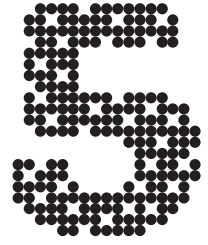


Businesses



- 83 Banking Business Spain
- 106 Banking Business UK
- 108 Banking Business Mexico

Below are the key figures associated with the Group's main business units, in accordance with the segment disclosures contained in note 38 to the 2020 consolidated financial statements.

Banking Business Spain

Key figures

Net profit amounted to 218 million euros in 2020, a year-on-year decrease due mainly to higher NPL provisions to tackle the impact of COVID-19 and to lower revenues from more sluggish activity as a result of the pandemic. The restructuring plan and a portion of the higher NPA provisions were funded by selling bonds from the portfolio at amortised cost.

Net interest income amounted to 2,400 million euros, down 5.0% on 2019, due mainly to lower revenues from the ALCO portfolio, reduced overdraft fees in the wake of COVID-19 measures, and lower revenues following the consumer loan securitisations in 2019, which were partly offset by higher volumes, lower wholesale funding costs and TLTRO III.

Net fees and commissions totalled 1,246 million euros, 4.4% lower than the previous year as a result of the decrease in activity caused by the pandemic lockdown and the sale of Sabadell Asset Management.

Income from financial transactions and exchange differences amounted to 770 million euros and include mainly the sale of bonds at amortised cost in the fourth quarter to finance the restructuring plans and disposals of non-performing asset portfolios.

Operating expenses totalled -1,991 million euros, a year-on-year increase of 14.0% due to the restructuring costs booked in the fourth quarter. Recurring expenses fell by 4.0% in the year as a result of improvements in both staff expenses and general expenses.

Provisions and impairments amounted to -2,007 million euros, i.e. higher than the previous year due mainly to increased provisions in the context of COVID-19, and as a result of the disposal of NPA portfolios in the fourth quarter of the year.

Capital gains from the sale of assets and other income rose year-on-year as a result of booking the sale of Sabadell Asset Management and completion of the sale of SDIn. The previous year's figure includes the sale of an 80% interest in Solvia Servicios Inmobiliarios and the earn-out of the insurance business.

Million euros

	2020	2019	Year-on-year change (%)
Net interest income	2,400	2,527	(5.0)
Fees and commissions (net)	1,246	1,304	(4.4)
Net banking revenues	3,646	3,831	(4.8)
Net trading income and exchange differences	770	110	599.9
Equity-accounted affiliates and dividends	37	61	(39.4)
Other operating income/expense	(271)	(288)	(5.8)
Gross income	4,182	3,714	12.6
Operating expenses and depreciation and amortisation	(2,344)	(2,070)	13.2
Pre-provisions income	1,838	1,644	11.8
Provisions and impairments	(2,007)	(850)	136.2
Capital gains on asset sales and other revenue	317	174	82.3
Profit/(loss) before tax	147	968	(84.8)
Corporation tax	71	(165)	(143.3)
Profit or loss attributed to minority interests	1	9	(88.8)
Profit attributable to the Group	218	794	(72.6)
Cumulative ratios			
ROE (profit / average shareholders' equity)	2.0%	7.3%	—
Cost-to-income (general administrative expenses / gross income)	47.6%	47.0%	—
NPL ratio	4.4%	4.7%	—
NPL coverage ratio of Stage 3	55.7%	50.5%	—

Banking Business Spain –
Income statement summary

Outstanding loans and advances amounted to 106,327 million euros, a 1.8% increase year-on-year, due mainly to granting ICO funding to enterprises, SMEs and self-employed persons. Isolating the impact of the APS, growth would have been 3.2%.

Customer funds on the balance sheet rose by 1.5% year-on-year, buoyed by demand accounts stemming from lower consumer spending and a reduction in payments during the lockdown by both individuals and enterprises. Off-balance sheet funds decreased by 11.8% year-on-year in the wake of the sale of Sabadell Asset Management.

Million euros

	2020	2019	Year-on-year change (%)
Assets	183,896	172,610	6.5
Outstanding gross loans and advances	106,327	104,436	1.8
Non-performing real estate assets (net)	871	791	10.2
Liabilities	173,664	161,695	7.4
On-balance sheet customer funds	110,572	108,890	1.5
Wholesale funding in the capital markets	18,332	19,912	(7.9)
Allocated capital	10,204	10,915	(6.5)
Off-balance sheet customer funds	38,064	43,163	(11.8)
Other indicators			
Employees	16,260	16,610	(2.1)
Branches	1,614	1,847	(12.6)

Banking Business
Spain – Balance
sheet summary

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

Commercial Banking

Highlights

- Support Plan: financing and liquidity solutions for our customers following the declaration of the State of Alarm in Spain due to COVID-19, by providing access to ICO liquidity and capex lines and loan holidays, among others, to enable them to weather the impact of the health crisis.
- Alliance with Amundi Asset Management to achieve the best range of mutual funds in Spain, particularly in the current context of negative interest rates.
- Intense activity in the property and casualty insurance, driven by the production of Blink policies and the co-insurance agreement with Sanitas.
- Significant progress with transforming the distribution model by making new digital and self-service capabilities available to customers.

Business overview

Commercial Banking encompasses the range of financial products and services for large and medium-sized companies, SMEs, shops, self-employed persons, professional groups, entrepreneurs and other private individuals, with a level of specialisation that enables it to provide a personalised and quality service to meet the specific needs of all its customers, through specialist staff working in its sizeable multibrand branch network or through digital channels. This ensures a good working relationship and operating standards regardless of which channel customers choose. It also includes the Bancassurance and Sabadell Consumer Finance businesses.

Management priorities in 2020

In 2020, efforts focused on helping our customers to manage the impact of the health crisis, maximising revenues against a backdrop of negative interest rates, and striving to secure customer loyalty on the basis of the relationship models defined for each segment.

New technological capacities were rolled out with the ultimate aim of ensuring an excellent customer experience.

Key figures

Net profit amounted to 123 million euros in 2020, a year-on-year decrease due mainly to higher NPL provisions to tackle the impact of COVID-19, and lower revenues from more sluggish activity as a result of the pandemic.

Commercial Banking

Customer segments

- Large corporates and SMEs
- Businesses
- Institutional Businesses
 - Public Institutions
 - Financial Institutions and Insurers
 - Religious Institutions
 - Professional Associations and Associate Banking
 - Official Agreements and Guarantees
- Private Banking
- Personal Banking
- Retail Banking
- Sabadell Colaboradores

Corporate segment specialists

- Tourist Hotel Business
- Agriculture
- Employer Providential Schemes
- Real Estate
- Franchising
- BStartup
- Companies Hub

Commercial Products

- Financial services
 - Payment
 - Cash Management Service
- Savings and Investment
- Funding Solutions
- Leases (finance or operating)
- Bancassurance
- International solutions

Sabadell Consumer finance

Gross income amounted to 3,012 million euros, less than in the previous year, and net banking revenues amounted to 3,164 million euros, a 4.5% decrease.

Net interest income amounted to 2,061 million euros, a 4.8% decline on the previous year, due mainly to lower interest rates, reduced revenues following consumer loan securitisations in 2019 and lower overdraft fees in the wake of measures to tackle the impact of COVID-19.

Equity-accounted profit and dividends amounted to 57 million euros, up 3.6% year-on-year due to good performance in Insurance and Pensions.

Net fees and commissions totalled 1,103 million euros, down 4.0% on the previous year as a result of the decrease in activity caused by the pandemic lockdown and the sale of Sabadell Asset Management.

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

Operating expenses and depreciation and amortisation charges totalled 1,611 million euros, i.e. 3.7% lower than in 2019.

Provisions and impairments amounted to 1,247 million euros, i.e. higher than the previous year due mainly to higher non-performing asset provisions in the context of COVID-19, and also as a result of the disposal of NPA portfolios.

Million euros

	2020	2019	Year-on-year change (%)
Net interest income	2,061	2,164	(4.8)
Fees and commissions (net)	1,103	1,149	(4.0)
Net banking revenues	3,164	3,313	(4.5)
Net trading income and exchange differences	9	(17)	(152.9)
Equity-accounted affiliates and dividends	57	55	3.6
Other operating income/expense	(218)	(203)	7.4
Gross income	3,012	3,148	(4.3)
Operating expenses and depreciation and amortisation	(1,611)	(1,673)	(3.7)
Pre-provisions income	1,401	1,475	(5.0)
Provisions and impairments	(1,247)	(455)	174.1
Capital gains on asset sales and other revenue	4	—	—
Profit/(loss) before tax	158	1,020	(84.5)
Corporation tax	(35)	(178)	(80.3)
Profit or loss attributed to minority interests	—	—	—
Profit attributable to the Group	123	842	(85.4)
Cumulative ratios			
ROE (profit / average shareholders' equity)	2.1%	14.0%	—
Cost-to-income (general administrative expenses / gross income)	48.1%	48.1%	—
NPL ratio	4.5%	5.4%	—
NPL coverage ratio	51.5%	46.7%	—

Commercial Banking –
Income statement summary

Gross loans and advances increased by 7.7%, while on-balance sheet customer funds rose by 4.8% and off-balance sheet customer funds fell by 12.0%, mainly in mutual funds after the sale of Sabadell Asset Management.

Million euros

	2020	2019	Year-on-year change (%)
Assets	195,836	187,710	4.3
Outstanding gross loans and advances	86,280	80,078	7.7
Liabilities	190,322	181,556	4.8
On-balance sheet customer funds	101,273	96,589	4.8
Allocated capital	5,514	6,154	(10.4)
Off-balance sheet customer funds	37,052	42,127	(12.0)
Other indicators			
Employees	11,722	11,642	—
Branches	1,589	1,822	—

Commercial Banking –
Balance sheet summary

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

Customer segments

Large corporates and SMEs

Banco Sabadell has stood shoulder-to-shoulder with its corporate customers, anticipating their needs through specialist advisers to help them make the best financial decisions.

In the first quarter of the year, the Bank launched Proposal 360, a new and different way of relating to customers, in which we offer them: anticipation, advice and support. Proposal 360 gives us a deeper understanding of our customers, enabling us to approach strategic topics and pinpoint opportunities, adapting to each customer's specific circumstances and supporting them in achieving their business goals.

In the second quarter, activity was hampered by COVID-19 and, as a result, some companies had trouble meeting payments. To help businesses, Banco Sabadell launched the Support Plan, making ICO credit facilities available to customers who needed finance. As part of the plan, more than 3,000 advisers contacted customers to assess their circumstances and offer them solutions tailored to their specific needs. Fast-tracked circuits were set up to simplify the decision-making processes and shorten response times. Moreover, an application was developed to enable customers to sign transactions online without having to visit a branch. As a result of these efforts, Banco Sabadell was one of the main players in this market, having channelled 7,690 million euros in ICO liquidity to SMEs and large corporations.

Banco Sabadell is also committed to sustainability as a means of transformation that drives business competitiveness and at the same generates a more positive social and environmental impact for people and for the planet. This year, stepping into its role as a key player in driving the transition towards a more sustainable economy, the Bank included sustainability in the content of its Proposal 360 initiative and the conversation between customers and advisers. An indicator was developed that uses a questionnaire to gauge the degree of awareness of SMEs and large corporates concerning sustainability and matters relating to ESG: environment, social and governance. Moreover, all branch network advisers and staff in this segment have received training in this area through the Group's online platform.

The challenge for this segment in 2021 is to continue scaling our Relationship Model, further strengthening our differentiation and specialisation. All this by providing more training to specialists, improving commercial processes, emphasising sustainability and the digital transition and being a major player in the European Recovery Fund as it is rolled out.

Businesses

2020 was generally a tough year for the self-employed, shops and other businesses and, although the impact has varied between segments, Banco Sabadell has supported all its customers. In addition, there has been a change in the way financial services are consumed, with less in-person activity and accelerating demand for digital services and capabilities.

Banco Sabadell began the year by continuing the process of specialisation which commenced in 2019, increasing the range of vertical proposals to 31 sectors of activity, and also launching Proposal 360 for this segment.

In the second quarter, at the outset of the economic crisis unleashed by the COVID-19 pandemic, Banco Sabadell launched a specialist support plan for business customers, with a dual goal in mind: to support our customers and to afford them the liquidity they needed to address this situation, enhancing our historical commitment to business.

In this context, and in response to consumer habits, the Bank intensified its focus on digitalising services, creating new online services and capabilities for businesses and accompanying our customers as they strive to set up alternative sales channels for their traditional business. These new services include:

- a broad portfolio of point-of-sale terminals to meet all sales needs (in person, home delivery, by telephone, social media or e-commerce).
- Pulso, the new tool for real-time tracking of the economic recovery in specific sectors and territories.
- Nomo, the digital tool to help our customers in their day-to-day accounting, available as an app and on the web.

Looking ahead to 2021, and given the challenges facing the segment, the Bank will continue to focus on increasing specialisation in management and digitalisation, with solutions tailored to the needs of the various sectors, guaranteeing the excellence of the operating model and ensuring a superior management model.

Institutional Businesses

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

To achieve this, it is necessary to have a specialised range of products and services in order to provide a comprehensive value proposal to public administrations, financial institutions, insurers, religious bodies and the tertiary sector.

2020 was a special year due to the impact of the pandemic, which increased the credit requirements of all institutional customers. In response, Banco Sabadell strengthened its positioning in these segments through greater commercial activity, proximity and proposed solutions, resulting in increases in customer acquisition, business volume and margins through a range of products offering higher value for customers and for the Bank.

The relationship with professional and business associations, chambers of commerce and trade guilds, allowing access to professionals, self-employed individuals, businesses and SMEs, continues to be a relationship model through which solutions can be delivered to mitigate the effects of COVID-19, offer the best range of products and services tailored to the needs of each group, and act as a priority channel for customer onboarding.

Relations with official bodies at European, national and regional level were also enhanced. New facilities created at the start of the pandemic by the various bodies (ICO, Mutual Guarantee Societies, and so on) shaped the year's activity, requiring considerable development and commercial efforts to reach customers. This Division plays a fundamental role by creating synergies and coordinating with numerous areas of the Bank to offer the best value proposition for each segment and generate business for the branches.

Public Institutions

The economic activity of public institutions in 2020 was hit by the circumstances created by the health and economic crises sparked by the COVID-19 virus. Every level of government (State, regional and local) was very active, with tenders for public funding up 100% compared to 2019.

The result was an increase in assets as institutions strove to obtain liquidity to tackle short-term needs amid the uncertainty triggered at the outset of the pandemic.

During this period, some Spanish regions were authorised to refinance loan operations they had arranged with the State, thereby lowering their funding costs as Spanish government debt yields fell. As a result, banks have been granting these refinanced loans.

Banco Sabadell's market shares in lending and deposits were 10.8% and 7.5%, respectively (figures at end of October 2020). There was a substantial, 44 basis-point year-on-year increase in lending, outpacing lending growth in the system. Deposits were down 97 basis points, a sharper decline than in the system as a whole.

Financial Institutions and Insurers

In 2020, the value proposal for these institutions was further strengthened through products in the categories of treasury, capital markets, mutual funds, research, equity and alternative investment services, consolidating the commercial relationship through a specialised approach that meets customers' needs in the immediate and longer term. Against a backdrop of negative interest rates in the financial markets, deposit taking fell sharply, giving way to a range of value products in 2020, most notably the broader spectrum of mutual funds as a result of the acquisition of Sabadell Asset Management SGIIC by Amundi Asset Management.

The pandemic sparked a clear preference for liquidity on the part of institutional investors and the Division focused on supporting customers through broad-reaching information and investment research.

Religious Institutions

The Religious Institutions Division provides customers with a range of products and services tailored to their specific needs, spanning from transactionality to specialist wealth management.

During the year, the university-level qualification of Adviser to Religious Institutions and Entities belonging to the Tertiary Sector was launched for employees and customers belonging to these groups. At year-end, Banco Sabadell was the only financial institution with employees holding this qualification.

During the pandemic, customers were helped to obtain donations securely by means of the “Done” (Donate) system of electronic lecterns specially designed for that purpose. Banco Sabadell currently has 685 devices in the Done ecosystem, including donation lecterns, digital collection boxes and candle holders.

Professional Associations and Associate Banking

Banco Sabadell leads the way in serving professional associations throughout the country. Its services for this segment are based on a close relationship with associations, meeting the needs of their members through a range of specifically tailored financial products and services.

This year, Banco Sabadell supported professional and business associations, informing them regarding the measures implemented by the government (ICO facilities to address the effects of COVID-19, moratoria provided by law, etc.), as well as sector-specific aid, such as the solutions launched by Banco Sabadell to mitigate the virus's impact on economic activity.

The pandemic drove innovation and it is now possible to use digital signatures to sign collaboration agreements with professional and business associations and chambers of commerce.

Associated Banking continues to strengthen the link with corporate and business customers, based on a differentiated range of products and services for their executives and employees, as a significant channel for acquiring individual customers at Banco Sabadell.

This Division's contribution to the acquisition of new individual customers, retailers, SMEs, self-employed individuals and businesses materialised in the form of 3,459 collaboration agreements with active professional associations, enabling us to reach 3,200,000 association members, of whom 772,900 are customers of the Bank and benefit from our customised services.

Official Agreements and Guarantees

The Agreements and Guarantees Division's mission is to manage agreements that provide solutions to customers' financing needs, with a particular focus on companies. Opportunities in the area of official agreements are managed through arrangements with institutions, both national and supranational.

In 2020, we highlight the two ICO COVID-19 guarantee facilities: ICO Liquidez (Liquidity) and ICO Inversión (Investment), which helped mitigate the financial impact of the COVID-19 crisis on self-employed individuals, SMEs and companies by providing them with liquidity.

In addition, the various Mutual Guarantee Societies

were active in granting new guarantees to customers to palliate the impact of the pandemic.

The Bank continued to market EIB facilities: EIB Agro, EIB Fleet Renewal and the newly-launched EIB Investment and Climate Change.

Private Banking

Through SabadellUrquijo Private Banking, Banco Sabadell offers integrated solutions to customers requiring specialised services and advice tailored to their particular requirements.

The Division comprises 170 private bankers certified by the European Financial Planning Association, distributed over 32 branches and customer care centres to meet the needs of customers throughout Spain who have assets in excess of 500 thousand euros.

The year 2020 was shaped by the impact of COVID-19 on the markets and on everyday relations with customers. SabadellUrquijo BP responded in three phases. The first phase involved identifying the damage caused by the impact on global financial markets. Phase two focused on seeking solutions in connection with credit facilities and enhancing digital banking services. And, last but by no means least, the third phase was devoted to seeking investment opportunities through various initiatives in both fixed-income and equity markets, with an ad-hoc offering encompassing a range of the Bank's open-architecture products.

The unit continued its efforts to design and deliver the best range of products to customers. Mutual funds, discretionary portfolio management and alternative investments remain popular in the current context of negative interest rates. Notable here was the sound performance of discretionary portfolio management in 2020, in both absolute terms and compared with their benchmark indices and competitors.

In 2020, Banco Sabadell launched a new Relationship Model which, in addition to providing advice in wealth management, enables us to anticipate other financial requirements, offering customers a specific, appropriate solution in each case.

This model continues to focus on a close relationship of trust between our customers and the 170 private bankers, a relationship that is very highly rated and allows us to continue enhancing customer experience and setting Banco Sabadell apart from its competitors.

At the end of the year, the Bank had advised 27,324 customers, accounting for a total of 27,832 million euros, of which 25,151 million euros were in customer funds, 38% of which was invested in mutual funds and SICAVs.

The challenges for Private Banking in 2021 are to gain efficiency, continue to improve customer experience and build on the commitment to add new digital capacities to the relationship between customers and private bankers.

Personal Banking

Banco Sabadell Personal Banking caters for individual customers with more sophisticated financial requirements. This segment represents 8.38% of all individual customers, and accounts for 22.57% of net interest income and 48.45% of customer funds.

In 2020, Banco Sabadell strengthened the value proposition in this segment, offering greater exclusivity by means of a range of products and services tailored to each customer type. Banco Sabadell has also evolved the way it relates to its customers, adapting to the new context created by COVID-19, offering comprehensive advice in remote format, focusing on both convenience and customers' safety.

Especially notable was the Bank's commitment to expanding the range of savings products for customers through its partnership with Amundi, as a result of which Banco Sabadell has the most comprehensive range in this segment nationwide.

The Personal Banking segment had an active media presence throughout the year through the "Empresarios Optimistas" (Upbeat Entrepreneurs) advertising campaign, in which Banco Sabadell emphasised its position as one of the main players, helping Personal Banking customers to make the best financial decisions.

The strategy for Personal Banking in 2021 focuses on executing the Branch Network Specialisation Plan, through the rollout of the Multilocation Personal Banking Manager, offering specialist services to all customers who do not yet have access to them. This, along with the consolidation of the Amundi partnership, will boost the savings-investment business and increase the share in mutual funds, building on Personal Banking's position as a trendsetter in the Spanish market.

Retail Banking

The retail banking model was implemented throughout the Bank in 2020, enabling almost 400 operating processes to be industrialised and strengthening multi-channel customer management, with the resulting cost savings and productivity boost. Remote customer management and digitalisation were also strengthened, enabling all dealings with the Bank to be performed by self-service channels or using convenient distance means.

The outbreak of COVID-19 also strengthened the retail management model, since customers have opted for remote channels, such as digital or telephone, for their dealings with the Bank. Accordingly, operations at the branch network decreased by 58% overall, and the number of digital retail customers now exceeds 50% of total retail customers.

To boost remote customer management and digitalisation, a broad and intensive communication and support drive was implemented, offering safety advice to minimise the health risks, posting videos showing how to perform common bank transactions and targeting specific actions at more vulnerable groups. Pension payments and unemployment benefits were advanced and customers were

informed of this, so as to stagger visits to branches. This far-reaching support programme helped more than 2.5 million customers.

Having implemented and strengthened the retail banking model, initiatives and assistance for customers to operate with the Bank through self-service or remotely will continue to be rolled out, and more customer sub-segments will be added to this model, so as to continue to maximise efficiency and productivity and enhance customers' experience in all their dealings with the Bank.

Sabadell Colaboradores

Sabadell Colaboradores is a lever for acquiring customers and business for the branch network via cooperation agreements with referrers.

This channel's contribution to the Commercial Banking business is highly significant, most notably in terms of:

- Commercial margin (million euros): 221 (8% of the total).
- Mortgages (new contracts): 7,475 (28% of the total).
- Customer acquisition: 29,962 (12% of the total).
- AutoRenting vehicle lease (new contracts): 654 (10% of the total).
- Mutual funds (average balance in million euros): 1,267 (6% of the total).

Five new branches were set up this year for top mortgage partners, aimed at providing a nimbler and more specialised service to collaborators and referred customers. This initiative is part of the programme to centralise the mortgage business which is necessary to adapt the distribution model to new trends in this business.

Corporate segment specialists

Tourist Hotel Business

Banco Sabadell is the first financial institution to receive the "Q" seal of tourism quality, granted by the Institute for Spanish Tourism Quality, underpinning its position as a leader and trendsetter in this sector, offering expert advice coupled with the very highest quality standards.

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

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

From the first quarter onwards, when hotels were closed due to COVID-19, the Bank launched a "Support Plan" for the sector, offering a comprehensive range of

solutions to meet all needs, including grace periods and payment moratoria on credit lines and loans, credit facilities and lines, as well as ICO and ICO Inversión facilities.

The Division has a portfolio of 12,267 customers and a business volume of more than 4,266 million euros, a year-on-year increase of 7.7%.

Agriculture

In 2020, Banco Sabadell's Agriculture segment (encompassing farming, livestock, fishing and forestry), which has more than 380 branches and 500 specialised account managers, increased its customer base and broadened the range of specific financial products aimed at meeting the needs of customers in this sector.

Banco Sabadell's firm commitment to this sector, in particular through its personalised support for customers, led to a 3.9% increase in business volume compared to 2019. We continue to earn the trust of our customers, whose numbers increased by 4% compared to the previous year.

The agro-food sector, with the exception of certain specific sub-sectors (such as cut flowers) or those directly affected by the temporary closure of the Horeca channel (such as wineries), evidenced its strength and proved to be essential during the COVID-19 pandemic. For this reason, it was less affected than other economic sectors. The usual trade fairs, however, evidently were affected in 2020, and had to be held online.

Employer Providential Schemes

By means of its Providential Schemes Division, Banco Sabadell offers solutions and responses to our customers to help them better implement, manage and develop their providential schemes through pension plans and group insurance policies.

In 2020, further progress was made in implementing the life-cycle model among the Bank's customers, a model which adapts customers' investment profile to their age and circumstances, optimising the return on the investment and the protection of accumulated wealth.

For 2021, group providential schemes are expected to be further developed, underpinned by legislative changes proposed by the government, as well as by agreements under the Toledo Agreement. Banco Sabadell stands ready to help its customers with simple, fast custom solutions in pension plans and group insurance as well as flexible remuneration savings solutions.

Real Estate

The Real Estate area focuses on integrated services to the residential development business by means of a mature specialised business model.

Banco Sabadell's commitment to this sector has led to a year-on-year increase in developer mortgage loans, guarantees and reverse factoring, with a growing associated margin.

2020 was shaped by the situation unleashed by COVID-19. But the Real Estate area nevertheless arranged deals worth a total of 1,490 million euros (down 23% on the previous year), with a margin above 49.3 million euros (down 2% on the previous year).

The Real Estate Division focuses on boosting home deliveries so as to minimise the potential negative impact, as well as monitoring sales in progress.

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

Franchising

Banco Sabadell is a leader in the Franchising segment, where it has more than 25 years of experience reaching agreements with the foremost franchising brands, which refer potential customers wishing to open new franchises in Spain.

Banco Sabadell offers specific customised financing, transactionality and protection solutions via the branch network with the support of the team of specialised Franchise Managers.

Banco Sabadell works closely with the Spanish Franchisors' Association, and was the first bank to secure its partnership and support in this business model.

The franchise market is a growing sector with considerable capacity to absorb the impact of the health crisis due to the backing of major franchising brands. Franchise customers are more valuable (x2 in terms of margin, x3 in loyalty and with very low delinquency: 0.8%) and it is key segment in the corporate business's growth strategy. We have more than 900 brands with referral agreements and more than 7,300 franchise customers who contribute more than 20 million euros to the annual margin.

BStartup

Banco Sabadell's BStartup is the leading banking service in Spain for newly-created innovative and technology enterprises. It bolsters the banking business by means of a relationship model based on concentration and specialisation, boosting productivity and increasing the margin contributed by these young companies that sometimes attain exponential growth and can have very exacting transactional demands. Despite their youth, the average margin in this customer category in 2020 was 2.84 higher than the overall average among business customers. This segment also scores higher according to other yardsticks, including internationalisation (49.2% vs. 14.3%) and loyalty (an average of 12.27 products, vs. 6.96), based on figures for November 2020.

The figures are starting to confirm the idea with which this service was launched 7 years ago: the large corporations of the future will emerge from among these companies with alternative development models and activities. In fact, this year 85 of them have already contributed a

margin that exceeds the average for business banking customers. We take a distinctive approach to these customers, based on a holistic proposal that takes into account everything a startup might need from a bank:

- Banking products and services specialising in startups, scaleups and the entrepreneurial ecosystem in general. A new distribution model implemented in 2019 was further strengthened in 2020. This model involved the creation of the role of BStartup SME Manager in cities with a high concentration of this kind of customer (Barcelona, Madrid and Valencia, at present). These managers deal only with startups. In 2020, work continued on the concentration of all Catalonia in Barcelona, creating two new portfolios in that city. Additionally, specific powers of attorney were granted to certain staff members in BStartup. Hence, at the end of the year, there will be 10 DPyme BStartups branches. Moreover, in the rest of territories, we have 29 BStartup branches where staff received specialist training during the year. As a result of the COVID-19 situation, there has been a considerable focus on supporting this specialised network and numerous ICO-backed financing deals have been arranged. The total amount arranged in the first half of 2020 matched the figure for 2019 as a whole.
- Investment in equity. This is the traditional method of financing startups in their early phases, and, thanks to the BStartup10 programme, the Bank is present in all forums for newly-created innovation and technology companies. This vehicle, which every year invests a total of 1 million euros among 10 startups in the seed phase, is already obtaining very positive returns, and has a portfolio of 54 investees. Despite the health crisis, its investment activity has continued in areas of technology and innovation that have actually been strengthened since the pandemic, such as cybersecurity or healthcare. Accordingly, in 2020 it held round three of the BStartup Health programme for investing in medical device manufacturers and biotechnology companies, receiving applications from a total of 146 candidate projects from all Spain's regions. Eleven new investments were made in various sectors by the end of the year.
- Open innovation. BStartup works as an innovation radar due to its presence in forums for innovative enterprises in Spain and its agreements with numerous partners. As a result, it filters and channels potential opportunities to InnoCells and other Divisions. For example, during the year a proof-of-concept was conducted with the Advanced Customer Marketing & Analytics unit and a project was implemented involving the Sabadell Go Export platform as a partner.

During the year, BStartup organised or actively participated in 135 entrepreneurial events, most of which were online because of the pandemic, but we stayed connected to the entrepreneurial ecosystem and we even managed to reach more entrepreneurs than before.

Consequently, in 2020 BStartup strengthened its impact and positioning among newly-created, innovative businesses, as evidenced by its 1,606 mentions in offline

and online media, its 13,209 Twitter followers, and its presence in trending topics in the Bank's social media in most months, always with positive coverage.

Business volume increased by 46% to 797 million euros (207 million euros in assets and 591 million euros in liabilities) and there was a 7.6% rise in customer numbers, to 3,467.

Companies Hub

Banco Sabadell's Companies Hub helps to position Sabadell in the companies segment (especially SMEs) as the bank that best understands the growth and transformation challenges facing companies and as the bank best equipped to accompany them on that journey. It is also an instrument for creating valuable relationships.

The initiative was launched in May 2019, when the first Companies Hub space was opened in Valencia. This is a special space focusing on business growth, a meeting place in the city centre for all kinds of companies, which receive:

- Expert advice in areas such as digital transformation or industry-specific analysis, in addition to specialities already in place at the Bank and at the Companies Hub (financing, internationalisation, startups).
- Programme of training sessions and activities aimed at professionals, executives, self-employed workers, businesspeople and entrepreneurs wishing to keep pace with the latest business trends or acquire know-how in specific areas to grow their enterprises, as well as to learn from others' experience.
- It is a quality workspace at the disposal of business customers, equipped with: meeting rooms, individual workspaces, flexible workspaces for organising meetings with employees or customers, lounge and coffee corner in which to network with other companies and with Sabadell professionals and identify new opportunities.

From 1 January 2020 and until the space was closed due to the health crisis on 12 March, 26 activities were held by the Bank and the space had been booked by 5 businesses, 72 companies had received advice, and meeting rooms had been booked by customers on 100 occasions. A total of 2,552 people had taken part in activities at the Valencia Companies Hub in just over 8 weeks, evidencing the traction the space had already gained in the city as a centre for business.

Digital Companies Hub (Webinars)

To continue supporting our customers precisely during these times of maximum uncertainty, and adapting to the restrictions and new circumstances, on 3 April we held the first webinar entitled "Reinventing yourself in times of lockdown. Best practices for your e-commerce business." In the first few weeks we targeted these actions towards customers from the Eastern Region, which was already familiar with and involved in Companies Hub initiatives. However, in view of the excellent response in terms of participation and rating, the Companies Hub concept

was taken online to benefit businesses and self-employed individuals located throughout Spain.

Accordingly, the Digital Companies Hub is an online programme for synchronous training sessions aimed at all kinds of companies, led by experts in the sector and by Sabadell specialists, with valuable practical content linked to current hot topics, in which participants may ask questions and experts respond.

It currently sets a monthly calendar with at least two sessions per week. Since 3 April, a total of 63 webinars have been held, attended by 17,652 online participants. Participants rate these sessions very highly: they have scored an average of 8.5 out of 10 in topic and content, and of 8.7 out of 10 in the quality of the instructors, with 30% of those surveyed granting a score of 10 out of 10.

Hence, the pandemic has accelerated the virtual migration of Banco Sabadell's Companies Hub, which now offers two different kinds of service, with the same goal:

- Online services for companies and professionals throughout Spain.
- In-person services in Valencia (to be resumed as soon as the health situation allows).

Commercial Products

Financial services

The year 2020 proved to be very challenging, in which the process of digital transformation continued to be crucial to help customers manage their payments and receipts.

Payment

The POS terminals business was hampered by the crisis unleashed by COVID-19, especially due to the temporary closure of retail establishments and the decline in foreign tourism. Consequently, turnover fell by 10.2% year-on-year. This new scenario drove solutions such as PHONE&SELL to facilitate distance selling for traditional brick-and-mortar retailers. Through subsidiary PAY-COMET, which specialises in digital payments, a process commenced to gradually furnish Banco Sabadell with innovative products for payment at retailers.

With the exception of the March-May period, turnover in the credit card business was similar to the previous year, with a total cumulative decline of 2.6%, although the impact of COVID-19 was very significant due to the restrictions on our individual and business customers' usual shopping activity. During this period, e-commerce purchases increased by around 8.6% and security in this kind of transaction has been enhanced, adding reinforced customer authentication (a requirement of PSD2) over the course of the second half of the year.

The high uptake of services associated with mobile payments, which have grown by more than 80%, evidence the steady increase in the digitalisation of our customers' payments.

Cash Management Service

This year, work continued on the optimisation and digitalisation of cash, focusing efforts on providing a service that meets the needs of retailers, companies and public administrations in managing both coins and bills.

In 2020, we continued to add solutions that are increasingly suited to the needs of these establishments, with the firm aim of helping Banco Sabadell customers to improve the cash flow efficiency of their businesses.

The idea is to offer integration between the customer's management systems and the Bank's payment systems, as well as to provide a cash collection service where necessary, offering competitive financing for the overall solution whenever customers need it.

Savings and Investment

With regard to savings and investment products, the most significant event was the signing of a strategic agreement between Banco Sabadell and Amundi Asset Management aimed at placing savings and investment in a central position in the Bank's relationship with customers.

Amundi is Europe's largest investment manager and is among the world's ten largest in terms of assets under management. Amundi has outstanding capacities and experience in its relationship with bank distribution networks and this, along with the advisory services of Banco Sabadell's branch network, will help provide customers with the best investment solutions.

During the first few months of the agreement, new products were added to the range, notably including services for customers with more conservative profiles, various liquidity management alternatives for companies, and diversification opportunities for customers with larger balances, all in a very difficult context.

The main roll-outs included:

- Amundi Funds Protect 90, FI, a new generation of investments capable of adapting to various market scenarios with the dual aim of obtaining returns and partially protecting savings.
- The idea is to build on the market opportunities offered by products like Sabadell Horizonte 2026, FI and Amundi Buy&Watch High Income Bond 08/2025, FI, which are aimed at customers in the Private Banking and Personal Banking segments. These funds tapped the investment opportunity offered by private fixed-income after the market corrections in April.
- The first set of sustainable funds was launched in July: Sabadell Acumula Sostenible, FI and Sabadell Crece Sostenible, FI. These were the first mutual funds in the range to invest on the basis of ESG (environment, social and good governance) factors. Close to 7,500 account managers received training in responsible investing.
- Moreover, the crisis unleashed by COVID-19 exacerbated the context of negative interest rates in Europe. Central banks held interest rates close to zero or even in negative territory so as to avoid an even deeper crisis and to foster a fast recovery. As a result, any wealth that

is kept liquid has a cost. This especially affects business customers, who require an alternative to meet their liquidity and risk limitation needs. Accordingly, business liquidity solutions were developed. A selection was made of four money-market and fixed-income funds with time horizons ranging from 1 day to 2 years. Two new mutual funds — Amundi Cash Institutions, SRI and Amundi 6M — were added to the range, which includes Sabadell Rendimiento, FI and Sabadell Interés Euro, FI.

Moreover, investment continued during the year to develop and strengthen the technology solutions required to offer the advisory model in savings and investment products. Developments focused on improving the usability of managers' applications and on adapting systems to offer services remotely, enabling digital signatures on most operations.

Support for the branch network played a vital role, and was reinforced, where necessary, in a segmented fashion by commercial functions and territories.

Furthermore, customer support was greatly enhanced, especially by means of new content sent to customers by e-mail and/or posted on the estardondeestes website, social media, digital newspapers and audiovisual platforms.

There were two major new and improved solutions for Personal Banking customers. One was access to the portfolio advice model based on model portfolios classified by risk profile. And the other was Conversations, a new financial planning guide that we use to engage in valuable conversations with our customers with a clear goal: to help them make the best financial decisions.

The Ahorro Expansión service is being offered to customers in the Retail Banking segment, in view of the current context dominated by the pandemic which has evidenced the need for households to reconsider their economic priorities and set aside some savings. Ahorro Expansión is a new, smart, simple digital savings method to help customers get into the habit of periodically setting aside an amount of their choosing from their usual account. The solution is aimed at making saving easier for customers by automating the routine. The idea is to build savings week by week from small contributions to an amount — especially helpful to people who are not in the habit of saving.

Funding Solutions

Trends in financing for individual customers, both consumer loans and mortgages, were shaped by the pandemic and by a change in customers' spending habits. The increase in digital customers and in the use of tools that allow loans to be arranged online or remotely has simplified processes for consumers, especially in consumer lending.

Production in the first quarter of 2020 was in line with the year-ago quarter, but demand at branches declined in the second quarter as a result of the pandemic. In order to continue supporting our customers, an array of solutions were launched to help customers affected by the COVID-19 situation through the loan holiday implemented by the Spanish government and the moratorium adopted by the Spanish Banking Association (AEB).

Demand began to pick up in the second half of the year, with the increased use of digital tools to enable consumer loans to be arranged digitally end-to-end.

In mortgage production, we continued to boost the fixed rate range, which provides customers with greater security amid the uncertainty of financial markets (80% of new mortgages are now fixed rate).

Financing aimed at acquiring sustainable assets remains a priority for the Bank, and it now offers two new products in this connection, namely the ECO loan for refurbishments and the Green Mortgage, with which the Bank reiterates its commitment to achieving a more sustainable economy.

With regard to short-term financing solutions, Línea Expansión continued to offer individuals a fast flexible way of accessing financing entirely online.

Working capital financing for businesses was directly impacted by the low business activity deriving from the COVID-19 crisis. In any event, companies have continued to make active use of specialist financing products to fund their receipts and payments, such as factoring and reverse factoring, as well as more traditional products such as discounting and credit lines.

The difficult circumstances of 2020 led to a 20.8% decrease in factoring activity. Reverse factoring performed better, declining by 10.9%.

In any case, in 2020 a considerable effort was made to adapt the range of credit and reverse factoring policies to companies' needs, developing solutions for these products linked to ICO guarantee facilities.

Note also the financing solutions for companies and self-employed individuals to meet the needs of their businesses and overcome the economic effects of COVID-19, including financing linked to ICO facilities.

Leases (finance or operating)

In 2020, Sabadell Renting focused activities in its vehicle lease business on sustainability as a driver of change. Because of the pandemic, we made our product more flexible to adapt it to market needs, including a grace period, asymmetrical instalments and per-kilometre leases, in a bid to respond to customers' demands, for example in essential sectors and for private individuals. At the same time, the digital product range was reinforced in order to increase the uptake of online leads and sales through this channel.

Sabadell Renting has built upon the capital goods business's focus on sustainability, with a range that includes sustainable products such as solar panels, electric vehicle charging stations, LED lighting, etc. It has also adapted its range of products and services to the current situation, marketing products such as Trabajo Seguro (for a Covid-free working environment at companies and retail establishments), Trabajo Activo (technology leasing for teleworking and in-person working) and Learning Renting (an initiative to modernise the IT capabilities of schools, teachers and students). It also strengthened specific value proposals for customer segments —such as agriculture or religious institutions— where it is a strong market player.

In 2020, Banco Sabadell adapted its range of leasing products to the Covid situation and our customers' new requirements. Accordingly, the "leasing delivery" product was launched to finance delivery vehicles, and protective equipment leasing was introduced to finance the necessary investments to adapt to new healthcare regulations. Furthermore, to support projects, real estate ECO leasing was introduced, to provide favourable terms for acquisitions of industrial warehouses and commercial premises certified with energy ratings A or B.

Bancassurance

At 31 December 2020, the Banco Sabadell Group's pensions and insurance business was based on 50%-owned insurers and the pension manager under the agreement with the Zurich Group (BanSabadell Vida, BanSabadell Seguros Generales and BanSabadell Pensiones) and the revenues from the bancassurance broker (BanSabadell Mediación).

The contribution of net profit and marketing fees to the Banco Sabadell Group's consolidated figures amounted to 53.3 million euros and 176.5 million euros, respectively, at year-end. The lead company in the strategic alliance, BanSabadell Vida, reported business volumes that ranked it among the leaders of the sector in terms of savings managed and premiums issued. Bansabadell Seguros Generales logged significant growth in premium volume (8.2%) buoyed by subscriptions to its Blink policies (Household and Autos) and the co-insurance agreement with Sanitas, a leading health insurer.

The future strategy for the Bancassurance business is based on further digitalisation of solutions and processes

in order to enhance the customer experience whenever they interact with the company, and also on adapting the range to the requirements of each customer profile, in property and casualty, personal or business solutions, as well as in savings and providential products. This line also encompasses plans to develop the health business, through an agreement with Sanitas and the ongoing development of providential solutions to adapt to market demands. The situation triggered by COVID-19 in 2020 posed a major challenge in responding adequately to the situation of each of customer and, at the same time, it changed the forward-looking strategy to adapt to the significant challenges facing the sector in the short term.

International solutions

In the International Business, COVID-19 had a significant impact from March 2020 onwards. Imports and exports registered growth in the first quarter of the year, but stagnated from the second half of March until the end of June as a result of lockdowns. Activity returned to a semblance of normality from June and July, as evidenced by the positioning in export documentary credit, where 1 in every 3 transactions (30%) involved Banco Sabadell, and in import documentary credit, where the figure is 1 in every 5 (15%).

This stagnation in activity triggered a change in the trade trends, with International Business Managers focusing mainly on supporting companies as they faced new scenarios in documentary operations and goods transport in Spain. Efforts were aimed at supporting the continuity of operations hampered by the restrictions on international mobility and their effects on the distribution of goods, and ensuring a successful outcome.

At the same time, work was ongoing to improve financing products and remote operations with companies, primarily in documentary products.

The ICO Comex facility was launched to finance Spanish companies' main export and import activities, covering export pre-financing and import financing, invoice replacement and commercial discounting, providing comprehensive support to the working capital requirements of Spanish companies focusing on international business.

A direct pay letter of credit (Direct L/C) service was launched through online banking in order to generate digital documentary credit operations 24/7. In this way, we are supporting customers by issuing letters of credit digitally, facilitating the entire digital process.

As a differentiating element, this year a series of sessions on international business was launched, targeting a group of more than 5,000 Spanish companies interested in entering or developing their presence in international markets.

As part of the Export to Grow programme, various technical sessions provided information on logistics and customs in the main markets for Spanish companies.

Early in the year, due to the introduction of Incoterms 2020, a number of training sessions were held throughout Spain to keep companies informed regarding these requirements.

Building on the success of past editions, another training cycle was implemented for companies in the Sabadell International Business Programme, aimed at helping companies to draft a plan to foster international business.

Also during the year, due to the increase in digital foreign trade operations and cyber fraud, we launched two initiatives. The first was to create a specific cyber fraud factsheet for international operations and to set up specific training sessions for companies in order to raise awareness regarding the increase in this kind of fraud and how to prevent it.

The second was to publish an international business newsletter with articles of interest for Spanish companies interested in internationalisation and in expanding foreign trade, offering a technical perspective concerning the most salient current issues for internationalised companies.

Sabadell Consumer finance

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

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

In 2020, activity was hampered by the March-May lockdown triggered by the pandemic, in which production fell to just 37% of the previous year's figure. However, once activity resumed, the sharp decline was largely offset, to a total and production reached 85% of the previous year's level.

This recovery, which was a direct result of the company's swift commercial coverage and rapid response to immediate operating needs, boosted Sabadell Consumer Finance's market share.

The delinquency rate was 5.8%. The loan-loss coverage ratio was 95.57%.

Sabadell Consumer Finance drew up a successful plan to tackle the impact of COVID-19, providing an efficient response to both referrers and end customers, adapting to the consumer protection policies indicated by regulators and in accordance with the principles of the company's agreements and those of the group.

For the next year, the plan is to continue boosting links to current referrers and financing mobility in buildings and improvements for ownership associations and energy efficiency, implementing actions in the company's systems and processes aimed at digitalising the business, with a view to both internal efficiency and enhancing the experience of our customers and retail establishments.

Overall, the company performed 202,946 new transactions through more than eleven thousand points of sale distributed throughout Spanish territory, resulting in 897.2 million euros of new loan production in 2020, bringing the company's total outstanding exposure to above 1,690 million euros.

These improvements helped the company to keep its cost-to-income ratio to 32.98%.

Corporate & Investment Banking coordinates specialised teams to offer an innovative, global service tailored to customers' needs.

Highlights

- Present in Spain and 17 other countries.
- Capital Markets encompasses Debt Capital Markets, Debt Asset Management, Equity Capital Markets and M&A.

Corporate Banking – lending volume in other countries

62%

Business overview

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

Management priorities in 2020

Corporate & Investment Banking continued to evolve in 2020 to improve the value contribution to our customers and thereby help enhance their growth and future results. To this end, we nurtured and innovated our specialist skills, most notably in capital markets, where we can currently cater for 100% of our customers' financial requirements. Our teams are also constantly expanding their international coverage, always focusing on those markets in which our customers invest or have commercial interests.

The exceptional circumstances of 2020 as a result of the health crisis led the CIB team to work especially hard, particularly from the second quarter onwards, to support our customers, either by providing liquidity solutions or offering the necessary advice to strengthen their financial situation.

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

- Know-how through specialisation. The Corporate Banking teams located in the various geographies where we operate have not only specialised knowledge of the large corporates segment but also industry specialisation so as to better meet our customers' needs based on the specifics of their business.
- Coordination. Large corporates require special solutions that are the result of involving several of the Bank's areas (specialist teams or even teams from different

countries). Coordination of all these teams is pivotal for providing value to our customers.

- Specialist product. Corporate & Investment Banking has units that develop tailored products for large corporates and financial institutions (corporate finance, project finance/project bonds, commercial paper programmes, debt issues, M&A, venture capital, asset finance, risk hedges, etc.). The units responsible for developing this range of products are horizontal to the entire Banco Sabadell Group and their capabilities also extend to the Business Banking and Institutional Banking segment.
- Innovation. This is the last, but by no means the least important, of the key areas. Transitioning from idea to action is vital to evolve in such a dynamic and demanding market as that of large corporates. In this regard, we have created the necessary spaces and mechanisms to enable our teams to spend part of their time on innovation, in the broadest sense of the term: innovation in products, in transactions and even in how we coordinate among ourselves.

As in previous years, the key figures that best define Corporate & Investment Banking's performance will continue to be total revenues, risk-adjusted return on capital (RAROC), strict risk monitoring and advance warning of potential impairments, as well as the net promoter score (NPS), which is the best measure of how our customers perceive the service.

Key figures

Net profit amounted to 93 million euros in 2020, a year-on-year decrease of 48.0%, due to higher NPL provisions and lower revenues from more sluggish activity as a result of the pandemic.

Gross income totalled 472 million euros, a 7.5%

increase on the back of the positive contributions from the sale of loans as compared to 2019, and net banking revenues decreased by 3.0% to 458 million euros.

Net interest income amounted to 317 million euros, down 2.8% on the previous year, due mainly to lower interest rates.

Net fees and commissions amounted to 141 million euros, a 3.4% drop on the previous year.

Net trading income and exchange differences increased as a result of extraordinary sales of loan portfolios in 2020.

Operating expenses and depreciation and amortisation charges totalled 144 million euros, down 4.6% year-on-year.

Provisions and impairments amounted to -230 million euros, a significant increase compared with the previous year due to higher insolvency provisions.

Million euros

	2020	2019	Year-on-year change (%)
Net interest income	317	326	(2.8)
Fees and commissions (net)	141	146	(3.4)
Net banking revenues	458	472	(3.0)
Net trading income and exchange differences	19	(19)	(200.0)
Equity-accounted affiliates and dividends	1	(4)	(125.0)
Other operating income/expense	(6)	(10)	—
Gross income	472	439	7.5
Operating expenses and depreciation and amortisation	(144)	(151)	(4.6)
Pre-provisions income	328	288	13.9
Provisions and impairments	(230)	(39)	489.7
Capital gains on asset sales and other revenue	35	7	400.0
Profit/(loss) before tax	133	256	(48.0)
Corporation tax	(38)	(80)	(52.5)
Profit or loss attributed to minority interests	2	(3)	—
Profit attributable to the Group	93	179	(48.0)
Cumulative ratios			
ROE (profit / average shareholders' equity)	7.0%	13.9%	—
Cost-to-income (general administrative expenses / gross income)	27.8%	31.7%	—
NPL ratio	3.2%	1.2%	—
NPL coverage ratio of Stage 3	61.6%	109.6%	—

Corporate & Investment
Banking – Income
statement summary

Outstanding gross loans and advances increased by 3.0% and customer funds on the balance sheet declined by 7.8%

as a result of demand deposit performance, while off-balance sheet funds decreased by 4.1%.

Million euros

	2020	2019	Year-on-year change (%)
Assets	22,315	24,669	(9.5)
Outstanding gross loans and advances	15,376	14,934	3.0
Liabilities	20,941	23,350	(10.3)
On-balance sheet customer funds	7,348	7,968	(7.8)
Allocated capital	1,374	1,319	4.2
Off-balance sheet customer funds	605	631	(4.1)
Other indicators			
Employees	746	709	—
Branches	20	20	—

Corporate & Investment
Banking – Balance sheet
summary

Corporate Banking

Business overview

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

Management priorities in 2020

The year 2020 was shaped by the outbreak of a health crisis that affected both households and business, although, in the latter case, unevenly from one sector to the next. Crucially, authorities and the banking sector joined forces to roll out aid and implement measures to mitigate the crisis for companies, with banks taking a very active role by providing either the necessary liquidity or the support and advice needed to find a range of solutions to help businesses strengthen their financial position.

Against this backdrop, net lending increased by 8.64% in 2020, to 18,388 million euros, of which 62.36% were loans outside Spain (lending abroad increased by 10.65%). This international growth is a reflection of the decision to diversify risks and revenue sources made some years ago by Banco Sabadell, which has developed the necessary capabilities to operate in other markets. The volume of deposits shrank by 0.36% in 2020, concentrated mainly in countries under the influence of the euro, in response to a policy of not actively pursuing deposits given the Banco Sabadell Group's ample liquidity position.

The results, expressed as net revenue, were very favourable, increasing by 9.60% in 2020. RAROC, specifically in the EMEA region where its performance is closely monitored, was 13.7% at year end, slightly lower than in the previous year (14.00%), due mainly to lower revenues from customer deposits and an increase in the cost of risk, both of which were partly offset by the larger contribution from fees and commissions and, in particular, those associated with value products (M&A, DCM, ECM, structured finance, derivatives, etc.), which rose 32.99% year-on-year.

Priorities in 2021

In 2021, we will continue to focus on contributing value to the large corporations segment in the various markets where they operate, with a range of services aimed at covering 100% of their current and non-current financing needs and as well as providing direct on-balance sheet funding or even financing through investors with DCM/ECM products. Contributing value to the large corporations segment and ensuring value for our shareholders in the form of profitability will remain crucial in our approach to this capital-intensive segment.

Treasury and Markets

Business overview

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

In addition, it manages the Bank's short-term liquidity position and handles and oversees compliance with regulatory coefficients and ratios. It also manages the risk in the proprietary trading book and interest rate and exchange rate risk, basically due to operational flows with both internal and external customers originating from the activity of the Distribution units.

Management priorities in 2020

The Treasury and Markets Division responded swiftly to the impact of COVID-19, implementing teleworking and adapting systems without compromising the high quality and security standards. COVID-19 strengthened the Division's commitment to increasing the digitalisation of its operations with customers, improving the Sabadell Forex application, increasing the electronic delivery of documentation and establishing new communication channels with customers. Projects focusing on broadening the range of foreign currency products and savings and investment products were implemented to adapt to the new market situation, which has placed new demands on our customers. Trading capacity was enhanced to undertake and control currency risk generated by our customers.

Priorities in 2021

In 2021, activity linked to foreign currency products will continue to be a core pillar of the strategy, and projects will be rolled out in connection with the Sabadell Forex platform that offer added value services to our customers. With regard to institutional customers, capacities will be enhanced so as to offer a broader range of products tailored to this segment, also on the back of the forecast growth in the Capital Markets Division. In trading, the aim is to boost the capacity to manage risk on our own books, reducing hedges with other entities, and continuing to develop collateral management in order to take the fullest advantage of it.

Trading, Custody and Research

Business overview

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

The COVID-19 pandemic affected the way our equity investors connect with our brokerage service. We now receive 95% of equity purchase and sale orders from our branch customers through the digital platform, whereas prior to the pandemic the figure was closer to 85%. At present, the channel most used by retail customers to send sale and purchase orders is the Bank's mobile app.

The makeover of our online platform, which involved a significant improvement in the quality of the research service and access to markets compared with the previous version, has paved the way for a natural transition in the way our investing customers operate.

Management priorities in 2021

To grow the equities brokerage business, in Spain and other countries, by working along three lines: firstly, improving retail customers' experience by developing and broadening the range of services in our Sabadell Broker digital platform, contributing value with investment ideas and recommendations from our Research service; secondly, building an exclusive service for access to brokerage via our equities trading desk, to cover the liquidity of Spanish companies listed not only in Spanish stock markets but in international bourses; thirdly, enhancing our international agent banking service for listed Spanish companies seeking financing in regulated international equity and fixed-income markets.

Structured finance

Business overview

Structured Finance encompasses the Structured Finance and Global Financial Institutions units. This Division operates globally and has teams in Spain, the US, the UK, Mexico, France, Peru, Colombia and Singapore.

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

Structured finance business

Lines of business	
Specialist Finance	Advisory/Distribution
Project Finance and Asset Finance	Syndication
Corporates and Acquisitions	Commercial Real Estate
LBO (Leveraged buyout)	Global Financial Institutions
Trade Finance	

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

Management priorities in 2020

In 2020, Banco Sabadell maintained its policy of supporting customers and adapting to meet their emerging needs within the Spanish and international macroeconomic context amid changing credit market conditions.

Banco Sabadell is a leader in the Corporate Banking segment in Spain and is exporting its know-how to other geographies. Structured Finance ranked 5th among syndicated loan MLAs and 3rd among the leaders in project finance in the Spanish market.

The year was shaped by the impact of COVID-19, which also affected Structured Finance. We managed to successfully adapt our teams to remote working in all regions without impacting on the activity, due to the agility afforded by a combination of the latest technology and a highly committed group of people.

That obliged us to provide an organised response to companies' liquidity requirements, maintaining the pace of new project finance contracts (relatively unaffected by COVID-19, such as renewable energy projects).

Million euros

Ranking	Mandated Lead Arranger	Amount	Number
1	Santander	9,334	165
2	BBVA	6,368	127
3	Bankia	4,717	114
4	CaixaBank	5,733	108
5	Banco de Sabadell, S.A.	3,714	82
6	BNP Paribas	3,440	38
7	Credit Agricole CIB	2,264	27
8	SG Corporate & Investment Banking	1,680	24
9	Deutsche Bank	1,738	19
10	Natixis	1,326	12

Syndicated loan MLAs
— Spanish market
2020

Million euros

Ranking	Mandated Lead Arranger	Amount	Number
1	Santander	911	24
2	Bankia	857	24
3	Banco de Sabadell, S.A.	645	18
4	Bankinter	376	14
5	CaixaBank	545	11
6	BNP Paribas	635	10
7	Abanca Corporación Bancaria, S.A.	299	10
8	Credit Agricole CIB	348	8
9	BBVA	258	6
10	ING	248	6

Project finance
MLAs — Spanish
market 2020

Strategies and Priorities in 2021

The year 2021 will unquestionably be affected by the ongoing impact of the pandemic, and we must adapt to the "new normal" in business.

The priorities for the next year will focus on:

- Supporting our customers by designing tailored, long-term financing structures for new projects, acquisitions, internationalisation, etc.
- Helping our customers to restructure their debt in the wake of COVID-19 through syndicated loans that ensure stable debt positions, evaluating potential solutions in combination with capital markets.
- Continuing to lead deals, underwriting and subsequently syndicating when circumstances allow, in order to offer our customers the most comprehensive solution.
- Forging an even closer relationship with our entire network of correspondent banks to optimise the entire foreign trade service.
- Making further progress in incorporating ESG and sustainability criteria into structured deals.
- Studying new sectors of activity (fibre, logistics, etc.) so as to secure the broadest and most specialised offering possible in all the countries where we operate.

Capital markets

Capital Markets is the CIB Division that coordinates the channelling of institutional investors' liquidity to the Bank's business customers, in both debt products and capital instruments.

Furthermore, via its M&A areas, SCF provides advice on company acquisitions and disposals, mergers and the incorporation of new shareholders.

2020 was a year of consolidation for Banco Sabadell's Capital Markets franchise, with a 68% increase in earnings despite the difficult circumstances.

The team was again one of the most active in the origination of public issues, taking part in 48 in total, most notably by Spanish regions, acting as Joint Lead Manager for the Madrid, Galicia and Basque regions. 2020 was another record year in terms of the Capital Markets Division's participation in commercial paper programmes, attaining a market share of over 15%.

The team strengthened its involvement in niche operations such as project bonds, securitisations and direct lending. With regard to renewable energy project bonds, two public deals were arranged amounting to 645 million euros, with a monoline guarantee, rated AA by S&P.

This year the Division made a strong commitment to the domestic middle-market segment. Capital Markets structured the first receivables securitisation trust, financed via commercial paper underwritten by CESCE and rated A-. Capital Markets also remained focused on tailored financing solutions, in bond or loan format, in a variety of sectors, from real estate to infrastructure.

The Equity Capital Markets team strengthened its position by means of various operations, notably as joint bookrunner in the Cellnex follow-on issue, and co-bookrunner in the same company's convertible bond issue.

It was an exceptional year for mergers and acquisitions, with the merger of two leading manufacturers of fluid conductors in Israel and the following sale transactions: a container terminal in Turkey, an elderly home care services firm to Urbaser, vocational training company MasterD to KKR, a portfolio of wind and solar farms with an installed capacity of 74 MW and a baby food company to an Italian mutual fund.

The Capital Markets Division's strategy in 2021 involves building the business to make extraordinary earnings recurrent as part of the process to channel investment to our business customers.

2021 must be the year of consolidation of the SME financing project, as well as projects such as the Senior Debt Fund, the factoring initiative with institutional investors and a fund focusing on the hotel sector.

Banco Sabadell Capital

Business overview

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

Management priorities in 2020

Banco Sabadell Capital managed the portfolio very actively, especially in those companies most affected by the impact of COVID-19. Specifically, action plans were devised for Aurica III investees, coordinating the internal and external communication of this impact on the portfolio.

Notable actions include the push for investment, along with Capital Markets, in a Senior Debt Fund to finance Spanish middle-market companies; work on the REM 2.0 project targeting middle-market companies; and European Investment Fund guarantee for venture debt and mezzanine loans.

In venture capital, Aurica III arranged investments in three new companies.

In renewables, note the restructuring and sale of the Gate Solar project, as well as the entry into operation of a solar plant in Chile, and the commissioning and financial completion of farm in Mexico, both already in the portfolio.

In venture capital, development of the Framework of Action continued, having invested in more than 15 digital or tech startups.

With regard to Banco Sabadell's global strategy in the healthcare sector, the investment in Ysios Biofund III FCRE was formally arranged, and there is a commitment to invest in the Ship2B Impact fund, focused on ESG projects.

In addition, Banco Sabadell divested its position (bankruptcy debt and equity) in Nueva Pescanova, S.L., and sold a portfolio of wind and solar projects after restructuring.

Strategies and Priorities in 2021

Banco Sabadell Capital will work to achieve ready-to-build status in certain renewable projects, and to arrange the sale of other projects in operation.

The aim is also to complete fundraising for the Senior Debt Fund and commence operations in the first quarter, as well as to undertake initial deals in the COR / REM 2.0 project.

The Division plans to apply for and access a new Pan-European Guarantee Fund (EGF) from the EIF, aimed mainly at SMEs and SMCs, for new venture debt and mezzanine operations.

With regard to Private Equity, the Division plans to start fundraising for Aurica IV.

Sabadell Miami Branch

Business overview

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

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

Sabadell Securities USA, Inc.

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

Management priorities in 2020

2020 was already expected to be a year of low interest rates, making it very challenging, but the emergence of the COVID-19 pandemic at the end of the first quarter forced the Federal Reserve to aggressively cut rates, pushing the benchmark rate to zero. This deterioration in global economic conditions and low interest rates put pressure on the Branch's performance.

In order to safeguard the Branch's net profit, strategies were implemented and developed to protect net interest income, fees and commissions, cut operating costs and contain delinquency. These goals materialised in the form of a set of initiatives, including:

- Protecting margins:
 - Implementing a system to improve monitoring and performance of customer deposits in order to quickly adapt the cost of deposits to market rates.
 - Tapping price opportunities in the secondary market for syndicated loans generated by the economic uncertainty as a result of the pandemic. The economic shock created the conditions for these instruments pertaining to companies with solid fundamentals to be undervalued. In 2020, this strategy contributed 4.5 million dollars to the net margin.
- Generating fees and commissions:
 - Efforts to standardise fees and commissions and reduce exceptions, as well as to migrate from mutual funds custody, improved the average return from fees

generated by the Private Banking business in 2020, despite the corrections in market value in the first half of the year.

- Cutting operating expenses: at the end of the third quarter, an efficiency plan was implemented to adapt the Branch's structure to current market conditions and the new operating dynamic.
- Containing delinquency: definition and launch of processes for early detection and monitoring of loan operations affected by the economic conditions stemming from the pandemic.

In addition, efforts continued in 2020 to achieve greater financial self-sufficiency and operating improvement.

Highlights include:

- Updates of the technology platform (Project Aspire) continued, in order to improve the capabilities available to customers and business and support units. In October 2020, the Core banking system update was completed, an important step in Phase II. The project was completed within the established deadlines and under budget. 25% of this phase remains to be completed and Phase III has yet to commence (expected to conclude in 2023).
- Yankee CDs issuance to institutional customers commenced, adding alternative funding sources at an appealing cost.

Key figures

In 2020, the volume under management exceeded 14,000 million dollars, an increase of 8.0% year-on-year. Customer loans and advances increased by 14.0% to almost 6,000 million dollars, while customer deposits fell by 3.0% to around 3,500 million dollars. Off-balance sheet customer assets also increased, by 9.0%.

Net interest income amounted to 130 million dollars, down 9.2% year-on-year as a result of lower interest rates since the end of 2019. Net fees and commissions came to 45 million dollars, a 5% increase on 2019. Gross income amounted to 175 million dollars, a year-on-year increase of 5.7%, while administrative expenses and depreciation and amortisation charges rose by 1.7%, including part of the effect of investment in the technology platform. Net profit in the year amounted to 75.5 million dollars, a year-on-year decrease of 9.0%.

2020 marked a milestone in the Group's strategy to reduce NPAs.

2020 marked a milestone in the Group's strategy to reduce NPAs, which it commenced in 2018 by arranging the sale of significant NPA portfolios and the sale of 100% of SDIN Residencial, S.L. Completion of these sales signified a comprehensive transformation of the Group's risk profile, by normalising the volume of problem exposures, especially real estate assets.

In 2020, due to the COVID-19 crisis, a plan was rolled out to support customers with a view to providing solutions to the financial difficulties resulting from the lack of activity and lockdowns.

Business overview

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

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

The Asset Transformation Division, as part of the Risk Management Division, takes advantage of their accumulated experience and know-how to boost synergies and achieve four fundamental goals:

- Drive proactive management of the loan book.
- Ensure profitability.
- Develop risk models that enable finance products to be marketed efficiently and dynamically through the new digital channels.
- Safeguard effective management of non-productive assets.

Management milestones in 2020

In 2020, Banco Sabadell tackled the crisis unleashed by COVID-19 by supporting its customers, affording them solutions tailored to their needs. The Division closely monitored customers' situations to anticipate their needs, proactively manage them and head off delinquency.

All these feats helped to maintain the reduction in doubtful exposures and keep non-performing real estate assets stable.

Management priorities

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

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

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

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

- Early action to manage delinquency and preventive action to avoid delinquency, both of which are vital to de-risking. Early action to manage delinquency maximises the recovery and liquidity of non-performing assets, as it minimises the risk of deterioration in credit quality and preserves collateral quality.
- Segmented management of all non-performing and potentially non-performing exposures (potential delinquency).
- Large-scale reduction of the non-performing loans and foreclosed assets that have been on the balance sheet the longest, which is especially important from a management perspective since the various capacities, solutions and tools require a specialised approach to the oldest balances that differs from the approach to new defaults, delinquencies and foreclosures.
- Business intelligence and continuous process improvement. In recent years, the Bank has developed capabilities of segmentation and prediction in the recovery process. Business intelligence enables clusters of customers with specific behaviour patterns to be identified in advance, thereby allowing anticipatory actions to be implemented to head off delinquency, while avoiding action on clusters that do not pose delinquency risk. This improves efficiency, by targeting resources where they are most needed, and efficacy, by starting recovery actions sooner.
- Financial capacity, i.e. not just having sufficient book coverage of the expected loss but also having the capacity to generate future revenues to guarantee robust capital levels with which to absorb any unexpected losses on NPAs.
- A solid governance system based on three lines of defence, in which the first line of defence, featuring the specialised Non-Performing Asset Management Division, and the business units that approved the exposures, is backed by a second independent line of oversight, comprising the Risk Control and Compliance Divisions, and a third line of defence, namely Internal Audit, which reviews the adequacy and quality of the entire process.

Key figures

Net profit amounted to -365 million euros in 2020, down 38.8% year-on-year.

Gross income was -11 million euros, a reduction on the previous year, due mainly to the lower revenues associated to buildings on the back of the Solvia sale, the negative contribution from investees Promontoria Challenger and Solvia, and the extraordinary results in 2019 linked to the sale of institutional portfolios.

Administrative expenses and depreciation and amortisation charges totalled -66 million euros, a decline of 18%.

Provisions and impairments, including real estate sales, amounted to -345 million euros, 6.2% less than in the previous year.

Million euros

	2020	2019	Year-on-year change (%)
Net interest income	11	26	(57.5)
Fees and commissions (net)	3	27	(89.0)
Net banking revenues	14	54	(74.1)
Net trading income and exchange differences	—	31	(99.9)
Equity-accounted affiliates and dividends	(22)	—	—
Other operating income/expense	(3)	42	—
Gross income	(11)	127	—
Operating expenses and depreciation and amortisation	(66)	(81)	(18.0)
Pre-provisions income	(78)	46	—
Provisions and impairments	(345)	(368)	(6.2)
<i>Of which: profit or loss on sales</i>	8	54	(85.2)
Capital gains on asset sales and other revenue	(3)	27	—
Profit/(loss) before tax	(426)	(296)	43.8
Corporation tax	61	32	89.4
Profit or loss attributed to minority interests	(0)	—	—
Profit attributable to the Group	(365)	(263)	38.8
ROE (profit / average shareholders' equity)	—	—	—
Cost-to-income (general administrative expenses / gross income)	—	—	—
NPL ratio	41.8%	41.2%	—
NPL coverage ratio of Stage 3	48.6%	40.7%	—

Asset Transformation –
Income statement summary

Outstanding gross loans and advances decreased by 320 million euros year-on-year and net real estate exposure increased by 871 million euros.

Intercompany funding amounted to 2,562 million euros, a decline of 24.1% on the previous year.

Million euros

	2020	2019	Year-on-year change (%)
Assets	3,470	3,339	3.9
Outstanding gross loans and advances	865	1,185	(27.0)
Non-performing real estate assets (net)	871	791	10.2
Liabilities	2,698	2,510	7.5
On-balance sheet customer funds	69	263	(73.9)
Intercompany funding	2,562	2,065	24.1
Allocated capital	772	829	(6.9)
Off-balance sheet customer funds	—	—	—
Other indicators			
Employees	127	209	(39.2)
Branches	—	—	—

Asset Transformation –
Balance sheet summary

Banking Business UK

Business overview

TSB (TSB Banking Group plc) offers a range of retail banking services and products to individuals and small business banking customers in the UK. TSB has a multi-channel and nationwide distribution model, including full digital (internet and mobile) and telephony capability and national branch coverage across Great Britain.

TSB offers current and savings accounts, personal loans, mortgages and credit/debit cards for retail customers and a broad range of current, savings and lending products for SME customers.

Management priorities in 2020

Few companies could have imagined the events which were about to unfold during 2020 and it has never been more important to truly focus on what's important to our customers, and adapt to what they genuinely value and need.

TSB's three-year growth strategy, introduced at the end of November 2019, helped TSB navigate the challenges of 2020. The strategy is built on three pillars: customer focus; simplification and efficiency; and operational excellence. All three became even more important as the UK economy was transformed during 2020.

In the most difficult of times, TSB staff continued to support customers and clearly demonstrated TSB's purpose: to provide Money Confidence. For Everyone. Every Day."

Executing Strategy

As changes in consumer behaviour accelerated, particularly the shift to online services and communications, TSB responded by accelerating the delivery of its strategy.

TSB has over two million digitally active customers with over 90% of transactions undertaken through digital or automated channels in 2020.

Operating on a UK-based, modern, multi-cloud platform underpinned by strong data capabilities allows TSB to offer more services and introduce new features faster than banks on legacy systems. This has been facilitated through TSB's partnership with IBM and underpinned by its modern technology platform.

Backed by these capabilities, TSB has been able to offer new services to improve the customer experience. We launched TSB Smart Agent, our automated live chatbot, in March 2020 to extend our opportunities to support customers and, working with Adobe, have provided online alternatives for most of the services traditionally provided in person through branches.

TSB has launched new products such as its 'Spend and Save' current account, mortgages tailored for first-time buyers, as well as 'Fix and Flex' mortgages that give customers a more flexible mortgage option combined with the certainty of fixed rates. Meanwhile further services have been made

available to customers through new partnerships with fin-techs such as ApTap and Wealthify.

Importantly, in September 2020, TSB announced further changes to the branch network, including the closure of 164 branches. These plans were already within the three year strategy, but were accelerated as the pace of consumer behaviour changed during the pandemic.

Doing what matters during COVID-19

Despite all the challenges faced in 2020, TSB remained open throughout to serve its five million customers through branches, telephone operations and digital channels.

As well as providing day-to-day banking services, TSB responded to what mattered most to customers, colleagues and communities during this crisis. That included special help for vulnerable customers, who received calls to establish what they needed from TSB.

To date, TSB has granted around 114,000 payment holidays, related to £5.1 billion in loans. TSB was an early member of the schemes arranged by the UK Government to support businesses, and has now provided over £0.6 billion in Bounce Back Loans (BBLs).

Building on TSB's brand and contributing to society

TSB continues to improve its reputation with its brand score at a three-year high. Customers are turning to the safety of established providers and this affords

opportunities for an established and well-known brand like TSB.

As well as launching the new brand proposition, Life Made More, TSB significantly expanded its social and environmental strategy through the launch of the Do What Matters plan. The plan focuses on areas where people rightly expect TSB to do more. These include helping customers to be more money confident through the market-leading Fraud Refund Guarantee, as well as supporting small businesses, building a diverse and inclusive workplace, and reducing environmental impact. During 2020, TSB became the first major retail bank to join the Good Business Charter – a clear statement of its social and environmental ambitions.

Key figures

Net profit amounted to -220 million euros in 2020, hampered by provisions linked to the COVID-19 scenario, accelerated restructuring costs and provisions relating to compensating customers with overdrafts in the fourth quarter.

Net interest income amounted to 885 million euros, down 9.6% year-on-year, mainly because of lower overdraft fees on current accounts due to the measures introduced to tackle the COVID-19 impact, pressure on mortgage margins, and lower interest rates in the UK.

Net fees and commissions fell by 17.2% year-on-year, due primarily to the moderation in activity owing to COVID-19, and lower credit card fees after reducing the volume of foreign revenues (new regulation).

Million euros

	2020	2019	Year-on-year change (%)
Net interest income	885	979	(9.6)
Fees and commissions (net)	96	117	(17.5)
Net banking revenues	981	1,095	(10.4)
Net trading income and exchange differences	25	15	68.7
Equity-accounted affiliates and dividends	—	—	—
Other operating income/expense	2	(20)	(108.3)
Gross income	1,008	1,091	(7.6)
Operating expenses and depreciation and amortisation	(1,035)	(1,052)	(1.6)
Pre-provisions income	(27)	39	(169.6)
Provisions and impairments	(240)	(72)	233.3
Capital gains on asset sales and other revenue	(4)	(4)	(1.5)
Profit/(loss) before tax	(271)	(38)	613.3
Corporation tax	51	(8)	(739.0)
Profit or loss attributed to minority interests	—	—	—
Profit attributable to the Group	(220)	(45)	388.8
ROE (profit / average shareholders' equity)	—	—	—
Cost-to-income (general administrative expenses / gross income)	86.8%	84.0%	—
NPL ratio	1.3%	1.2%	—
NPL coverage ratio of Stage 3	57.4%	43.1%	—

Banking Business UK
– Income statement
summary

Other products and charges showed an improvement as the 2020 figures included the final payment by Lloyds Banking Group for the migration process and also factored in 20 million euros of insurance indemnities linked to the technology migration. The previous year included the positive impact of renegotiating the services contract with VISA Inc.

Operating expenses amounted to 875 million euros, a 4.5% year-on-year decrease due mainly to lower recurring personnel costs. Total costs in the year included 101 million in non-recurring expenses linked to the efficiency plan (18 million euros in the fourth quarter).

Provisions and impairments came to 240 million euros, a significant increase on the previous year because of the provisions arising from COVID-19 and associated with compensating customers with overdrafts.

Capital gains on asset sales and other income included -3 million euros linked to restructuring costs in 2020.

Loans and advances amounted to 36,977 million euros as at 31 December 2020, a year-on-year increase of 1.3%. At constant exchange rates, the year-on-year increase was 7.1% due to the increase in the mortgage portfolio and the UK government's Bounce Back Loans.

Customer funds on the balance sheet amounted to 38,213 million euros, up 7.9% in the year. At constant exchange rates, there was a 14.0% year-on-year increase due to the increase in current accounts and deposits, reflecting lower consumer spending and benefiting from the liquidity provided by Bounce Back Loans and growth in customers from the Incentivised Switching Scheme (ISS).

Million euros

	2020	2019	Year-on-year change (%)
Assets	47,284	46,449	1.8
Outstanding gross loans and advances	36,977	36,496	1.3
Liabilities	45,566	44,924	1.4
On-balance sheet customer funds	38,213	35,423	7.9
Wholesale funding in the capital markets	2,319	2,423	(4.3)
Allocated capital	1,736	1,525	13.9
Off-balance sheet customer funds	—	—	—
Other indicators			
Employees	6,709	7,394	(9.3)
Branches	454	540	(15.9)

Banking Business UK –
Balance sheet summary

Banking Business Mexico

Business overview

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

The business was established in Mexico through an organic project with the creation of two financial vehicles, starting with a SOFOM (Mexican multi-purpose financial company), which commenced operations in 2014, followed by a bank. The banking licence was obtained in 2015 and the bank commenced operations in early 2016.

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

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

Management priorities in 2020

The global COVID-19 pandemic defined the year, affecting various economic sectors in Mexico and elsewhere, and leading to business closures and, as a consequence, a deceleration in lending and higher delinquency. This situation led the local regulator to encourage banks to grant support to borrowers affected by the pandemic. In this context, the Mexican subsidiaries (Banco Sabadell, IBM) performed well, despite falling short of their targets for the year.

During 2020, the Mexican subsidiaries continued to focus on growth, financial self-sufficiency, and profitability. The following initiatives were implemented during the year:

- In Corporate Banking, Banco Sabadell's Trusts Division was launched and we obtained authorisation from the Bank of Mexico for proprietary trading in derivative financial instruments. These initiatives will enable us to offer a more comprehensive service in structured financing, strengthening relations with customers.
- In Business Banking, we continued to enhance our transactional capabilities, an initiative that will continue in 2021. Initiatives in the commercial model and a new incentive scheme seek to boost banker productivity and efficiency and to continue offering an excellent service, which has been a distinctive feature since this segment was created.
- The Personal Banking segment made significant efforts to deploy new transactional products and services such as a 100% digital account, debit card, CoDi mobile payments, instant transfers and bank and non-bank correspondent services, most of which were available in 2020. In addition, commercial partnerships were established towards the end of the year, which will enable us to position ourselves in the Mexican consumer lending market with an all-digital online value proposition.
- The COVID-19 support programme broadly consisted of helping the most vulnerable sectors through loan restructurings, granting a payment holiday of up to 6 months for capital and/or interest, not considering arrears provided the borrowers were classified in a portfolio as of 28 February 2020. This support programme ran from 26 March to 31 July 2020.

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

A financial planning exercise was conducted in 2020 in line with that of Banco Sabadell Group to determine the main lines of strategic action for Banco Sabadell in Mexico with the goal of driving value creation by the Group's Mexican franchise, as summarised below:

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

On 29 June, HR Ratings confirmed the long- and short-term credit ratings in Mexico, ratifying the upgrade from HR AA to HR AA+ (long-term), maintaining the Stable Outlook and also maintaining the HR1 rating (short-term), which is based on the financial and operating support from the parent company and on continued low NPA levels (evidenced to be adequate despite the increase in the lending portfolio over the last 12 months), as well as suitable capital ratios and lending portfolio diversification, by geography.

Banco Sabadell México ended the year with a consolidated gross loan portfolio of 88,349 million pesos (3,631 million euros), a 12% increase on the previous year's close, ranking it in 10th place in lending to businesses. Customer acquisition at the end of the year amounted to 49,097 million pesos (2,018 million euros), 15% higher than in 2019, and consolidated net profit amounted to 216 million pesos (9 million euros), a 54% decrease on 2019, due mainly to the increase in loan portfolio reserves, lower fee and commission revenues and increased administrative costs.

Key figures

Net profit amounted to 4 million euros in 2020, a year-on-year decrease due mainly to lower fees and commissions and higher provisions, partially offset by lower expenses.

Net interest income amounted to 114 million euros, down 2.1% as a result of the Mexican peso's exchange rate. At constant exchange rates, it increased by 11.3% due to the lower cost of funding.

Net fees and commissions totalled 7 million euros, lower than in the previous year because of the slowdown triggered by COVID-19.

Other operating revenues and expenses increased in the year, mainly as a result of the strong growth in customer funds, resulting in a higher contribution to Instituto para la Protección al Ahorro Bancario (IPAB).

Operating expenses decreased by 10.1% year-on-year, impacted by the exchange rate. At constant exchange rates, the increase was 2.2% due to higher general expenses.

Provisions and impairments amounted to 27 million euros, an increase on the previous year due to higher NPL provisions as a result of COVID-19.

Million euros

Banking Business Mexico –
Income statement summary

	2020	2019	Year-on-year change (%)
Net interest income	114	117	(2.2)
Fees and commissions (net)	7	19	(60.8)
Net banking revenues	122	136	(10.4)
Net trading income and exchange differences	4	1	345.7
Equity-accounted affiliates and dividends	—	—	—
Other operating income/expense	(14)	(9)	—
Gross income	112	127	(11.8)
Operating expenses and depreciation and amortisation	(82)	(91)	(10.3)
Pre-provisions income	30	36	(15.5)
Provisions and impairments	(28)	(16)	72.1
Capital gains on asset sales and other revenue	—	—	—
Profit/(loss) before tax	3	20	(85.6)
Corporation tax	1	(2)	(165.6)
Profit or loss attributed to minority interests	—	—	—
Profit attributable to the Group	4	19	(77.9)
ROE (profit / average shareholders' equity)	0.8%	3.5%	—
Cost-to-income (general administrative expenses / gross income)	64.3%	62.9%	—
NPL ratio	0.5%	1.2%	—
NPL coverage ratio of Stage 3	231.6%	108.9%	—

Outstanding loans and advances amounted to 3,574 million euros, a 1.8% decrease year-on-year as a result of the Mexican peso's depreciation. At constant exchange rates, growth was 13.0%.

Customer funds on the balance sheet amounted to 1,994 million euros, a slight 0.1% year-on-year reduction due to the Mexican peso's depreciation. At constant exchange rates, they increased by 14.9%.

Million euros

Banking Business Mexico –
Balance sheet summary

	2020	2019	Year-on-year change (%)
Assets	4,584	4,695	(2.4)
Outstanding gross loans and advances	3,574	3,640	(1.8)
Real estate exposure (net)	—	—	—
Liabilities	4,041	4,160	(2.8)
On-balance sheet customer funds	1,993	1,996	(0.1)
Allocated capital	551	535	3.0
Off-balance sheet customer funds	—	—	—
Other indicators			
Employees	489	450	8.7
Branches	15	15	—