and of the control and management process in place.

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

Impairment of loans and advances to other debtors

See notes 1, 2, 4.4.2 and 11 to the consolidated financial statements

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

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

Recoverability of goodwill

See notes 1 and 16 to the consolidated financial statements

Key audit matter	*How the matter was addressed in our audit*
At 31 December 2020 the Group has recognised goodwill totalling Euros 1,026 million, from the acquisition of certain entities and businesses in Spain. The Group tests recognised goodwill for impairment annually, or when impairment indicators are identified. The measurement of goodwill requires that associated cash-generating units (CGUs) be determined, that the carrying amount of each CGU be calculated, that their recoverable amount be estimated and that any events that may indicate impairment be identified. This estimate entails, among other matters, financial projections that take into account, inter alia, the expected performance of macroeconomic variables and their impact on the CGU's future business, internal circumstances of the entity and its competitors and the performance of discount rates. These projections have taken into consideration the economic impact of the COVID-19 pandemic. Due to the high level of judgement and subjectivity of the assumptions and valuation techniques used for its estimate, also taking into consideration the situation triggered by the COVID-19 pandemic, the recoverability of goodwill has been considered a key audit matter.	Our audit procedures included analysing the key processes and controls established by management relating to the process followed by the Group to identify CGUs to which goodwill is associated, and evaluating the methodology and estimates used by the Group to determine their future impairment, which has been subject to assessment by the independent experts engaged by the Group. We also carried out procedures of detail in relation to the evaluation of goodwill impairment, particularly with regard to the reliability of the information used, the reasonableness of the methodology used to calculate the recoverable amount of the CGUs and of the main assumptions considered, as well as the reasonableness of the adjustments to the assumptions which have been affected by the impact of COVID-19. Lastly, we analysed whether the disclosures in the explanatory notes to the consolidated financial statements were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Group.

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Risks associated with information technology	
Key audit matter	*How the matter was addressed in our audit*
The Group operates in a complex technological environment that is constantly evolving and which must efficiently and reliably meet business requirements. The high level of dependence of these systems with regard to the processing of the Group's financial and accounting information, make it necessary to ensure that these systems function correctly. In this context, it is critical to ensure that management of the technological risks that could affect information systems is adequately coordinated and harmonised, in relevant areas such as data and program security, operating of systems, or development and maintenance of information applications and systems used to prepare financial information. We have therefore considered the risks associated with information technology to be a key audit matter.	With the help of our information systems specialists, we performed tests relating to internal control over the processes and systems involved in generating the financial information, in the following areas: • An understanding of the information flows and identification of the key controls that ensure the appropriate processing of the financial information. • Tests of the key automatic processes that are involved in generating the financial information. • Testing of the controls of the applications and systems related to accessing and processing the information and those related to the security settings of these applications and systems. • Testing of the operation, maintenance and development controls of applications and systems.

Other Information: Consolidated Directors' Report

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.

– Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital files of Banco de Sabadell, S.A. and its subsidiaries for 2020 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated financial statements for the aforementioned year and the XBRL files tagged by the Company, which will form part of the annual financial report.

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

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

In our opinion, the digital files examined fully correspond to the audited consolidated financial statements, and these are presented and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional Report to the Audit and Control Committee of the Parent

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

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

Contract Period

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

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

(Signed on the original in Spanish)

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